Sosei Group Corporation

Securities Report for the Second Quarter of 2018
(Quarter ended 30 September 2018)

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Quarterly Report

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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:	November 8, 2018
Accounting period:	The 29th Term Second Quarter (July 1, 2018 – September 30, 2018)
Company name:	Sosei Group Corporation
Representative's name and title:	Peter Bains, Representative Executive Officer, CEO
Location of head office:	2-1 Kojimachi, Chiyoda-ku, Tokyo
Phone:	+81-3-5210-3290 (main)
Contact person:	Chris Cargill, Executive Vice President, CFO
Nearest contact location:	2-1 Kojimachi, Chiyoda-ku, Tokyo
Phone:	+81-3-5210-3290 (main)
Contact person:	Chris Cargill, Executive Vice President, CFO
Location for public inspection:	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

Section 1. Company Overview

1. Changes in Key Management Indices

1.1 Management Indices

Term		The 28th Term Six month period ended September 30, 2018	The 29th Term Six month period ended September 30, 2018	The 28th Term
Period		April 1,2017 September 30, 2017	April 1,2018 September 30, 2018	April 1,2017 March 31, 2018
Revenue (Three month period ended September 30, 2018)	¥m	5,314 (2,529)	1,803 (969)	6,955
Loss before income taxes	¥m	(534)	(4,142)	(3,702)
Net loss attributable to owners of the parent company (Three month period ended September 30, 2018)	¥m	(678) (970)	(3,327) (2,071)	(2,654)
Comprehensive income (loss) attributable to owners of the parent company	¥m	1,651	(3,280)	(1,227)
Equity attributable to owners of the parent company	¥m	30,423	45,619	48,882
Total assets	¥m	54,893	63,405	69,486
Basic loss per share (Three month period ended September 30, 2018)	¥	(10.01) (14.30)	(43.64) (27.16)	(37.55)
Diluted loss per share	¥	(10.01)	(43.64)	(37.55)
Ratio of equity attributable to owners of the parent company to total assets	(%)	55.4	71.9	70.3
Cash flows from operating activities	¥m	(88)	(3,561)	(2,167)
Cash flows from investing activities	¥m	(5,077)	(1,939)	(6,148)
Cash flows from financing activities	¥m	3,246	(1,520)	22,641
Cash and cash equivalents at the end of the period	¥m	12,413	21,327	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 per share and the diluted loss per share for the six month periods ended September 30, 2018 and 2017 would have been as above.

2 Business Description

For the six month period ended September 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.

Section 2. Business Review

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

1 Business and Operational Risks

During the six month period ended September 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 six month period ended September 30, 2018 (from April 1, 2018 to September 30, 2018), the Group continued to advance its proprietary StaR® ("stabilized receptor") technology, Structure-based Drug Design ("SBDD") platform, and in-house development pipeline.

While the six month period under review was dominated by September's unexpected update on HTL0018318, we have made excellent progress in strengthening our wider business and are well-positioned to capitalize on a number of strategic opportunities.

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 September 30, 2018, the Group had 15 programs ongoing in discovery, with 5 in preclinical development, and 6[1] currently in clinical trials.

In the area of partnerships with major global pharmaceutical companies, our next-generation cancer immunotherapy candidate, AZD4635 continued to progress 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 the Group'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 Ib study assessing safety, tolerability, pharmacokinetics and biological activity in patients with solid malignancies (NCT#02740985); and
- Phase Ib/II 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).

On September 18, 2018, the Group together with Allergan, its license partner for HTL0018318, announced that it had decided to voluntarily suspend clinical development activities with HTL0018318 pending the investigation of an unexpected toxicology finding in an animal study involving non-human primates. The voluntary suspension is not based on any human findings. Patient safety is of the utmost importance to the Group and Allergan. Scientists from both the Group and Allergan are investigating these findings which remain of unknown cause. The investigations will delay the start of planned Phase II study in patients with AD by at least six months.

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[1] Includes AZD4635 for multiple solid malignancies, AZD4635 for EGFRm NSCLC, HTL0016878 for neurobehavioral symptoms of Alzheimer's disease, HTL0018318 for Alzheimer's disease (voluntarily suspended), HTL0018318 for dementia with Lewy bodies (voluntarily suspended), and QVM149 for Asthma

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

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 the Group'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, the Group and PeptiDream jointly conduct and share the costs of the discovery and development program and will co-own any resulting products.

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 IIa MATILDA study assessing the safety, tolerability, and efficacy of novel muscarinic M1 receptor agonist HTL0018318 in patients with DLB. However, patient recruitment has been stopped due to the aforementioned voluntarily suspension of clinical development activities with HTL0018318.

