To Shareholders

Information Disclosure on the Internet Regarding the Notice of the 28th Ordinary General Meeting of Shareholders

28th Term (April 1, 2017 – March 31, 2018)

Sosei Group Corporation

The matters listed above are provided to shareholders by posting on the Company's Internet website (http://www.sosei.com/) in accordance with the law and the provisions of Article 14 of the Company's Articles of Incorporation.

■ **<u>Stock acquisition rights ("stock options"), etc. (as of March 31, 2018)</u>**

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

<table>
<tr><th colspan="2"></th><th>27th Stock Options</th><th>29th Stock Options</th></tr>
<tr><td colspan="2">Date of Board resolution</td><td>6 September, 2010</td><td>13 November, 2015</td></tr>
<tr><td colspan="2">Number of stock options</td><td>115</td><td>30</td></tr>
<tr><td colspan="2">Number and class of shares for stock options</td><td>11,500 shares of common stock</td><td>3,000 shares of common stock</td></tr>
<tr><td colspan="2">Amount of payment for stock options</td><td>1 yen per stock option</td><td>261 yen per stock option</td></tr>
<tr><td colspan="2">Value of assets to be provided on exercise of stock options</td><td>64,800 yen per stock option
(648 yen per share)</td><td>413,000 yen per stock option
(4,130 yen per share)</td></tr>
<tr><td colspan="2">Exercise period</td><td>from September 7, 2012
to September 6, 2020</td><td>from July 1, 2017
to June 30, 2020</td></tr>
<tr><td colspan="2">Terms and conditions for exercise</td><td>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"</td><td>Note 1,2,4</td></tr>
<tr><td rowspan="2">Holdings by directors and executive officers</td><td>Directors and executive officers (excluding external directors)</td><td>Number of stock options: 115
Number of shares for stock options: 11,500
Number of holders: 1</td><td>—</td></tr>
<tr><td>External directors</td><td>—</td><td>Number of stock options: 30
Number of shares for stock options: 3,000
Number of holders: 1</td></tr>
</table>

<table>
<tr><th colspan="2"></th><th>30th Stock Options</th><th>31st Stock Options</th></tr>
<tr><td colspan="2">Date of Board resolution</td><td>13 November, 2015</td><td>15 May, 2017</td></tr>
<tr><td colspan="2">Number of stock options</td><td>1,259</td><td>851</td></tr>
<tr><td colspan="2">Number and class of shares for stock options</td><td>125,900 shares of common stock</td><td>85,100 shares of common stock</td></tr>
<tr><td colspan="2">Amount of payment for stock options</td><td>281 yen per stock option</td><td>1,234,900 yen per stock option (Note 5)</td></tr>
<tr><td colspan="2">Value of assets to be provided on exercise of stock options</td><td>413,000 yen per stock option
(4,130 yen per share)</td><td>100 yen per stock option
(1 yen per share)</td></tr>
<tr><td colspan="2">Exercise period</td><td>from July 1, 2018
to June 30, 2021</td><td>from July 1, 2020
to April 30, 2027</td></tr>
<tr><td colspan="2">Terms and conditions for exercise</td><td>Notes 1,2 and 4</td><td>Notes 3,4 and 6</td></tr>
<tr><td rowspan="2">Holdings by directors and executive officers</td><td>Directors and executive officers (excluding external directors)</td><td>Number of stock options: 1,159
Number of shares for stock options: 115,900
Number of holders: 4 (Note 7)</td><td>Number of stock options: 811
Number of shares for stock options: 81,100
Number of holders: 5 (Note 7)</td></tr>
<tr><td>External directors</td><td>Number of stock options: 100
Number of shares for stock options: 10,000
Number of holders: 1</td><td>Number of stock options: 40
Number of shares for stock options: 4,000
Number of holders: 3</td></tr>
</table>

Notes:

1 (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 ("TSE") 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.

2. 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.

3. Stock option holders must be directors, executive officers or employees of the Company or the Company's subsidiaries 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. (1) Stock options may not be exercised by heirs of stock option holders.

(2) 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.

(3) Stock options may not be exercised in fractions of one unit.

5. The fair value of the stock option granted to directors and executive officers of the Company was offset against the same amount of their rights to remuneration effective on the date of allotment.

6. (1) Stock option holders may exercise the options if the closing price of common stock of the Company in the regular trading on the TSE on July 1, 2020 is one hundred and fifteen percent (115%) or more of the base price. For the purpose of these items, the "base price" means the closing price of common stock of the Company in the regular trading on the TSE on the allotment date.

(2) Notwithstanding the conditions provided in the item (1) above, the options may be exercised in part if certain stipulated conditions are met on the date after one, two or three years from the allotment date.

7. Holdings of the 30th and 31st Stock Options include the options granted to an employee of a subsidiary before his assumption of the office as executive officer.

