Sosei Group Corporation

Securities Report for the First Quarter of 2018
(Quarter ended 30 June 2018)

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Quarterly Report

Document to be filed:	Quarterly Securities Report
Grounds:	Article 24-4-7, Paragraph 1 of Financial Instruments and Exchange Act
Destination of filing:	Director General of the Kanto Local Finance Bureau
Date of filing:	August 9, 2018
Accounting period:	The 29th Term First Quarter (April 1, 2018 – June 30, 2018)
Company name:	Sosei Group Corporation
Representative's name and title:	Peter Bains, Representative Executive Officer, CEO
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Section 1. Company Overview

1. Changes in Key Management Indices

1.1 Management Indices

Term		**The 28th Term Three-month period ended June 30, 2018**	**The 29th Term Three-month period ended June 30, 2018**	**The 28th Term**
Period		**April 1,2017 June 30, 2017**	**April 1,2018 June 30, 2018**	**April 1,2017 March 31, 2018**
Revenue	¥m	2,784	**835**	6,955
Income (loss) before income taxes	¥m	349	**(1,943)**	(3,702)
Net income (loss) attributable to owners of the parent company	¥m	292	**(1,568)**	(2,654)
Comprehensive income (loss) attributable to owners of the parent company	¥m	1,433	**(2,297)**	(1,227)
Equity attributable to owners of the parent company	¥m	29,883	**46,465**	48,882
Total assets	¥m	53,854	**65,514**	69,486
Basic earnings (loss) per share	¥	4.32	**(20.57)**	(37.55)
Diluted earnings (loss) per share	¥	4.30	**(20.57)**	(37.55)
Ratio of equity attributable to owners of the parent company to total assets	(%)	55.5	**70.9**	70.3
Cash flows from operating activities	¥m	(207)	**(1,398)**	(2,167)
Cash flows from investing activities	¥m	(5,168)	**(971)**	(6,148)
Cash flows from financing activities	¥m	4,399	**(850)**	22,641
Cash and cash equivalents at the end of the year	¥m	12,983	**25,042**	28,281

Notes
1. The Group has prepared interim condensed consolidated financial statements and, therefore, has not included information regarding changes in key management indices for the submitting company.
2. Revenue does not include consumption taxes.
3. The financial figures quoted above have been extracted from the interim condensed consolidated financial statements and consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).
4. On May 10, 2018 the Board of Directors resolved to conduct a stock split. On July 1, 2018 each share of common stock was split into four shares. If the stock split had occurred at the beginning of the previous fiscal year, the basic (loss) earnings per share and the diluted (loss) earnings per share for the three month periods ended June 30, 2018 and 2017 would have been as above.

2 Business Description

For the three-month period ended June 30, 2018, there was no significant change in the nature of the business run by the Group, which includes the Company and its affiliated companies. There was also no change in the significant affiliated companies.

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Section 2. Business Review

Forward-looking statements in this section reflect the views of management as at June 30, 2018.

1 Business and Operational Risks

During the three-month period ended June 30 2018, there were no new business-related risks and no significant changes concerning business-related risks stated in the annual securities report for the preceding fiscal year.

2 Overview of Operating Results

2.1 Operating Results

The Group is a clinical-stage biotechnology company. Our vision is to become Japan's first global biotechnology champion, by discovering and developing highly innovative medicines targeting G-Protein-Coupled Receptors ("GPCRs").

During the three months ended June 30, 2018 ("Q1 FY18") (from April 1, 2018 to June 30, 2018), the Group continued to advance its proprietary StaR® ("stabilized receptor") technology and Structure-based Drug Design ("SBDD") platform.

Our balanced business model progressed across all areas; (i) partnerships with major global pharmaceutical companies, (ii) collaborations in R&D with innovative biotechnology companies, and (iii) in-house proprietary drug development.

As of June 30, 2018, the Group had 13 programs ongoing in discovery, with 5 in preclinical development, and 4 currently in clinical trials (including the Phase 2a "MATILDA" study for dementia with Lewy bodies ("DLB") in Japan).

In the area of **partnerships with major global pharmaceutical companies**, our next-generation cancer immunotherapy candidate, AZD4635, and our novel symptomatic treatment for Alzheimer's disease, HTL0018318, continued to progress well through patient-based clinical studies.

On April 18, 2018, the Group together with its partner AstraZeneca UK Limited ("AstraZeneca") announced new data demonstrating that AZD4635 induces anti-tumor immunity alone and in combination with anti-PD-L1 immunotherapies in preclinical models. AZD4635 is a potent and selective, orally available, small molecule adenosine A2a receptor antagonist. AZD4635 was discovered by Sosei's wholly-owned subsidiary Heptares Therapeutics ("Heptares"), and AstraZeneca licensed exclusive global rights to the molecule in 2015. The clinical potential of AZD4635 is being thoroughly investigated by AstraZeneca and the following studies are ongoing:

- Phase 1b study assessing safety, tolerability, pharmacokinetics and biological activity in patients with solid malignancies (NCT#02740985); and
- Phase 1b/2 study assessing safety, tolerability and anti-tumor activity of novel combination therapies in patients with advanced epidermal growth factor receptor ("EGFRm") mutated non-small cell lung cancer ("NSCLC") (NCT#03381274)

In the area of **collaborations in R&D with innovative biotechnology companies**, the Group's programs also continued to advance efficiently.

