English translation

SymBio Pharmaceuticals Limited

Summary of Financial Statements for the Fiscal Year Ended December 31, 2013
[Japanese GAAP] (Non-consolidated)

February 12, 2014

Company Name	SymBio Pharmaceuticals Limited	Listing: Tokyo Securities Exchange	
Securities code	4582	URL http://www.symbiopharma.com/	
Representative	Representative Director, President and Chief Executive Officer	Fuminori Yoshida	
Contact person	Director, Executive Vice President and Chief Financial Officer	Takashi Shimomura	TEL 03(5472) 1125
Ordinary Annual General Meeting of Shareholders	March 27, 2014	Date of dividend payment (plan)	—
Scheduled date to file Securities Report	March 28, 2014		
Supplementary materials for the financial statements	Yes [No]		
Holding of earnings performance review:	[Yes] No (For securities analysts and institutional investors)		

(millions of yen – rounded down, unless otherwise stated)

1. Business Results for FY 2013 (January 1, 2013 to December 31, 2013)

(1) Operating results (Percentages indicate year-on-year changes)

	Net Sales		Operating Income (loss)		Ordinary Income (loss)		Net Income (loss)	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
FY 2013	1,532	(21.6)	(1,680)	-	(1,601)	-	(1,605)	-
FY 2012	1,955	3.9	(1,700)	-	(1,729)	-	(1,733)	-

	Net Income (loss) per share	Diluted Net Income per share	Ratio of net income (loss) to equity (ROE)	Ratio of ordinary income (loss) to total assets (ROA)	Ratio of operating income (loss) to net sales
	Yen	Yen	%	%	%
FY 2013	(69.29)	-	(26.3)	(24.3)	(109.7)
FY 2012	(90.60)	-	(30.2)	(27.1)	(87.0)

(Reference) Equity in earnings: FY 2013 - million yen FY 2012 - million yen

(2) Financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	millions of yen	millions of yen	%	Yen
FY 2013	7,686	7,432	95.4	239.48
FY 2012	5,502	4,899	88.6	254.71

(Reference) Equity: FY 2013 7,336 million yen FY 2012 4,872 million yen

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	millions of yen	millions of yen	millions of yen	millions of yen
FY 2013	(1,677)	(1,332)	4,056	5,294
FY 2012	(1,658)	(410)	(0)	4,240

2. Dividends

	Annual Dividend per Share					Total Dividends	Payout ratio	Ratio of dividends to net assets
	1st Quarter	2nd Quarter	3rd Quarter	Fiscal Year End	Full Year			
	Yen	Yen	Yen	Yen	Yen	millions of yen	%	%
FY 2012	-	0.00	-	0.00	0.00	-	-	-
FY 2013	-	0.00	-	0.00	0.00	-	-	-
FY 2014 (Forecast)	-	0.00	-	0.00	0.00		-	

3. Earnings Forecasts for FY 2014 (January 1, 2014 to December 31, 2014)

(Percentages indicate year-on-year changes)

	Net Sales		Operating Income (Loss)		Ordinary Income (Loss)		Net Income (Loss)		Net Income (Loss) per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full Year	1,785	16.5	(1,654)	-	(1,650)	-	(1,654)	-	(52.63)

Notes:

(1) Changes in accounting policies, changes in accounting estimates and restatements after error corrections

(a) Changes in accounting polices due to revision of accounting standards:	Yes	No
(b) Changes in accounting polices due to other reasons:	Yes	No
(c) Changes in accounting estimates:	Yes	No
(d) Restatements after error correction:	Yes	No

(2) Number of shares outstanding (common stock)

(i) Number of shares outstanding at the end of the year (including treasury stock)	FY 2013	30,634,257 shares	FY 2012	19,130,900 shares
(ii) Number of shares of treasury stock at the end of the year	FY 2013	75 shares	FY 2012	75 shares
(iii) Average number of shares during the year	FY 2013	23,167,804 shares	FY 2012	19,130,825 shares

(Note) Refer to “Per share information” on Page 52 for number of shares that forms the basis for calculating net income (loss) per share.

* The status of the annual audit

The audit of financial statements as required by the Financial Instruments and Exchange Act is proceeding as of the date of this disclosure document.

*Explanation regarding the appropriate uses of earnings forecasts and other matters

(Notes on the forward-looking statements)

All forecasts presented in this document including earnings forecasts are based on the information currently available to the management and the assumptions that we judge reasonable. Actual results may differ substantially from these forecasts due to various factors. Regarding the assumptions on which the earnings forecasts are based and its usage, please refer to “Business results analysis” on Page 2 of the attachment.

Index of the attachment

1. Business results

(1) Business results analysis

(Business Results for FY 2013)

Progress in the Company's business for FY 2013 is as follows:

(i) Domestic

[SyB L-0501 (the generic name: bendamustine hydrochloride, the trade name: TREAKISYM®)]

Since December 2010, the Company has marketed the anticancer drug SyB L-0501 in Japan through its business partner Eisai Co., Ltd. (hereinafter "Eisai"), for the indications of refractory/relapsed indolent non-Hodgkin's lymphoma and mantle cell lymphoma.

The Company has also carried out three clinical trials on TREAKISYM® for additional indications.

With respect to the Phase II clinical trial for the indications of previously untreated indolent non-Hodgkin's lymphoma and mantle cell lymphoma, the last enrollment was completed in October 2013, and the study data are currently being analyzed and evaluated in preparation for submission. The application for approval in the EU has already been submitted by Astellas Pharma GmbH, and is currently being reviewed by the European Medicines Agency (hereinafter "EMA").

The Phase II clinical trial for the indication of chronic lymphocytic leukemia was initiated in May 2013, and favorable progress has been made with enrollment of patients. In this connection, TREAKISYM® was designated an orphan drug (pharmaceutical for treatment of rare diseases) for the indication of chronic lymphocytic leukemia during June 2012.

