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TSE Securities Code: 4565  
June 1, 2017

To Shareholders:

Sosei Group Corporation (the "Company")  
2-4 Kojimachi, Chiyoda-ku, Tokyo

### Notice of the 27th Ordinary General Meeting of Shareholders

The Company would like to inform you that the 27th Ordinary General Meeting of Shareholders of the Company (the "Meeting") will be held as follows, and would be grateful if you would attend the meeting.

If you are unable to attend the meeting in person, you may exercise your voting rights in writing or via the Internet. You are kindly requested to review the appended "Reference Documents for the Ordinary General Meeting of Shareholders" and exercise your voting rights by indicating your votes for or against the proposal no later than 6:00 p.m. on Wednesday, June 21, 2017.

**Yours Sincerely,**  
**Peter Bains**  
**Board Director, Representative Executive Officer and President**

- |                         |   |
|-------------------------|---|
| <b>1. Date and Time</b> | Thursday, June 22, 2017 at 10:00 a.m.   |
| <b>2. Venue</b>         | Fuji-No-Ma Hall, 4th Floor, Grand Arc Hanzomon Hotel<br>1-1, Hayabusa-cho, Chiyoda-ku, Tokyo, Japan |

Please note that souvenirs to the shareholders attending the meeting will not be offered and a reception will not be held from this time. Thank you for your understanding.

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| <b>3. Agenda Matters to be reported :</b> | <ol style="list-style-type: none"><li>1. Report on Business Report, Consolidated Financial Statements, and Reports of Independent Auditors and the Audit Committee on Consolidated Financial Statements for the 27th fiscal year (from April 1, 2016 to March 31, 2017)</li><li>2. Report on the Non-Consolidated Financial Statements for the 27th fiscal year (from April 1, 2016 to March 31, 2017)</li></ol> |
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**Matters to be Resolved:**  
**Proposal**

Election of Five (5) Directors

- Please submit the enclosed voting rights exercise form at the reception desk when you attend the Meeting.
- Notes to the Consolidated Financial Statements and Notes to the Non-Consolidated Financial Statements are provided to shareholders through disclosure on the Company's Internet website (<http://www.sosei.com/>) in accordance with the law and Article 14 of the Articles of Incorporation.
- Should any revisions be made to the Reference Documents for the Ordinary General Meeting of Shareholders, Business Report, Non-Consolidated Financial Statements or Consolidated Financial Statements prior to the date of the Meeting, the Company will provide notice through disclosure on its website (<http://www.sosei.com/>).

## Business Report

( From April 1, 2016  
To March 31, 2017 )

### 1. Current State of the Corporate Group

#### (1) Progress and Results of Operations

##### 1) Group Outlook

The Company and its subsidiaries (the "Group") aim to contribute to improving the health and quality of life of people around the world as a global biotechnology company anchored in Japan. Through acquiring Sosei R&D Ltd. (formerly Arakis Ltd.; "Sosei R&D") and Heptares Therapeutics Limited ("Heptares") in the U.K. and through alliances with major global pharmaceutical companies, the Group has worked to establish a foundation that will make possible integrated global business development.

In the fiscal year 2016, the Company's subsidiary Heptares signed an R&D and commercialization agreement with Allergan Pharmaceuticals International Ltd. ("Allergan"), a wholly-owned subsidiary of global pharmaceutical company Allergan plc, to license global rights to a broad portfolio of novel subtype-selective muscarinic receptor agonists in development for the treatment of major neurological disorders, including Alzheimer's disease, and under the terms of the agreement received an upfront payment of USD 125 million. Through an agreement with AstraZeneca UK Limited ("AstraZeneca"), Heptares also received a milestone payment of USD 10 million due to the start of a Phase 1 clinical study for AZD4635 (HTL1071), an immuno-oncology candidate. Further, Heptares entered into a drug discovery and licensing agreement with Daiichi Sankyo Company, Limited ("Daiichi Sankyo"), a major Japanese pharmaceutical company, focused on novel, small-molecules for the treatment of pain. The Group thus continued working to promote new drug discovery and partnerships with major pharmaceutical companies.

Additionally, complementing the Group's medium/long-term growth strategy, which pivots on autonomous growth from pipeline expansion and new drug development centering on Heptares, and as a part of its M&A policy based on that strategy, Heptares Therapeutics Zurich AG (formerly G7 Therapeutics AG; "Heptares Zurich"), whose proprietary method shares a high degree of complementariness with Hepatares' StaR® technology platform, was made a subsidiary.

Moreover, Seebri® Breezhaler® and Ultibro® Breezhaler®, treatments for chronic obstructive pulmonary disease (COPD) licensed to Novartis International AG ("Novartis"), produced combined annual sales in 2016 of over USD 500 million, which triggered a milestone payment received by the Group of USD 5 million.

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

From the above result, in the fiscal year under review, revenue totaled 18,901 million yen, an increase of 131.86% compared to the previous fiscal year. Operating income totaled 12,389 million yen. Net income before income taxes amounted to 12,483 million yen, and net income was 9,638 million yen. Net income attributable to parent company shareholders amounted to 9,797 million yen.

**Information by business segment is as follows.**

### **Domestic pharmaceutical business**

Revenue in the domestic pharmaceutical business segment in the fiscal year was 102 million yen, a decrease of 95 million yen from the previous financial year. The Operating Loss in this segment was 794 million yen, a decrease of 257 million yen from the last year.

### **Overseas pharmaceutical business**

Revenue in the overseas pharmaceutical business segment in the fiscal year was 18,797 million yen, an increase of 10,843 million yen from the previous financial year. Operating income totaled 12,801 million yen, an increase of 11,136 million yen.

### **Revenue**

Milestone-related revenue in the fiscal year under review amounted to 15,620 million yen. This was an increase of 9,786 million yen compared to the previous fiscal year (an increase of 167.8%, an increase of 215.7% on a constant currency basis). The increase is primarily attributable to an upfront milestone of USD 125 million received under a licensing agreement concluded by our wholly owned subsidiary Heptares with Allergan in April 2016. The agreement gives Allergan exclusive global rights to a broad portfolio of novel subtype-selective muscarinic receptor agonists in development for the treatment of major neurological disorders, including Alzheimer's disease.

Under the terms of the agreement, Heptares is eligible to receive contingent milestone payments of up to approximately USD 665 million associated with the successful Phase I, II and III clinical development and launch of the first three licensed compounds for multiple indications and up to approximately USD 2,575 million associated with achieving certain annual sales thresholds during the several years following launch, as well as tiered royalties reaching double digits on net sales.

In August 2015, Heptares entered into an agreement with Astra Zeneca to develop novel immuno-oncology treatments for a range of cancers. In June 2016, a USD 10 million milestone, was received from AstraZeneca related to the first subject being dosed with the immuno-oncology candidate AZD4635 (HTL1071) in a Phase I clinical study. Under the agreement AstraZeneca gained exclusive global rights to develop, manufacture and commercialize the adenosine A2A receptor antagonist, AZD4635 (HTL1071), a small molecule immuno-oncology candidate, and potential additional A2A receptor-blocking compounds across a range of cancers, including in combination with its existing portfolio of immunotherapies.

In April 2017, post the close of the fiscal year, we received a USD 12 million milestone payment due to the successful completion of a preclinical study that demonstrated a clear effect of AZD4635 (HTL1071) in reversing adenosine-mediated T-cell suppression and enhancing anti-tumor immunity and, subject to successful completion of development and commercialization milestones, we are also eligible to receive more than USD 500 million, as well as up to low double-digit tiered royalties on net sales.

In March 2017, Heptares entered into a drug discovery and licensing agreement with Daiichi Sankyo focused on a single G protein-coupled receptor (GPCR) that plays a crucial role in relieving pain. Under the terms of the agreement, we will assume a role to discover novel, small-molecules focusing on a single GPCR nominated by Daiichi Sankyo and Daiichi Sankyo will receive exclusive global rights to develop, manufacture and commercialize the

said molecules discovered by Heptares. In return, we received an upfront payment of USD 4 million and we will receive research funding of approximately USD 8 million and we are eligible to receive additional research, development and commercialization milestone payments. In addition, we will be eligible to receive royalties on net sales of new products resulting from the alliance.

Revenue related to royalties in the fiscal year under review increased by 792 million yen compared to the previous fiscal year (an increase of 37.3%; increase of 51.7% on a constant currency basis), and totaled 2,918 million yen. Most of this royalty revenue is related to the sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis, our licensing partner. Sales of Ultibro® Breezhaler® as reported by Novartis on January 25, 2017 were USD 363 million for the calendar year 2016. Adjusting for currency, Novartis reported underlying sales growth of 38 %, or USD 40 million. Sales of Seebri® Breezhaler® as reported by Novartis for the calendar year were USD 149 million, a 2% increase adjusting for currency or a USD 1 million decrease. Revenue was also registered from a milestone payment of USD 5 million received due to the annual combined sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis surpassing USD 500 million.