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

		31st Stock Options	32nd Stock Options
Date of resolution for issuance		15 May, 2017	15 May, 2017
Number of stock options		111	70
Number and class of shares for stock options		11,100 shares of common stock (100 shares per stock option)	7,000 shares of common stock (100 shares per stock option)
Amount of payment for stock options		1,234,900 yen per stock option (Note 1)	778,211 yen per stock option (Note 2)
Value of assets to be provided on exercise of stock options		100 yen per stock option (1 yen per share)	1,234,000 yen per stock option (12,340 yen per share)
Exercise period		from July 1, 2020 to April 30, 2027	from July 1, 2020 to April 30, 2027
Terms and conditions for exercise		Note 3	Note 3
Holdings by employees	Employees of the Company	Number of stock options: - Number of shares for stock options: - Number of holders: -	Number of stock options: 31 Number of shares for stock options: 3,100 Number of holders: 7
	Directors and employees of subsidiaries	Number of stock options: 111 Number of shares for stock options: 11,100 Number of holders: 4	Number of stock options: 39 Number of shares for stock options: 3,900 Number of holders: 9

		33rd Stock Options	34th Stock Options
Date of resolution for issuance		15 May, 2017	21 November, 2017
Number of stock options		254	11
Number and class of shares for stock options		25,400 shares of common stock (100 shares per stock option)	1,100 shares of common stock (100 shares per stock option)
Amount of payment for stock options		778,211 yen per stock option (Note 2)	621,400 yen per stock option (Note 2)
Value of assets to be provided on exercise of stock options		1,234,000 yen per stock option (12,340 yen per share)	1,074,600 yen per stock option (10,746 yen per share)
Exercise period		from July 1, 2020 to April 30, 2027	from December 1, 2020 to October 29, 2027
Terms and conditions for exercise		Note 3	Note 3
Holdings by employees	Employees of the Company	Number of stock options: 6 Number of shares for stock options: 600 Number of holders: 1	Number of stock options: 11 Number of shares for stock options: 1,100 Number of holders: 3
	Directors and employees of subsidiaries	Number of stock options: 248 Number of shares for stock options: 24,800 Number of holders: 102	Number of stock options: - Number of shares for stock options: - Number of holders: -

		35th Stock Options
Date of resolution for issuance		21 November, 2017
Number of stock options		18
Number and class of shares for stock options		1,800 shares of common stock (100 shares per stock option)
Amount of payment for stock options		621,400 yen per stock option (Note 3)
Value of assets to be provided on exercise of stock options		1,074,600 yen per stock option (10,746 yen per share)
Exercise period		from December 1, 2020 to October 29, 2027
Terms and conditions for exercise		Note 3
Holdings by employees	Employees of the Company	Number of stock options: - Number of shares for stock options: - Number of holders: -
	Directors and employees of subsidiaries	Number of stock options: 18 Number of shares for stock options: 1,800 Number of holders: 9

Notes:

1 The fair value of the stock option granted to directors of the Company's subsidiaries was offset against the same amount of their rights to remuneration effective on the date of allotment.

2 The stock options were granted to directors and employees of the Company and its subsidiaries as incentive remuneration and the grant without cash payment does not constitute a particularly favorable condition of issuance.

3 (1) Stock option holders may exercise the options if the closing price of common stock of the Company in the regular trading on the TSE on July 1, 2020 is one hundred and fifteen percent (115%) or more of the base price. For the purpose of these items, the "base price" means the closing price of common stock of the Company in the regular trading on the TSE on the allotment date.

(2) Notwithstanding the conditions provided in the item (1) above, the options may be exercised in part if certain stipulated conditions are met on the date after one, two or three years from the allotment date.

(3) Stock option holder must be a director, executive officer or employee of the Company or the Company's subsidiary 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

3. **Adjustments for stock split**

The Company decided at the meeting of the Board of Directors held on May 10, 2018 to conduct a 1 to 4 stock split effective as of July 1, 2018. Accordingly, as from July 1, 2018 the number of shares for each stock option will increase from 100 shares to 400 shares, and the value of asset to be provided on exercise of stock options will be changed as follows.

	Before adjustment	After adjustment
26th Stock Options	64,800 yen per stock option (648 yen per share)	64,800 yen per stock option (162 yen per share)
27th Stock Options	64,800 yen per stock option (648 yen per share)	64,800 yen per stock option (162 yen per share)
29th Stock Options	413,000 yen per stock option (4,130 yen per share)	413,200 yen per stock option (1,033 yen per share)

	Before adjustment	After adjustment
30th Stock Options	413,000 yen per stock option (4,130 yen per share)	413,200 yen per stock option (1,033 yen per share)
31st Stock Options	100 yen per stock option (1 yen per share)	400 yen per stock option (1 yen per share)
32nd Stock Options	1,234,000 yen per stock option （12,340 yen per share）	1,234,000 yen per stock option （3,085 yen per share）
33rd Stock Options	1,234,000 yen per stock option （12,340 yen per share）	1,234,000 yen per stock option （3,085 yen per share）
34th Stock Options	1,074,600 yen per stock option （10,746 yen per share）	1,074,800 yen per stock option （2,687 yen per share）
35th Stock Options	1,074,600 yen per stock option （10,746 yen per share）	1,074,800 yen per stock option （2,687 yen per share）

■ **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>>

(1) 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.

(2) 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.

(3) 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>>

(4) 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 at 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.