Discussion about future approaches to development for refractory/relapsed aggressive non-Hodgkin's lymphoma is currently being continued with the PMDA.

On the other hand, in the Phase II clinical trial on refractory/relapsed multiple myeloma, which was carried out as part of the expansion of indications, although a dose of 90 mg/m^2 TREAKISYM® was confirmed to be safe for Japanese patients on the basis of interim results, no patients were found to respond to this treatment, and it was judged that it would be very difficult to achieve the target response rate with TREAKISYM® monotherapy, even with inclusion of more patients in the study, so the study was discontinued.

[SyB L-1101 (intravenous formulation) and SyB C-1101 (oral formulation), the generic name: rigosertib]

The Japanese Phase I clinical trial of the anticancer drug SyB L-1101(intravenous formulation) for the indication of refractory/relapsed myelodysplastic syndrome (MDS), a type of blood tumor, has been continued.

With respect to SyB C-1101(oral formulation), the Japanese Phase I clinical trial for the intended indication of previously untreated MDS was initiated in March 2013.

[SyB D-0701]

The Phase II clinical trial of SyB D-0701, a transdermal antiemetic patch, for the indication of radiotherapy-induced nausea and vomiting was completed during January 2013. However, the expected results with respect to efficacy were not achieved.

(ii) Overseas

SyB L-0501 sold largely as planned in South Korea, Taiwan and Singapore. In Singapore and South Korea, we sell the product through Eisai, as we do in Japan, and the sales figures have been going up steadily.

(iii) Fund procurement

The Company made a resolution on December 27, 2012 to issue the first unsecured convertible bond with stock acquisition rights (total issue price: 1 billion yen) with Whiz Healthcare PE Series 1 Investment Limited Liability Partnership as the allottee and the 29th warrant (total issue price: 5.1 million yen, total issue price of stocks when issued through exercising the stock acquisition rights: 500 million yen). Accordingly, Whiz Healthcare PE Series 1 Investment Limited Liability Partnership completed payment of 1,005,100 thousand yen to the Company on January 15, 2013. Additionally, the stock acquisition rights of the 29th warrant were partially exercised and the paid-in amount of 199,998 thousand yen had been received by the end of January 2013.

The Company made a resolution on November 19, 2013 regarding the issuance of new shares and secondary offering of shares through a public offering and through a third party allotment. Accordingly, the payments of 2,503,744 thousand yen and 321,118 thousand yen had been completed on December 4, 2013 and December 25, 2013, respectively.

(iv) Business results

As a result of the above, net sales totaled 1,532,054 thousand yen for the fiscal year ended December 31, 2013, primarily reflecting sales of SyB L-0501 in Japan and the other Asia Pacific territories. The net sales amount was decreased by 21.6% compared to the previous year by following review of the current market inventory level of TREAKISYM®.

Selling, general and administrative expenses totaled 1,998,522 thousand yen (a year-on-year decrease of 12.9%), including research and development ("R&D") expenses of 1,052,790 thousand yen (a year-on-year decrease of 26.8%) due to the accrual of expenses associated with the clinical trials for multiple indications for SyB L-0501, clinical trials for SyB L-1101 and SyB C-1101, as well as other selling, general and administrative expenses of 945,731 thousand yen (a year-on-year increase of 10.6 %).

As a result, operating loss of 1,680,528 thousand yen was recognized for the fiscal year ended December 31, 2013 (operating loss of 1,700,273 thousand yen for the previous fiscal year). In addition, recording of amount totaling 35,363 thousand yen as non-operating expenses, primarily comprising commissions and stock-issuance expenses, and amount totaling 114,467 thousand yen as non-operating income, primarily comprising foreign exchange gains, led to ordinary loss of 1,601,424 thousand yen (ordinary loss of 1,729,480 thousand yen for the previous fiscal year) and net loss of 1,605,224 thousand yen (net loss of 1,733,320 thousand yen for the previous fiscal year).

Segment information is omitted since the Company operates a single segment of pharmaceutical business including research and development of pharmaceutical drugs as well as manufacturing, marketing and other related activities.

(Forecast for FY 2014)

We expect net sales of 1,785 million yen, a 16.5% increase from the fiscal year ended December 31, 2013, mainly due to increase in sales of anticancer TREAKISYM® that has been on sale in Japan since December 2010. Meanwhile, for the aim of further enhancing the enterprise value, we will advance the development of proprietary pipelines, including new indications for the mainstay anticancer drug SyB L-0501.To this end, we anticipate R&D expenses of 940 million yen (1,052 million yen in the previous fiscal year) and selling, general and administrative expenses of 2,083 million yen (1,998 million yen in the previous fiscal year) including R&D expenses.

The Company's major development plans of pipelines are as follows:

<SyB L-0501> (anticancer drug)

In addition to preparing for the Japanese submission for the indications of previously untreated indolent non-Hodgkin's lymphoma and mantle cell lymphoma, we plan to continue the Phase II clinical trial for the indication of chronic lymphocytic leukemia.

<SyB L-1101 (intravenous formulation) and SyB C-1101 (oral formulation)> (anticancer drug)

We plan to continue the Japanese Phase I clinical trial of the intravenous formulation for the indication of refractory/relapsed MDS, and also the Japanese Phase I clinical trial of the oral formulation for the indication of previously untreated MDS. We will also continue to look into the option of development for other indications.

As a result of these planned activities, net sales of 1,785 million yen, operating loss of 1,654 million yen, ordinary loss of 1,650 million yen, and net loss of 1,654 million yen are projected for FY 2014.

(2) Financial position analysis

(Analysis of assets, liabilities, net assets, and cash flows)

Total assets as of December 31, 2013 stood at 7,686,947 thousand yen, an increase of 2,184,756 thousand yen from the previous fiscal year end. This was primarily due to an increase of cash and deposits arising from issuance of new shares. Current assets stood at 7,633,962 thousand yen, an increase of 2,213,338 thousand yen from the previous fiscal year end, reflecting an increase of cash and deposits as well as marketable securities.