#### **Research and development expenses**

The fiscal year under review saw the start of activities designed to scale up our discovery capability and expand our clinical development capacity. This investment should significantly increase the number of new drug candidates, from one to up to three per annum that we can identify and develop, utilizing Heptares' unique StaR® structure-based drug design technology. Additionally, as we look to advance our own proprietary portfolio ('Wave 2'), we have strengthened our clinical development and translational medicine capabilities so that we are able to progress our proprietary development drug candidates into Phase I clinical trials and then into Phase II and Phase III trials.

Research and development expenses incurred by Heptares in the fiscal year under review have been substantially impacted by exchange rate fluctuations caused by the weakness of the British pound. The average yen/GBP exchange rate pre the Brexit vote was 155.17 yen. Post the Brexit vote the exchange rate for the remainder of the year averaged 141.60 yen. As a result, research and development expenses, in the fiscal year under review decreased by 698 million yen compared to the previous fiscal year (decrease of 17.8%; an increase of 1.6% on a constant currency basis), and totaled 3,218 million yen. In the year under review, 68% of our total cost base was related to Heptares in the UK.

In November 2016, Jitsubo became an affiliated company, rather than a subsidiary company, and consequently the results of Jitsubo are only included in the consolidated financial results of the Group for the eight-month period up to November 2016.

A portion of research and development expenses incurred by the Group under agreements with our R&D partners are borne by our partners, and the reimbursements that we receive have been deducted from our research and development expenses. These reimbursements relate either to the partnered assets ('Wave 1') or to the technology agreements with a multiple number of partners. On a comparative basis, the Allergan collaboration made a significant impact on R&D expenses in the fiscal year as Allergan took over the financial responsibility for the muscarinic programs. In the prior fiscal year, we had

made a significant investment in the muscarinic programs.

In December 2016, the Group paid 12 million Swiss Francs to acquire Heptares Zurich. Given that we only consolidated the results of Heptares Zurich for approximately one quarter of the fiscal year the impact on R&D expenditure for the year under review was limited.

#### **Selling, general and administrative expenses**

Selling, general and administrative expenses, excluding non-cash costs, in the fiscal year under review increased by 279 million yen compared to the previous fiscal year, and totaled 3,572 million yen. This represented an increase of 8.5% on a reported basis and 25.0% on a constant currency basis. A proportion of the increase in SG&A relates to advisory services received in relation to the licensing agreement with Allergan.

#### **Other income**

Other income totaled 659 million yen, an increase of 510 million yen from the previous fiscal year. This increase was partly related to R&D grants (218 million yen, compared to 145 million yen for the prior year), and an equity profit from Jitsubo which moved to being an affiliated company as previously described, resulting in it being accounted for using the equity method (417 million yen).

#### **Other expenses**

Other expenses totaled 380 million yen, an increase of 369 million yen from the previous fiscal year. This increase is due to the impairment loss (373 million yen) of fixed assets in Heptares at acquisition.

#### **Operating income**

Operating income in the fiscal year under review increased by 11,313 million yen and totaled 12,389 million yen. The increase is primarily attributable to the upfront milestone received from Allergan.

#### **Finance income**

Finance income in this fiscal year totaled 1,521 million yen. This is mainly due to the weakening of the British pound relative to our reporting currency and its effect of the value of foreign currency denominated assets in our UK operations.

#### **Finance costs**

Finance costs in the fiscal year under review totaled 479 million yen. Of this amount 287 million yen is due to the fluctuation in the fair value of contingent consideration and 192 million yen of the remaining amount is predominantly the interest expense on interest bearing debt related to the acquisition of Heptares.

The contingent consideration is the consideration to be paid to former shareholders of Heptares if certain financial conditions are met, and the fluctuation in fair value in connection with contingent consideration is recorded as an expense. In the previous financial year, 3,816 million yen was recorded as an expense which related to the upfront payment we were expecting to receive from Allergan in the fiscal year under review. In the current year, 287 million yen has been recorded as an expense in relation to the change on the fair value of the contingent consideration. This relates to the milestone payment received from AstraZeneca.

**Income tax expenses**

Income tax expense in this fiscal year totaled 2,844 million yen. This is mainly due to both of our UK subsidiaries being in taxable positions for the year under review.

**Net income**

Net income in this fiscal year totaled 9,638 million yen, an increase of 11,186 million yen from the previous fiscal year where a loss was incurred. This is mainly due to the increases in revenue and operating income.

**3) Capital Expenditures**

There were no significant capital expenditures during fiscal year 2016.

**4) Significant Organizational Restructuring, etc.****i. Heptares Therapeutics Zurich AG**

The Company's subsidiary Heptares acquired a 100% stake in G7 Therapeutics (currently Heptares Zurich) from its shareholders on December 14, 2016 at a price of 1,366 million yen (CHF 12 million), and Heptares Zurich became a consolidated subsidiary.

The Group accounts for Heptares Zurich as an acquired company.

**ii. Jitsubo Ltd.**

Jitsubo Ltd., which had been a Company's subsidiary, issued new shares by way of a third-party allotment with a payment date of November 18, 2016. This put the Group's stake at 43.7%, so Jitsubo was removed from the Group's scope of consolidation and became an affiliate accounted for by the equity method. The Group's stake as of March 31, 2017 is 43.5%.

**iii. Sosei RMF1 Limited Partnership for Investment**

The Company's subsidiary Sosei Corporate Venture Capital Ltd. ("Sosei CVC"), established the Sosei RMF1 Limited Partnership for Investment ("RMF1") on June 23, 2016 to invest primarily in Japanese biotechnology companies specialized in life science related to regenerative medicine. Sosei CVC is the general partner ("GP") and will procure a total of 2.0 billion yen from the limited liability partners. The Group's stake is 17.5%, but, Sosei CVC, as the GP, has control over RMF1, so RMF1 became the Company's consolidated subsidiary.

**5) Financing**

Not applicable.

## (2) Assets and Profit/Loss in the previous three fiscal years

Item	24th Fiscal Year (ended March 2014)	25th Fiscal Year (ended March 2015)	26th Fiscal Year (ended March 2016)	27th Fiscal Year (current) (ended March 2017)
Sales revenue (JPY millions)	2,069	3,671	8,151	18,901
Operating profit (JPY millions)	756	1,043	1,075	12,389
Net income or loss (JPY millions)	1,526	510	-1,547	9,638
Net income or loss per share - basic (JPY)	126.65	37.51	-93.60	579.97
Total asset (JPY millions)	14,582	47,833	47,354	48,087
Total shareholders' equity (JPY millions)	14,354	14,842	23,269	28,845

Note:

The Company has prepared the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) from the 25th fiscal year. The figures for the 24th fiscal year shown above are also based on IFRS.

## (3) Issues to be addressed

### 1) Realization of growth through early development of innovative drugs

To realize the Group's vision, "To become a leading biotechnology company, anchored in Japan, with a global reach," the Group must continuously make investments to build a robust and balanced pipeline with development candidates that have the potential to become future, stable revenue sources, meet unmet medical needs and rank as first-in-class or best-in-class products.

The Group's growth pivots on Heptares, and it is working to strengthen the company's distinctive technologies and enhance and further promote its pipeline. Over the medium/long term, investing in R&D with a view to taking selected drug candidates all the way through development and participate in commercialization will be central to the Group's growth strategy.

### 2) Expanding business opportunities, diversification of risk and stabilization of funding

The Group will enhance its pipeline and carry out further research and development to expand business opportunities, and will also conduct corporate acquisitions to acquire technologies that complement Heptares' platform technology.

In addition, the Group will work to diversify risk by having multiple revenue models, including licensing pipeline products at the initial development stage to major global pharmaceutical companies, which is already being performed, and licensing upon advancement to latter development stages. Also, the Group will work to realize sustainable revenue by conducting further development and ultimately becoming involved in product commercialization. To further strengthen the business foundation, the Group will continue to consider diverse and appropriate financing methods.

### 3) Creating shareholder value

The Group believes that conducting active investment in R&D and strategic investment

through corporate acquisitions and other methods will lead to a stronger business foundation and higher shareholder value over the long term. Maximum effort will be devoted going forward to reach these goals while taking into account the Group's financial position.

With its emphasis on R&D activities, the Group regards it as necessary for the foreseeable future to prioritize internal reserves for various growth opportunities that will allow more profit to be returned to shareholders.

#### **4) Strengthening corporate governance**

The Group is conducting global business development centering on Japan and the U.K., and it recognizes that building an effective corporate governance system to strictly comply with national regulations and meeting the expectations of shareholders is an important task of management.

The Group works to effectively utilize outside directors and promote coordination between the audit committee, independent auditors and internal audit department to ensure the board functions adequately in setting and overseeing management strategy and conducting risk management and compliance activities and to maintain accountability. Through this, the Group strives to further raise the integrity and transparency of management and become a more deeply trusted corporate group.

**(4) Main Business Activities (as of March 31, 2017)**

The Group's main business is research, development and sales of pharmaceutical products. The business is divided into two segments, namely, domestic pharmaceutical business and overseas pharmaceutical business, based mainly on subsidiary location.

