Consolidated Financial Results for FY2014 (IFRS)

13 May 2015

Company name: Sosei Group Corporation — Listing: Tokyo Stock Exchange
Security code: 4565 — URL http://www.sosei.com/
Representative: Shinichi Tamura, Representative Executive Officer, CEO
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Date of general shareholders' meeting: 23 June 2015 — Scheduled date of dividend payments: Undecided
Scheduled date of security report filing: 24 June 2014
Supplementary materials for financial results: Yes
Financial results briefing session: Yes (for institutional investors and analysts)

(Rounded down to nearest million yen)

1. Consolidated results for the FY2014 (from 1 April 2014 to 31 March 2015)

(1) Consolidated operating results (Percentages are shown as year-on-year changes)

	Revenue		Operating income		Net income before income taxes		Net income		Net income attributable to owners of the parent company		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2014	3,671	77.4	1,108	46.6	1,366	85.2	562	(63.1)	568	(62.8)	263	(84.4)
FY2013	2,069	5.7	756	(11.4)	737	(22.8)	1,526	60.9	1,526	60.9	1,685	60.7

	Net income per share – basic	Net income per share – diluted	Ratio of net income to equity attributable to owners of the parent company	Ratio of net income before income taxes to total assets	Ratio of operating income to revenue
	Yen	Yen	%	%	%
FY2014	41.30	40.89	3.9	4.7	30.2
FY2013	126.65	124.89	13.7	6.4	36.5

(Reference) Investment income under equity method: - million yen for FY2014; and - million yen for FY2013

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets	Equity per share attributable to owners of the parent company
	Million yen	Million yen	Million yen	%	Yen
FY2014	43,800	14,894	14,653	33.5	1,063.82
FY2013	14,582	14,354	14,354	98.4	1,044.06

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of year
	Million yen	Million yen	Million yen	Million yen
FY2014	92	(22,018)	19,864	5,573
FY2013	363	(315)	4,375	7,214

2. Dividends

	Dividends per share					Total amount of dividends	Dividend payout ratio (consolidated)	Ratio of dividend to equity attributable to owners of the parent company (consolidated)
	End Q1	End Q2	End Q3	Year end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2013	–	0.00	–	0.00	0.00	–	–	–
FY2014	–	0.00	–	10.00	10.00	137	24.2	0.9
FY2015 (E)	–	0.00	–	0.00	0.00		–	

3. Forecast for the FY2015 (from 1 April 2015 to 31 March 2016)

(Percentages are shown as year-on-year changes)

	Revenue		Operating income		Net income before income taxes		Net income attributable to owners of the parent company		Ratio of net income to equity attributable to owners of the parent company
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2015	11,732	219.6	5,899	432.0	5,915	332.8	6,047	975.0	439.02

* Notes
(1) Changes in the number of significant subsidiaries during the financial year (changes of specified subsidiaries affecting the scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates
1) Changes in accounting policies required by IFRS: Yes
2) Changes due to changes in accounting policies other than those of item 1: None
3) Changes in accounting estimates: None

(3) Number of common shares issued

1) Number of shares issued at financial year end (including treasury shares)	FY2014	13,774,000 shares	FY2013	13,749,200 shares
2) Number of treasury shares at financial year end	FY2014	－ shares	FY2013	－ shares
3) Average number of shares issued during financial year	FY2014	13,760,098 shares	FY2013	12,050,163 shares

* Implementation status of financial audit
The audit procedures of the financial statements pursuant to the Financial Instruments and Exchange Law have not been completed.

* Explanation regarding the appropriate use of forecasts of business results and other points to be noted
1. The financial forecast is based on judgments and estimates that have been prepared on the basis of information available as at the time of disclosure of this material and assumptions about uncertain factors that could affect the forecasts of business results made as at the time of disclosure of this material. The actual business results may differ materially from the forecasts due to various factors in the future. For forecast premises and usage notes for earnings forecasts, please refer to “1. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results (Earnings forecast for the FY2015).”

○ Contents of Attached Materials

1. Analysis of Operating Results and Financial Position

(1) Analysis of operating results

(Current term operating results)

The Group aims to become an international biotechnology company anchored in Japan with a focus on global research and development and licensing activities. In FY2014, following on from our main revenue source, the COPD (Chronic Obstructive Pulmonary Disease) therapies Seebri® (NVA237) and Ultibro® (QVA149) out-licensed to Novartis International AG ("Novartis"), as part of our search for new targets, we acquired shares in Jitsubo Ltd. ("Jitsubo"), which has innovative technology in the peptide area (Molecular Hiving™, Peptune™), and made it a consolidated subsidiary of the Group.

Moreover, in February 2015, as part of our search for new targets and business expansion, we acquired UK company Heptares Therapeutics Ltd. ("Heptares") as a wholly owned subsidiary. Heptares has StaR® proprietary drug discovery technology that produces agents acting on GPCRs (G protein-coupled receptors) which are very promising drug targets.