Total noncurrent assets stood at 52,985 thousand yen, a decrease of 28,582 thousand yen from the previous fiscal year end, due to such factors as reclassification of current portion of advances paid to current assets and recording accumulated depreciation of tangible and intangible fixed assets.

Liabilities stood at 253,950 thousand yen, a decrease of 348,281 thousand yen from the previous fiscal year end, reflecting a decrease of accounts payable-trade.

Under net assets, while retained earnings decreased by 1,605,224 thousand yen due to recording net loss, the total net assets increased by 2,533,038 thousand yen from the previous fiscal year end to 7,432,996 thousand yen due to issuance of new shares

and new stock acquisition rights. As a result, the equity ratio increased by 6.8 percentage points from the previous fiscal year end to 95.4%.

Cash and cash equivalents (hereinafter "cash") stood at 5,294,137 thousand yen, an increase of 1,054,115 thousand yen from the previous fiscal year end. This was mainly due to a significant increase in cash from financing activities through issuance of new shares, in spite of cash decrease from operating activities resulting from loss before income taxes, and of cash decrease from investing activities due to purchase of marketable securities with using funds procured through issuance of new shares.
Cash flows from each activity and its factors for this fiscal year end are as follows:

(Cash Flow from Operating Activities)

Cash flow from operating activities showed an overall decrease of 1,677,348 thousand yen due to such decreasing factors as net loss before tax of 1,601,424 thousand yen recorded and a decrease of accounts payable-trade by 329,768 thousand yen, despite such increasing factors as decreases of account receivables by 148,081 thousand yen and inventories by 39,662 thousand yen, and recognition of share-based compensation expense by 66,534 thousand yen.

(Cash Flow from Investing Activities)

Cash flows from investing activities showed a decrease of 1,332,254 thousand yen mainly due to the purchase of marketable securities for 2,399,205 thousand yen and investing in time deposit for 1,138,419 thousand yen.

(Cash Flow from Financing Activities)

Cash flows from financing activities showed an increase of 4,056,658 thousand yen due to: (i) an issuance of new shares of 2,824,862 thousand yen, (ii) an issuance of corporate bonds with stock acquisition rights of 1,000,000 thousand yen and (iii) issuance of new shares resulting from exercising stock acquisition rights of 241,598 thousand yen.

(Index trend related to cash flow)

	5th Term Fiscal year ended December 2009	6th Term Fiscal year ended December 2010	7th Term Fiscal year ended December 2011	8th Term Fiscal year ended December 2012	9th Term Fiscal year ended December 2013
Equity ratio (%)	95.1	95.8	91.0	88.6	95.4
Equity ratio on a fair market value basis (%)	—	—	126.0	104.3	151.4
Debt redemption period (years)	—	—	—	—	—
Interest coverage ratio	—	—	—	—	—

Equity ratio: Equity (total shareholders' equity) /total assets
Equity ratio on a fair market value basis: total market value of common stock/total assets
Debt redemption period: Interest-bearing debt/cash flow from operating activities
Interest coverage ratio: cash flow from operating activities/interest payment

(Notes)
1. Equity ratio on a fair market value basis is not shown until the 6th term and is shown from the 7th term due to stock offering to the public.
2. Total market value was calculated based on the number of shares issued excluding treasury stocks.
3. Debt redemption period and interest coverage ratio are not available for the 5th Term and after due to negative cash flow from operating activities.

(3) Basic policies concerning profit distribution and dividends

Since the foundation of the Company, dividends have not been distributed.

Although the Company started booking product sales, the Company develops pharmaceutical drugs and continues to use funds for development activities. Therefore, it is our policy to attempt to gain retained earnings, not to distribute profit dividends, and preference to retain funds for sustainable development activities. However, we recognize that the return of profit to stockholders is an important management issue and will consider profit distribution based on future business performance and financial condition.

The articles of incorporation provide that the Company can pay interim dividend based on a corporate resolution by Board of Directors on June 30 every year as the record date. The Company can also make a distribution of surplus by designating a record date in addition to year-end and interim dividends. Decision making body is board of directors for interim dividend, shareholders' meeting for year-end dividend.

(4) Risks of business

Described below are major issues that may lead to potential risks in the Company's business activities. Issues that are not necessarily considered significant by the Company are also disclosed, in view of our commitment to make active information disclosure to investors and shareholders as these issues may carry weight in making investment decisions or in understanding our business activities. The Company is fully aware of the potential of these risks and will exert its utmost effort to prevent such risks from substantiating, but should they substantiate, we intend to take full appropriate action. However, we consider that investment decision regarding our stocks should be made by carefully evaluating the following matters, as well as other matters mentioned in other sections of this document. We would add that the following descriptions do not purport to cover all possible risks associated with investment in our stocks. The future perspectives mentioned below reflect our understanding of our business circumstances as of the date of publication of this document.

(i) Risks associated with pharmaceutical development in general

The Company's main business is to in-license drug development candidate compounds created by pharmaceutical companies and bio ventures, and to develop them into pharmaceutical products. The R&D field of pharmaceuticals is replete with strong competition including pharmaceutical giants. What is more, specialty pharmaceutical companies such as SymBio try to emulate each other in quality and speed within the sector. The process from development to manufacture and marketing involves many regulatory hurdles, necessitating a vast amount of capital input over a long period of time in business operations. Their future prospects involve uncertainty and these risk factors are associated with the Company’s present and future business activities.

a) Uncertainty involved in pharmaceutical development

Generally speaking, the pharmaceutical development process up to the market launch of a drug requires a vast amount of expenditure over a long period. The probability of success is by no means high. In every stage of development, it is not infrequent for a decision to be made to halt or delay progress. In pharmaceutical development, the different stages of development have to be conducted in phases, and in each phase a decision is made on whether the development should continue. Therefore, it is not rare to see a decision to stop a development in mid-process. The probability is low for a development progressing successfully and for a product coming on stream. Even after a product is successfully developed and launched in the market, there remains a risk that the approval gets cancelled because of inefficacy or side effects should serious side effects prove to have the potential to increase damage to health (for details, refer to “(f) risk associated with side effects”), or should the efficacy fail to be recognized by the re-evaluation of efficacy and safety, conducted either on a regular or temporary basis, in light of the current academic standards of medicine and pharmaceuticals at the time of re-evaluation. To reduce and spread these risks, the Company aims to possess several pipelines and endeavors to prioritize insofar as possible the in-licensing of drug candidates with confirmed POC (Note 1) on human subjects. Yet, for small specialty pharmaceutical companies such as SymBio, the impact is huge if a single candidate compound is removed from the pipeline. This could have a significant effect on our financial position, business performance, and cash flow.