On September 25, 2018, the Group announced that it received approval in Japan for ORAVI® Mucoadhesive Tablets 50mg. ORAVI® is a novel formulation of the Japanese pharmacopeia miconazole (antifungal agent), the once-daily treatment mucoadhesive tablet to treat oropharyngeal candidiasis ("OPC") in patients. ORAVI® applies Lauriad™ proprietary technology for extended delivery of high concentrations of miconazole directly to the infected site in the mouth. The Group has granted an exclusive license to Fujifilm Group for the commercialization of ORAVI® in Japan. The Group will receive a milestone payment of JPY 200 million (approximately USD 2 million equivalent) from the company for approval and is entitled to receive royalties on sales in Japan, plus additional payments based on the achievement of further sales-based milestones.

The Group's other in-house proprietary drug development programs continued to progress well.

On September 19, 2018, the Group announced that its strategic minority investment company, MiNA Therapeutics ("MiNA"), provided an update from its ongoing Phase I study of small activating RNA ("saRNA") candidate MTL-CEBPA in advanced liver cancer patients. It was reported that there had been observations of tumor responses in three patients when administered approved liver cancer therapies subsequent to treatment with MTL-CEBPA. These observations were anecdotal, and not part of the OUTREACH study data. The observations are very interesting and may support the potential of MTL-CEBPA to enhance the benefit of other oncology drugs to modulate the tumor immune microenvironment. As a result of the observations, MiNA has committed to investigating these findings in further clinical development. Enrolment is expected to begin in Q4 2018 evaluating MTL-CEBPA in combination with sorafenib, a tyrosine kinase inhibitor. Enrolment has been completed evaluating MTL-CEBPA as a single agent.

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

As of September 30, 2018, the Group had a total of 169 employees (an increase of 25 employees vs. the prior corresponding period).

As a result of the above activities, the Group reported the following financial results for six month period ended September 30, 2018. Revenue of JPY 1,803 million (a decrease of JPY 3,511 million vs. the prior corresponding period), an operating loss of JPY 3,753 million (a decrease of JPY 5,197 million vs. the prior corresponding period), net loss before income taxes of JPY 4,142 million (a decrease of JPY 3,608 million vs. the prior corresponding period), a net loss of JPY 3,327 million (a decrease of JPY 2,649 million vs. the prior corresponding period) and a net loss attributable to owners of the parent company of JPY 3,327 million (a decrease of JPY 2,649 million vs. the prior corresponding period).

Subsequent to September 30, 2018, the following events occurred:

- On October 18, 2018, the Group announced that it did not exercise its exclusive option to acquire further equity in MiNA (Holdings) Limited, the parent company of MiNA. The Group's decision was based on: (1) an evaluation of the investment opportunity including a rigorous analysis of interim data from MiNA's Phase I/IIa OUTREACH study of MTL-CEPBA as a single agent in advanced liver cancer patients; and (2) the prioritization of resources directed towards other opportunities across our partnered and in-house GPCR-targeted drug candidate portfolio, which we believe have more value creation potential. MiNA's decision to evaluate MTL-CEBPA in combination with sorafenib represents the most promising clinical strategy and the Group remains a highly supportive shareholder with a significant 25.6% shareholding.
- On November 1, 2018, the Group announced that Mr Chris Cargill was appointed to Executive Vice President and Chief Financial Officer.

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.

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

Revenue

	Six month period ended September 30, 2018 ¥m	Six month period ended September 30, 2017 ¥m	Change
Royalty income	**1,211**	1,276	(65)
Milestone fees and lump-sum payments	**310**	3,726	(3,416)
Other	**282**	312	(30)
	1,803	5,314	(3,511)

Revenue related to royalties in the six month period under review totaled JPY 1,211 million (a decrease of JPY 65 million vs. the prior corresponding period). The majority of the Group's royalty revenue relates to sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis[2]. The very slight decrease was due to the inclusion in the six month period under review of Novartis contract-related deductions.

On October 18, 2018, our partner Novartis reported total (calendar) Q3 2018 sales for its Ultibro® Breezhaler® and Seebri® Breezhaler® products of USD 144 million (an increase of USD 6 million). The breakdown of Novartis' Q3 2018 sales by product was as follows:

- Ultibro® Breezhaler® USD 110 million (+11% compared to Q3 2017[3]) an inhaled 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 34 million (-3% compared to Q3 2017[3]) an inhaled LAMA, declined slightly due to competition in Europe.