Sales of COPD therapies Seebri® (NVA237) and Ultibro® (QVA149), our main source of revenue, showed further increase in this fiscal year, and royalty income exceeded that of the previous year. In addition, milestone revenue of 20 million dollars was recorded in connection with the regulatory submission of NVA237 and QVA149 in the US in December 2014.

With respect to our other products, we have remained par with the previous fiscal year.

** Ultibro® Breezhaler® (EU) / Ultibro® Inhalation Capsules (Japan) and Seebri® Breezhaler® 50mcg (EU) /Seebri® Inhalation Capsules 50 mcg (Japan) are the registered trademarks of Novartis.*

Consolidated operating results for the fiscal year under review are shown in the below chart.

Consolidated operating results

(JPY Millions)

	FY2013	FY2014	Change
Revenue	2,069	3,671	1,601
Gross profit	1,818	3,602	1,784
Operating income	756	1,108	352
Net income (loss)	1,526	562	(963)

(Revenue and gross profit)

Revenue for this financial year totaled 3,671 million yen, an increase of 77.4% compared to the previous financial year. This was mainly due to increased royalty revenue from Seebri® (NVA237) and Ultibro® (QVA149), and milestone revenue for both products triggered by regulatory submissions in the USA.

(Operating income)

Operating income in this financial year totaled 1,108 million yen, an increase of 352 million yen compared to the previous year. This is due to increase in revenue as described above, expenses connected with the acquisition of Heptares, and increased selling, general and administrative expenses.

(Net income)

Net income totaled 562 million yen, a decrease of 963 million yen compared to the previous year. This is mainly due to the recognition of deferred tax due to writing off deferred tax assets related to the net operating loss carried forwards from the previous year by Sosei R&D Ltd.

Breakdown of research and development; selling, general and administrative expenses

(JPY Million)

	FY2013	FY2014	Change
Research and development expenses	305	557	252
Selling, general and administrative expenses	882	1,946	1,064
Personnel expenses	364	425	61
Outsourcing expenses	333	1,051	718
Other	183	469	286

(Research and development expenses; selling, general and administrative expenses)

R&D expenses during the current financial year increased 252 million yen from the previous financial year, and totaled 557 million yen. This increase is mainly due to consolidating new subsidiaries Jitsubo and Heptares. Selling, general and administrative expenses increased by 1,064 million yen from the previous financial year, and totaled 1,946 million yen. This was due to expenses triggered in relation to the acquisition of Heptares.

(Matters related to the generation of foreign exchange gains and losses)

395 million yen of foreign exchange income was recorded due to recent exchange rate fluctuations. This is appreciation that was generated mainly by fixed exchange rate evaluation of foreign currency-denominated assets.

(Matters related to deferred tax expense)

At Sosei R&D Ltd., JPY 535 million in deferred tax was recognized due to writing off deferred tax assets this financial year, used for net operating loss carried forwards.

The Group is composed of subsidiary units classified in domestic and overseas pharmaceutical business segments. Information by business segment is as follows.

(Domestic pharmaceutical business)

Revenue in the domestic pharmaceutical business segment amounted to 181 million yen. In the previous financial year, marketing authorization for NorLevo was transferred to ASKA Pharmaceutical Co. Ltd., and subsequently sales of pharmaceutical products changed to the royalty revenue transactions. Operating income fell by 230 million yen, and the operating loss totaled 344 million yen.

Progress with the main products under development for the domestic pharmaceutical business is as follows.

<u>In-licensing</u>

■SO-1105 *Oropharyngeal Candidiasis: Phase III ongoing*

SO-1105 is an antifungal agent, administered as a muco-adhesive buccal tablet for the treatment of oropharyngeal candidiasis in immunocompromised patients. Oropharyngeal candidiasis is an inflammatory mucous membrane disease afflicting the oral cavity and pharynx. It is caused by infection due mainly to a fungus known as *Candida albicans,* and it is commonly found in patients suffering from chronic diseases such as diabetes and immunocompromised patients such as those suffering from HIV infection. This drug was originally developed by Onxeo (ex-BioAlliance Pharma of France), and it has been approved for marketing in 24 European countries, the U.S., and Korea since first obtaining approval in October 2006 in France. The Group believes that this product can also contribute to patient compliance in Japan and thus obtained the exclusive development and marketing rights for SO-1105 in Japan from Onxeo in May 2011.

Presently, Phase III clinical trials for efficacy and safety of this product are in progress.

The Group has already signed an exclusive domestic commercialization agreement with FUJIFILM Pharma Co., Ltd.

Research and development based on platform technologies

■APNT (Activus Pure Nanoparticle Technology): *Nanoparticle technology*

APNT is technology differentiable from existing technology in that it enables pulverizing poorly soluble compounds to nano-sized crystal particles ranging from the 50-nm level to the 200-nm level while minimizing contamination. Making use of this feature, APNT demonstrates advantages in applications related to injections, ophthalmic solutions, and inhalations with poorly soluble compounds, which have been very difficult to achieve to date.