(Note 1) POC (Proof of Concept) means confirming the efficacy and safety of a new drug candidate compound through clinical trials and verifying the appropriateness of its concept.

b) Uncertainty of income

In order to raise income from the products we are developing, we need to succeed in all the stages of drug candidate development, namely obtaining approval from regulatory authorities, manufacture and marketing either on our own or in partnership with a third party. However, we may not necessarily succeed in these activities, or even if we do succeed, we may not be able to ensure the sufficient profitability needed in continuing our business. Of the products currently in the development pipeline, the anticancer drug SyB L-0501 achieved approval for manufacturing and marketing in Japan on October 27, 2010, for the indications of refractory/relapsed indolent non-Hodgkin's lymphoma and mantle cell lymphoma, and in December 2010 it was launched as the anti-tumor agent TREAKISYM®. For additional indications, we have completed Phase II clinical trials on refractory/relapsed aggressive non-Hodgkin’s lymphoma, and are currently conducting Phase II clinical trials on previously untreated indolent non-Hodgkin's lymphoma/mantle cell lymphoma, and chronic

lymphocytic leukemia. Furthermore, with respect to the anticancer agent rigosertib, Japanese Phase I clinical trials are being initiated with the intravenous formulation, SyB L-1101, for the indication of refractory/relapsed myelodysplastic syndrome; and with the oral formulation, SyB C-1101, for the indication of previously untreated myelodysplastic syndrome. We are promoting the development of these compounds, aiming to successfully market the end products to obtain income. In some cases, we may consider entering into alliance with other pharmaceutical companies in development and marketing so as to expedite the in-flow of income. Notwithstanding our effort, these pipeline compounds will take a considerable amount of time before they reach the market. There is no guarantee that they will make it onto the market as viable products or that an alliance agreement can be signed with other pharmaceutical companies. We are of the opinion that the selection of indications and the methods of alliance and marketing so far identified promise sufficient future profitability, considering the market size and marketing performance of approved drugs. However, should we prove to be wrong in the assessment, or should there be any change in the conditions on which the assessment is based and we cannot promptly adjust to the changes, there may be a significant impact on our financial position, business performance, and cash flow.

c) Uncertainly in legislations and regulations requiring compliance and health insurance system

The pharmaceutical industry, the Company‘s business field, is subject to various regulatory restrictions imposed by the pharmaceutical laws and administrative guidance as well as other relevant legislations of respective countries in all aspects of business operations, namely, research, development, manufacture and marketing. We formulate our business plans in accordance with the pharmaceutical laws and other current legislative regulations and with the health insurance system together with the drug pricing developments that emerge from these legislations. Notwithstanding, there is a possibility that these regulations, systems and pricing will change before the products that we are developing reach the market. If any major change does occur, there may be a significant impact on our financial position, business performance, and cash flow.

d) Risk concerning development and marketing overseas

We conduct pharmaceutical business in Asia, not limited to Japan, where we anticipate growth of healthcare needs and position as the strategic business domain. In overseas markets similarly to in Japan, the pharmaceutical development and marketing generally require a vast amount of expenditure and are associated with business risks. To reduce investment expenditure and spread business risks, we out-license the development and marketing of some of our developed drugs overseas to pharmaceutical and other companies. When we out-licenses the rights we possess, we select a licensee company after careful due diligence and continue monitoring as appropriate. The development and sales of out-licensed products are subject to business conditions of the licensee company or any changes in regulatory and competitive environments in respective countries and may fall below the original expectations, resulting in milestone revenue and royalty income generated below our plan. In such cases, there may be an impact on our financial position, business performance, and cash flow.

e) Competition in the pharmaceutical industry

The pharmaceutical industry is an intensely competitive sector. A large number of both Japanese and foreign pharmaceutical companies and research institutions including giant multinational pharmaceuticals compete in the arena. Technological innovation is progressing rapidly. Many competitors have comparative advantage over us in technology, marketing and financial position. Thus these companies may more efficiently produce and sell competitor products of greater effectiveness to our developed products. This means that what transpires in the competition we conduct with these competitors in development, manufacturing and marketing operations may have a significant impact on our financial position, business performance, and cash flow.

f) Risk associated with side effects

Unexpected side effects may occur from the use of pharmaceutical products, from their clinical trial stage to post-marketing stage. When serious and unexpected side effects are developed, compensation claims may arise, or depending on the situation, there is the risk of a delay in clinical trials or even discontinuation of product development. In case such side effects could lead to further damage to health, there is the risk for the cancellation of approval or the discontinuation of sales. Regarding compensation claims, we have in place the liability insurance necessary to minimize the financial damage when such claims arise. However, it does not exclude the possibility that the compensation award exceeds the amount insured. If that happens, there may be a significant impact on our financial position, business performance, and cash flow.

g) Product liability

The development and manufacture of pharmaceutical products involve product liability risk. If in future, any products that we have developed cause damage to health or any inappropriate matters are discovered in clinical trials, manufacture, sales or marketing, we will be subject to product liability. This may have a significant impact on our financial position, business performance, and cash flow. Indeed, if a product liability compensation suit is filed against us, our corporate image will be damaged, leading to loss of confidence in us and our drugs, which may have an impact on our business.