Ultibro® Breezhaler® remains the number one LABA/LAMA across Europe. Furthermore, in its (calendar) Q3 2018 results presentation, Novartis confirmed its commitment to respiratory products that contain the Group's out-licensed compound glycopyrronium bromide. Novartis confirmed that enrollment of the Phase III IRIDIUM, PALLADIUM and QUARTZ studies of QVM149 for Asthma have been completed. The filing of QVM149 is planned for 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 six month period under review totaled JPY 310 million (a decrease of JPY 3,416 million vs. the prior corresponding period). The prior corresponding period contained major milestone payments from Allergan (USD 15 million), 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 the six month period under review 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. This was 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.

[2]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.
[3]At constant currency rates

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

Research and development and General and administrative expenses

	Six month period ended September 30, 2018 ¥m	Six month period ended September 30, 2017 ¥m	Change
Research and development	**4,179**	2,221	1,958
Cash expenses	**4,116**	2,171	1,945
Non-cash expenses	**63**	50	13
General and administrative expenses	**1,490**	2,078	(588)
Cash expenses	**896**	1,371	(475)
Non-cash expenses	**594**	707	(113)

Cash research and development ("R&D") expenses in the six month period under review totaled 4,116 million yen (an increase of JPY 1,945 million vs. the prior corresponding period). The main reason for the increase in R&D expense was due to increased preparatory spending related to our Phase IIa MATILDA study for DLB in Japan (entered voluntary hold on 18 September 2018), together with continued investment in our in-house drug development programs, platform and translational science capabilities. In the period under review, 98% of R&D spend related to our UK operations.

General and administrative expenses
Cash general and administrative ("G&A") expenses in the six month period under review totaled JPY 896 million (a decrease of JPY 475 million vs. the prior corresponding period). As a result of September's unexpected update on HTL0018318, we will be increasingly prudent with regard to G&A expenditure.

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 six month period under review were JPY 657 million (a decrease of JPY 100 million vs. the prior corresponding period). In total, amortization amounted to JPY 443 million (an increase of JPY 4 million vs. the prior corresponding period). Depreciation expense for the six month period under review totaled JPY 85 million (an increase of JPY 28 million vs. the prior corresponding period). Stock-based compensation expense for the period was JPY 129 million (a decrease of JPY 132 million vs. the prior corresponding period). The main reason for the decrease in stock-based compensation is due to the changed phasing of long-term incentive plan awards, which have been delayed in order to align with the Group's shift to a new fiscal December year end.

Operating loss
Operating loss in the six month period under review totaled JPY 3,753 million (an increase of JPY 5,197 million vs. the prior 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 the six month period under review vs. the prior corresponding period.

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

Net Finance costs

Net finance costs in the six month period under review totaled JPY 231 million (a decrease of JPY 1,513 million vs. the prior corresponding period). The main reason for the decrease was due to a contingent consideration credit, in addition to a foreign exchange cost reduction as a result of more stable JPY, USD, and GBP rates during the six month period under review vs. the prior corresponding period. Finance costs also include a JPY 1,112 million write-down related to the fair value of our exclusive option for further investment in MiNA. As a reminder to our valued Shareholders, the contingent consideration charge relates to additional purchase consideration to be paid to the former shareholders of Heptares Therapeutics Limited. The contingent consideration charge represents the re-measurement of the estimated liability due in the future to the former shareholders of Heptares Therapeutics Limited. As at 30 September 2018, the Group has to date paid USD 66 million in milestones, out of the total maximum potential milestone amount payable of USD 220 million.

Net loss

The net loss in the six month period under review totaled JPY 3,327 million (a decrease of JPY 2,649 million vs. the prior 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 the six month period under review vs. the prior corresponding period.

2.2 Analysis of balance sheet

Assets

Total assets at September 30, 2018 were JPY 63,405 million (a decrease of JPY 6,081 million vs. the end of the previous fiscal year FY17). The main reason for the decrease was due to a reduction of JPY 6,954 million in cash and cash equivalents associated with operating cash flow expenditure, as well as debt repayments.

Liabilities

Total liabilities at September 30, 2018 were JPY 17,782 million (a decrease of JPY 2,818 million vs. the end of the previous fiscal year FY17). The main reason for the decrease was due to a reduction of JPY 1,423 million in interest-bearing liabilities, a decrease in contingent consideration in business combination of JPY 826 million, and a decrease in trade and other payables of JPY 395 million.

Equity

Total equity at September 30, 2018 was JPY 45,623 million (a decrease of JPY 3,263 million vs. the end of the previous fiscal year FY17). This was primarily due to the net loss of JPY 3,327 million. The ratio of equity attributable to owners of the parent company to total assets was 71.9%, an increase of 1.6% vs. the end of the previous fiscal year FY17.