(5) 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.

(6) 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.

(7) 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.

(8) 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

(1) 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 International Audit Department.

(2) 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.

(3) 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 International Audit Department has provided guidance on the risk management system of the Company and its subsidiaries based on the results of internal audits.

(4) 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 International Audit Department has been giving instructions on necessary improvements based on the findings of internal audits.

(5) 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 International 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 receive reports on the handling of reports made through the whistle-blower system.

■ **Basic policy on company control**

Not applicable.

Consolidated Statement of Changes in Equity

(Millions of yen)

	Capital	Capital surplus	Treasury stock	Retained earnings	Other elements of shareholders' equity	Total Equity attributable to owners of the parent company
					Exchange differences of foreign operations	
Balance at April 1, 2017	**26,004**	**14,632**	**-**	**(4,386)**	**(7,409)**	**28,841**
Restatement	-	-	-	(486)	-	(486)
Balance after restatement	26,004	14,632	-	(4,873)	(7,409)	28,354
Loss for the year	-	-	-	(2,654)	-	(2,654)
Exchange differences on translation	-	-	-	-	1,427	1,427
Total comprehensive income	-	-	-	(2,654)	1,427	(1,227)
Issuance of new shares	10,779	10,389	-	-	-	21,168
Share-based payments	-	587	-	-	-	587
Purchase of treasury stock	-	-	(0)	-	-	(0)
Total transactions with owners	10,779	10,976	(0)	-	-	21,755
Balance at March 31, 2018	**36,783**	**25,608**	**(0)**	**(7,527)**	**(5,982)**	**48,882**

	Non-controlling interest	Total shareholders' equity
Balance at April 1, 2017	**4**	**28,845**
Restatement	-	(486)
Balance after restatement	4	28,359
Loss for the year	(0)	(2,654)
Exchange differences on translation	-	1,427
Total comprehensive income	(0)	(1,227)
Issuance of new shares	-	21,168
Share-based payments	-	587
Purchase of treasury stock	-	(0)
Total transactions with owners	-	21,755
Balance at March 31, 2018	**4**	**48,886**

Note: Amounts less than 1 million yen have been rounded

Notes to the Consolidated Financial Statements

1. Basis of preparation of the consolidated financial statements

(1) Standards for preparation of the consolidated financial statements

The consolidated financial statements have been prepared in conformance with International Financial Reporting Standards (hereinafter “IFRS”) based on Paragraph 1, Article 120 of the Corporate Accounting Rules. Some statements and notes required by IFRS have been omitted pursuant to the provisions of the latter part of the Paragraph.

(2) Scope of consolidation

1) Consolidated subsidiaries

i. Number of subsidiaries: 6

ii. Names of principal consolidated subsidiaries:

Sosei Co., Ltd.

Sosei R&D Ltd.

Heptares Therapeutics Ltd.

iii. Changes in the scope of consolidation:

Activus Pharma Co., Ltd. which was a consolidated subsidiary in the previous fiscal year, was removed from the scope of consolidation during this fiscal year following its disposal.

(3) Scope of the equity accounting

1) Non-consolidated subsidiaries and affiliates accounted for by the equity method

i. Number of non-consolidated subsidiaries and affiliates accounted for by the equity method: 2

ii. Names of principal companies:

JITSUBO Co., Ltd.

MiNA (holdings) Limited

iii. Changes in the scope of application of the equity method:

MiNA (holdings) Limited came into scope for applying the equity method during the year

(4) Accounting period

The fiscal year end date of Sosei RMF1 Limited Partnership for Investment (hereinafter “RMF1”) is December 31. In preparing the consolidated financial statements, the interim financial statements of the RMF1 as at the consolidated fiscal year end date have been used. The fiscal year ends of all other consolidated subsidiaries coincide with the end of the consolidated fiscal year.

(5) Accounting policies

1) Valuation standards and methods for significant assets and liabilities

i. Valuation standards and methods for financial assets and liabilities:

Derivatives

Derivatives are initially recognized at fair value on the date the contract is concluded and recalculated at fair value after initial recognition.

Non-derivatives

Recognition and measurement of financial instruments

“Trade and other receivables” are recognized on the date of occurrence and other financial assets are recognized on the transaction date on which the Company becomes a contractual party of the financial instrument, and are initially measured at fair value plus transactions costs. Financial liabilities are recognized on the date on which the Company becomes a contractual party to the financial instrument, and are measured at fair value net of transaction costs.

Derecognition of financial instruments

Recognition of financial instruments is cancelled when contractual obligations are exempted or cancelled or when they expire. When contractual rights to cash flows from financial instruments expire, or when contractual rights to receive cash flow from financial instruments are transferred by the Group through a transaction in which all risk and economic value arising from ownership of the financial instrument are effectively transferred, recognition of financial instruments is cancelled.

The Group categorizes financial instruments as follows:

Financial assets measured at amortized cost
Non-derivative financial assets in which the payment amount is fixed or can be fixed and which do not have a public value on an active market are initially measured at fair value at the time of recognition, and measured at amortized cost using the effective interest method at the end of each fiscal period after deducting any impairment loss. “Trade and other receivables” in the balance sheet is included in this category.