(ii) Risk in operating our business

a) Risk concerning business model

The Company does not own its research and manufacturing facilities. We mainly target orphan drugs (Note 2) in oncology, hematology and autoimmune diseases, in-licensing from pharmaceutical companies and bio ventures drug candidates mostly with POC confirmed on human subjects and developing and marketing them as pharmaceutical products for the Japanese and Asian markets (China, South Korea, Taiwan and Singapore, etc.). We adopt the business model to raise income and profit from doing so. In developing the pipeline and marketing, we plan to engage in alliances with other pharmaceutical companies. However, there is no guarantee that we can continuously in-license drug candidate compounds that satisfy our criteria and secure these partner companies. In addition, as we mainly target orphan drugs for in-licensing candidates (Note 3), we may not be able to generate the expected sales turnover. In such cases, there may be an impact on our financial position, business performance, and cash flow. What is more, the competition surrounding the pharmaceutical sector and changes in the Company's financial position may force us to revise our business model. Should this occur, there may be a significant impact on our business.

(Note 2) The rare-disease field is one in which the need for medical treatment is great, but the numbers of patients requiring drugs are small. Drugs for this field that are not undergoing rapid development are termed “orphan drugs”. In order for the Japanese Ministry of Health, Labor and Welfare to designate a product as an orphan drug, the following criteria must be met:

i) It is used to treat a disease that affects less than 50,000 people in Japan,

ii) There is a great need for medical treatment, and

*iii)*The potential for development is high.

Designation as an orphan drug results in the following advantages: (a) the drug is given priority over other products for regulatory review, reducing the time from regulatory submission to approval; (b) the re-examination period can be extended up to 10 years; and (c) evaluation of an increased drug price can be expected.

(Note 3) “In-licensing candidates” are compounds for which an option investigated is that of obtaining from other companies the rights for development, etc., as the Company’s development candidates.

b) Dependency on a specific customer

As a specialty pharmaceutical company without production facilities, the Company needs to depend on supply of products from other companies when conducting the clinical trials of products under development and in post-marketing sales. Given this fact, the financial position and production conditions of the product supplier may have a significant impact on our financial position, business performance, and cash flow. In pipeline development and marketing, our current business plan is focused on forming alliances with pharmaceutical companies. However, if the partner company's management condition deteriorates drastically or if its management policies change, which are matters beyond our control, our initial business plan may not be realized. Also, if any breach of contract occurs that necessitate the termination of the contract as stipulated by the contract, the alliance may end before the agreed term. In such cases, there may be a significant impact on our financial position, business performance, and cash flow. Normally, in alliance contracts with partner companies, expected revenues of specialty pharmaceutical companies such as SymBio, to be gained before the products reach the market will be a lump sum upon signing the contract, funding for co-development and milestone payment. Of these, the milestone payment is an extremely unstable and unpredictable income as it is based on the attainment of predefined results. If development progress is delayed, there may be a significant impact on our financial position, business performance, and cash flow.

c) Risk concerning intellectual property rights

In our drug development activities, we make use of various intellectual property rights. The use of these rights basically has been granted from other companies such as pharmaceuticals and ventures. However, the possibility remains that our in-licensed candidate compound does not succeed in the pending patent application made by the in-licensing partner.

Moreover, it is difficult to completely avoid a third party creating an intellectual property right that supersedes the intellectual property right to which we have consent of use. These situations could lead to a significant impact on our financial position, business performance, and cash flow. To date, no lawsuit has been filed by a third party against us concerning intellectual property rights, including patents in connection with our product developments. When in-licensing a product, we take advice from lawyers and conduct a thorough due diligence investigation through patent firms in order to reduce such intellectual property risks. Nevertheless, it is difficult to realize full protection from the occurrence of intellectual property right disputes involving the infringement of third-party rights, and these may have a significant impact on our financial position, business performance, and cash flow. The candidate compounds that we in-license are not necessarily protected by patent. On the other hand, even if our candidate compound is not protected by patent, the assignment of the compound for review by the regulatory authorities would virtually restrict the entry of generic drugs during the review period, realizing the monopolistic protection for a certain period of time.

d) Data protection

To reduce the risk of significant confidential information relating to pipeline development and other business activities from leaking outside the company, the Company engages in rigorous data protection. We require directors, Scientific Advisory Board (SAB) (Note 4) members, outsourcing partners, and other business partners to sign confidentiality agreements. Even with the agreement in place, directors, SAB members, outsourcing partners and other business partners may not adhere to confidentiality, and should this occur, significant confidential information may be divulged elsewhere, which may impact our business, financial position, business performance, and cash flow.

(Note 4) The Scientific Advisory Board (SAB) is an important evaluation body at the Company. On the basis of a large number of Japanese and overseas new drug candidates, the SAB exchanges opinions and proposals about a portfolio that covers the risk/balance relationship with respect to medical needs and profitability, from the perspectives of various areas of expertise, discusses these thoroughly, and thus develops a strategy for the development pipeline. The Company convenes two or three SAB meetings per year, and invites Japanese and overseas clinicians and scientists with high-level knowledge, expertise and experience to participate in these as advisers with respect to exploratory research and new drug development.

e) Risk concerning important contracts

If any contracts that might have significant impact on conducting our business operations are terminated due to its reaching full term, being cancelled or for any other reason, there may be a significant impact on our financial condition, business performance, and cash flow.