Pre-clinical trials are underway for two development candidates with APNT applications: APP13002 (infectious eye diseases) and APP13007 (inflammatory eye diseases).

■Molecular Hiving™: A new method of liquid-phase peptide synthesis

Molecular Hiving™ is a new liquid-phase peptide synthesis technology. Conventional peptide synthesis technologies include SPPS (solid-phase peptide synthesis) and liquid-phase peptide synthesis (LPPS) but in general, SPPS is expensive and produces a low volume; meanwhile LPPS is widely used for mass production but is unable of synthesizing long-chain peptides. Molecular Hiving™ is an innovative technology with advantages of both SPPS and LPPS, and can enable high-volume, low-cost synthesis. Unlike SPPS, Molecular Hiving™ enables monitoring of the peptide synthesis process, which leads to production of peptides of higher quality compared to those produced by conventional methods.

Pre-clinical trials are underway for two generic development candidates with Molecular Hiving™ applications: JIT-2001 (cardiovascular diseases) and JIT-1007 (orphan diseases).

■Peptune™: novel peptide modification technology

Peptune™ is a peptide modification new element technology; it improves effectiveness and safety by modifying the steric of the peptide, and is useful for improving the stability of drugs. Moreover, using this technology enables peptides and small molecule drugs to be synthesized, so it is expected that peptides with new features will be produced.

In addition, Peptune is expected to enable enhancement of the effectiveness and safety of lead peptides furnished by Heptares' technology.

(Overseas pharmaceutical business)

The revenue of the overseas pharmaceutical business segment totaled 3,489 million yen, an increase of 1,922 million yen compared to the previous year. The difference from the previous financial year was attributable to the increased royalties from Seebri® (NVA237) and Ultibro® (QVA149), and milestones for both products triggered by regulatory submissions in the USA. In addition, operating income totaled 2,430 million yen, up 1,456 million yen compared to the previous year.

Progress made in the overseas pharmaceutical business is set out below.

Pipeline and Products

■ NVA237 COPD: Launched by Novartis in the EU, Japan, etc

NVA237 (glycopyrronium bromide; brand names: Seebri® Breezhaler® (EU), Seebri® Inhalation Capsules 50mcg (Japan); "Seebri® "), is a once-daily inhaled long-acting muscarinic antagonist (LAMA) indicated as a maintenance bronchodilator treatment to relieve symptoms in patients with COPD that was exclusively licensed to Novartis in April 2005 by Sosei and its co-development partner Vectura. Seebri® has been approved in over 80 countries across Europe, Japan, Canada, Latin America, Asia, Australia and the Middle East. The US application for NVA237 was submitted in December 2014 by Novartis. The acceptance of the application triggered a $7.5 million milestone payment to Sosei.

Under the terms of agreement with Novartis, Sosei is entitled to receive royalties on global net sales of both Seebri® and Ultibro® Breezhaler®. Royalties are recognized following the quarter in which the products are sold. On 27 January 2015, Novartis announced that Seebri® sales for FY2014 were $146 million.

<For reference>

Seebri® sales in Q1 2015 as announced by Novartis on 23 April 2015：

(USD Million)

	Q1 2015	Q1 2014	Change (%)
Seebri® Breezhaler®	37	30	23

■ QVA149 COPD: Launched by Novartis in the EU, Japan

QVA149 (indacaterol maleate/glycopyrronium bromide); brand names: Ultibro® Breezhaler® (EU), Ultibro® Inhalation Capsules (Japan); "Ultibro®") is a once-daily inhaled, fixed-dose combination of the LAMA (glycopyrronium bromide) and the LABA (indacaterol maleate), indicated as a maintenance bronchodilator treatment to relieve symptoms in patients with COPD. Ultibro® is a once-daily LABA/LAMA approved as first-in-class in over 50 countries including EU, Japan, Canada, Mexico and Australia and launched in over 30 countries including Germany, Japan and Canada. The US application for QVA149 was submitted in December 2014 by Novartis. The acceptance of the application triggered a $12.5 million milestone payment to Sosei.

Under the terms of agreement with Novartis, Sosei is entitled to receive royalties on global net sales of both Seebri® and Ultibro®. Royalties are recognized following the quarter in which the products are sold. On 27 January 2015, Novartis announced that Ultibro® sales for FY 2014 were $118 million.

<For reference>

Ultibro® sales in Q1 2015 as announced by Novartis on 23 April 2015：

(USD Million)

	Q1 2015	Q1 2014	Change (%)
Ultibro® Breezhaler®	52	14	271

* *Seebri®, Ultibro® and Breezhaler® are registered trademarks of Novartis Pharma AG.*

Drug discovery through platform technology

■ StaR® (Stabilised Receptor) technology: Drug discovery platform technology

StaR® technology is the first in the world that is able to produce GPCRs with improved thermostability.