Business Segment	Company Name	Business Description
Company-wide (shared)	Sosei Group Corporation	Planning of management strategies of Sosei Group, and the administrative works entrusted by group companies
Domestic Pharmaceuticals	Sosei Co. Ltd.	Research and development, sales of pharmaceutical drugs
	Activus Pharma Co., Ltd.	Drug development through nanoparticle technology
	Sosei CVC Ltd.	Operation of regenerative medicine funds
	Sosei RMF1 Limited Partnership for Investment	Investment in regenerative medicine bio-venture companies in Japan
Overseas Pharmaceuticals	Sosei R&D Ltd.	Licensing and business development outside Japan
	Heptares Therapeutics Ltd.	Structural analysis of GPCRs, generation of initial lead compounds, discovery of drug candidates through the original StaR® technology
	Heptares Therapeutics Zurich AG	Promotion of structure-based drug design, screening, and research and development of antibody drugs utilizing basic technologies related to GPCR.

**(5) Principal Parent Company and Subsidiaries (as of March 31, 2017)**

**1) Parent company**

Not applicable.

**2) Subsidiaries**

Company Name	Capital	Ratio of Voting	Key Business
Sosei Co. Ltd.	Million yen 250	100.0%	Research and development, sales of pharmaceutical drugs
Sosei R&D Ltd.	Thousand GBP 929	100.0%	Licensing and business development outside Japan
Activus Pharma Co., Ltd.	Million yen 97	100.0%	Drug development through nanoparticle technology
Heptares Therapeutics Ltd.	Thousand GBP 247	100.0%	Structural analysis of GPCRs, generation of initial lead compounds, discovery of drug candidates through the original StaR® technology
Sosei CVC Ltd.	Million yen 35	90.0%	Operation of regenerative medicine funds

Note: Jitsubo Ltd., which had been a consolidated subsidiary of the Group, became an equity-method affiliate as of November 18, 2016 and has therefore been excluded from principal subsidiaries.

**3) Specified wholly-owned subsidiaries**

Name of specified wholly-owned subsidiary	Sosei R&D Ltd.	Heptares Therapeutics Ltd.
Address of specified wholly-owned subsidiary	2 Royal College Street London NW1 ONH, UK	Biopark, Broadwater Road, Welwyn Garden City, Hertfordshire, AL7 3AX, UK
Book value of shares of specified wholly-owned subsidiary of the Company or the Company's wholly-owned subsidiary	¥12,236 million	¥29,032 million
Group's total assets	¥48,151 million	¥48,151 million

**4) Other significant information**

Not applicable.

**(6) Main Offices and Factories (as of March 31, 2017)**

**1) Main Sites of the Company**

Office	Location
Head Office	Chiyoda-ku, Tokyo
London Office	London, UK

**2) Main Sites of Subsidiaries**

Office	Location
Sosei Co. Ltd.	Chiyoda-ku, Tokyo
Activus Pharma Co., Ltd.	Funabashi, Chiba Pref.
Sosei CVC Ltd.	Chiyoda-ku, Tokyo
Sosei R&D Ltd.	London, UK
Heptares Therapeutics Ltd.	Hertfordshire, UK

Note: Jitsubo Ltd., which had been a consolidated subsidiary of the Company, became an affiliate accounted for by the equity-method as of November 18, 2016 and has therefore been excluded from principal subsidiaries.

**(7) Employee Information (as of March 31, 2017)****1) Group Employees**

Business Segment	Number of Employees	Change from the end of the previous Fiscal Year
Domestic Pharmaceuticals	21 (4.6)	-6
Overseas Pharmaceuticals	111 (-)	+35
Company-wide (shared)	13 (0.7)	-
Total	145 (5.3)	+29

Note:

1. The number of employees is the number of people employed full-time and does not include the number of temporary employees, which is listed in parentheses as the average for the year.
2. Employees in domestic pharmaceutical business decreased by six people compared to the end of the previous fiscal year; the primary reason was Jitsubo Ltd. becoming an equity-method affiliate as of November 18, 2016.
3. Employees in overseas pharmaceutical business increased by 35 people compared to the end of the previous fiscal year; the primary reason was strengthening the research and development division.

**2) Company Employees**

Number of Employees	Change from the end of the previous Fiscal Year	Average Age	Average Service Years
13 (0.7)	-	45.8	3.8

Note: The number of employees is the number of people employed full-time and does not include the number of temporary employees, which is listed in parentheses as the average for the year.

**(8) Principal Lenders (as of March 31, 2017)**

Lenders	Loan Amount
Mizuho Bank, Ltd. and 5 other financial institutions participating in syndicate loan	¥7,000 million

**(8) Other Significant Matters on the Current Status of the Group**

The Company resolved at its board meeting held on May 2, 2017 to acquire 25.6% of the outstanding shares of MiNA (Holdings) Limited, parent company of U.K. biomedical company MiNA Therapeutics Limited, through the Company's consolidated subsidiary Sosei R&D, and acquired the shares on the same date.

2. Current Status of the Company

**(1) State of Shares (as of March 31, 2017)**

**1) Total number of authorized shares** 37,344,000 shares

**2) Total number of outstanding shares** 16,916,184 shares

Total number of outstanding shares increased as follows during the fiscal year 2016.

• New shares issued by exercise of stock acquisition rights 60,900 shares

**3) Number of shares constituting one unit** 100 shares

**4) Number of shareholders** 24,287

**5) Major shareholders (Top 10)**

Shareholder's Name	Shareholdings (shares)	Ownership Stake
Daisuke Gomi	900,000	5.32%
Pfizer Seiyaku K.K.	471,284	2.79%
Rakuten Securities, Inc.	362,200	2.14%
Japan Trustee Services Bank, Ltd. (trust account)	309,200	1.83%
BNY GCM CLIENT ACCOUNT J PRD AC ISG (FE-AC)	302,909	1.79%
Matsui Securities Co., Ltd.	278,100	1.64%
Shinichi Tamura	251,100	1.48%
STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST. BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS-UNITED KINGDOM	208,500	1.23%
Japan Securities Finance Co., Ltd.	207,600	1.23%
The Master Trust Bank of Japan, Ltd. (trust account)	189,900	1.12%

Note:

1. Ownership stakes have been rounded off to two decimal places.
2. The Company does not own treasury shares.

**(2) Stock Acquisition Rights (“Stock Options”), Etc. (as of March 31, 2017)**

**1) Stock options owned by the Company’s directors and executive officers that were issued as compensation for performance of duties as of the end of the fiscal year under review**

		14th Stock Options	27th Stock Options
Date of Board resolution		July 17, 2007	September 6, 2010
Number of stock options		330	180
Number and class of shares for stock options		33,000 shares of common stock	18,000 shares of common stock
Amount of payment for stock options		1 yen per stock option	1 yen per stock option
The value of asset to be provided on exercise of stock options		191,600 yen per stock option (1,916 yen per share)	64,800 yen per stock option (648 yen per share)
Exercise period		from July 18, 2010 to July 17, 2017	from September 7, 2012 to September 6, 2020
Terms and Conditions for exercise		On losing the position as a beneficiary, the beneficiary can exercise the number of stock option corresponding to the period of service	If a beneficiary loses its position during the exercise period, the beneficiary is able to exercise the rights only during the period prescribed in “Agreement on Allotment of Stock Option”
Holdings by directors and executive officers	Directors and executive officers (excluding outside directors)	Number of stock option 330 Number of shares for stock Option 33,000 Number of holders 1	Number of stock option 180 Number of shares for stock Option 18,000 Number of holders 1
	Outside directors	-	-
		29th Stock Options	30th Stock Options
Date of Board resolution		November 13, 2015	November 13, 2015
Number of stock options		60	1,321
Number and class of shares for stock options		6,000 shares of common stock	132,100 shares of common stock
Amount of payment for stock options		261 yen per stock option	281 yen per stock option
The value of asset to be provided on exercise of stock options		413,000 yen per stock option (4,130 yen per share)	413,000 yen per stock option (4,130 yen per share)
Exercise period		from July 1, 2017 to June 30, 2020	from July 1, 2018 to June 30, 2021
Terms and Conditions for exercise		(Note)	(Note)
Holdings by directors and executive officers	Directors and executive officers (excluding outside directors)	-	Number of stock option 1,221 Number of shares for stock Option 122,100 Number of holders 4
	Outside directors	Number of stock option 60 Number of shares for stock Option 6,000 Number of holders 2	Number of stock option 100 Number of shares for stock Option 1,000 Number of holders 1

Notes:

- 1 Stock option holders may exercise stock options when the cumulative total of revenue on the Company’s audited Consolidated Statement of Comprehensive Income reported in securities reports submitted by the Company for the fiscal years ending March 2016 and March 2017 is ¥23.0 billion or greater.
2. If during the period from the allotment date to the date the stock option exercise period expires, the average closing price for regular trading of the Company’s shares of common stock on the Tokyo Stock Exchange for any five consecutive trading days falls below a price that is 50% of the exercise price (amounts less than 1 yen rounded off) even one time, stock options may

not be exercised even if the conditions of 1 above are met.