(iii) Risk associated with organization

a) Risk of being a young company

SymBio is a young company founded in March 2005.Since inception, we have engaged in in-licensing activities of drug development candidate compounds. We built up the pharmaceutical development business from scratch and recorded income from product sales in August 2010 for the first time in our history. There is a possibility that business issues that we have not ever encountered arise in future. At the moment, however, it is difficult to predict any changes in the external environmental factors that may affect our business results. Therefore, we consider our business results for the past years to be inadequate reference material for passing an objective judgment on whether or not our company can continue to grow.

b) Risk of being a small corporation

The Company uses contract research organizations (CRO) in conducting R&D, thereby forming a development framework requiring relatively small staff numbers. With progress in the development of pipeline already in place and with new pipelines of new candidate compounds coming on stream, we plan to increase its human resources in R&D. However, for whatever reason, should an alliance with a CRO become terminated or should we fail to secure the planned number of staff or should the existing staff decide to leave, our business operations may be hampered, leading to a possible impact on our financial position, business performance, and cash flow.

(Note 5) CRO(Contract Research Organization) is an organization that provides outsourcing services to the pharmaceutical companies for their development of drugs without delay. The services include monitoring progress of clinical trial protocols, managing clinical data and others.

c) Dependency on a specific person

Mr. Fuminori Yoshida, the Representative Director, founding President and CEO, has played a key role since the Company's foundation in the implementation and execution of all operations in the company business management. Thus, in the event that Mr. Yoshida cannot continue to perform his corporate responsibilities for some unforeseen reasons, it will have a significant impact on our business operations.

d) The Scientific Advisory Board (SAB)

The Scientific Advisory Board (hereinafter "SAB") is an advisory panel to the president on the in-licensing evaluation of new drug candidates. We invite members of the panel from clinicians and scientists engaged in basic research who we regard as having excellent track records and experience. The SAB meets two or three times a year to engage in active discussion and debate, with each member giving his/her specialist perspective so that a good risk-balanced portfolio can be created from among the vast volume of drug candidates gathered from the worldwide, with due consideration of healthcare needs and profitability. We will continue in our effort to acquire members of excellence for the SAB. However, if difficulty should arise in procuring members, for reasons such as the cancellation of contract with existing members, ending of the term of office or refusal of renewal, or should a brain drain occur, there may be an impact on our in-licensing of drug candidates.

(ix) Business Results

a) Business performance in past years

The Company's key business indicators are given below

Term	5th Term	6th Term	7th Term	8th Term	9th Term
Fiscal Year Ended	December 2009	December 2010	December 2011	December 2012	December 2013
Net sales (thousand yen)	1,191,127	1,449,972	1,882,521	1,955,178	1,532,054
Operating income (loss) (thousand yen)	(208,027)	(612,793)	(2,066,846)	(1,700,273)	(1,680,528)
Ordinary income (loss) (thousand yen)	(214,072)	(638,375)	(2,095,382)	(1,729,480)	(1,601,424)

The Company's net sales up until the 5th Term consisted only of income from alliance contracts (e.g. contract agreement lump sum, milestone payment). From the 6th Term, we have recorded sales deriving from the sale of products. To date, with the exception of the 4th Term, the total R&D expenses and other general administrative expenses exceeded our income, resulting in the posting of operating loss, ordinary loss and net loss. For this reason, we do not consider the financial statements and indicators for past years to provide adequate reference data in making timely comparisons in business performance and in forecasting our future business performance.

b) Expected Increase in R&D Expenditure

The Company's R&D expenses for the past five fiscal years are given below

Term	5th Term	6th Term	7th Term	8th Term	9th Term
Fiscal Year Ended	December 2009	December 2010	December 2011	December 2012	December 2013
R&D expenses (thousand yen)	816,501	1,118,182	1,945,029	1,438,125	1,052,790

The Company intends to further continue R&D activities, which would mean an increase of the cumulative loss for the foreseeable future. With future increases in the product sales revenue from more additional indications of SyB L-0501 and in the income from alliances with pharmaceutical companies, we intend to improve our business performance as soon as possible; however, there is no guarantee that our assumptions will materialize and swift performance improvement seen.

c) Negative balance of retained earnings brought forward

SymBio is a specialty pharmaceutical company. Until the products under development at the clinical stage reach the market so that we can earn stable income through product sales and royalty income, we will post a huge up-front outlay of R&D expenditure. Due to this, except 4th term (2008), we have posted net current losses since our foundation. At the end of

9th Term, the year ended December 31, 2013, we recorded negative balance of 8,751,636 thousand yen as retained earnings carried forward.

We intend to become a profitable business entity as early as possible by advancing our quality clinical programs in a rapid, precise and efficient manner as planned. However, the possibility still exists that profits may not be generated at the time initially planned. Should our business fail to develop as planned and net profits are not generated, we face the possibility of a considerable delay in our negative retained earnings carried forward turning positive.

d) Fund-raising

The nature of the Company's specialty pharmaceutical business means that the Company will require huge R&D funding. If our business plan does not take shape as planned and we suffer a shortfall in funding, we will endeavor to procure funds by changing our strategic alliances, securing new alliance contracts or issuing new stocks. However, if we fail to generate funds exactly when they are required, there may be a serious doubt cast over the continuation of our business operations.

e) Net operating loss carried forward on tax

Net operating loss carried forward on tax exists this year end. For this reason, we are not subject to corporate tax, local inhabitant tax and local enterprise tax at the standard rates and we expect this to continue for several terms into the future.

However, if our business performance makes a good progress in future due to favorable business development, net operating loss carried forward may be removed earlier than anticipated and no longer be applied to the deduction of taxable income. Should this situation occur, we would become liable for the payments of corporate tax, local inhabitant tax and local enterprise tax at standard rates, which may have an impact on net profit/loss and cash flow currently planned.

(v) Other Risks

a) Profit distribution to stockholders

Since the foundation of the Company, dividends have not been distributed. We are currently at a business stage of still making up-front investment into the development of pharmaceutical drugs and we continue to prioritize the use of funds for strengthening our financial position and for continued R&D activities. Thus, we have at present no plans for making dividend payout. However, we recognize that the return of profit to stockholders is an important management issue and will consider profit distribution based on future business performance and financial condition.

b) Procurement of funds

As we rapidly expand our business, we expect to see an increase in our development funding requirement. One of our options for procuring funds is to issue new stocks. If we do so, the number of our outstanding stock will increase, potentially diluting the value per share of our stock.

c) Stock value dilution by execution of stock acquisition rights

We adopt the stock option plan in order to motivate and encourage higher business performance of board directors, employees, and collaborators, and to attract human resources of excellence. In accordance with the Commercial Code of 1890 Article 280-19, 280-20 and 280-21, and Companies Act Article 236, 238, 239 and 240, stock acquisition rights are granted to board directors and employees.