Section 2. Business Review

2 Overview of Operating Results (continued)

2.3 Cash Flows

Cash and cash equivalents at September 30, 2018 decreased by JPY 6,954 million from the beginning of the fiscal year and amounted to JPY 21,327 million.

Cash flows from operating activities

Net cash used in operating activities for the period under review totaled JPY 3,561 million. This was predominantly due to loss before income taxes recorded for the period arising from the Group's increased investment in R&D.

Cash flows from investing activities

Net cash used in investing activities for the period under review totaled JPY 1,939 million. This was primarily due to the acquisition of fixed assets totaling JPY 1,374 million related to investment in our new R&D facility at Granta Park, Cambridge, United Kingdom.

Cash flows from financing activities

Net cash used in financing activities for the period under review totaled JPY 1,520 million. This was primarily due to repayments of long-term interest-bearing debt of JPY 1,500 million.

2.4 Operational and Financial Issues to Be Addressed

For the six month period ended September 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 six month period ended September 30, 2018 were 4,179 million yen (an increase of JPY 1,958 million vs. the prior corresponding period). Specific details of the research and development activities can be found in "Section 2. Business Review, sub-section 2. Overview of Operating Results, 2-1 Operating Results."

3 Significant Contracts affecting Business Operations

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

Section 3. Information about the Filing Company

1. Stock Information

1.1 Total Number of Shares

Total Number of Shares at September 30, 2018

Type	Total number of authorized shares (shares)
Common shares	149,376,000

Issued Shares

Type	Number of issued shares at September 30, 2018 (shares)	Number of issued shares at the date of submission (shares) (November 8, 2018)	Name of listed financial instruments exchange or name of registered authorized financial instruments firms associations	Details
Common shares	76,298,336	76,301,936	Tokyo Stock Exchange (Mothers)	Number of shares constituting one unit: 100 shares
Total	76,298,336	76,301,936	—	—

Note 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 November 1, 2018 and the submission date of this quarterly report is not included.

1.2 Stock Acquisition Rights (Stock Options)

Not applicable.

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 for three month period ended September 30, 2018

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
July 1, 2018 (Note 1)	—	76,219,936	—	36,783	—	24,900
July 1, 2018 — September 30, 2018 (Note 2)	78,400	76,298,336	68	36,851	68	24,968

Note 1 Increased by 57,164,952 shares effective 1 July due to share split (each share of common stock split into four shares).

Note 2 Increase due to the exercise of stock options.

Note 3 From October 1 ,2018 to October 31, 2018 the exercise of stock options increased the number of shares by 3,600, and increased capital stock and capital reserve by JPY 3 million.

Section 3. Information about the Filing Company

1. Stock Information (continued)

1.5 Major Shareholders

At September 30 2018

Name	**Address**	**Number of shares held (shares)**	**Percentage of shares held to total number of shares issued (%)**
Daisuke Gomi	Matsumoto-shi, Nagano	6,040,000	7.91
Japan Trustee Services Bank, Ltd. (trust account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	3,641,300	4.77
Pfizer Seiyaku K.K.	22-7, Yoyogi 3-chome, Shibuya-ku, Tokyo	1,885,136	2.47
Taiyo Hanei Fund, L.P. (Standing proxy: MUFG Bank, Ltd.)	5300 Carillon Point Kirk Land, WA 98033, U.S.A. (Standing proxy: 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	1,560,100	2.04
Taiyo Fund, L.P. (Standing proxy: MUFG Bank, Ltd.)	5300 Carillon Point Kirk Land, WA 98033, U.S.A. (Standing proxy: 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	1,163,100	1.52
Shinichi Tamura	London, U.K.	1,136,400	1.49
State Street Bank and Trust Company 505019 (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	AIB International Centre, P.O. Box 518 IFSC Dublin, Ireland (Standing proxy: 11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo)	1,133,900	1.48
The Master Trust Bank of Japan, Ltd. (trust account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	976,600	1.27
State Street London Care of State Street Bank and Trust. Boston SSBTC A/C UK London Branch Clients - United Kingdom	One Lincoln Street, Boston MA 02111 U.S.A.	899,800	1.17
SBI Securities Co., Ltd.	6-1, Roppongi 1-chome, Minato-ku, Tokyo	889,805	1.16
		19,326,141	25.28

Note 1 Of the above number of shares held, the number of shares in association with fiduciary activities is as follows:
Japan Trustee Services Bank, Ltd. (trust account) 3,641,300 shares
The Master Trust Bank of Japan, Ltd. (trust account) 976,600 shares

Section 3. Information about the Filing Company

1. Stock Information (continued)

1.5 Major Shareholders (continued)

Note 2 In the report of possession of large-volume provided for public inspection on April 20, 2018, the following shareholdings are respectively attributed to Deutsche Securities Inc. and its two joint holders at April 13, 2018. However, since the Company is unable to confirm the actual number of shares held at September 30, 2018, they are not included in the major shareholders above.