GPCRs (G protein-coupled receptors) are the most important target molecules in medicine. However, when removed from the cell membrane, the molecular structure grows unstable and unclear, so it has been difficult to perform structure-based discovery research. StaR® technology advances structural analysis of GPCRs and enables powerful and highly selective drug discovery based on molecular structure design that, to date, has been difficult. A GPCR is a type of receptor featuring a structure that penetrates the cell membrane seven times. There are said to be around 800 GPCRs in humans but only 370 of these are drug targets. 150 GPCRs are unknown in terms of what physiologically active substances bind to them. These are called "orphan receptors" and have attracted attention as new drug targets.

Main StaR®-applied products under development as follows:

- Muscarinic M_1 agonist (Indication: Alzheimers, Schizophrenia. Development stage: Phase 1)

First selective muscarinic M_1 receptor agonist in clinical development for treatment of Alzheimer's disease and other disorders of cognitive impairment. Currently marketed cholinesterase inhibitors require endogenous acetylcholine production and indirectly act as non-selective muscarinic agonists, resulting in both limited & transient efficacy and dose-limiting side-effects.

- Muscarinic M_4 agonist (Indication: Psychosis in Schizophrenia, Alzheimer's and other diseases. Development stage: pre-clinical)

First-in-class selective M_4 agonists for the treatment of psychosis and related behavioral & psychiatric symptoms.

- Dual M_1/M_4 agonist (Indication: Psychosis and cognitive impairment in Alzheimer's, Schizophrenia and other diseases. Development stage: pre-clinical)

First-in-class dual M_1/M_4 agonists for patients with co-morbid psychosis and cognitive impairment.

- Adenosine A_{2A} antagonist (Indication: ADHD, ADD, Attention Disorders. Development stage: pre-clinical)

Novel small molecule antagonists that selectively enhance dopaminergic transmission in key regions of the brain linked to ADHD. Target profile is once daily, fast-acting, effective non-stimulant with superior safety and tolerability vs. current agents.

Other main products under development are as follows:

- CGRP antagonist (Indication: Migraine Treatment & Prophylaxis. Development stage: pre-clinical)

- GLP-1 antagonist (Indication: Congenital hyperinsulinism. Development stage: pre-clinical)
- OX_1antagonist (Indication: Binge eating, nicotine addiction.　Development stage: pre-clinical)

(Earnings forecast for the FY2015)

Revenue is forecasted to come from royalty revenue from Seebri® and Ultibro®, and milestones from the approval of NVA237 and QVA149 in the USA, and from milestones from out-licensing of products in Heptares' pipeline.　As a result, our earnings forecast for the full term are revenue of 11,732 million yen, operating income of 5,899 million yen, net income before taxes of 5,915 million yen, and net income attributable to the owners of the parent company of 6,047 million yen.

(2) Analysis of financial position

The financial position as of the end of the current financial year was as follows.

Financial position

(million yen)

	FY2013	FY2014	Change
Total assets	14,582	43,800	29,218
Cash flows from operating activities	363	92	(270)
Cash flows from investing activities	(315)	(22,018)	(21,702)
Cash flows from financing activities	4,375	19,864	15,489

(Assets)

Assets stood at 43,800 million yen at the end of the financial year, representing an increase of 29,218 million yen from the previous year-end.　This is attributable primarily to funds borrowed from Mizuho Bank in order to acquire Heptares, and goodwill recorded during the financial year.

(Matters related to contingent consideration due to corporate consolidation)

In accordance with the amount Heptares, a subsidiary consolidated in February 2015, is expected to receive in milestone and royalty income, the Group recognized the contingent consideration of the estimated value of additional payment for share acquisition of JPY 7,024 million yen as a non-current liability.　This has been calculated taking into consideration the current value of the contingent consideration related to the maximum USD 220 million for the Heptares share acquisition announced in February 2015.

(Cash flows from operating activities)

Although net income before taxes was 1,366 million yen, due to increase of operating receivables and other factors, cash flows from operating activities decreased by 270 million yen compared to last year, and totaled 92 million yen.

(Cash flows from investing activities)

Cash used in investing activities was 22,018 million yen due to the acquisitions of Jitsubo and Heptares as consolidated subsidiaries.

(Cash flows from financing activities)

Cash derived from financing activities totaled 19,864 million yen, owing to the receipt of a funding borrowed from Mizuho Bank.

(3) Basic policy on distribution of profits and dividends for current and next financial years

The pharmaceutical development conducted by the Group requires large amounts of up-front investment over long development periods. However, the Group believes that the active replenishment of its pipeline (developmental products) is important to realize preservation of stable revenue and project growth. The Group has acquired stable revenue through Seebri® and Ultibro®.　It is in a position to comprehensively determine the balance between strategic investments for future operating results, financial position and business growth, and profit distribution for shareholders.

2. Status of the Corporate Group

The Group is composed of the Group and six consolidated subsidiaries, and its principal business is research and development, and selling of pharmaceutical products. Business segments are categorized primarily on the basis of geographical location (namely, domestic pharmaceutical business and overseas pharmaceutical business).