On May 24, 2018, the Group provided an update on its collaboration with PeptiDream. The collaboration, which began in 2017, aims to discover, develop and commercialize novel peptide therapeutics targeting Protease activated receptor 2 ("PAR2"), a GPCR with an important role in inflammatory disease. The combination of Sosei's proprietary StaR® technology, providing a purified and stable receptor, and PeptiDream's proprietary Peptide Discovery Platform System ("PDPS") has allowed for rapid identification of high affinity and selective peptide antagonists against PAR2. The peptides are undergoing further characterization and optimization, with the intention of advancing the most promising leads towards clinical development. As per the terms of the agreement, Sosei and PeptiDream jointly conduct and share the costs of the discovery and development program and will co-own any resulting products.

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Section 2. Business Review (continued)

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

In the area of **in-house proprietary drug development**, the Group continued to make the necessary investments in our pipeline as we advanced multiple candidates towards clinical studies.

On June 18, 2018, the Group received all necessary approvals to begin its Phase 2a MATILDA study assessing the safety, tolerability, and efficacy of novel muscarinic M1 receptor agonist HTL0018318 in patients with DLB. This important approval will enable the first clinical sites for the study to open for patient enrolment. The Phase 2a trial will enroll approximately 172 DLB patients and will use a randomized, double-blinded, placebo-controlled, dose-ranging design. The primary objective of the study is to evaluate the safety and tolerability of HTL0018318 versus placebo, and the secondary objective is to assess the efficacy (cognition and neuropsychiatric symptoms) of HTL0018318 versus placebo over a 12-week treatment duration. The trial is expected to run through to mid-2020. The study can be accessed on clinicaltrials.jp under the JapicCTI-No. 183989
The Group's other in-house proprietary drug development programs continued to progress well.

On June 4, 2018, the Group announced that Chris Cargill was appointed to the role of Interim CFO following the resignation of Andrew Oakley. This change was approved by the Board of Directors and went into effect on June 4, 2018.

As of June 30, 2018, the Group had a total of 158 employees (an increase of 14 employees vs. Q1 FY17).

As a result of the above activities, the Group reported the following financial results for Q1 FY18. Revenue of JPY 835 million (a decrease of JPY 1,949 million vs. Q1 FY17), an operating loss of JPY 1,783 million (a decrease of JPY 2,514 million vs. Q1 FY17), net loss before income taxes of JPY 1,943 million (a decrease of JPY 2,292 million vs. Q1 FY17), a net loss of JPY 1,568 million (a decrease of JPY 1,859 million vs. Q1 FY17) and a net loss attributable to owners of the parent company of JPY 1,568 million (a decrease of JPY 1,860 million vs. Q1 FY17).

The Group operates as a single business segment, and therefore segmental information has been omitted. Further explanation of the Group's financial performance is detailed below.

Revenue

Revenue related to royalties in the Q1 FY18 period under review totaled JPY 626 million (an increase of JPY 40 million vs. Q1 FY17). The majority of the Group's royalty revenue relates to sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis.[1]

On July 18, 2018, our partner Novartis reported total Q2 2018 sales for its Ultibro® Breezhaler® and Seebri® Breezhaler® products of USD 155 million (an increase of USD 20 million). The breakdown of Novartis' Q2 2018 sales by product was as follows:

- Ultibro® Breezhaler® (USD 116 million, an increase of USD 17 million or +11% cc) a LABA/LAMA, grew double digit, driven by positive FLAME and CLAIM study results as well as the GOLD Strategy 2018 Report and further supported by the recently published SUNSET study results.
- Seebri® Breezhaler® (USD 39 million, an increase of USD 3 million or +2% cc) an inhaled LAMA, was stable.

- [1] Glycopyrronium bromide and certain use and formulation intellectual property were exclusively licensed to Novartis in April 2005 by Sosei and Vectura. In the US, these products are available at different doses or regimens under the names Utibron™ Neohaler® and Seebri™ Neohaler® and Sunovion Pharmaceuticals Inc. has assumed as of December 21, 2016 US commercialization rights for them. Seebri™ Neohaler® was launched in October 2017 by Sunovion Pharmaceuticals Inc.

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Section 2. Business Review (continued)

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

Ultibro® Breezhaler® remains the number one LABA/LAMA across Europe. Furthermore, in its Q2 2018 results presentation, Novartis confirmed its commitment to respiratory products that contain the Group's out-licensed compound *glycopyrronium bromide*. Novartis disclosed its planned filing of QVM149 for Asthma in 2019, ahead of an expected commercial launch in 2020 and the Group is eligible to receive further royalties on sales of this product.

Revenue related to milestones in the Q1 FY18 period under review totaled JPY 101 million (a decrease of JPY 1,915 million vs. Q1 FY17). Q1 FY17 contained major milestone payments from AstraZeneca (USD 12 million) and Teva Pharmaceutical Industries Ltd ("Teva") (USD 5 million). Therefore, the main reason for the decline in revenues related to milestones in Q1 FY18 was due to the absence of any upfront payments related to new partnerships, and the absence of any major milestone payments from existing discovery and development partnerships. Both of these reasons were previously disclosed in the Group's forecasts at the FY2017 full year results on May 10, 2018. The Group classifies a "major milestone payment" as any single payment greater than or equal to approximately USD 5 million.