Financial assets measured at fair value through profit or loss
Financial assets measured at fair value through profit or loss are initially measured at fair value at the time of recognition and realized or unrealized gains and losses arising from changes in fair value are recognized in profit or loss when incurred. "Other financial assets" in the balance sheet includes the fair value of options to acquire additional shares in MiNA (holdings) Limited and unlisted securities held by RMF1, both of which are included in this category.

Financial liabilities measured at amortized cost
Non-derivative financial obligations are initially measured at fair value at the time of recognition, and are measured at amortized cost using the effective interest method at the end of each fiscal period. “Trade and other payables” and “Interest-bearing liabilities” in the balance sheet are included in this category.

Financial liabilities measured at fair value through profit or loss:
Contingent consideration and appraisal value of repayment obligations to the limited partners of a subsidiary, RMF1, are initially measured at fair value at the time of recognition and realized or unrealized gains and losses arising from changes in fair value are recognized through profit or loss when incurred. “Contingent consideration in business combinations” and “Other financial liabilities” in the balance sheet are included in this category.

Impairment loss on financial assets
Financial assets measured at amortized cost are evaluated to determine whether there is objective evidence showing that impairment has occurred at each reporting date. Such assets are judged to be impaired when objective evidence shows that impairment has occurred after initial recognition of the asset and when that impairment loss can be rationally predicted to negatively impact estimated future cash flows of the financial asset. Objective evidence showing that financial assets measured at amortized cost are impaired includes non-performance of payment or default by a counterparty, extension of the collection deadline on receivables conducted under terms that would not likely be applied if the situation had not occurred, signs of bankruptcy of the counterparty or issuing company and the disappearance of an active market.

The Group considers evidence of impairment of financial assets measured at amortized cost for each individual asset and overall. Regarding significant individual financial assets, impairment is assessed individually. Regarding significant individual financial assets for which separate impairment is not necessary, whether impairment has occurred but has not yet been reported is assessed on an overall basis. Individual financial assets that are not significant are grouped on the basis of similarity of risk and impairment is assessed overall.

When assessing impairment on an overall basis, Group management judges the possibility that the actual loss is too high or too low based on past trends and depending on current economic and credit conditions, after considering past trends related to default potential, recovery timing and the amount of loss occurring, and makes adjustments accordingly.

Impairment loss on financial assets measured at amortized cost is calculated as the difference between the book value and the current value of estimated future cash flows net of the asset’s initial effective interest, and recognized in profit or loss for the period through an allowance for doubtful accounts. The allowance for doubtful accounts related to financial assets measured at amortized cost is directly impaired when future recovery cannot be realistically expected and all collateral is realized or transferred to the Group.

Where an impairment loss is reduced after initial recognition, the decrease in impairment loss (decrease to the allowance for doubtful accounts) is reversed in profit or loss. The impairment loss is reversed up to the value of the amortization at the time the impairment loss was recognized.

ii. Valuation standards and methods for non-financial assets and liabilities

Property, plant and equipment

Property, plant and equipment is measured at acquisition cost less cumulative depreciation and cumulative impairment. Acquisition cost includes those costs directly related to acquiring the asset and an initial estimate of costs for dismantling, removing and restoring the installation site to its original state.

Goodwill and intangible assets

Goodwill

Goodwill that occurs when a subsidiary is acquired is recorded in “Goodwill” at acquisition cost less cumulative impairment. Upon initial recognition goodwill is measured at the fair value of the transfer consideration, including the amount recognized for non-controlling interests, less the net recognized value (normally, the fair value) of identifiable assets and assumed liabilities at the time of the acquisition. Goodwill is not amortized. It is allocated to cash-generating units based on types of business and geographical regions, and an impairment test is conducted each fiscal year, or each time there are indications of impairment.

Intangible assets

Intangible assets are measured at cost. Individually acquired intangible assets with estimated useful lives that can be defined are measured at acquisition cost less cumulative amortization and cumulative impairment. Acquisition cost includes those costs directly related to acquiring the asset.

Development assets

Expenditure on research activities is recognized as cost in the period it occurs. Internally generated intangible assets that occur at the development stage are recognized only when all of the following can be substantiated:

- Technical feasibility of completing an intangible asset that can be used or sold
- Intention to complete the intangible asset and then use it or sell it
- Ability to use or sell the intangible asset
- Method by which the intangible asset will create future economic benefit with strong potential
- Possibility of using financial or other resources that will be necessary to complete the intangible asset and use it or sell it
- Ability to reliably measure expenditure required to develop the intangible asset

The amount initially recognized for internally generated intangible assets is the total of costs that occurred from the date that the intangible asset initially met the above recognition standards. When an internally generated intangible asset cannot be recognized, development outlays are expensed in the period they occur. Intangible assets generated after initial recognition are stated at acquisition cost less cumulative amortization and cumulative impairment. Intangible assets acquired through business combinations and recognized separately from goodwill are stated at acquisition cost less cumulative amortization and cumulative impairment after initial recognition at fair value as of the acquisition date.