Details included in a copy of the report are as follows:

Name	Address	Number of share certificates, etc. held (shares)	Holding ratio of share certificates, etc. (%)
Deutsche Bank Aktiengesellschaft, London	Winchester House, 1 Great Winchester Street, London EC2N 2DB, U.K.	977,883	5.13
Deutsche Securities Inc.	Sanno Park Tower, 11-1, Nagatacho 2-chome, Chiyoda-ku, Tokyo	200	0.00
Deutsche Bank Securities Inc.	60 Wall Street, New York, NY 10005-2858, U.S.A.	0	0.00
		978,083	5.13

Note 3. In the amended report of possession of large-volume provided for public inspection on September 5, 2018, the following shareholdings are respectively attributed to J.P. Morgan Asset Management (Japan) Ltd. and its three joint holders at August 31, 2018. However, since the Company is unable to confirm the actual number of shares held at September 30, 2018, they are not included in the major shareholders above.

Details included in a copy of the report are as follows:

Name	Address	Number of share certificates, etc. held (shares)	Holding ratio of share certificates, etc. (%)
J.P. Morgan Asset Management (Japan) Ltd.	Tokyo Building, 7-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo	3,935,500	5.16
J.P. Morgan Securities Japan Co., Ltd.	Tokyo Building, 7-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo	(28,400)	(0.04)
J.P. Morgan Securities plc	25 Bank Street, Canary Wharf, London E14 5JP, U.K.	119.184	0.16
J.P. Morgan Securities LLC	383 Madison Avenue, New York, NY 10179, U.S.A.	371,600	0.49
		4,397,884	5.77

Section 3. Information about the Filing Company

1. Stock Information (continued)

1.6 Voting Rights

Issued Shares

As of September 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.)	Common shares 100	—	—
Shares with full voting rights (other)	Common shares 76,258,800	762,588	Note 1
Shares less than one unit	Common shares 39,436	—	Note 2
Total number of issued shares	**76,298,336**	—	—
Voting rights held by all the shareholders	—	**762,588**	—

Note 1. These are standard shares of the Company which do not have any limitation of rights.

Note 2. "Shares less than one unit" includes 4 treasury shares owned by the Company.

Treasury Shares, Etc.

As of September 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 (%)
Sosei Group Corporataion	2-1 Kojimachi, Chiyoda-ku, Tokyo	100	—	100	0.00

2 Status of Officers as at 30 September 2018

Not applicable.

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 Report

The interim condensed consolidated financial statements for the three-month period ended September 30, 2018 (from July 1, 2018 to September 30, 2018) and for the six-month period ended September 30, 2018 (from April 1, 2018 to September 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.

Section 4: Interim Condensed Consolidated Financial Statements

Consolidated Balance Sheet as of 30 September 2018

	Notes	September 30, 2018 (Unaudited) ¥m	March 31, 2018 ¥m
Assets			
Non-current assets			
Property, plant and equipment	7	**2,558**	1,156
Goodwill		**14,679**	14,685
Intangible assets	3	**15,673**	16,670
Investments accounted for using the equity method		**4,254**	4,424
Deferred tax assets		**6**	6
Other financial assets	6	**1,200**	1,619
Other non-current assets		**297**	10
Total non-current assets		**38,667**	38,570
Current assets			
Trade and other receivables		**935**	753
Income tax receivable		**1,788**	1,057
Other current assets		**688**	825
Cash and cash equivalents		**21,327**	28,281
Total current assets		**24,738**	30,916
Total assets		**63,405**	69,486
Liabilities and Equity			
Liabilities			
Non-current liabilities			
Deferred tax liabilities	3	**2,748**	3,077
Contingent consideration in business combinations	6	**3,808**	4,634
Interest-bearing debt	8	**4,756**	6,178
Other financial liabilities	6	**1,051**	1,073
Other non-current liabilities		**102**	43
Total non-current liabilities		**12,465**	15,005
Current liabilities			
Trade and other payables	3	**2,016**	2,411
Income taxes payable		**23**	39
Interest-bearing debt	8	**2,994**	2,995
Other current liabilities		**284**	150
Total current liabilities		**5,317**	5,595
Total liabilities		**17,782**	20,600
Equity			
Capital stock		**36,851**	36,783
Capital surplus		**25,749**	25,608
Treasury stock		**(0)**	(0)
Retained earnings	3	**(11,046)**	(7,527)
Other components of equity		**(5,935)**	(5,982)
Equity attributable to owners of the parent		**45,619**	48,882
Non-controlling interests		**4**	4
Total equity		**45,623**	48,886
Total liabilities and equity		**63,405**	69,486