Research and development
Cash research and development ("R&D") expenses in the Q1 FY18 period under review totaled JPY 1,826 million (an increase of JPY 749 million vs. Q1 FY17). The main reason for the increase in R&D expenses was due to increased spending related to our Phase 2a MATILDA study for DLB in Japan, together with continued investment in our in-house drug development programs during Q1 FY18. In Q1 FY18, 97.3% of R&D spend was related to our UK operations. The Group's guidance for cash R&D expenditure has improved as a result of enhanced pipeline management and phasing of R&D spend. For the nine-month period to December 31, 2018, we now forecast cash R&D expenditure to be in the range of between JPY 7,000 million to JPY 7,600 million (USD 65 to USD 70 million).

General and administrative expenses
Cash general and administrative ("G&A") expenses in the Q1 FY18 period under review totaled JPY 508 million (a decrease of JPY 212 million vs. Q1 FY17). The Group's guidance for cash G&A expenditure remains unchanged. For the nine-month period to December 31, 2018, we forecast cash G&A expenditure to be in the range of between JPY 2,000 million to JPY 2,500 million (USD 18 million to USD 23 million).

Non-cash expenses
Non-cash expenses primarily consist of depreciation on property, plant and equipment, amortization of intangible assets and stock-based compensation expense. Non-cash expenses in the Q1 FY18 period under review were JPY 342 million (an increase of JPY 15 million vs. Q1 FY17). In total, amortization amounted to JPY 230 million (an increase of JPY 13 million vs. Q1 FY17). Depreciation expense for Q1 FY18 totaled JPY 37 million (an increase of JPY 11 million vs. Q1 FY17). Stock-based compensation expense for the period was JPY 75 million (a decrease of JPY 10 million vs. Q1 FY17).

Operating loss
Operating loss in the Q1 FY18 period under review totaled JPY 1,783 million (relative to operating income of JPY 731 million in the previous corresponding period). The main reason for the operating loss was due to the decrease in revenue (for the reasons stated above), and the increase in R&D expense (for the reasons stated above) during Q1 FY18, relative to the previous corresponding period.

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Section 2. Business Review (continued)

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

Finance costs

Finance costs in the Q1 FY18 period under review totaled JPY 155 million (a decrease of JPY 127 million vs. Q1 FY17). The main reason for the decrease was due to foreign exchange cost reduction as a result of more stable JPY, USD and GBP rates during Q1 FY18 relative to the previous corresponding period. Finance costs also includes contingent consideration charges, which remained stable vs. Q1 FY17. As a reminder to the Group's shareholders, the contingent consideration charge relates to additional purchase consideration to be paid to the former shareholders of Heptares. The contingent consideration charge represents the re-measurement of the estimated liability due in the future to the former shareholders of Heptares. At June 30, 2018, the Group has to date paid USD 66 million in milestones, out of the total potential milestone amounts payable of USD 220 million.

Net loss

The net loss in the Q1 FY18 period under review totaled JPY 1,568 million (relative to net income of JPY 291 million in the previous corresponding period). The main reason for the operating loss was due to the decrease in revenue (for the reasons stated above), and the increase in R&D expense (for the reasons stated above) during Q1 FY18, relative to the previous corresponding period).

2.2 Analysis of balance sheet

Assets

Total assets at June 30, 2018 decreased by JPY 3,972 million from the end of the previous fiscal year, totaling JPY 65,514 million. The main reason for this decrease was a decrease of JPY 3,239 million in cash and cash equivalents associated with operating cash flow expenditure, as well as debt repayments of JPY 750 million in Q1 FY18.

Liabilities

Total liabilities at June 30, 2018 were JPY 19,045 million, a decrease of JPY 1,555 million from the end of the previous fiscal year. This is mainly due to the decrease of JPY 735 million of interest-bearing liabilities, a decrease in trade and other payables of JPY 398 million, and a decrease in deferred tax liabilities of JPY 370 million.

Equity

Total equity at June 30, 2018 was JPY 46,469 million, a decrease of JPY 2,417 million from the end of the previous fiscal year. This was primarily due to the net loss of JPY 1,568 million. The ratio of equity attributable to owners of the parent company to total assets was 70.9%, an increase of 0.6% from the end of the previous fiscal year.

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Section 2. Business Review (continued)

2 Overview of Operating Results (continued)

2.3 Cash Flows

Cash and cash equivalents at June 30, 2018 decreased by JPY 3,239 million from the beginning of the year and amounted to JPY 25,042 million.

Cash flows from operating activities

Net cash used in operating activities for the three-month period ended June 30, 2018 amounted to JPY 1,398 million. This was predominantly due to the operating loss recorded for the period arising from the Group's increased investment in Research and Development.

Cash flows from investing activities

Net cash used in investing activities for the three-month period ended June 30, 2018 amounted to JPY 971 million. This was primarily due to the acquisition of fixed assets totaling JPY 899 million.

Cash flows from financing activities

Net cash used in financing activities for the three-month period ended June 30, 2018 was JPY 850 million. This was primarily due to repayments of long-term interest-bearing debt of JPY 750 million.