Impairment of non-financial assets

The book values of non-financial assets are assessed at each reporting date by searching for the existence of indications of impairment. If signs of impairment exist, the asset’s recoverable value is estimated. For goodwill and intangible assets with indeterminate useful economic lives or assets that cannot yet be used, the recoverable value is estimated in the same period in each consolidated fiscal year. The recoverable value of assets or cash-generating units is the higher of value in use and fair value less disposal costs. In the calculation of value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects the time value of money and risks inherent to the asset. In respect of cash-generating units, assets are grouped into the smallest units generating independent cash flows.

In respect of cash-generating units for goodwill, goodwill is assessed based on those business units defined for purposes of internal reporting. In principle each company is a cash-generating unit. Corporate assets do not generate independent cash inflow so when there are indications of impairment in corporate assets the recoverable value of the cash-generating unit to which the corporate asset belongs is calculated. Impairment loss is recognized in net income/loss when the book value of the asset or cash-generating unit exceeds the recoverable value. Impairment loss recognized in connection with cash-generating units is allocated first to reduce the book value of goodwill relating to that cash-generating unit. Any additional impairment required is allocated next to reduce the book values of other assets within the cash-generating unit proportionally.

Impairment losses related to goodwill are permanent. In respect of impairment loss on other assets recognized in the past, the existence of indications showing that the loss has decreased or been eliminated is assessed on each reporting date. If there are signs of a reversal of impairment and the estimate used for determining the recoverable value has changed, the impairment loss is reversed. The impairment loss is reversed up to the amount of the book value after deducting necessary depreciation or amortization costs.

2) Depreciation methods for significant depreciable assets

i. Property, plant and equipment

Depreciation is recorded to write off the cost over the expected useful life of an asset using the straight-line method. The normal expected useful lives used in calculating depreciation are as follows:

Buildings and structures: 3-15 years

Machinery and equipment: 5-8 years

Tools, furniture and fixtures: 3-20 years

Lease assets: 5 years

Expected useful lives and residual values are reviewed at the end of each fiscal year and adjusted as required.

ii. Intangible assets

Amortization is calculated to write off the cost over the expected useful life of an asset using the straight-line method. Expected useful lives and residual values are reviewed at the end of each fiscal year and adjusted as required. The normal expected useful lives used in calculating amortization are as follows.

Base technology: 20 years

Customer-related assets: 20 years

Intangible assets with indefinite useful lives and intangible assets that are not yet usable are therefore not yet amortized, are tested for impairment at the same each year and whenever there are indications of impairment.

iii. Leases (Lessee)

Leases in which nearly all the risk and reward of ownership are transferred to the Group are categorized as finance leases. Finance leases are recorded as assets at the lower of the fair value of the leased assets at the commencement of the lease and the present value of minimum lease payments. They are depreciated over the shorter of the lease period or useful life. Lease obligations are recognized as interest-bearing liabilities. The portion of lease payments corresponding to finance charges is recognized as an expense over the lease period using the effective interest method. Lease agreements other than finance leases are categorized as operating leases. Operating lease payments are recognized as expenses on a straight-line basis over the lease period.

3) Accounting standards for significant income and expenditure

The Group records income based on the fair value of consideration received or receivable.

i. Royalty revenue, milestone revenue and lump-sum payments

Royalty revenue is based on a fixed percentage of sales after a product is launched. It is calculated in accordance with the terms of the related license agreements. Lump-sum payments are recorded as income when licensing agreements are signed. Milestone income is based on the progress of research and development activity. When a development stage is reached it can trigger a cash receipt that has been stipulated in an agreement. Such income is normally recorded after the achievement of the milestone event has been agreed to by both parties.

4) Standards for conversion of significant foreign-denominated assets and liabilities to Japanese currency

i. Foreign-denominated transactions

Foreign-denominated transactions are converted to the functional currencies of Group companies at prevailing exchange rates on the transaction date. Foreign-denominated monetary assets and liabilities on the period-end date are reconverted to the functional currency at the exchange rate on the period-end date. Foreign-denominated monetary assets and liabilities measured at fair value are reconverted to the functional currency at the exchange rate on the date fair value is calculated. Non-monetary items carried at acquisition cost are calculated using the exchange rate on the transaction date. Exchange differences resulting from reconversion or settlement are recognized in the profit or loss for the period.

ii. Financial statements of foreign operations

The assets and liabilities of foreign operations (overseas subsidiaries, etc.) are converted to Japanese yen at the exchange rate on the period end date, and their income and expenses are converted to Japanese yen at the average exchange rate. Foreign exchange differences resulting from conversion of the financial statements of foreign operations are recognized in “Other comprehensive income”, and the cumulative difference is stated in “Other components of equity” on the consolidated statement of financial position.

5) Business combinations

Business combinations are accounted for using the acquisition method. Consideration is measured as the total value of assets transferred and liabilities assumed in exchange for control of the acquired business, and the fair value on the transaction date of any equity instruments issued by the Company. If the acquisition value exceeds the fair value of identifiable assets and liabilities, the difference is recorded as goodwill in the consolidated balance sheet. Conversely, if the difference is lower, it is directly recorded as income in the consolidated statement of comprehensive income. If accounting for a business combination is not completed by the end of the period in which the business combination occurred, provisional amounts are used to record the transaction, and the provisional amounts are revised within one year of the acquisition date. Acquisition costs are accounted for as expenses.