3. Stock option holders must be directors, executive officers or employees of the Company or the Company's affiliates when exercising stock options, provided, however, that this does not apply in cases of retirement due to expiration of a term of office or reaching the mandatory retirement age, or when there are other legitimate reasons.
4. Stock options may not be exercised by heirs of stock option holders.
5. Stock options may not be exercised if by exercising the options the Company's total number of outstanding shares after exercise would exceed the total number of authorized shares at that time.
6. Stock options may not be exercised in fractions of one unit.

**2) Stock options issued during the fiscal year to employees, etc. as compensation for performance of duties**

Not applicable.

**(3) Directors and executive officers (as of March 31, 2017)****1) Directors**

Title	Name	Responsibility	Significant Concurrent Posts
Chairman of the Board	Shinichi Tamura	Member of Nomination Committee & Compensation Committee	
Director	Peter Bains		Non-Executive Board Director, Syngene International Limited Non-Executive Chairman, Fermenta Biotech Limited Non-Executive Director, Mina Therapeutics Limited Managing Director, Sosei R&D Ltd. Representative Director, Sosei CVC Ltd.
Director	* Takuya Fujii	Chairman of Nomination Committee & Member of Audit Committee	Chairman, Promontory Financial Group Global Services, Japan, LLC.
Director	* Declan Doogan	Chairman of Compensation Committee, Member of Nomination Committee & Audit Committee	Director & CED, Portage Biotech Inc. Chairman & Director, Biohaven Pharmaceutical Holding Company Limited Visiting Professor, Kitasato University (Tokyo)
Director	* Tomohiro Tohyama	Chairman of Audit Committee & Member of Compensation Committee	Partner at TMI Associates Outside Director and Audit and Supervisory Committee member, Nippon Shikizai, Inc. Outside Director, Trust Capital Co., Ltd. Outside Statutory Auditor, WOWOW Inc.

## Notes:

- The directors listed above with an asterisk (\*) are outside directors. The Company designates Director Takuya Fujii as an independent director in accordance with the regulations of Tokyo Stock Exchange, Inc. and has notified the Exchange accordingly.
- Director Shinichi Tamura resigned as Managing Director of Sosei R&D Ltd. As of December 2, 2016.
- Director Peter Bains and Director Declan Doogan resigned as Directors of Heptares Therapeutics Ltd. As of July 21, 2016.
- Director Peter Bains assumed the office of Managing Director of Sosei R&D Ltd. as of December 2, 2016.
- Director Peter Bains assumed the office of Representative Director of Sosei Corporate Venture Capital Ltd. as of March 31, 2017.
- Director Peter Bains resigned as Non-Executive Director of Syngene International Limited as of April 27, 2017.
- The Audit Committee has conducted audits in close coordination with the internal audit department and employees who assist in the performance of duties of the Committee, and believes it is not essential that a full-time committee member be selected. Accordingly, a full-time committee member has not been selected.
- The Company has no special relationships with the companies at which the outside directors concurrently serve the offices as listed above.

## 2) Executive officers

Title	Name	Responsibility	Significant Concurrent Posts
Representative Executive Officer	* Shinichi Tamura	Executive Chairman	-
Representative Executive Officer and President	* Peter Bains	CEO	Same as mentioned in (3)-1) above.
Executive Officer and Executive Vice President	Malcolm Weir	Chief R&D Officer	Director & CEO, Heptares Therapeutics Ltd.
Executive Officer and Executive Vice President	Fiona Marshall	CSO	Director & CSO, Heptares Therapeutics Ltd. Chairman & Director, Heptares Therapeutics Zurich AG

### Notes:

1. The executive officer listed above with an asterisk (\*) serves concurrently as a director.
2. Director Shinichi Tamura assumed the office of Representative Executive Officer and Executive Chairman as of June 24, 2016.
3. Director Peter Bains assumed the office of Representative Executive Officer, President & CEO as of June 24, 2016.
4. Hidetoshi Torami resigned as Executive Vice President and CFO as of December 3, 2016.
5. Executive Vice President Fiona Marshall assumed the office of Chairman and Director of Heptares Therapeutics Zurich AG as of December 14, 2016.

## 3) Summary of liability limitation agreements

In accordance with Article 427, Paragraph 1 of the Companies Act, the Company and outside directors have entered into agreements that limit liability for damages as provided in Article 423, Paragraph 1 of the Act.

The limit on liability for damages applicable to each outside director under the agreements is the minimum amount of liability stipulated in Article 425, Paragraph 1 of the Companies Act.

The above agreement between the Company and Director Peter Bains ceased to be effective as of April 1, 2016 due to his appointment as Executive Officer and Representative Executive Officer.

#### **4) Principles on determining remuneration for individual directors and executive officers by the Compensation Committee**

##### **i. Principles**

It is the Company's principles to determine executive remuneration in order to attract and retain talented human resources and to incentivize execution of business strategy for sustainable growth and raising the Company's corporate value. The Compensation Committee, which determines executive remuneration, is made up of two outside directors and one director who serves concurrently as the representative executive officer and it is chaired by an outside director.

The individual remuneration of directors and executive officers is determined by the Compensation Committee with respect to executive officers based on their individual roles and evaluations made by the representative executive officer on their performance and other contribution to the Company in the previous fiscal year and with respect to the directors and the representative executive officer based on their individual roles and evaluations on the performance made by the Compensation Committee considering remuneration levels, etc. in relevant industries in the country where the recipients live and work, with reference to data from outside research institutes.

##### **ii. Director remuneration**

For director remuneration, base salary (annual pay) is determined based on individual roles, whether they serve concurrently as executive officers, their responsibilities as committee members or chairmen and other such factors. Directors are not paid bonuses or other performance-related remuneration, or retirement allowances. Stock options are granted in recognition of their service for each fiscal year.

Directors serving concurrently as executive officers are not paid remuneration as directors.

##### **iii. Executive officer remuneration**

For executive officer remuneration, base salary (annual pay) is determined based on individual roles and the performance in the previous year. In addition, bonuses are paid according to the financial results of the Company and the level of achievement of objectives within their respective areas of responsibilities by using base salary (annual pay) as the base amount, and stock options are granted in recognition of their service for each fiscal year.

## 5) Total amount of remuneration paid to directors and executive officers

(JPY millions)

	Number of payees	Amounts paid
Directors (Outside directors)	3 (3)	39 (39)
Executive Officers	3	338
Total	6	378

### Notes:

- In the term under review, three directors, three executive officers (as a result of retirement of one of them, only two were in office as of the end of the term) and two directors serving concurrently as an executive officer performed their duties for the Company.
- Payments made to the two directors serving concurrently as an executive officer are stated in full in the column of executive officers above.
- The above table does not include the remuneration of ¥171 million paid to two of the five executive officers serving during the term because the amount was paid and borne by subsidiaries.
- The amounts paid shown above include the following.
  - Remuneration through stock options: Three directors and three executive officers      ¥62 million

## 6) Attendance of outside directors at board and committee meetings, and the state of activities

Name	Attendance		Remarks/Activities
Takuya Fujii	Board of Directors	23 out of 24 (96%)	Makes necessary statements as appropriate during deliberations on board agenda items from a specialized standpoint related to finance, risk management, etc., presides at the Nomination Committee meetings, and ask questions and gives opinions and other statements as appropriate at the Audit Committee meetings.
	Nomination Committee	2 out of 2 (100%)	
	Audit Committee	6 out of 7 (86%)	
Declan Doogan	Board of Directors	22 out of 24 (92%)	Makes necessary statements as appropriate during deliberations on board agenda items from a specialized standpoint related primarily to the overseas pharmaceutical industry and bio-industry, presides at the Compensation Committee meetings, and asks questions and gives opinions and other statements as appropriate at the Nomination Committee and Audit Committee meetings.
	Compensation Committee	1 out of 1 (100%)	
	Nomination Committee	2 out of 2 (100%)	
	Audit Committee	7 out of 7 (100%)	
Tomohiro Tohyama	Board of Directors	23 out of 24 (96%)	Makes necessary statements as appropriate during deliberations on board agenda items from a specialized standpoint as an attorney, leads audits as the chairman of the Audit Committee, and asks questions and gives opinions and other statements as appropriate at the Compensation Committee meetings.
	Audit Committee	7 out of 7 (100%)	
	Compensation Committee	1 out of 1 (100%)	

#### **(4) Independent Auditors**

**1) Name** Deloitte Touche Tohmatsu LLC

#### **2) Amounts of remuneration, etc.**

	Amounts paid
Amount of remuneration, etc. payable to the independent auditors for the service related to this fiscal year	Million yen 47
Total amount of cash and other property benefits payable to the independent auditors by the Company and its subsidiaries	Million yen 47

Notes:

1. In the audit agreement between the Company and the Independent Auditors, there is no clear distinction between the remuneration for audits based on the Companies Act and the remuneration for audits based on the Financial Instruments and Exchange Act, and no distinction can be made in practice, so amounts of remuneration, etc. for the Independent Auditors for this fiscal year are the total of these remuneration.
2. The Audit Committee has confirmed the audit plan of the independent auditors, the state of execution of duties for accounting audits, and the basis of estimating remuneration estimates, etc. and considered whether or not audit remuneration is adequate for the implementation of appropriate audits and as a result has found that remuneration, etc. is appropriate. Therefore, it has given consent to remuneration, etc. of the independent auditors in accordance with Article 399, Paragraph 1 of the Companies Act.
3. Of the Company's significant subsidiaries, Sosei R&D Ltd. and Heptares Therapeutics Ltd. have been audited by certified public accountants or auditing firms other than the Company's independent auditors

#### **3) Policy on determining dismissal or non-reappointment of the independent auditors**

In case there exists the circumstances that would interfere with the appropriate execution of duties of the independent auditors or that cause the Audit Committee to deem it appropriate to dismiss or not to reappoint the independent auditors, the Audit Committee determines the proposal for dismissal or non-reappointment of the independent auditors that is submitted to the Ordinary General Meeting of Shareholders. Also, when it deems that any cause stipulated in each item of Article 340, Paragraph 1 of the Companies Act apply to the independent auditors, the Audit Committee dismisses the independent auditors by agreement of all committee members.

#### **4) Summary of liability limitation agreements**

The Company has not entered into an agreement with the Independent Auditors to limit their liability for damages under Article 423, Paragraph 1 of the Companies Act.

**(5) Systems for ensuring the appropriateness of operations and their operating status**

The following provides a summary of systems for ensuring proper business as resolved by the Company's Board of Directors, and of the operating status of these systems.

**1. Systems for ensuring the appropriateness of operations**

**«Matters required for execution of duties by the Audit Committee»**

**a) Matters related to directors and employees who assist in Audit Committee duties**

Employees who assist in the duties of the Audit Committee conduct their duties in coordination with the Internal Audit Department in accordance with the directions of the chairman of the Committee. Evaluations related to performance of these employees are conducted by the Committee, and transfers of such employees are subject to approval by the Committee.

**b) Systems regarding matters to be reported by directors (excluding directors who are Audit Committee member), executive officers, and employees to the Audit Committee and other matters to be reported to the Audit Committee**

- Directors, executive officers, corporate auditors and employees of the Company and subsidiaries who learn of facts that may cause material damages to the Company or acts, etc. that are in violation of the law or Articles of Incorporation shall report them to the Audit Committee, and those who made such report shall not be treated to his/her disadvantage for reporting such facts or actions.
- The Internal Audit Department regularly reports to the Audit Committee on the implementation status of internal audits as well as the status and content of whistleblowing.

**c) Other systems to ensure that audits are conducted effectively by the Audit Committee**

- The Internal Audit Department consults in advance with the Audit Committee regarding internal audit policies and plans, etc. and closely coordinates with the Committee, which includes holding discussions related to audits.
- The Company promptly processes requests by the Audit Committee member for advancement or reimbursement of expenses necessary for performance of Audit Committee duties.

**«Systems for ensuring that execution of duties by executive officers conforms with the law and Articles of Incorporation, and other systems required to ensure the appropriateness of the Company's operations»**

**d) System to ensure the performance of duties by executive officers and employees and by directors and employees of subsidiaries to conform to the law and Articles of Incorporation**

- Compliance with law and adherence to corporate ethics are stipulated as the Group's principles of corporate conduct, and every effort is made to raise awareness of this among all executives and employees, including its subsidiaries. An independent whistleblower contact is also established and operated appropriately.
- The Internal Audit Department conducts internal audits related to performance of duties at the Company and its subsidiaries.

**e) System related to preservation and management of information related to performance of duties by executive officers**

Information related to performance of duties by executive officers is appropriately prepared, retained and managed in accordance with internal company rules.

**f) Rules and other systems related to management of risk of loss**

- Specific policies and measures are determined to deal with risks related to the Group's business operations, and risk management is appropriately conducted at the Company and its subsidiaries.
- Important management decisions are made after adequate deliberation by the Board of Directors, etc. and based on the opinions of outside experts as necessary.

**g) System to ensure that performance of duties by executive officers and directors, etc. of subsidiaries is conducted efficiently**

- Operational responsibilities of executive officers and official authority for respective executives and employees of the Company and subsidiaries are clearly stipulated and reporting on operational performance and deliberations on important matters are conducted with flexibility in accordance with rules.
- System construction is promoted to improve operational efficiency.

**h) System to ensure the appropriateness of operations at the corporate group consisting of the Company and its subsidiaries**

- Reports on operational execution at subsidiaries are received in accordance with internal company rules, and instructions and support related to the establishment of systems to ensure operational appropriateness are provided to subsidiaries.
- The Internal Audit Department provides instructions and recommendations for improvements to subsidiaries based on the findings of internal audits of subsidiaries.
- Efforts are made to ensure the appropriateness of the Group's financial reporting, while evaluation, continuance and improvement, etc. of the reporting should be assured.

**2. Operational status of systems for ensuring the appropriateness of operations**

**a) Compliance system**

The Group has established a code of corporate conduct that applies to the entire Group and works to communicate the code to the Group's executives and employees. In addition, whistle-blowing incidents are handled appropriately through a whistle-blower hotline established externally, and internal audits are conducted of the Group's companies in accordance with the internal auditing plan of the Internal Audit Department.

**b) Information retention and management system**

The Company has appropriately created, stored and managed minutes of meetings of the Board of Directors and committees, etc. and other documents related to the execution of operations in accordance with the rules of document management and other rules.

**c) Risk management system**

The Company has conducted sufficient deliberations and made business decisions at meetings of the Board of Directors, by taking into account the opinions of outside experts, etc., regarding the Group's significant investment projects and technical alliances, etc. In addition, the Internal Audit Department has provided guidance on the risk management system of the Company and subsidiaries based on the results of internal audits.

**d) System for efficient and appropriate execution of duties**

The Group clearly stipulates official authority for executives and employees in accordance with rules of each company, and in order to ensure that the Group's operations are carried out efficiently and appropriately, has stipulated the rule of management of affiliated

companies that require reports by subsidiaries to the parent company and proper supervision and guidance of affiliated companies by the parent company and the rule has been appropriately implemented. In addition, the Company has received reports on the business performance of subsidiaries at monthly meetings of the Board of Directors. The Internal Audit Department has been giving instructions on necessary improvements based on the findings of internal audits.

**e) System for execution of duties by the Audit Committee**

The Audit Committee and the employees who assist in the performance of duties of the Audit Committee have been coordinating as appropriate with the Internal Audit Department in the execution of their duties. Audit Committee members attended important meetings, including meetings of the Board of Directors, and requested reports from the directors, executive officers, corporate auditors and employees of the Company and its subsidiaries. In addition, they received reports on the handling of report made through whistle-blower system.

**(6) Policy on determination of Dividends, etc.**

The Group will comprehensively consider the needs to balance the need to invest in the Groups organic Research and Development of new drug candidates, and to expand and extend these activities in order to build a sustainable pipeline of assets that can underpin the Groups ability to generate future growth and stable earnings, as well as the need to invest in appropriate inorganic M&A opportunities that can accelerate Group pipeline development and also bring into the Group new platform technology opportunities, with the need to provide the desired return to its shareholders.

The Group's goal is to provide superior long term returns to our shareholders by building Sosei into a globally competitive and valuable biotechnology company.

**(7) Basic Policy on Company Control**

Not applicable.

## Consolidated Statement of Financial Position

(as of March 31, 2017)

(JPY Millions)

Item	Value	Item	Value
<b>Non-current assets</b>		<b>Non-current liabilities</b>	
Tangible fixed assets	422	Deferred tax liabilities	3,301
Goodwill	14,154	Conditional prices for business combinations	5,230
Intangible assets	16,970	Interest-bearing liabilities	4,910
		Other financial liabilities	625
Investments accounted for using equity method	605	Other non-current liabilities	175
Deferred tax assets	4	<b>Total of non-current liabilities</b>	<b>14,243</b>
Other non-current assets	108	<b>Current liabilities</b>	
<b>Total of non-current assets</b>	<b>32,266</b>	Operating and other payables	1,547
<b>Current assets</b>		Deferred revenue	4
Operating and other receivables	1,382	Corporate income tax payable	1,378
Other current assets	538	Interest-bearing liabilities	1,990
Cash and cash equivalents	13,899	Other current liabilities	77
		<b>Total of current liabilities</b>	<b>4,998</b>
<b>Total of current assets</b>	<b>15,821</b>	<b>Total of liabilities</b>	<b>19,241</b>
<b>Total of assets</b>	<b>48,087</b>	<b>Shareholders' equity</b>	
		Capital	26,004
		Capital surplus	14,632
		Retained earnings	-4,386
		Other elements of shareholders' equity	-7,409
		Equity attributable to owners of the parent company	28,841
		Non-controlling interest	4
		<b>Total of shareholders' equity</b>	<b>28,845</b>
		<b>Total of liabilities and shareholders' equity</b>	<b>48,087</b>

Note: Amounts less than 1 million yen are rounded off.