2.4 Operational and Financial Issues to Be Addressed

For the three-month period ended June 30, 2018, there was no significant change in management issues to be addressed by the Group.

2.5 Research and Development Activities

The Group's research and development expenses for the three-month period ended June 30, 2018 were 1,855 million yen.

Specific details of the research and development activities can be found in "Section 2. Business Review, sub-section 2. Overview of Operating Results."

3 Significant Contracts affecting Business Operations

No new significant contracts were executed during the three-month period ended June 30, 2018.

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Section 3. Information about the Filing Company

1. Stock Information

1.1 Total Number of Shares

Total Number of Shares

Type	Total number of authorized shares (shares)
Common shares	37,344,000

On May 10, 2018 the Board of Directors resolved to conduct a stock split. The Company revised its Articles of Incorporation to increase the total number of authorized shares in proportion to the stock split ratio with effect on 1 July 2018. This raised the total number of shares the Company was authorized to issue from 37,344,000 shares to 149,376,000 shares.

Issued Shares

Type	Number of issued shares at June 30, 2018 (shares)	Number of issued shares at the date of submission (shares) (August 9, 2018)	Name of listed financial instruments exchange or name of registered authorized financial instruments firms associations	Details
Common shares	19,054,984	76,219,936	Tokyo Stock Exchange (Mothers)	Number of shares constituting one unit: 100 shares
Total	19,054,984	76,219,936	–	–

Note 1. In the "number of issued shares at the date of submission," the number of shares issued through the exercise of stock options during the period between August 1, 2018 and the submission date of this quarterly report is not included.
2. On May 10, 2018 the Board of Directors resolved to conduct a stock split. On July 1, 2018 each share of common stock was split into four shares. This raised the total number of shares issued by 57,164,952 shares.

1.2 Stock Acquisition Rights (Stock Options)

Not applicable.

Section 3. Information about the Filing Company

1. Stock Information (continued)

1.3 Status of Exercise of Moving Strike Convertible Bond (MSCB)
Not applicable.

1.4 Changes in the Total Number of Issued Shares and Capital Stock

Date	Increase/ (decrease) in total number of issued shares (shares)	Balance of total number of issued shares (shares)	Increase/ (decrease) in capital stock ¥m	Balance of capital stock ¥m	Increase/ (decrease) in legal capital reserve ¥m	Balance of legal capital reserve ¥m
April 1, 2018 – June 30, 2018	-	19,054,984	-	36,783	-	24,900

Note On May 10, 2018 the Board of Directors resolved to conduct a stock split. On July 1, 2018 each share of common stock was split into four shares. This raised the total number of shares issued by 57,164,952 shares.

1.5 Major Shareholders
Not applicable due to First quarter.

1.6 Voting Rights

Issued Shares
As of June 30 2018

Item	Number of shares (shares)	Number of voting rights	Details
Non-voting shares	–	–	–
Shares with restricted voting rights (treasury shares, etc.)	–	–	–
Shares with restricted voting rights (other)	–	–	–
Shares with full voting rights (treasury shares, etc.)	–	–	–
Shares with full voting rights (other)	Common shares 19,026,900	190,269	Note 1
Shares less than one unit	Common shares 28,084	–	Note 2
Total number of issued shares	**19,054,984**	–	–
Voting rights held by all the shareholders	**–**	**190,269**	**–**

Note: 1. These are standard shares of the Company which do not have any limitation of rights.
2. “Shares less than one unit” includes 26 treasury shares owned by the Company.

Treasury Shares, Etc.
As of June 30, 2018

Name or trade name of holder	Holder’s address	Number of shares held in own name (shares)	Number of shares held in other’s name (shares)	Total number of shares held (shares)	Percentage of shares held to total number of shares issued (%)
–	–	–	–	–	–

2 Status of Officers as at 9 August 2018
Not applicable.

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Section 4. Interim Condensed Consolidated Financial Statements

1. Preparation Policy of the Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements of the Company are prepared in accordance with International Accounting Standards 34 Interim Financial Reporting pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance of Japan No. 64 of 2007).

2. Auditor's Attestation

The interim condensed consolidated financial statements for the three-month period ended June 30, 2018 (from April 1, 2018 to June 30, 2018) were reviewed by Ernst & Young ShinNihon LLC, in accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

The following change of auditor occurred:

- Year ended March 31, 2018: Deloitte Touche Tohmatsu LLC.
- Quarter ended June 30, 2018: Ernst & Young ShinNihon LLC.