2. Changes in accounting policies

New standards the Group adopted as at April 1, 2017 are as follows:

IFRS	Outline of new standards and amendments
IAS 12: Income Taxes	Clarification of requirements for the recognition of deferred tax assets relating to unrealized losses

The adoption of the above standard has not had a material impact on the consolidated financial statements of the Group.

3. Restatement

Amendments to tax calculations were required to be made relating to the previous fiscal years. These amendments were recorded in the previous fiscal year’s financial statements and the cumulative effect caused by the adjustment has been reflected in value of opening net assets in the current year’s financial statements. As a result, the opening balance after retrospective adjustment to the retained earnings in the statement of consolidated stockholders’ equity decreased by 486 million yen.

4. Notes to consolidated statement of financial position

Cumulative depreciation on property, plant and equipment was 572 million yen.

5. **Notes to the consolidated statement of changes in equity**

(1) Total shares outstanding

Share class	Shares at beginning of consolidated fiscal year	Increase in shares during consolidated fiscal year	Decrease in shares during consolidated fiscal year	Shares at end of consolidated fiscal year
Common shares	16,916,184	2,138,800	–	19,054,984

Note: The increase in 2,070,000 shares outstanding is due to the Global Offering in November 2017 and in 68,800 shares is due to exercise of stock options.

(2) Subscription warrants, etc. at the end of the consolidated fiscal year under review

Type and number of shares for subscription warrants at the end of the consolidated fiscal year under review (excluding warrants prior to the first day of their exercise period): Common shares 45,800

6. **Notes on financial instruments**

(1) Financial instruments

1) Policies for management of financial instruments

The Group limits its investments to short-term instruments with minimal risk and does not engage in speculative transactions. Funds are primarily procured through issuing new stock and borrowing from banks.

2) Financial instrument content and their risks, and risk management framework

Trade and other receivables are exposed to customer credit risk. To mitigate this risk payment deadlines and balances monitored for each customer. Trade and other payables have payment deadlines of within one year. The Group limits its investments to short-term deposits to reduce risk.

(2) Fair value of financial instruments

Amounts stated on the consolidated statement of financial position, fair values and their differences on March 31, 2018 are as follows:

	Amount stated on consolidated statement of financial position ¥m	Fair value ¥m	Difference ¥m
Cash and cash equivalents	28,281	28,281	–
Trade and other receivables	753	753	–
Other financial assets	1,619	1,619	–
Trade and other payables	(2,411)	(2,411)	–
Interest-bearing liabilities	(9,173)	(9,173)	–
Contingent consideration related to corporate acquisition	(4,634)	(4,634)	–
Other financial liabilities	(1,073)	(1,073)	–

Notes: Valuation methodology for financial instruments

1. Cash and cash equivalents, trade and other receivables and trade and other payables

These are settled over short time periods, so market values are nearly equivalent to book values and so accord with book values.

2. Interest-bearing liabilities

Borrowings are valued at amortized cost and their book values are reasonable approximations of fair values.

3. Interest-bearing liabilities scheduled for repayment after the consolidated settlement date

	Due within 1 year ¥m	Due within 1-5 years ¥m

Interest-bearing liabilities (including long-term)	3,007	6,285

4. Contingent consideration related to corporate acquisitions

Such consideration is calculated by discounting the estimated payable after taking into account the probability of occurrence of future cash outflows.

5. Other financial assets and other financial liabilities

Other financial assets and other financial liabilities are revalued in line with changes in fair value.

7. Notes on per-share information

	¥
Equity attributable to owners of parent company per share	2,565.25
Basic net income per share	(150.19)

8. Subsequent events

On May 10, 2018 the Board of Directors resolved to conduct a stock split to improve liquidity by reducing the amount per trading unit of investment in Sosei shares. Each share of common stock owned by shareholders recorded on the last Register of Shareholders as of record date (30 June 2018) will be split into four shares. This will raise the total number of issued shares (based on the position at May 10, 2018) from 19,054,984 shares to 76,219,936 shares. The impact on stock options is as follows:

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

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

If the stock split had occurred at the beginning of the current fiscal year, the net assets per share as at March 31, 2018 would have been 641.31 yen and the net loss per share for the fiscal year would have been (37.55) yen.

9. Other notes

(1) Impairment of intangible assets

The Company recorded an impairment loss of 390 million yen in “Other expenses” during the fiscal year. The carrying values of some partnered assets were impaired to nil where the partner decided to cease the related development programs and the Group does not currently plan to develop the assets internally.