Section 4: Interim Condensed Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six month period ended 30 September 2018

	Notes	**Six month period ended September 30, 2018 (Unaudited) ¥m**	Six month period ended September 30, 2017 (Unaudited) ¥m
Revenue	3,9	**1,803**	5,314
Cost of sales		**—**	—
Gross profit		**1,803**	5,314
Research and development expenses		**(4,179)**	(2,221)
Selling, general and administrative expenses	10	**(1,490)**	(2,078)
Other income		**116**	438
Other expenses		**(3)**	(9)
Operating (loss) income		**(3,753)**	1,444
Finance income	6	**994**	66
Finance costs	6	**(1,225)**	(1,810)
Share of loss of associates accounted for using the equity method		**(158)**	(234)
Loss before income taxes		**(4,142)**	(534)
Income tax benefit (expense)		**815**	(144)
Net loss		**(3,327)**	(678)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	6	**47**	2,329
Total items that may be reclassified subsequently to profit or loss		**47**	2,329
Total other comprehensive income		**47**	2,329
Total comprehensive (loss) income for the year		**(3,280)**	1,651
Net loss attributable to:			
Owners of the parent		**(3,327)**	(678)
Non-controlling interests		**(0)**	(0)
		(3,327)	(678)
Total comprehensive (loss) income for the year attributable to:			
Owners of the parent		**(3,280)**	1,651
Non-controlling interests		**(0)**	(0)
		(3,280)	1,651
Earnings per share (yen)			
Basic loss per share	11	**(43.64)**	(10.01)
Diluted loss per share	11	**(43.64)**	(10.01)

Section 4: Interim Condensed Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three month period ended 30 September 2018

	Notes	**Three month period ended September 30, 2017 (Unaudited) ¥m**	Three month period ended September 30, 2016 (Unaudited) ¥m
Profit or loss:			
Revenue		**969**	2,529
Cost of sales		**—**	—
Gross profit		**969**	2,529
Research and development expenses		**(2,324)**	(1,120)
Selling, general and administrative expenses		**(669)**	(1,053)
Other income		**56**	364
Other expenses		**(2)**	(8)
Operating income (loss)		**(1,970)**	712
Finance income		**598**	46
Finance costs		**(1,093)**	(1,527)
Share of loss of associates accounted for using the equity method		**(46)**	(114)
Loss before income taxes		**(2,511)**	(883)
Income tax benefits (expenses)		**440**	(87)
Net loss		**(2,071)**	(970)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**776**	1,187
Total items that may be reclassified subsequently to profit or loss		**776**	1,187
Total other comprehensive income		**776**	1,187
Total comprehensive income		**(1,295)**	217
Net loss attributable to:			
Owners of the parent		**(2,071)**	(970)
Non-controlling interests		**0**	0
		(2,071)	(970)
Total comprehensive (loss) income attributable to:			
Owners of the parent		**(1,295)**	217
Non-controlling interests		**0**	0
		(1,295)	217
Earnings per share (yen)			
Basic loss per share	11	**(27.16)**	(14.30)
Diluted loss per share	11	**(27.16)**	(14.30)

Section 4: Interim Condensed Consolidated Financial Statements
Consolidated Statement of Changes in Equity
For the six month period ended 30 September 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 1, 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		–	–	–	(3,327)	–	**(3,327)**	(0)	**(3,327)**
Exchange differences on translation		–	–	–	–	47	**47**	–	**47**
Total comprehensive (loss) income for the year		–	–	–	(3,327)	47	**(3,280)**	(0)	**(3,280)**
Issuance of new shares		68	12	–	–	–	80	–	80
Share-based payments		–	129	–	–	–	**129**	–	**129**
Total transactions with owners		68	141	–	–	–	**209**	–	**209**
Balance at September 30, 2018 (Unaudited)		**36,851**	**25,749**	(0)	**(11,046)**	**(5,935)**	**45,619**	**4**	**45,623**
Balance at April 1, 2017		26,004	14,632	–	(4,873)	(7,409)	28,354	4	28,359
Net loss		–	–	–	(678)	–	(678)	(0)	(678)
Exchange differences on translation		–	–	–	–	2,329	2,329	–	2,329
Total comprehensive (loss) income for the year		–	–	–	(678)	2,329	1,651	(0)	1,651
Issuance of new shares		129	28	–	–	–	157	–	157
Share-based payments		–	261	–	–	–	261	–	261
Total transactions with owners		129	289	–	–	–	418	–	418
Balance at September 30, 2017 (Unaudited)		26,133	14,921	–	(5,551)	(5,080)	30,423	4	30,427