Business segment	Company name	Nature of business
Company-wide business activities	Sosei Group Corporation	Planning of management strategy for entire Group and undertaking administrative duties on behalf of its subsidiaries
Domestic pharmaceutical business	Sosei Co., Ltd.	Pharmaceutical R&D and sales
	Activus Pharma Co., Ltd.	Development of pharmaceuticals based on the nanoparticle technology
	Sosei CVC Ltd.	Management of regenerative medicine fund
	Jitsubo Ltd.	Development of peptide drugs, licensing peptide manufacturing technology, peptide drug discovery research
Overseas pharmaceutical business	Sosei R&D Ltd.	Overseas development and commercialization through licensing, overseas business development etc.
	Heptares Therapeutics Ltd.	Producing structural analysis and early lead compounds of GPCRs, seeking drug candidates using proprietary StaR® technology etc.

3. Management Policy

(1) Basic corporate management policy

As a biopharmaceutical company, the Group is actively focusing on continuing enhancement of its product pipeline, by utilizing the global network established through the technology transfer that preceded its bio business and its unique development strategy. Through the early provision of vital pharmaceutical products to the world, the Group aim to develop ever further as a global pharmaceutical company that transcends national and regional boundaries, supporting people's health and helping them to live happy and rewarding lives.

(2) Target management indicators

The Group aims to achieve sustainable growth by actively undertaking R&D of pharmaceutical products and securing earnings by bringing the products it develops directly to the market or by licensing them out. The Group conducts its business activities with the goal of expediting R&D in ways that improve the pipeline still further, thereby being quick to bring to market, sell, or out-license a large number of developed products.

(3) Mid- to long-term management strategy

The development of pharmaceutical products is a sphere characterized by fierce competition between numerous domestic and overseas companies, research institutions, and other entities, including major international corporations. Development requires massive investment and long lead times, and the likelihood of success is not high. Given this, and given the Group's relatively small scale in terms of factors such as human resources, finance, and plant and equipment, we adhere to the following strategy for developing pharmaceutical products.

1) Positioning

By using the network and experience it has gained through its activities involving technology transfers throughout its history, the Group evaluates the situation in the pharmaceutical industry in Japan from a global perspective and introduces pharmaceutical products from Europe and North America into the Japanese market, at the same time seizing even greater business opportunities overseas on the basis of seeds it has an access to both in Japan and internationally.

The Group also pursues the development of its unique business model as a biopharmaceutical company that has the capacity to mitigate risk in its pharmaceutical development. In addition, while adhering firmly to our founding vision of aiming to become "a global biopharmaceutical company of Japanese origin," we are quick to address changes in the environment and adopt the most appropriate strategies on a case-by-case basis.

2) Pipeline strategy

The distinguishing characteristic of the Group's pipeline strategy is the building of a balanced portfolio in which risks are controlled by combining developmental products with different risks, lead times, and costs.

3) Collaboration in R&D

We aim to incorporate state-of-the-art technologies by building wide-ranging collaborative relationships at each stage of research and development, thereby avoiding increases in fixed costs. The Group builds its R&D structure by combining its own R&D personnel with the aforesaid collaborative relationships.

4) Securing of earnings

The Group aims to secure earnings by employing the following two models, doing so through the aforesaid pipeline strategy that gives emphasis on the risk control and building of wide-ranging collaborative relationships.

(a) Model entailing securing earnings by identifying products already launched in overseas markets or in late-stage development, and developing them in-house primarily for the domestic market until they start generating revenue.
Examples: NorLevo, SO-1105

(b) Model based on securing earnings from milestone and royalty income from out-licensed products. This entails the Group targeting the global market by developing products up to a stage at which their marketability is enhanced, following which they are out-licensed to other pharmaceutical companies.
Examples: NVA237, QVA149

For each developmental product the Group takes into consideration factors such as the financial condition, R&D structure, and competitive advantage of the product in order to plan whether to select model (a) or (b) and thereby secure a stable and timely earnings stream.

(4) Issues to be addressed

1) Realization of growth through early development of innovative drugs

The patents for the COPD therapies—the pillar the Group's revenue—will expire in 2026. Therefore, in order to maintain growth and stable revenue in the future, it is important to continue making upfront investment in promoting late-stage development of innovative, large-scale products that fill unmet medical needs. The pipelines of Jitsubo and Heptares, acquired this financial year, contain possible first-in-class products with innovative mechanisms of action. In order to ensure early results through the expansion of these pipelines, we will continue working to use management resources efficiently and conduct licensing activities.

2) Diversification and stabilization of funding

Corporate value can be enhanced by seeking out and introducing products that are promising candidates for development and then expediting their development to later stages, but this increases R&D costs. We will continue to consider the possibility of diversifying and stabilizing funding according to needs in order to strengthen the foundations of our business, including through investment in research and development.