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Section 4: Interim Condensed Consolidated Financial Statements
Consolidated Balance Sheet as at 30 June 2018

	Notes	**June 30, 2018 ¥m**	March 31, 2018 ¥m
Assets			
Non-current assets			
Property, plant and equipment	7	**1,969**	1,156
Goodwill		**14,425**	14,685
Intangible assets	3	**15,126**	16,670
Investments accounted for using the equity method		**4,194**	4,424
Deferred tax assets		**6**	6
Other financial assets	6	**1,741**	1,619
Other non-current assets		**7**	10
Total non-current assets		**37,468**	38,570
Current assets			
Trade and other receivables	6	**866**	753
Income tax receivable		**1,363**	1,057
Other current assets		**775**	825
Cash and cash equivalents	6	**25,042**	28,281
Total current assets		**28,046**	30,916
Total assets		**65,514**	69,486
Liabilities and Equity			
Liabilities			
Non-current liabilities			
Deferred tax liabilities	3	**2,707**	3,077
Contingent consideration in business combinations	6	**4,655**	4,634
Interest-bearing debt	8	**5,443**	6,178
Other financial liabilities	6	**1,063**	1,073
Other non-current liabilities		**45**	43
Total non-current liabilities		**13,913**	15,005
Current liabilities			
Trade and other payables	3, 6	**2,013**	2,411
Income taxes payable		**2**	39
Interest-bearing debt	8	**2,995**	2,995
Other current liabilities		**122**	150
Total current liabilities		**5,132**	5,595
Total liabilities		**19,045**	20,600

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Section 4: Interim Condensed Consolidated Financial Statements
Consolidated Balance Sheet as at 30 June 2018 (continued)

	Notes	**June 30, 2018** **¥m**	March 31, 2018 ¥m
Equity			
Capital stock		**36,783**	36,783
Capital surplus		**25,680**	25,608
Treasury stock		**(0)**	(0)
Retained earnings	3	**(9,287)**	(7,527)
Other components of equity		**(6,711)**	(5,982)
Equity attributable to owners of the parent		**46,465**	48,882
Non-controlling interests		**4**	4
Total equity		**46,469**	48,886
Total liabilities and equity		**65,514**	69,486

Sosei Group Corporation

Section 4: Interim Condensed Consolidated Financial Statements
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Quarter ended 30 June 2018

	Notes	**Quarter ended June 30, 2018 ¥m**	Quarter ended June 30, 2017 ¥m
Revenue	3, 9	**835**	2,784
Cost of sales		**-**	-
Gross profit		**835**	2,784
Research and development expenses		**(1,855)**	(1,100)
Selling, general and administrative expenses	10	**(821)**	(1,024)
Other income		**60**	73
Other expenses		**(2)**	-
Operating (loss) income		**(1,783)**	731
Finance income	6	**107**	20
Finance costs	6	**(155)**	(282)
Share of loss of associates accounted for using the equity method		**(112)**	(119)
(Loss) profit before income taxes		**(1,943)**	349
Income tax benefit (expense)		**375**	(57)
Net (loss) profit		**(1,568)**	291
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	6	**(729)**	1,141
Total items that may be reclassified subsequently to profit or loss		**(729)**	1,141
Total other comprehensive income		**(729)**	1,141
Total comprehensive (loss) income for the year		**(2,297)**	1,433
Net (loss) profit attributable to:			
Owners of the parent		**(1,568)**	292
Non-controlling interests		**0**	(0)
		(1,568)	291
Total comprehensive (loss) income for the year attributable to:			
Owners of the parent		**(2,297)**	1,433
Non-controlling interests		**0**	(0)
		(2,297)	1,433
Earnings per share (yen)			
Basic (loss) earnings per share	11	**(20.57)**	4.32
Diluted (loss) earnings per share	11	**(20.57)**	4.30

Sosei Group Corporation

Section 4: Interim Condensed Consolidated Financial Statements
Consolidated Statement of Changes in Equity
For the Quarter ended 30 June 2018

	Notes	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity: Exchange differences on translating foreign operations ¥m	**Equity attributable to owners of the parent ¥m**	Non-controlling interests ¥m	**Total equity ¥m**
Balance at April 30, 2018		**36,783**	**25,608**	(0)	**(7,527)**	**(5,982)**	**48,882**	**4**	**48,886**
Changes in accounting policies	3	–	–	–	(192)	–	**(192)**	–	**(192)**
Balance after restatement		36,783	25,608	(0)	(7,719)	(5,982)	**48,690**	4	**48,694**
Net (loss) profit		–	–	–	(1,568)	–	**(1,568)**	0	**(1,568)**
Exchange differences on translation		–	–	–	–	(729)	**(729)**	–	**(729)**
Total comprehensive income (loss) for the year		–	–	–	(1,568)	(729)	**(2,297)**	0	**(2,297)**
Share-based payments		–	72	–	–	–	**72**	–	**72**
Total transactions with owners		–	72	–	–	–	**72**	–	**72**
Balance at June 30, 2018		**36,783**	**25,680**	**(0)**	**(9,287)**	**(6,711)**	**46,465**	**4**	**46,469**

	Notes	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity: Exchange differences on translating foreign operations ¥m	**Equity attributable to owners of the parent ¥m**	Non-controlling interests ¥m	**Total equity ¥m**
Balance at April 30, 2017		**26,004**	**14,632**	–	**(4,873)**	**(7,409)**	**28,354**	**4**	**28,359**
Net profit (loss)		–	–	–	292	–	**292**	(0)	**291**
Exchange differences on translation		–	–	–	–	1,141	**1,141**	–	**1,141**
Total comprehensive income (loss) for the year		–	–	–	292	1,141	**1,433**	(0)	**1,433**
Issuance of new shares		8	1	–	–	–	**9**	–	**9**
Share-based payments		–	85	–	–	–	**85**	–	**85**
Total transactions with owners		8	87	–	–	–	**95**	–	**95**
Balance at June 30, 2017		**26,013**	**14,719**	–	**(4,580)**	**(6,268)**	**29,883**	**4**	**29,887**