Moreover, the Company made a resolution at the Board of Directors meeting held on December 27, 2012 to issue the first unsecured convertible bond with stock acquisition rights (total issue price: 1 billion yen) and the 29th warrant (total issue price: 5.1 million yen by way of third-party allotment, total issue price of stocks when issued through exercising the stock acquisition rights: 500 million yen). The proceeds from the issuance in the amount of 1,005,100 thousand yen were paid in on January 15, 2013.

As of December 31, 2013, the number of potential dilutive shares from the above-mentioned stock acquisition rights (hereinafter “number of potential shares”) totals 3,444,150 shares and comprises approximately 10.1 % of the total number of outstanding shares and potential shares added together.

There is the possibility that stock value per share for the company will be diluted if these potential shares are exercised in the future. To attract talent, the Company may continue to offer similar incentives. This means that if these stock acquisition rights are exercised in future, the stock value per share of the company may be diluted.

d) Legal risk pertaining to unregistered offering of stock acquisition rights in the past

The Company has granted stock acquisition rights under the stock option plan as long-term incentives for board directors and employees as well as collaborators since the foundation in March 2005.

Stock acquisition rights have been issued since the inception of plan paying special attention to a provision of Securities and Exchange Law of 1948 that board directors and employees are excluded from the calculation of number of persons receiving minority private offering. However, even after Order for Enforcement of the Financial Instruments and Exchange Act Article 2-12 was no longer exempted (the article had purported to exempt the application of the provision that required the exclusion of directors/officers and employees from the calculation of persons receiving small private offerings in case stock acquisition rights were granted to persons other than directors/officers and employees) due to the amendment of Guidance for Corporate Information and Related Disclosure in response to the revision of Financial Instrument and Exchange Act in September 2007, we had continued to issue stock acquisition rights in accordance with the provisions of Securities and Exchange Act 1948 due to the malfunction of internal organizations to collect information regarding revision of laws and ordinances and assess their implications to the Company.

In consequence, it came to light that we had not duly submitted Securities Registration Forms for the stock acquisition rights it had issued in October 2008, March 2009, and March 2010 despite there being legal obligations to do so as the number of persons receiving offers had exceeded 50, making them unregistered offerings prohibited under the laws.

Immediately upon discovery of this lapse, we reported the fact to the Kanto Local Finances Bureau and launched a thorough enquiry into how and why such omission arose, and swiftly submitted the legally required disclosure documents in August 2010. At the date of publication of this document, we have duly filed all the required disclosures.

Furthermore, based on in-house findings concurrently obtained regarding the cause of omission and advice received from external experts, measures to prevent recurrence are formulated and put strictly in effect focusing on the following five objectives: 1. Re-education regarding compliance at the whole company level, 2. Creation of compliance mechanism and internal organization reinforcement, 3. Reinforcement of compliance committee functions, 4. Reinforcement of relations with and active use of external experts, 5. Reinforcement of a system of checks by the board of auditors and internal audit office

We have not received any surcharge payment order related to this incident at the date of publication of this document. Should we receive any surcharge payment order, however, it may have a significant impact on our financial position, business performance, and cash flow.

e) Stock holding by venture capital

In general, venture capitals and investment partnerships own shares for the purpose of realizing capital gains by selling shares after the IPO. There is the possibility that venture capitals and investment partnerships that own our shares may sell all or a portion of our shares they own, and should it occur, it may have an impact on the market price of our share.

f) Risk of loss on foreign exchange

While continuously performing research on drug candidates for new development to expand its pipelines, the Company arranges large amounts of fund procurements by means of deposits denominated in foreign currency or foreign exchange contracts based on the assumption that the deposit payment in US dollars be required upon in-licensing. Where such assets denominated in foreign currency are stated at market value on the financial statements at every year end, there is a risk of loss from fluctuating currency valuation in the future and it may have an impact on our financial position, business performance, and cash flow.

g) Risk associated with natural disasters

If any disasters (earthquake, typhoon, fire, etc.) and plague occur in our geographic business domains, which lead to the occurrence of human and material damage, or suspension and delay in business, fall in social credibility and compensation issues may have an impact on our financial position, business performance, and cash flow.

2. Situation of corporate group

None to be reported.

3. Management policies

(1) Basic policy of company management

SymBio Pharmaceuticals Limited was established in March 2005 by Fuminori Yoshida, who previously served concurrently as Corporate VP of Amgen Inc. (Note 6) (United States) and President of Amgen K.K., a wholly owned subsidiary of Amgen Inc., (currently Takeda Bio Development Center Limited) for 12 years since its founding stage.

We aim to achieve social and management responsibilities by responding to unmet medical needs (Note 7) with guiding principle of mutual harmony, spinning an intricate symbiotic relationship between patients, physicians, scientists, regulators and investors.

We regard underserved therapeutic areas with extremely significant medical needs as a business opportunity and focus on the areas of oncology, hematology, and autoimmune diseases where high entry barriers exist due to the high degree of specialization required. In this sense, we are the first specialty pharmaceutical company (Note 8) in Japan. Rather than exploring blockbuster new drugs (those with the sales of more than 100 billion yen), we channel our resources into the development of new drugs specializing in oncology, hematology, and autoimmune diseases, where medical needs are outstanding though with the limited market size. Holding multiple promising drugs and drug candidates in these areas will enable us to build the solid portfolio of pipelines and continue our business sustainably.