## Consolidated Statement of Comprehensive Income

( From April 1, 2016  
To March 31, 2017 )

(JPY Millions)

Item	Value	
<b>Sales revenue</b>		<b>18,901</b>
<b>Sales cost</b>		<b>-</b>
<b>Gross operating income or loss</b>		<b>18,901</b>
<b>Other income and expenses</b>		
Research and development cost	3,218	
Selling, general and administrative expenses	3,572	
Other revenues	659	
Other expenses	380	6,511
<b>Operating income or loss</b>		<b>12,389</b>
<b>Finance income</b>		<b>1,521</b>
<b>Finance cost</b>		<b>479</b>
<b>Share of loss of entities accounted for using equity method</b>		<b>229</b>
<b>Impairment loss of investments accounted for using equity method</b>		<b>718</b>
<b>Net Income or loss before taxes</b>		<b>12,483</b>
<b>Income tax expense</b>		<b>2,844</b>
<b>Net Income or loss</b>		<b>9,638</b>
<b>Other comprehensive income</b>		
Items which may be reclassified into net profit or loss		
Exchange differences of foreign operations	-4,518	
Total of items which may be reclassified into net profit or loss	-4,518	
Other comprehensive income	-4,518	-4,518
<b>Comprehensive income</b>		<b>5,120</b>
<b>Attribution of net income :</b>		
Owners of the parent company	9,797	
Non-controlling interest	-158	9,638
<b>Attribution of comprehensive income :</b>		
Owners of the parent company	5,279	
Non-controlling interest	-158	5,120

Note: Amounts less than 1 million yen are rounded off.

## Consolidated Statements of Changes in Equity

( From April 1, 2016  
To March 31, 2017 )

(JPY Millions)

	Capital	Capital surplus	Retained earnings	Other elements of shareholders' equity	Total of Equity attributable to owners of the parent company
				Exchange differences of foreign operations	
Outstanding balance as of April 1, 2016	25,955	14,263	-14,184	-2,891	23,142
Net income or loss	-	-	9,797	-	9,797
Exchange differences	-	-	-	-4,518	-4,518
Total of comprehensive income	-	-	9,797	-4,518	5,279
Issuance of new shares	49	6	-	-	55
Cost of stock compensation	-	372	-	-	372
Change in treasury shares in controlled subsidiaries	-	1	-	-	1
Change of scope of consolidation	-	-11	-	-	-11
Total amount of transactions with owners	49	369	-	-	418
Outstanding balance as of March 31, 2017	26,004	14,632	-4,386	-7,409	28,841

	Non-controlling interest	Total of shareholders' equity
Outstanding balance as of April 1, 2016	126	23,269
Net income or loss	-158	9,638
Exchange differences	-	-4,518
Total of comprehensive income	-158	5,120
Issuance of new shares	-	55
Cost of stock compensation	-	372
Change in treasury shares in controlled subsidiaries	4	6
Change of scope of consolidation	32	20
Total amount of transactions with owners	36	455
Outstanding balance as of March 31, 2017	4	28,845

Note: Amounts less than 1 million yen are rounded off.

## Balance Sheet

(as of March 31, 2017)

(JPY Millions)

Item	Value	Item	Value
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>2,972</b>	<b>Current liabilities</b>	<b>2,293</b>
Cash and deposit	1,488	Accounts payable	180
Prepaid expenses	17	Current portion of long-term borrowings	2,000
Accounts receivable from affiliated companies	1,434	Accrued expenses	43
Others	30	Income taxes payable	50
<b>Fixed assets</b>	<b>45,179</b>	Deposits	10
<b>Tangible fixed assets</b>	<b>4</b>	Bonus payment reserve	5
Buildings	0	Others	1
Tools, furniture and fixtures	3	<b>Fixed liabilities</b>	<b>5,022</b>
<b>Intangible fixed assets</b>	<b>7</b>	Long-term borrowing	5,000
Software in progress	7	Long-term accounts payable	22
Others	0	<b>Total liabilities</b>	<b>7,315</b>
<b>Investments and other assets</b>	<b>45,167</b>	<b>Net Assets</b>	
Shares of affiliated companies	43,857	<b>Shareholders' equity</b>	<b>40,078</b>
Investments in affiliated companies	120	<b>Capital</b>	<b>26,004</b>
Long-term loans receivable from affiliated companies	1,485	<b>Capital surplus</b>	<b>14,121</b>
Long-term accounts receivable from affiliated companies	570	Legal capital reserve	14,121
Others	91	<b>Retained earnings</b>	<b>-48</b>
Loan loss reserves	-955	Other retained earnings	-48
		<b>Equity warrants</b>	<b>757</b>
		<b>Total net assets</b>	<b>40,835</b>
<b>Total assets</b>	<b>48,151</b>	<b>Total liabilities and net assets</b>	<b>48,151</b>

Note: Amounts less than 1 million yen are rounded off.

## Profit and Loss Statement

( From April 1, 2016  
To March 31, 2017 )

(JPY Millions)

Item	Value	
<b>Operating income</b>		<b>1,499</b>
<b>Operating expense</b>		<b>1,657</b>
<b>Operating profit or loss</b>		<b>-158</b>
<b>Non-operating income</b>		
Non-operating income	10	
Dividends income	2,329	
Miscellaneous income	0	2,340
<b>Non-operating expense</b>		
Interest payment	129	
Foreign exchange gains	186	315
<b>Ordinary profit or loss</b>		<b>1,866</b>
<b>Extraordinary profit</b>		
Extraordinary profits-gain on reversal of subscription rights to shares	12	12
<b>Extraordinary loss</b>		
Loss on valuation of shares of affiliated companies	826	826
<b>Net income or loss before tax</b>		<b>1,052</b>
Corporate tax, residential tax and enterprise tax	48	48
<b>Net profit or loss</b>		<b>1,004</b>

Note: Amounts less than 1 million yen are rounded off.

**Consolidated Statements of Changes  
in Shareholders' Equity**

( From April 1, 2016  
To March 31, 2017 )

(JPY Millions)

	Shareholders' equity			
	Capital	Capital surplus	Retained earnings	Total of shareholders' equity
		Capital reserve	Other retained earnings	
			Retained earnings carried forward	
Outstanding balance as of April 1, 2016	25,955	14,072	-1,052	38,975
Changes in value during the fiscal year				
Issuance of new shares	49	49	-	98
Net income or loss	-	-	1,004	1,004
Changes in value in items other than shareholders' equity (net)	-	-	-	-
Total of change in value during the fiscal year	49	49	1,004	1,102
Outstanding balance as of March 31, 2017	26,004	14,121	-48	40,078

	Equity warrants	Total net assets
Outstanding balance as of April 1, 2016	307	39,283
Changes in value during the fiscal year		
Issuance of new shares	-	98
Net income or loss	-	1,004
Changes in value in items other than shareholders' equity (net)	450	450
Total of change in value during the fiscal year	450	1,552
Outstanding balance as of March 31, 2017	757	40,835

Note: Amounts less than 1 million yen are rounded off.

## Accounting Audit Report on the Consolidated Financial Statements

Audit Report of the Independent Auditors

May 12, 2017

Sosei Group Corporation  
To the Board of Directors

	Deloitte Touche Tohmatsu LLC	
Designated limited liability employee Managing partner	Certified public accountant	Yasuhiko Endo *
Designated limited liability employee Managing partner	Certified public accountant	Shuichi Momoki *

In accordance with the Article 444 (4) of Companies Act, the Auditors have audited the consolidated financial statements, which are the consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of change in equity, and notes on the consolidated financial statements, of Sosei Group Corporation for the consolidated fiscal year from April 1, 2016 to March 31, 2017.

### Responsibility of the management for the consolidated financial statements

The responsibility of the management is the preparation and appropriate presentation of the consolidated financial statements in accordance with the stipulations of the latter part of Paragraph 1, Article 120 of the Corporate Accounting Rules, which allows the statements to be prepared excluding some of the disclosure items required under the International Financial Reporting Standards. This responsibility includes design and operation of internal controls judged to be necessary by the management for the preparation and appropriate presentation of consolidated financial statements that are free of material misstatements due to fraud or error.

### Responsibility of the Auditors

The responsibility of the Auditors is to express an opinion on the consolidated financial statements from an independent perspective based on the audit that they performed. The Auditors performed the audit in conformance with generally accepted auditing standards in Japan. Audit standards require that the Auditors formulate an audit plan and perform the audit on the basis of the plan to acquire reasonable assurance on whether the consolidated financial statements are free of material misstatement.