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Section 4 Interim Condensed Consolidated Financial Statements
Consolidated Cash Flow Statement
For the Quarter ended 30 June 2018

	Notes	**Quarter ended June 30, 2018 ¥m**	Quarter ended June 30, 2017 ¥m
Cash flows from operating activities			
(Loss) Profit before income taxes		**(1,943)**	349
Adjustments for:			
Depreciation and amortization		**267**	230
Share-based payments		**75**	85
Grant income		**(50)**	(72)
Net foreign exchange (gain) loss		**(7)**	199
Share of loss of associates accounted for using the equity method		**112**	119
Interest expenses		**58**	56
Changes in fair value of contingent consideration		**(72)**	21
Decrease (increase) in other accounts receivables		**58**	(212)
(Increase) in trade and other receivables		**(101)**	(507)
Increase (decrease) in trade payables		**206**	(188)
Other		**52**	31
Subtotal		**(1,345)**	113
Interest and dividends received		**4**	0
Interest paid		**(35)**	(35)
Grants received		**-**	62
Income taxes paid		**(22)**	(348)
Net cash (used in) operating activities		**(1,398)**	(207)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(899)**	(80)
Payments related to the capitalized development costs		**-**	(29)
Payments for acquisition of shares of associates		**-**	(3,973)
Payments for investment securities		**(60)**	-
Purchases of other financial assets		**-**	(1,083)
Other		**(12)**	(1)
Net cash (used in) investing activities		**(971)**	(5,168)

Sosei Group Corporation

Section 4: Interim Condensed Consolidated Financial Statements
Consolidated Cash Flow Statement
For the Quarter ended 30 June 2018 (Continued)

	Notes	**Quarter ended June 30, 2018 ¥m**	Quarter ended June 30, 2017 ¥m
Cash flows from financing activities			
Proceeds from long-term interest-bearing debt	8	**-**	4,890
Repayments of long-term interest-bearing debt	8	**(750)**	(500)
Payment for settlement of contingent consideration		**(98)**	-
Proceeds from issuance of common stock		**-**	9
Other		**(2)**	-
Net cash (used in) provided by financing activities		**(850)**	4,399
Effects of exchange rate changes on cash and cash equivalents		**(20)**	59
Net decrease in cash and cash equivalents		**(3,239)**	(916)
Cash and cash equivalents at the beginning of the year		**28,281**	13,899
Cash and cash equivalents at the end of the year		**25,042**	12,983

Sosei Group Corporation

Section 4: Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

1. Reporting entity

Sosei Group Corporation (the "Company") is a joint-stock company located in Japan. The address of its registered head office and principal place of business is available on the Company's website (URL: http://www.sosei.com/en). The interim condensed consolidated financial statements reflect the transactions and balances of the Company and its subsidiaries (the "Group") and its interest in affiliated companies as at the end of June 30, 2018. The Group is engaged in the pharmaceutical business.

2. Basis of preparation

The interim condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended March 31, 2018. The Group's interim condensed consolidated financial statements were approved by the Board of Directors on August 9, 2018.

The interim condensed consolidated financial statements of the Group have been prepared on the historical cost basis except for specified financial instruments and other balances measured at fair value.

The interim condensed consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company, and amounts are rounded to the nearest million yen.

3. Significant accounting policies

The significant accounting policies applied to the Group's interim condensed consolidated financial statements for the three month period ended 30 June 2018 are consistent with those applied to the consolidated financial statements for the year ended March 31, 2018, except for amendments to IFRS 9 *Financial Instruments* and the implementation of IFRS 15 *Revenue from Contracts with Customers,* which became effective for the Group from 1 April 2018.

IFRS		Summary of change
IFRS 9	Financial Instruments	Amendment to the classification, measurement and recognition of financial instruments
IFRS 15	Revenue from Contracts with Customers	Introduces a new revenue recognition framework based on the satisfaction of performance obligations together with new disclosure requirements. The new standard requires companies to follow a 5 step approach to revenue recognition: • Identify the contract • Identify performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contract • Recognise revenue when (or as) the entity satisfies a performance obligation

In addition, income tax expenses for the three-month period ended June 30, 2018 were calculated based on the estimated annual effective tax rate.

Section 4: Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

3. Significant accounting policies (Continued)

The Group enters into research and license agreements with customers for which it receives upfront payments, development milestone payments, research related payments, sales related milestones and sales royalties. Under IFRS 15 revenue is recognised as follows:

- Upfront payments are recognized when the related performance obligations are satisfied. This is normally when the license is granted.
- Development milestone payments are recognized when it is certain that the milestone events agreed between the parties will be achieved.
- Any upfront or milestone receipts that are not recognised in this way because the performance obligations have not been satisfied at a point in time are recorded as deferred income and recognized over time in accordance with the fulfilment of the performance obligations.
- Research related revenue is recognised over time in line with the performance of the agreed research activity.
- Sales related milestones and sales royalties are recorded in line with the achievement of the underlying product sales.