Section 4 Interim Condensed Consolidated Financial Statements

Consolidated Cash Flow Statement

For the six month period ended 30 September 2018

	Notes	**Six month period ended September 30, 2018 (Unaudited) ¥m**	Six month period ended September 30, 2017 (Unaudited) ¥m
Cash flows from operating activities			
Loss before income taxes		**(4,142)**	(534)
Adjustments for:			
Depreciation and amortization		**529**	484
Share-based payments		**129**	261
Grant income		**(104)**	(109)
Gain on loss of control of the subsidiaries		—	(326)
Loss on revaluation of option to purchase shares		**1,112**	—
Net foreign exchange (gain)		**(80)**	(215)
Share of loss of associates accounted for using the equity method		**158**	234
Interest expenses		**112**	127
Change in fair value of contingent consideration		**(922)**	1,333
Decrease (increase) in other accounts receivables		**100**	(370)
(Increase) in trade and other receivables		**(149)**	(901)
(Decrease) increase in trade payables		**(203)**	412
Other		**(99)**	(166)
Subtotal		**(3,559)**	230
Interest and dividends received		**8**	2
Interest paid		**(69)**	(79)
Grants received		**61**	107
Income taxes paid		**(21)**	(348)
Income tax refund		**19**	—
Net cash (used in) operating activities		**(3,561)**	(88)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,374)**	(203)
Payments related to capitalized development costs		—	(53)
Payments for purchase of shares of associates		—	(3,973)
Payments for purchase of investment securities		**(550)**	(140)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation		—	377
Purchases of other financial assets		—	(1,083)
Other		**(15)**	(2)
Net cash (used in) investing activities		**(1,939)**	(5,077)
Cash flows from financing activities			
Proceeds from long-term interest-bearing debt	8	—	4,890
Repayments of long-term interest-bearing debt	8	**(1,500)**	(1,250)
Payment for settlement of contingent consideration		**(98)**	(550)
Proceeds from issuance of common stock		**81**	156
Other		**(3)**	—
Net cash (used in) provided by financing activities		**(1,520)**	3,246
Effects of exchange rate changes on cash and cash equivalents		**66**	433
Net decrease in cash and cash equivalents		**(6,954)**	(1,486)
Cash and cash equivalents at the beginning of the period		**28,281**	13,899
Cash and cash equivalents at the end of the period		**21,327**	12,413

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 September 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 November 8, 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 six month period ended 30 September 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 six month period ended September 30, 2018 were calculated based on the estimated annual effective tax rate.

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. 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. Significant unobservable inputs used in the cash flow models include the projected cashflows and the discount rate. Changes in fair value during the period are recorded in "Finance income" or "Finance costs" as a gain or loss on revaluation.

During September 2018 the Company received the result of MiNA's Phase I/IIa OUTREACH study of CEBPA which had the effect of starting a contractual timeframe during which the Group had to decide whether to exercise its option to increase its shareholding in MiNA. Management's assessment of the data in September determined that it was unlikely to meet the Group's strict internal hurdle for further investment and accordingly the fair value of the option was reduce to nil as at 30 September 2018.

Contingent consideration in business combinations
Such consideration is calculated by discounting the estimated amount payable 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. Significant unobservable inputs used in the cashflow model include the probabilities of success of assets progressing to the next milestone event and the discount rate. Changes in fair value during the period are recorded in "Finance income" or "Finance costs" as a gain or loss on revaluation.

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 which move in line with changes in the value of the underlying investments (which are valued as explained above). 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 September 30, 2018

	Level 1 ¥m	**Level 2 ¥m**	**Level 3 ¥m**	**Total ¥m**
Financial assets:				
Other financial assets	—	—	1,142	**1,142**
Financial liabilities:				
Contingent consideration in business combinations	—	—	3,808	**3,808**
Other financial liabilities	—	—	1,051	**1,051**
	—	—	4,859	**4,859**

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

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

Six-month period ended September 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 securities	550	—
Net gains or losses (unrealized) (Note 1)	(1,010)	(848)
Other comprehensive income (Note 2)	40	—
Balance at the end of the period	**1,142**	**4,859**

Note 1 Loss on revaluation of option to purchase shares in MiNA is included as an unrealized loss in “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 other comprehensive income.