The audit involves conducting procedures to obtain audit evidence on the amounts and disclosures in the consolidated financial statements. The procedures are selected and applied at the judgement of the Auditors based on an assessment of the risk of material misstatement in consolidated financial statements due to fraud or error. The purpose of the audit is not to express an opinion on the effectiveness of internal controls, but the Auditors in assessing this risk do consider internal controls related to preparation and appropriate presentation of the consolidated financial statements in order to devise audit procedures that are appropriate for the conditions. In addition, the audit includes consideration of the overall presentation of the consolidated financial statements, including an evaluation of the accounting policies and application methods adopted by the management and the estimates made by the management.

The Auditors believe that audit evidence has been obtained that is sufficient and appropriate as the basis for expressing an opinion.

### Audit Opinion

The Auditors find that the aforementioned financial statements, which have been prepared excluding some disclosure items required by International Financial Reporting Standards in accordance with the stipulations of the latter part of Paragraph 1, Article 120 of the Corporate Accounting Rules, appropriately present on all major points the status of assets and income of the corporate group comprised of Sosei Group Corporation and the consolidated subsidiaries for the period of the consolidated financial statements.

### Interest Relationships

There are no interest relationships that must be disclosed under the provisions of the Certified Public Accountants Act between the Company and the Auditors or the managing partners.

## Accounting Audit Report on the Financial Statements

Audit Report of the Independent Auditors

May 12, 2017

Sosei Group Corporation  
To the Board of Directors

Deloitte Touche Tohmatsu LLC

Designated limited liability employee Managing partner	Certified public accountant	Yasuhiko Endo	*
Designated limited liability employee Managing partner	Certified public accountant	Shuichi Momoki	*

In accordance with the Article 436 (2) (i) of Companies Act, the Auditors have audited the financial statements, which consist of the balance sheet, income statement, statement of changes in shareholders' equity and notes on the non-consolidated financial statements, and the supplementary schedules of Sosei Group Corporation for the 27th fiscal year from April 1, 2016 to March 31, 2017.

Responsibility of the management for the financial statements, etc.

The responsibility of the management is the preparation and appropriate presentation of the financial statements and supplementary statements in accordance with auditing standards generally accepted in Japan. This responsibility includes design and operation of internal controls judged to be necessary by the management for the preparation and appropriate presentation of financial statements and supplementary schedules that are free of material misstatements due to fraud or error.

Responsibility of the Auditors

The responsibility of the Auditors is to express an opinion on the financial statements and supplementary schedules from an independent perspective based on the audit performed by the Auditors. The Auditors performed the audit in conformance with generally accepted auditing standards in Japan. Audit standards require that the Auditors formulate an audit plan and perform the audit on the basis of the plan to acquire reasonable assurance on whether the financial statements and supplementary schedules are free of material misstatement.

The audit involves conducting procedures to obtain audit evidence on the amounts and disclosures in the financial statements and supplementary schedules. The procedures are selected and applied at the judgement of the Auditors based on an assessment of the risk of material misstatement in the financial statements and supplementary schedules due to fraud or error. The purpose of the audit is not to express an opinion on the effectiveness of internal controls, but the Auditors in assessing this risk do consider internal controls related to preparation and appropriate presentation of the financial statements and supplementary schedules in order to devise audit procedures that are appropriate for the conditions. In addition, the audit includes consideration of the overall presentation of the financial statements and supplementary schedules, including evaluations of the accounting policies and application methods adopted by the management and the estimates made by the management.

The Auditors believe that audit evidence has been obtained that is sufficient and appropriate as the basis for expressing an opinion.

Audit Opinion

The Auditors find that the aforementioned financial statements and supplementary schedules appropriately present on all major points the status of assets and income for the period of the financial statements and supplementary schedules in conformance with corporate accounting standards generally accepted in Japan.

Interest Relationships

There are no interest relationships that must be disclosed under the provisions of the Certified Public Accountants Act between the Company and the Auditors or the managing partners.

## Audit Report of the Audit Committee

### Audit Report

The Audit Committee of Sosei Group Corporation (the "Company") has audited the performance of duties by directors and executive officers for the 27th fiscal year from April 1, 2016 to March 31, 2017. The methods and findings are reported as follows.

#### 1. Methods and content of the audit

The Audit Committee received reports from directors, executive officers and employees, etc. on a regular basis of the content of resolutions of the Board of Directors related to items provided in Article 416, Paragraph 1, Item 1 (b) and (e) of the Companies Act and of the structures and operation of the systems established in accordance with the resolutions (internal control systems), requested and expressed opinions explanations as necessary, and conducted audit as follows.

- 1) In accordance with the audit policy and the division of responsibilities, etc. determined by the Audit Committee, each member of the Committee attended meetings of the Board of Directors and other important meetings, regularly received reports from directors, executive officers and others on the performance of their duties, etc., and requested additional explanations as necessary, and reviewed the documents relating to the important decisions, and investigated the state of the business and assets of the Company in cooperation with the Internal Audit Department. Regarding subsidiaries, the Audit Committee sought to achieve a mutual understanding with and exchanged information with the directors and corporate auditors, etc. of subsidiaries and received reports on the business from subsidiaries as necessary.
- 2) The Audit Committee monitored and verified whether the Independent Auditors maintained independence and conducted appropriate audits, received reports from the Independent Auditors on the performance of their duties, etc., and requested explanations as necessary. Also, the Audit Committee received notification from the Independent Auditors that they had established the "Structure for Ensuring Appropriate Operation" (matters provided in each item of Article 131 of the Ordinance for Company Accounting) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council, October 28, 2005).

Based on the aforementioned methods, the Audit Committee examined the business report and supplementary schedules thereof, non-consolidated financial statements (balance sheet, profit and loss statement, statement of change in shareholders' equity and notes thereto) and supplementary schedules thereof, and consolidated financial statements (consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of change in equity, and notes thereto) for the fiscal year under review.

#### 2. Results of Audit

##### (1) Results of audit of business report, etc.

- 1) The Committee found that the business report and supplementary schedules accurately present the status of the Company in accordance with the laws, regulations and the Articles of Incorporation.
- 2) The Committee did not find any inappropriate conduct related to the execution of duties by directors or executive officers or any material facts indicating violation of law or the Articles of Incorporation.
- 3) The Committee found that the contents of resolutions of the Board of Directors related to the internal control systems are appropriate. In addition, the Committee did not find any matter requiring us to comment on the contents of the business report or execution of duties by directors or executive officers regarding the internal control systems.

##### (2) Results of audit of non-consolidated financial statements and supplementary schedules

The Committee found that the methods and results of the audit performed by the Independent Auditors, Deloitte Touche Tohmatsu LLC were appropriate.

##### (3) Results of audit of consolidated financial statements

The Committee found that the methods and results of the audit performed by the Independent Auditors, Deloitte Touche Tohmatsu LLC were appropriate.

May 12, 2017

Sosei Group Corporation      Audit Committee

Audit Committee Chair	Tomohiro Tohyama	*
Audit Committee Member	Takuya Fujii	*
Audit Committee Member	Declan Doogan	*

Note: All members of the Audit Committee are outside directors stipulated in Article 2, Item 15 and Article 400, Paragraph 3 of the Companies Act.

## Reference Documents for Ordinary General Meeting of Shareholders

### Proposal Election of Five Directors

The terms of office of all five directors will expire upon conclusion of the Meeting. Accordingly, in accordance with the decision of the Nomination Committee, the election of the five candidates of directors, including one new candidate, is proposed. The candidates are as shown below.

Candidate No.	Name (Date of birth)	Career summary, positions, responsibilities and significant concurrent posts	No. of shares owned
1	Shinichi Tamura (9/17/1949)	Apr. 1978 Joined Fujisawa Pharmaceutical Co., Ltd. (current Astellas Pharma Inc.) Feb. 1987 Moved to Genentech Limited Jul. 1989 Representative Director & President, Genentech Limited Jun. 1990 Representative Director & CEO of the Company Jun. 2005 Board Director, Representative Executive Officer and President, CEO of the Company Mar. 2012 Managing Director, Sosei R&D Ltd. June 2016 Chairman of the Board, Representative Executive Officer and Executive Chairman of the Company (to the present) <Committee membership> Member of Nomination Committee and Compensation Committee	251,100
2	Peter Bains (7/26/1957)	Mar. 1996 General Manager, Smithkline Beecham plc. (current Glaxo Smithkline) Jan. 2001 Senior Vice President, International Commercial Development, GlaxoSmithkline plc. Jan. 2010 Non-Executive Director, Syngene International Limited Apr. 2010 Non-Executive Chairman, Fermenta Biotech Limited (to the present) Jun. 2010 Board Director of the Company (to the present) Dec. 2013 Non-Executive Director, MiNA Therapeutics Limited (to the present) Feb. 2015 Director, Heptares Therapeutics Ltd. Apr. 2015 Executive Director and CEO, Syngene International Limited Mar. 2016 Non-Executive Director, Syngene International Limited Apr. 2016 Representative Executive Officer and Chief Operating Officer of the Company Jun. 2016 Representative Executive Officer and CEO of the Company (to the present) Dec. 2016 Managing Director, Sosei R&D Ltd. (to the present) Mar. 2017 Representative Director & President, Sosei CVC Ltd. (to the present) <Committee membership>	-