In adopting IFRS 15 the Group has applied the modified retrospective approach, with a cumulative adjustment to decrease equity by JPY 192 million with a corresponding decrease in deferred revenue of JPY 468 million (included in trade and other payables), a decrease in intangible assets of JPY 923 million and a decrease in deferred tax liabilities of JPY 263 million. In accordance with the requirements of the Standard, where the modified retrospective approach is adopted, prior year results are not restated. No adjustments were required to be made to prior year results upon adopting of the amendments to IFRS 9.

4. Use of significant estimates and judgements

In preparing the interim condensed consolidated financial statements, the Group is required to make estimates, judgments, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses; however, actual results may differ from these estimates due to their nature. The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of a revision to an accounting estimate are recognized in the period in which the estimate is revised and in any future periods affected. In principle, estimates and assumptions that have material impacts on the interim condensed consolidated financial statements of the Group are consistent with those in the year ended March 31, 2018.

5. Operating segments

The Group operates a single business segment being the pharmaceutical business.

6 Financial instruments

6.1 Methods of calculating fair values

The fair values of financial instruments are calculated as follows:

Other financial assets
Other financial assets are revalued in line with changes in fair value. Other financial assets comprise an option to acquire shares in MiNA, RMF1 investments and contingent consideration receivable relating to business disposals; all of which are categorized as level 3. The fair values of these assets are assessed using risk adjusted discounted cashflow models when there is an indication of a movement in fair value during the period. Changes in fair value during the period are recorded in “Finance income” or “Finance costs” as a gain or loss on option valuation.

Trade and other receivables, cash and cash equivalents, and trade and other payables
These are settled over short periods and, therefore, their carrying amounts approximate fair value.

Contingent consideration in business combinations
Such consideration is calculated by discounting the estimated payable amount after taking into account the probability of occurrence of future cash outflows. The contingent consideration arising in business combinations is categorized within Level 3 of the fair value hierarchy, and changes in fair value have been recorded in “Finance costs.”

Other financial liabilities
Other financial liabilities are revalued in line with changes in fair value. Other financial liabilities comprise holdings in RMF1 by external parties which are categorized as level 3. The fair value of the liability is assessed based on the repayment obligations to the limited partners of a subsidiary. Changes in fair value during the period are recorded in “Finance income” or “Finance costs” as a gain or loss on investments in capital.

Section 4: Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

6 Financial instruments (continued)

6.2 Fair value hierarchy

The classification of financial instruments within the fair value hierarchy from Level 1 to Level 3 is as follows:

Level 1: Quoted prices (unadjusted) in an active market for identical assets or liabilities

Level 2: Fair value determined using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value determined using valuation techniques including measurement based on unobservable inputs

Analysis of financial instruments measured at fair value

At June 30, 2018

	Level 1 ¥m	**Level 2 ¥m**	**Level 3 ¥m**	**Total ¥m**
Financial assets:				
Other financial assets	–	–	1,684	**1,684**
Financial liabilities:				
Contingent consideration in business combinations	–	–	4,655	**4,655**
Other financial liabilities	–	–	1,063	**1,063**
	–	–	5,718	**5,718**

At March 31, 2018

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial assets:				
Other financial assets	–	57	1,562	1,619
Financial liabilities:				
Contingent consideration in business combinations	–	–	4,634	4,634
Other financial liabilities	–	–	1,073	1,073
	–	–	5,707	5,707

Sosei Group Corporation

Section 4: Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

6 Financial instruments (continued)

6.2 Fair value hierarchy

Reconciliation of movements of level 3 financial instruments

Three-month period ended June 30, 2018

	Financial assets ¥m	**Financial liabilities ¥m**
Balance at the beginning of the period	1,562	5,707
Increase through the acquisition of unlisted stocks	60	–
Net gains or losses (unrealized) (Note 1)	20	11
Other comprehensive income (Note 2)	42	–
Balance at the end of the period	**1,684**	**5,718**

Note 1 They are included in "Financial income" and "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.

Note 2 Foreign currency translation differences of foreign operations in the consolidated statement of profit or loss and comprehensive income.

Three-month period ended June 30, 2017

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the period	–	5,855
Increase through the acquisition of option rights	1,083	–
Net gains or losses (unrealized) (Note 1)	9	10
Other comprehensive income	9	10
Settlements during the year (Note 2)	–	(467)
Balance at the end of the period	1,093	5,398

Note 1 They are included in "Financial income" and "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.

Note 2 467 million yen of the settlement amount during the period is unpaid at the end of this consolidated fiscal year and is included in "operating liabilities and other obligations".

7. Property, plant and equipment

Contractual commitments for the acquisition of property, plant and equipment total 554 million yen and 1,271 million yen as at June 30, 2018 and March 31, 2018.

Section 4: Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

8. Interest-bearing debt

The breakdown of interest-bearing debt is as follows:

	At June 30, 2018 **¥m**	At March 31, 2018 ¥m
Non-current liabilities:		
Long-term borrowings (Note)	**5,409**	6,142
Long-term lease obligations	**34**	36
	5,443	6,178
Current liabilities:		
Current portion of long-term borrowings (Note)	**2,987**	2,987
Current portion of long-term lease obligations	**8**	8
	2,995	2,995
	8,438	9,173

Short-term and long-term borrowings are categorized as financial liabilities measured at amortized cost.

Note 1 On September 28, 2015, the Company entered into a syndicated loan agreement with Mizuho Bank, Ltd. acting as the arranger and agent.