Six-month period ended September 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	—
Increase through acquisition of unlisted securities	140	—
Net gains or losses (unrealized) (Note 1)	43	1,312
Other comprehensive income	9	—
Settlements during the period (Note 2)	—	(663)
Balance at the end of the period	1,275	6,504

Note 1 Unrealized gains or losses are included in “Financial income” and “Finance costs” in the consolidated statement of profit or loss and other comprehensive income.

Note 2 “Settlements during the period” include 113 million yen that had not been paid by the period end. This amount is included in “Trade and other payables.”

7. Property, plant and equipment

Heptares Therapeutics Ltd., a subsidiary undertaking of the Group, relocated to a state of the art R&D facility at Granta Park, Cambridge, United Kingdom, during the period. As a result there were significant fixed assets (JPY 1,419 million).

Contractual commitments for the acquisition of property, plant and equipment total 204 million yen and 1,271 million yen as at September 30, 2018 and March 31, 2018 respectively.

8. Interest-bearing debt

The breakdown of interest-bearing debt is as follows:

	At September 30, 2018	At March 31, 2018
	¥m	¥m
Non-current liabilities:		
Long-term borrowings (Note)	**4,676**	6,142
Long-term lease obligations	**80**	36
	4,756	6,178
Current liabilities:		
Current portion of long-term borrowings (Note)	**2,987**	2,987
Current portion of long-term lease obligations	**7**	8
	2,994	2,995
	7,750	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 September 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 September 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:

	Six month period ended September 30, 2018 ¥m	Six month period ended September 30, 2017 ¥m
Royalty income	**1,211**	1,276
Milestone fees and lump-sum payments	**310**	3,726
Other	**282**	312
	1,803	5,314

9.2 Geographical information

The breakdown of external revenue split by location of customer is as follows:

Country	**Six month period ended September 30, 2018 ¥m**
Japan	453
Switzerland	1,167
Ireland	119
United States	64
	1,803

10. Selling, general and administrative expenses

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

	Six month period ended September 30, 2018 ¥m	Six month period ended September 30, 2017 ¥m
Personnel expenses	**479**	814
Outsourcing expenses	**289**	378
Depreciation expenses	**466**	445
Other	**256**	441
	1,490	2,078

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 per share and the diluted loss per share for the six month periods ended September 30, 2018 and 2017 would have been as follows:

11.1 Basic earnings per share

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

	Six month period ended September 30, 2018	Six month period ended September 30, 2017
Net (loss) attributable to owners of the parent (¥m)	**(3,327)**	(678)
Weighted-average number of common shares outstanding (Shares)	**76,233,998**	67,769,420
Basic (loss) per share (¥)	**(43.64)**	(10.01)

	Three month period ended September 30, 2018	Three month period ended September 30, 2017
Net (loss) attributable to owners of the parent (¥m)	**(2,071)**	(970)
Weighted-average number of common shares outstanding (Shares)	**76,248,010**	67,859,044
Basic (loss) per share (¥)	**(27.16)**	(14.30)

Notes to the Interim Condensed Consolidated Financial Statements

11. Earnings per share (continued)

11.2 Diluted (loss) earnings per share

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

	Six month period ended September 30, 2018	Six month period ended September 30, 2017
Net (loss)	**(3,327)**	(678)
Adjustment to net profit used in the calculation of diluted earnings per share (¥m)	**—**	—
Net (loss) used in the calculation of diluted earnings per share (¥m)	**(3,327)**	(678)
Weighted-average number of common shares outstanding (Shares)	**76,233,998**	67,769,420
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)	**—**	—
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	**76,233,998**	67,769,420
Diluted (loss) per share (¥)	**(43.64)**	(10.01)

	Three month period ended September 30, 2018	Three month period ended September 30, 2017
Net (loss)	**(2,071)**	(970)
Adjustment to net profit used in the calculation of diluted earnings per share (¥m)	**—**	—
Net (loss) used in the calculation of diluted earnings per share (¥m)	**(2,071)**	(970)
Weighted-average number of common shares outstanding (Shares)	**76,248,010**	67,859,044
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)	**—**	—
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	**76,248,010**	67,859,044
Diluted (loss) per share (¥)	**(27.16)**	(14.30)

In the six-month periods ended September 30, 2018 and 2017, and in the three-month periods ended September 30, 2018 and 2017, there is no dilutive effect from potential common shares as partial conversion of stock options reduced the loss per share.

12 Significant subsequent events

Not applicable.

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

Not applicable.

Independent Auditor’s Report

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.