(2) Sale of a subsidiary’s shares

i Overview of transfer of a subsidiary’s shares

The Company resolved at the meeting of the Board of Directors held on August 4, 2017, to sell all shares in its whollyowned subsidiary, Activus Pharma Co. Ltd. ("Activus") and completed the sale on August 10, 2017.

ii Consideration received, and assets and liabilities over which control was lost

	At August 10, 2017 (Unaudited) ¥m
Consideration received	390
Assets and liabilities over which control was lost:	
Property, plant and equipment	(61)
Other non-current assets	(2)
Cash and cash equivalents	(13)
Other current assets	(6)
Non-current liabilities	2
Current liabilities	16
Gain on sale of subsidiary	**326**

Notes:

1. The gain on sale of subsidiary is included in other income in the Consolidated Statement of Profit or loss and other Comprehensive Income.

iii Change in cash and cash equivalents due to the sale of a subsidiary's shares

	At August 10,2017 (Unaudited) ¥m
Cash consideration received	390
Cash and cash equivalents of the subsidiary that was sold	(13)
Change in cash and cash equivalents due to sale of a subsidiary's shares	**377**

(3) Contingent Consideration

The contingent consideration liability is a fair value estimate by management of the amount payable to the former shareholders of Heptares Therapeutics Limited under the 2015 Share Purchase Agreement. It has been calculated on a risk adjusted and discounted basis. The maximum amount of contingent consideration payable under the contract is US$220m (¥23,379m) of which US$66m (¥6,969m) has been paid out to date. Under the agreement there are defined mechanisms for determining the amounts payable. In instances where the agreement is not explicit the liability includes management's best estimate of the probable outflows. It is therefore possible that the amounts ultimately payable will be different to those provided for as there may be differing interpretations of the agreement.

Non-Consolidated Statement of Changes in Equity

(Millions of yen)

	Shareholders' equity				
		Capital surplus	Retained earnings		
			Other retained earnings		
	Capital	Capital reserve	Retained earnings brought forward	Treasury stock	Total shareholders' equity
Balance at April 1, 2017	**26,004**	**14,121**	**(48)**	**-**	**40,078**
Restatement	-	-	(757)	-	(757)
Balance after restatement	26,004	14,121	(805)	-	39,320
Changes of items during period					
Issuance of new shares	10,778	10,778	-	-	21,556
Loss for the year	-	-	(2,605)	-	(2,605)
Purchase of treasury stock	-	-	-	(0)	(0)
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during period	10,778	10,778	(2,605)	(0)	18,951
Balance at March 31, 2018	**36,782**	**24,899**	**(3,410)**	**(0)**	**58,271**

	Subscription rights to shares	Total net assets
Balance at April 1, 2017	**757**	**40,835**
Restatement	-	(757)
Balance after restatement	757	40,078
Changes of items during period		
Issuance of new shares	-	21,556
Loss for the year	-	(2,605)
Purchase of treasury stock	-	(0)
Net changes of items other than shareholders' equity	664	664
Total changes of items during period	664	19,615
Balance at March 31, 2018	**1,421**	**59,693**

Note: Amounts less than 1 million yen have been rounded

Notes to the Non-Consolidated Financial Statements

1. Significant accounting policies

(1) Asset valuation standards and methods

1) Marketable securities

Subsidiary stock and affiliated company stock: Recorded at cost determined by the moving-average method

(2) Fixed asset depreciation methods

1) Property, plant and equipment (except lease assets)*:*

The declining balance method is used. However, the straight-line method is used for facilities attached to buildings and acquired on or after April 1, 2016. The normal estimated useful lives are as follows:

Buildings (facilities attached to buildings): 8-15 years

Tools, furniture and fixtures: 4-20 years

2) Intangible fixed assets (except lease assets) *:*

The straight-line method is used.

For internal-use software, the straight-line method is used based on an estimated useful life of 5 years

3) Lease assets: Finance lease transactions without a transfer of ownership

The straight-line method is used based on the term of the lease and a residual value of zero.

(3) Accounting for deferred assets

Share issuance cost: Expensed in full at the time of payment.

(4) Recognition standards for allowances

1) Allowance for doubtful accounts

Allowance is made for credit losses on accounts receivable and other accounts. An estimate of unrecoverable amounts is set aside based on historical credit loss rates for ordinary receivables and based on individual considerations for other receivables regarded as doubtful.

2) Allowance for bonuses

Allowance is made during the fiscal year for the payment of employee bonuses.

(5) Standards for conversion of significant foreign-denominated assets and liabilities to Japanese currency

Foreign-denominated monetary claims and obligations are converted to Japanese yen based on spot exchange rates on the period-end date, and translation differences are accounted for within profit or loss for the period.

(6) Basis of preparation of the financial statements

Consumption taxes are accounted for using the tax-exclusion method.

2. Changes in accounting policy

Not applicable.

3. Restatement

Amendments to tax calculations were required to be made relating to the previous fiscal years. These amendments were recorded in the previous fiscal year's financial statements and the cumulative effect caused by the adjustment has been reflected in value of opening net assets in the current year's financial statements. As a result, the opening balance after retrospective adjustment to the retained earnings in the statement of stockholders' equity decreased by 757 million yen.