(i) Amount borrowed
10,000 million yen

(ii) Repayment date
Starting from the last day of December 2015, 500 million yen has been repaid every three months, and the final repayment date will be the last day of September 2020.
Repayment before the due date may be allowed if certain conditions set forth in the loan agreement are fulfilled.

(iii) Interest rate
TIBOR + Spread (1.50%/year) is applied.
1.57% as at 30 June 2018.

Note 2 On May 17, 2017, the Company entered into a syndicated loan agreement with Mizuho Bank, Ltd. acting as the arranger and agent.

(i) Amount borrowed
5,000 million yen

(ii) Repayment date
Starting from the last day of July 2017, 250 million yen has been repaid every three months, and the final repayment date will be the last day of April 2022.
Repayment before the due date may be allowed if certain conditions set forth in the loan agreement are fulfilled.

(iii) Interest rate
TIBOR + Spread (1.50%/year) is applied.
1.57% as at 30 June 2018.

Note 3 Financial covenants are applied to our bank borrowings. The company is in compliance with these covenants at the period end and actively monitors compliance with them.

Section 4: Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

9. Sales

9.1 Information regarding products and services

The breakdown of revenue is as follows:

	Three-month period ended June 30, 2018 ¥m	Three-month period ended June 30, 2017 ¥m
Royalty income	**626**	586
Milestone fees and lump-sum payments	**101**	2,016
Other	**108**	181
	835	2,784

9.2 Geographical information

The following table provides the Group's revenue from external customers by location and information about its non-current assets by location.

Revenues from external customers

Country	**Three-month period ended June 30, 2018 ¥m**
Japan	**130**
Switzerland	**603**
Ireland	**52**
United States	**50**
	835

Revenues are classified by country based on the locations of customers.

10. Selling, general and administrative expenses

The breakdown of selling, general and administrative expenses is as follows:

	Three-month period ended June 30, 2018 ¥m	Three-month period ended June 30, 2017 ¥m
Personnel expenses	**222**	376
Outsourcing expenses	**219**	241
Depreciation expenses	**238**	219
Other	**142**	187
	821	1,024

Section 4: Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

11. Earnings per share

If the stock split on July 1, 2018 had occurred at the beginning of the previous fiscal year, the basic (loss) earnings per share and the diluted (loss) earnings per share for the three month periods ended June 30, 2018 and 2017 would have been as follows:

11.1 Basic (loss) earnings per share

The following table shows basic earnings per share and explains the basis for the calculation.

	Three-month period ended June 30, 2018	Three-month period ended June 30, 2017
Net (loss) profit attributable to owners of the parent (¥m)	**(1,568)**	292
Weighted-average number of common shares outstanding (Shares)	**76,219,832**	67,678,812
Basic (loss) earnings per share (¥)	**(20.57)**	4.32

11.2 Diluted (loss) earnings per share

The following table shows diluted (loss) earnings per share and the basis for the calculation.

	Three-month period ended June 30, 2018	Three-month period ended June 30, 2017
Net (loss) profit	**(1,568)**	292
Adjustment to net profit used in the calculation of diluted earnings per share (¥m)	**–**	–
Net (loss) profit used in the calculation of diluted earnings per share (¥m)	**(1,568)**	292
Weighted-average number of common shares outstanding (Shares)	**76,219,832**	67,678,812
Increases in number of common shares used in the calculation of diluted earnings per share (Shares)	**—**	—
Increases in number of common shares due to the exercise of stock options (Shares)	**—**	195,376
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	**76,219,832**	67,874,188
Diluted (loss) earnings per share (¥)	**(20.57)**	4.30

In the three-month period ended June 30, 2018 there is no dilutive effect from potential common shares as partial conversion of stock options reduced the loss per share.

12 Significant subsequent events

12.1 Share split

With effect from 1 July, 2018 the company conducted a stock split to improve liquidity by reducing the amount per trading unit of investment in Sosei shares. Each share of common stock owned by shareholders recorded on the last Register of Shareholders as of the record date (30 June 2018) was split into four shares. This raised the total number of issued shares from 19,054,984 shares to 76,219,936 shares. The impact on stock options was as follows:

Stock option series	**Exercise price before adjustment**	**Exercise price after adjustment**
	¥	**¥**
26th Series	648	162
27th Series	648	162
29th Series	4,130	1,033
30th Series	4,130	1,033
31st Series	1	1
32nd Series	12,340	3,085
33rd Series	12,340	3,085
34th Series	10,746	2,687
35th Series	10,746	2,687

Accompanying the stock split, the Company revised its Articles of Incorporation to increase the total number of authorized shares in proportion to the stock split ratio with effect on 1 July 2018. This raised the total number of shares it was authorized to issue from 37,344,000 shares to 149,376,000 shares.

The impact on earnings per share of the stock split is referred to “11. Earnings per share”.

Sosei Group Corporation

Independent Auditor's Reports

Review Report

Ernst & Young Shinnihon LLC have reviewed the Financial Statements and have issued an unqualified review opinion thereon. Please refer to the Japanese Quarterly Securities Report for the full review opinion.

Sosei Group Corporation

Part 2: Information about Company Which Provides Guarantee to Filing Company

Not applicable.