3) Creation of shareholder value

The group believes that investing proactively in promising R&D candidates, and making strategic investment in corporate acquisitions to strengthen the foundation of management, will increase corporate value and lead to creation of shareholder value. In the future, the Group intends to proceed with investigating investments, timing, and methods while taking the financial situation into account. Furthermore, the Group currently considers it important to prioritize internal reserves for upfront investments, and will endeavor to deliver a return to shareholders while taking into account the income position.

4) Strengthening corporate governance

Through the corporate acquisitions conducted this financial year, domestic and foreign subsidiaries each increased by one company, and the Group has evolved into a more global corporate entity. Therefore, the Group recognizes the creation of a more advanced and efficient governance system as one of the management issues. We are working to improve corporate

governance to increase integrity and transparency without impairing management efficiency, and gain deeper trust from stakeholders.

4. Basic policy for the selection of accounting standards

The Group has applied International Financial Reporting Standards since the year ended March 2014 in order to enable easier comparison of financial information in capital markets.

5. Consolidated Financial Statements (IFRS)

(1) Consolidated statement of financial position

(JPY thousand)

	FY2014 (31 March 2015)	FY2013 (31 March 2014)
Assets		
Non-current assets		
Property, plant and equipment	266,429	59,602
Goodwill	32,822,769	5,426,003
Intangible assets	1,285,031	722,286
Deferred tax assets	364,119	869,093
Other non-current assets	43,193	40,923
Total non-current assets	34,781,543	7,117,908
Current assets		
Trade and other receivables	2,481,207	99,767
Accrued corporate income tax	579,516	-
Other current assets	385,190	149,669
Cash and cash equivalents	5,573,404	7,214,934
Total current assets	9,019,319	7,464,371
Total assets	43,800,862	14,582,280
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred income	11,592	13,315
Deferred tax liabilities	311,271	—
Contingent consideration related to corporate acquisition	7,024,471	—
Other non-current liabilities	13,004	6,900
Total non-current liabilities	7,360,340	20,215
Current liabilities		
Trade and other payables	1,358,376	156,067
Deferred income	153,913	3,446
Deferred tax liability	58,707	-
Income tax payables	34,206	24,774
Interest-bearing liabilities	19,877,578	-
Other current liabilities	63,049	22,777
Total current liabilities	21,545,830	207,066
Total liabilities	28,906,170	227,282
Equity		
Capital stock	19,478,112	19,453,732
Capital surplus	7,774,627	21,573,914
Retained earnings	(12,562,064)	(26,934,383)
Other components of equity	(37,584)	261,735
Equity attributable to owners of the parent company	14,653,090	14,354,998
Non-controlling interests	241,600	—
Total equity	14,894,691	14,354,998
Total liabilities and equity	43,800,862	14,582,280

(2) Consolidated statement of comprehensive income

(JPY thousand)

	FY2014 (1 April 2014 - 31 March 2015)	FY2013 (1 April 2013 - 31 March 2014)
Revenue	3,671,309	2,069,836
Cost of sales	68,329	251,401
Gross profit	3,602,979	1,818,434
Research and development expenses	557,781	305,029
Selling, general and administrative expenses	1,946,279	882,137
Other income	12,042	125,126
Other expenses	2,113	—
Operating income	1,108,848	756,393
Finance income	405,136	30,052
Finance costs	147,349	48,597
Net income before income taxes	1,366,635	737,848
Income tax expenses	804,113	(788,328)
Net income	562,522	1,526,177
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	(299,320)	159,743
Total items that may be reclassified subsequently to profit or loss	(299,320)	159,743
Total other comprehensive income	(299,320)	159,743
Comprehensive income	263,202	1,685,920
Net income for the year attributable to:		
Owners of the parent company	568,340	1,526,177
Non-controlling interests	(5,818)	—
Net income	562,522	1,526,177
Comprehensive income for the year attributable to:		
Owners of the parent company	269,020	1,685,920
Non-controlling interests	(5,818)	—
Comprehensive income	263,202	1,685,920
Net income per share (yen)		
Basic	41.30	126.65
Diluted	40.89	124.89

(3) Consolidated statement of changes in equity

(JPY thousand)

	Capital surplus				
	Capital	Capital reserve	Other capital surplus	Capital surplus total	Retained earnings
Balance as of 1 April 2013	17,059,203	19,247,356	-	19,247,356	(28,460,561)
Net income	-	-	-	-	1,526,177
Foreign currency translation adjustments	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	1,526,177
Issuance of new shares	2,394,529	2,326,557	-	2,326,557	-
Total business transactions with owners	2,394,529	2,326,557	-	2,326,557	-
Balance as of 31 March 2014	19,453,732	21,573,914	-	21,573,914	(26,934,383)
Net income	-	-	-	-	568,340
Foreign currency translation adjustments	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	568,340
Issuance of new shares	24,380	4,691	-	4,691	-
Transfers from capital reserve to other capital surplus	-	(13,803,978)	13,803,978	-	-
Deficit compensation	-	-	(13,803,978)	(13,803,978)	13,803,978
Variation due to corporate acquisition	-	-	-	-	-
Total business transactions with owners	24,380	(13,799,286)	-	(13,799,286)	13,803,978
Balance as of 31 March 2015	19,478,112	7,774,627	-	7,774,627	(12,562,064)