4. Notes to the balance sheet

	¥m
(1) Cumulative depreciation on property, plant and equipment	19
(2) Monetary claims and obligations to subsidiaries and affiliates	
Monetary obligations to subsidiaries and affiliates	87
(3) Monetary claims and obligations to directors and officers	
Monetary obligations	133

(4) Guarantee liabilities

Debt guarantees totaling 2,785 million yen have been provided in relation to a building lease agreement and building contract signed by the Company's subsidiary, Heptares Therapeutics Ltd.

5. Notes to the statement of profit or loss

Operating transactions with subsidiaries and affiliates totaled 1,180 million yen.

6. Notes to the statement of changes in equity

Share class	Shares at beginning of fiscal year	Increase in shares during fiscal year	Decrease in shares during fiscal year	Shares at end of fiscal year
Ordinary Treasury shares	—	26	—	26

7. Tax

The main factors giving rise to deferred tax assets are as follows:

	¥m
Tax loss carried forward	471
Stock in subsidiaries and affiliates	3,388
Other	328
Deferred tax assets subtotal	4,188
Valuation allowance	(4,188)
Total deferred tax assets	**-**

8. Related party transactions

(1) Subsidiaries

Type	Name of company	Share of voting rights holding (held)		Transaction type	Transaction amount ¥m	Account	Ending balance ¥m
Subsidiary	Sosei Co., Ltd.	Direct holding	100%	Loan to subsidiary	692	Long-term loans to subsidiaries and affiliates	1,238
Subsidiary	Activus Pharma Co., Ltd.	Direct holding	100%	Subscription for shares	1,041	-	-
Subsidiary	Sosei R&D Ltd.	Direct holding	100%	Provision of management services to subsidiary	179	Accounts receivable-subsidiaries and affiliates	146
Subsidiary	Heptares Therapeutics Ltd.	Direct holding	100%	Provision of management services to subsidiary	758	Accounts payable to subsidiaries and affiliates	750
				Debt guarantees	2,785	-	-

Notes:

1. Transaction amounts do not include consumption taxes, etc.; term-end balances include consumption taxes, etc.
2. Prices and other transaction terms are determined upon discussion and agreement by the two parties on terms equivalent to other parties unrelated to the Company.
3. Intercompany receivables and interest are collected based on the available cash position of each company
4. Loans to Sosei Co., Ltd. are made at market interest rates. Collateral has not been requested.
5. 796 million yen was set aside as an allowance for doubtful debts from a subsidiary company, Sosei Co., Ltd., as at March 31, 2018. During the current fiscal year 37 million yen was recorded as a gain on reversal of allowance for doubtful debts from subsidiary companies.
6. All shares in Activus Pharma Co., Ltd., were sold on August 10, 2017 and the company ceased to be a subsidiary from that date. All receivable balances from Activus Pharma Co., Ltd. were settled at that time. The subscription for additional share capital and the collection of balances due from Activus Pharma Co., Ltd. were linked transactions. A bad debt expense relating to subsidiary companies of 544 million yen was recorded in the current fiscal year.
7. Debt guarantees have been provided in relation to a building lease agreement and building contract signed by the Company's subsidiary, Heptares Therapeutics Ltd. No fee for the provision of the guarantees has been charged to the subsidiary.

(2) Officers and major individual shareholders

Type	Name	Share of voting rights holding (held)		Relationship with related parties	Transaction type	Transaction amount ¥m	Account	Ending balance ¥m
Officer	Shinichi Tamura	Directly Held	1.49%	Chairman	Exercise of stock options	63	-	-
Officer	Peter Bains	Directly Held	0.03%	CEO	Exercise of stock options	4	-	-
Company co-founded by Officer	Tomohiro Tohyama	Directly Held	0%	Director	Legal advice	4	Account payable	0
Officer	Malcolm Weir	Directly held	0%	Executive Officer and Executive Vice President	Payment of contingent consideration	42	Account payable	19
Officer	Tim Tasker	Directly held	0%	Executive Officer and Executive Vice President	Payment of contingent consideration	4	Account payable	4
Officer	Fiona Marshall	Directly held	0%	Executive Officer and Executive Vice President	Payment of contingent consideration	16	-	-

Notes:

1. Transaction prices and other conditions are determined by reference to similar third party contracts.
2. The exercise of stock options by Mr. Tamura in the current term relates to the 27th stock acquisition rights approved by the Board of Directors on July 17, 2007.
3. The exercise of stock options by Mr. Bains in the current term relates to the 30th stock acquisition rights approved by the Board of Directors on September 6, 2010.
4. Transactions with Mr. Tomohiro Tohyama, Director, relate to transactions with TMI Associates, of which he is a partner.
5. Ms. Fiona Marshall, Director, left the Company on February 28, 2018.

9. Notes on per-share information

	¥
(1) Net assets per share	3,058.09
(2) Net (loss) per share	(147.41)

10. Subsequent events

On May 10, 2018 the Board of Directors resolved to conduct a stock split to improve liquidity by reducing the amount per trading unit of investment in Sosei shares. Since the details of the stock split are described in the Notes to the Consolidated Financial Statements, only the influence on per share information is included here.

If the stock split had occurred at the beginning of the current fiscal year, the net assets per share as at March 31, 2018 would have been 764.52 yen and the net loss per share for the fiscal year would have been (36.85) yen.