Candidate No.	Name (Date of birth)	Career summary, positions, responsibilities and significant concurrent posts	No. of shares owned
		None	

Candidate No.	Name (Date of birth)	Career summary, positions, responsibilities and significant concurrent posts	No. of shares owned
3	Declan Doogan (3/22/1952)	Feb. 1978 Joined Duphar BV. Feb. 1982 Moved to Pfizer Inc. Feb. 2005 Head of Worldwide Development, Pfizer Inc. Oct. 2005 Visiting professor, Kitasato University in Tokyo (to the present) Jun. 2007 Outside Director of the Company (to the present) Nov. 2009 Interim CEO, Amarin Corporation plc Sep. 2010 Chief Medical Officer, Amarin Corporation plc Jun. 2013 Director and CEO, Portage Pharma Inc. (to the present) Jun. 2013 Chairman and Director, Biohaven Pharmaceutical Holding Company Ltd. (to the present) Feb. 2015 Director, Heptares Therapeutics Ltd. <Committee membership> Chairman of Compensation Committee, Member of Nomination Committee, Member of Audit Committee	15,000
4	Tomohiro Tohyama (2/21/1950)	Apr. 1978 Entered Legal Training and Research Institute, Supreme Court of Japan Apr. 1980 Registered with Dai-ichi Tokyo Bar Association Joined Nishimura & Sanada Law Office May 1984 Mason & Sloane LLP. USA Feb. 1985 Pollock, Bloom & Dekom, USA Jun. 1985 Pryor, Cashman, Sherman & Flynn, USA Aug. 1985 Returned to Nishimura & Sanada Law Office as a partner Oct. 1990 Partner at TMI Associates (to the present) Nov. 1999 Outside Corporate Auditor, Nippon Shikizai, Inc. Jun. 2010 Outside Director, Avex Group Holdings Jun. 2011 Outside Director of the Company (to the present) May 2016 Outside Director and Audit and Supervisory Committee Member, Nippon Shikizai, Inc. (to the present) May 2016 Outside Director, Trust Capital Co., Ltd. (to the present) Jun. 2016 Outside Statutory Auditor, WOWOW Inc. (to the present) <Committee membership> Chairman of Audit Committee and Member of Compensation Committee	-

5*	Julia Gregory (9/7/1952)	Sep. 1980	Senior Vice President, Dillon, Read & Co. (now UBS AG) (resigned December 1990)	-
		Feb. 2000	Executive Vice President & CFO, Lexicon Pharmaceuticals, Inc.	
		Jun. 2009	President & CEO, Five Prime Therapeutics, Inc.	
		Jul. 2012	Executive Vice President & CFO, ContraFect Corporation	
		Nov. 2013	President & CEO, ContraFect Corporation	
		Apr. 2016	Chairman & CEO, Isometry Advisors, Inc. (to the present)	

Note:

1. Asterisk (\*) indicates new director candidate.
2. There are no special conflicts of interest between the director candidates and the Group.
3. Declan Doogan, Tomohiro Tohyama and Julia Gregory are candidates for outside directors.
4. Reasons for selection of the candidates as outside directors
  - (1) Dr. Declan Doogan has experience of serving as the head of the research and development division of the world's largest pharmaceuticals company. The Company believes that leveraging his experience and expertise related to pharmaceutical research and development will serve to further reinforce the Company's management structure and so proposes his appointment as outside director. The term of office of Dr. Doogan as outside director will be ten years as of the conclusion of the Meeting.
  - (2) Mr. Tomohiro Tohyama has no experience in corporate management other than as an outside director or corporate auditor, but he does have extensive experience and expertise in international legal affairs as a partner at a major law firm in Japan. The Company believes that by leveraging his expertise and experience and receiving views and opinions on the Company's overall management from this specialized perspective, the Company will be able to further strengthen the management and governance structures and so proposes his appointment as an outside director. The term of office of Mr. Tohyama as outside director will be six years as of the conclusion of the Meeting.
  - (3) Julia Gregory has many years of experience in corporate management as a company representative and CFO in the financial and pharmaceuticals industries, and the Company believes that she will leverage her extensive experience and specialized knowledge to advise the Company on overall management and further strengthen the Company's management system and so proposes her appointment as outside director. In addition, the Company intends to designate her as an independent director as stipulated in the listing regulations of the Tokyo Stock Exchange and to notify the Tokyo Stock Exchange accordingly.
5. Summary of liability limitation agreements with director candidates
  - (1) In accordance with Article 427, Paragraph 1 of the Companies Act, the Company entered into with each of Dr. Declan Doogan and Mr. Tomohiro Tohyama an agreement that limits liability for damages under Article 423, Paragraph 1 of the said Act. The limit on the liability for damages under the agreements is the minimum amount of liability stipulated in Article 425, Paragraph 1 of the Companies Act.
  - (2) If this proposal is approved at the Meeting, the Company intends to continue liability limitation agreements with Dr. Declan Doogan and Mr. Tomohiro Tohyama stated in (1) above and to conclude a liability limitation agreement equivalent to the agreements stated in (1) above with Ms. Julia Gregory.

## How to Exercise Voting Rights via the Internet

If you exercise your voting rights via the Internet, please do so in accordance with the following instructions.

1. Voting rights may be exercised via the Internet by using the following site for exercising voting rights (“voting site”) that has been specified by the Company. The site may also be used by mobile phones.

Voting Site URL <http://www.web54.net>

The voting site can be accessed using a mobile phone with a barcode reader function by scanning the QR Code® at right. For operating details, refer to your mobile phone’s user’s manual.



(QR Code is the registered trademark of Denso Wave Inc.)

2. In exercising voting rights via the Internet, please use the voting code and password listed on the enclosed Voting Form and register your votes for or against the proposals by following the instructions on the screen.
3. Voting rights may be exercised via the Internet until 6:00 p.m. on Wednesday, June 21, 2017. We ask your kind cooperation in as early vote as possible.
4. The following system environment is needed to use the voting site to exercise your voting rights via the Internet.

For use of the voting site, connection fees charged by the Internet service provider and applicable communications fees (such as phone rates) charged by the telecom carrier shall be paid by you.

- 1) If you exercise voting rights using a computer
  - ◇Screen resolution of 800 (horiz.) x 600 (vert.) bits (SVGA) or above.
  - ◇Web browser and PDF viewer installed (confirmed to operate with the following combinations).

OS	Web browser	PDF viewer
Windows Vista®	Internet Explorer® Ver.7~9	Adobe® Reader® Ver.9
Windows® Ver.7	Internet Explorer® Ver.8~11	Adobe® Reader® Ver.11
Windows® Ver.8.1	Internet Explorer® Ver.11	Adobe® Reader® Ver.11

\*Windows, Windows Vista and Internet Explorer are the trademarks or registered trademarks of Microsoft Corporation of the U.S. in the U.S. and other countries.

\*Adobe and Reader are the trademarks or registered trademarks of Adobe Systems Incorporated in the U.S. and other countries.

◇If pop-up blockers are enabled on your Web browser and add-on tools, etc. disable (or temporarily disable) them and ensure your privacy settings are set to allow the use of “Cookies” on this site.

◇If you are unable to connect to the above site, communication with the Internet may be restricted by firewall, proxy server or security software settings, so please check the settings.

- 2) If you exercise voting rights using a mobile phone
 

The model of phone you use needs to be capable of 128-bit SSL communication (encrypted communication). (For security reasons, the site can only be used with models capable of 128-bit SSL communication (encrypted communication) and so cannot be used with some models. It may also be possible to exercise voting rights using the full browser function found on mobile phones, including smartphones, but this may not be possible depending on the model of phone. Your understanding on this point is appreciated.

5. If you exercise voting rights redundantly in writing and via the Internet, the votes cast via the Internet will be regarded as the effective votes.
6. If you exercise voting rights multiple times via the Internet, the final time vote casted will be regarded as the effective vote.

**[Inquiries related to exercise of voting rights via the Internet]**

If you have questions regarding exercising voting rights via the Internet, please inquire with the following contact.

Transfer Agent: Sumitomo Mitsui Trust Bank, Limited

[Helpline] ☎ 0120-652-031 (9:00 a.m. – 9:00 p.m.)

Inquiries other than on exercising voting rights ☎ 0120-782-031 (weekdays, 9:00 a.m. – 5:00 p.m.)

**[About the Digital Voting Platform]**

The digital voting platform managed by Investor Communications Japan, which is partially owned by the Tokyo Stock Exchange, may be available for exercising voting rights at the Meeting by nominal shareholders (including standing proxies) if an application has been made in advance.

## Access to the Shareholder Meeting Venue

Grand Arc Hanzomon 4F Fuji-No-Ma  
1-1 Hayabusacho, Chiyoda-ku, Tokyo  
03-3288-0111

Subway access    2-min. walk from Hanzomon Station (Exit 1) on Hanzomon Line  
                      8-min. walk from Kojimachi (Exit 1) on Yurakucho Line