	Other components of equity		Equity attributable to owners of the parent company	Non-controlling interests	Total equity
	Exchange differences from foreign operations	Sum of other components of equity			
Balance as of 1 April 2013	101,992	101,992	7,947,991	-	7,947,991
Net income	-	-	1,526,177	-	1,526,177
Foreign currency translation adjustments	159,743	159,743	159,743	-	159,743
Total comprehensive income	159,743	159,743	1,685,920	-	1,685,920
Issuance of new shares	-	-	4,721,086	-	4,721,086
Total business transactions with owners	-	-	4,721,086	-	4,721,086
Balance as of 31 March 2014	261,735	261,735	14,354,998	-	14,354,998
Net income	-	-	568,340	(5,818)	562,522
Foreign currency translation adjustments	(299,320)	(299,320)	(299,320)	-	(299,320)
Total comprehensive income	(299,320)	(299,320)	269,020	(5,818)	263,202
Issuance of new shares	-	-	29,072	-	29,072
Transfers from capital reserve to other capital surplus	-	-	-	-	-
Deficit compensation	-	-	-	-	-
Variation due to corporate acquisition	-	-	-	247,419	247,419
Total business transactions with owners	-	-	29,072	247,419	276,491
Balance as of 31 March 2015	(37,584)	(37,584)	14,653,090	241,600	14,894,691

(4) Consolidated statement of cash flow

(JPY thousand)

	FY2014 (1 April 2014 - 31 March 2015)	FY2013 (1 April 2013 - 31 March 2014)
Cash flows from operating activities		
Net income before income taxes	1,366,635	737,848
Depreciation and amortization	33,188	20,352
Subsidy income	(11,824)	(73,903)
Interest expense	60,878	-
Foreign exchange losses (gains)	90,209	(156,961)
Decrease (increase) in accounts receivable – other	46,308	(50,134)
Decrease (increase) in accounts receivable – trade	(2,360,655)	(56,178)
Increase (decrease) in accounts payable – trade	(42,434)	(118,694)
Increase (decrease) in accrued expenses	666,173	774
Increase (decrease) in advances receivable	300,000	-
Other	(75,683)	(25,840)
Subtotal	72,796	277,262
Interests and dividends received	9,225	3,026
Payments of interest	(163)	-
Proceeds from subsidy	33,555	90,665
Income taxes paid	(22,844)	(7,675)
Net cash from operating activities	92,570	363,279
Cash flows from investing activities		
Purchases of property, plant and equipment	(88,890)	(10,521)
Capitalized development costs	(250,473)	(304,366)
Decrease from acquisition of control over subsidiaries	(21,676,682)	-
Other	(1,975)	(306)
Net cash used in investing activities	(22,018,021)	(315,194)
Cash flows from financing activities		
Net increase from short-term interest-bearing debt	19,850,000	-
Repayment of long-term interest-bearing debt	(15,000)	-
Proceeds from issuance of common stock	29,072	4,723,606
Payments for redemption of financial liabilities	-	(348,597)
Net cash from financing activities	19,864,072	4,375,008
Effect of exchange rate changes on cash and cash equivalents	419,848	254,314
Increase (decrease) in cash and cash equivalents	(1,641,530)	4,677,406
Cash and cash equivalents at the beginning of year	7,214,934	2,537,527
Cash and cash equivalents at the end of year	5,573,404	7,214,934

(5) Notes on Consolidated Financial Statements

(Notes related to going concern assumptions)

Not applicable.

(Change in accounting policy)

The significant accounting policies the Group will apply to consolidated financial statements are identical to the accounting policies applied to consolidated financial statements in the previous financial year, with the exception of the following.

(Application of new standards and interpretations)

The Group has adopted the following standards and interpretations from this fiscal year.

Statement	**Name of standard**	**Summary**
IAS #32	Financial instruments: presentation	Clarification for offsetting requirements of financial assets and liabilities
IFRIC #21	Levies	Clarification for accounting treatment of levies
IFRS #10 IFRS #12 IAS #27	Investment companies	Stipulates accounting treatment of investment by investment companies (not consolidating the controlled investee, measuring fair value in net profit or loss)

The above standards and interpretations do not have a significant effect on the consolidated financial statements.

(Segment information)

(1) Overview of reportable segments

The Group's reportable segments are components of business activities for which discrete financial information is available, and such information is regularly reviewed by the Group's board of directors in order to make decisions about the allocation of the resources and assess performance. The Group has adopted the holding company structure, and the holding company is responsible for management and administration of the entire Group. The Group has two reportable segments (namely, domestic pharmaceutical business and overseas pharmaceutical business), based on the legal entities that are the current profit management units. The domestic pharmaceutical business segment mainly imports products from overseas for sale both in Japan and overseas. The overseas pharmaceutical business segment mainly introduces and develops pharmaceuticals for out-licensing. In addition, since December 2014 Jitsubo has been classified in the domestic pharmaceutical business segment, and since February 2015, Heptares Therapeutics Ltd. has been classified in the overseas pharmaceutical business segment.

The following table shows major products in the major segments, with reportable segments established as described above.

Reportable segments	Company name	Main products
Domestic pharmaceutical business	・Sosei Co., Ltd. ・Activus Pharma Co., Ltd. ・Jitsubo Ltd.	・SO-1105 ・NorLevo ・APP13002 ・APP13007 ・JIT-2001 ・JIT-1007
Overseas pharmaceutical business	・Sosei R&D Ltd. ・Heptares Therapeutics Ltd.	・Seebri® ・Ultibro® ・Muscarinic M_1 agonist

(2) Revenue, profit and loss and other financial information of reportable segments

Revenue, profit and loss and other financial information for each reportable segment are as shown below. The accounting policies the Group will apply to each segment are identical to the accounting policies applied to consolidated financial statements in the previous financial year.

FY2013 (1 April 2013 to 31 March 2014)

(JPY thousand)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	502,858	1,566,977	2,069,836	―	2,069,836
Revenue between segments	―	―	―	―	―
Total	502,858	1,566,977	2,069,836	―	2,069,836
Operating income (or loss)	(114,725)	973,505	858,780	(102,387)	756,393
Finance income/costs (net)					(18,544)
Net income before income taxes					737,848
Other items					
Depreciation and amortization	15,656	161	15,818	4,534	20,352

The adjustment amount relates to the holding company, which does not belong to any reportable segment.

FY2014 (1 April 2014 to 31 March 2015)

(JPY thousands)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	181,549	3,489,759	3,671,309	―	3,671,309
Revenue between segments	―	―	―	―	―
Total	181,549	3,489,759	3,671,309	―	3,671,309
Operating income (or loss)	(344,929)	2,430,028	2,085,099	(976,250)	1,108,848
Finance income/costs (net)					257,786
Net income before income taxes					1,366,635
Other items					
Depreciation and amortization	21,176	6,997	28,173	5,014	33,188

The adjustment amount relates to the holding company, which does not belong to any reportable segment.

(3) Information regarding products and services

Information regarding the revenue for each product/service is not separately presented because the same is presented in the reporting segments above.

(4) Geographical information

The following table provides geographical information relating to external revenue and non-current assets.

External revenue

(JPY thousand)

	FY2014 (1 April 2014 - 31 March 2015)	FY2013 (1 April 2013 - 31 March 2014)
Japan	106,553	339,674
Australia	74,995	163,184
Switzerland	3,466,613	1,566,977
Other	23,146	―
Total	3,671,309	2,069,836

Revenue is classified by country or region based on the locations of customers.

Non-current assets

(JPY thousand)

	FY2014 (31 March 2015)	FY2013 (31 March 2014)
Japan	1,736,970	821,899
United Kingdom	32,680,453	5,426,914
Total	34,417,424	6,248,814

Non-current assets do not include financial products and deferred tax assets.

(5) Information on major customers

Revenues

(JPY thousand)

Name of customer	FY2014 (1 April 2014 - 31 March 2015)	FY2013 (1 April 2013 - 31 March 2014)	Relevant segment
Novartis Pharma AG	3,466,613	1,566,977	Overseas pharmaceutical business
Aska Pharmaceutical Co., Ltd.	102,553	338,674	Domestic pharmaceutical business

(Earnings per share)

(1) Basic net income per share

The following table shows basic net income per share and basis for calculation thereof.

	FY2014 (1 April 2014 - 31 March 2015)	FY2013 (1 April 2013 - 31 March 2014)
Net income for the year attributable to owners of the parent company (JPY thousand)	568,340	1,526,177
Weighted average number of common shares outstanding (shares)	13,760,098	12,050,163
Basic net income per share (yen)	41.30	126.65

(2) Diluted net income per share

The following table shows diluted net income per share and basis for calculation thereof.

	FY2014 (1 April 2014 - 31 March 2015)	FY2013 (1 April 2013 - 31 March 2014)
Net income for the year attributable to owners of the parent company (JPY thousand)	568,340	1,526,177
Adjusted net income used in the calculation of diluted net income per share (JPY thousand)	-	―
Net income used in the calculation of diluted net income per share (JPY thousand)	568,340	1,526,177
Weighted average number of common shares outstanding (shares)	13,760,098	12,050,163
Increases in number of common shares used in the calculation of diluted net income per share (shares)		
Increases due to the exercise of stock options (shares)	138,040	169,522
Weighted average number of common shares outstanding used in the calculation of diluted net income per share (shares)	13,898,138	12,219,685
Diluted net income per share (yen)	40.89	124.89

(Significant subsequent events)

Not applicable.