(Note 6) Applied Molecular Genetics, or Amgen Inc., the world's largest company in the biopharmaceutical field, was founded in Thousand Oaks, California, in 1980, and started business in Japan as Amgen K.K. on May 1, 1993. In February 2008, Takeda Pharmaceutical Co., Ltd., obtained 100% of Amgen K.K.'s stocks, and the company name is now "Takeda Bio Development Center Limited"

(Note 7) "Unmet medical needs" means requirements for medical treatment that have not yet been fulfilled. It refers to a situation in which no effective drugs or treatments are currently available, despite strong demand by patients and/or physicians.

(Note 8) "Specialty pharmaceutical company" refers to the company that develops new drugs and has been given a consistently high international evaluation for a particular field of excellence. This is based on the definition in the Ministry of Health, Labor and Welfare's "Vision for the pharmaceutical industry" (2002).

(2) Key performance index

In order to enhance our enterprise value as a specialty pharmaceutical company, it is important to continually in-license candidate drugs under development and proceed with the development to place the products on the market, and establish the sale and support system. To this end, we intend to aggressively make an ongoing investment of management resources into R&D activities.

For the current fiscal year ended, we have recorded the net sales from SyB L-0501 for the first time since the drug was approved for sale in Japan and Singapore in 2010.

However, the product sales have not generated revenue enough to cover the aforementioned upfront investments at this moment and net profit has yet to be realized. We continuously seek the early realization of a system to secure the stable profitability by promoting TREAKISYM® in collaboration with Eisai, actively adding new indications for SyB L-0501, and developing and acquiring an approval for other products in the pipeline.

(3) Pipeline

The Company currently has the following pipeline products under development: SyB L-0501, SyB L-1101 and SyB C-1101. We will continue to in-license new candidate drugs so as to expand and build the pipeline portfolio with the balanced risk-return trade-off.

(i) SyB L-0501

Bendamustine hydrochloride (the generic name), the active pharmaceutical ingredient of SyB L-0501, is an anticancer drug that has been in use for a number of years in Germany under the trade name of Ribomustin for the treatment of non-Hodgkin's lymphoma (Note 9), multiple myeloma, and chronic lymphocytic leukemia. We have elected to in-license this product because there is currently no effective medication for the indications of refractory/relapsed indolent non-Hodgkin's lymphoma and mantle cell lymphoma. These are precisely underserved therapeutic areas aligned with our corporate missions and also fall within one of our targeted therapeutic fields (hematologic cancer). Astellas Deutschland GmbH is the worldwide licensor of bendamustine hydrochloride. In North America, Cephalon, Inc. (United States) is licensed from Astellas Deutschland GmbH and obtained approvals from Food and Drug Administration (FDA) in the United States to use the drug for the treatment of chronic lymphocytic leukemia and refractory B-cell non-Hodgkin's lymphoma in March 2008 and October 2008, respectively. Mundipharma International Corporation Limited (United Kingdom) and Janssen-Cilag (United Kingdom) are also licensed from Astellas Deutschland GmbH and have the exclusive rights for development and marketing for Europe and other regions, respectively. Meanwhile, the Company is licensed from Astellas Deutschland GmbH and has the exclusive rights for development and marketing for Japan, China, South Korea and Singapore. In Japan, the drug received a manufacture and marketing approval with the indications of refractory/relapsed indolent non-Hodgkin's lymphoma and mantle cell lymphoma on October 27, 2010 and came into market under the trade name of TREAKISYM® on December 10, 2010.

In addition, the Company is making progress with development for refractory/relapsed aggressive non-Hodgkin's lymphoma, previously untreated indolent non-Hodgkin's lymphoma, mantle cell lymphoma and chronic lymphocytic leukemia, as new indications. We intend to maximize the commercial value of bendamustine by further promoting life cycle management. Eisai has signed a contract with us, giving it the rights of joint development and exclusive marketing for the Japanese market, and it is currently marketing TREAKISYM®.

In Asia, SyB L-0501 received the approval for the indication of indolent non-Hodgkin's lymphoma and chronic lymphocytic leukemia in Hong Kong in December 2009.In Hong Kong, Cephalon, Inc. has the exclusive rights for development and marketing and sells the drug. In addition, approval for the indications of indolent non-Hodgkin's lymphoma and chronic lymphocytic leukemia was achieved in Singapore in January 2010, and approval for the indications of chronic lymphocytic leukemia and multiple myeloma was achieved in South Korea in May 2011.

In South Korea and Singapore, Eisai has contracts with us, giving it exclusive rights for development and marketing. Eisai launched the product in Singapore and South Korea in September 2010 and October 2011, respectively.

Furthermore, Cephalon, our business partner, is making progress with clinical trials in China, and in Taiwan our business partner InnoPharmax, Inc. (Taiwan), achieved approval on October 18, 2011, followed by the product launch in February 2012.

(Note 9) Non-Hodgkin's lymphoma (NHL) is a cancer of lymphatic system in which lymphocytes develop malignant growths other than Hodgkin's lymphoma. The majority of Japanese patients are suffering from NHL. Antibody therapy with rituximab (Note 10) administered as first-line drug is the standard treatment for NHL. However, there is currently no established therapy for failed or relapsed cases.

(Note 10) Rituximab is an anti-CD20 monoclonal antibody used to treat the indication of CD20-positive B-cell non-Hodgkin lymphoma. The formulation marketed in Japan is 10 mg/mL Rituxan® injection, with manufacturing and marketing by Zenyaku Kogyo Co., Ltd., and sales by Chugai Pharmaceutical Co., Ltd.

(ii) SyB L-1101/ SyB C-1101

The drug with the generic name "rigosertib" has SyB L-1101 as the intravenous formulation, and SyB C-1101 as the oral formulation, and is an anti-cancer agent with a unique type of multi-kinase inhibitory activity (note 11). It is currently being developed in the USA and Europe by a US company, Onconova Therapeutics. Phase III clinical trials on the intravenous formulation are underway for the indication of high-risk, refractory/relapsed MDS, and in 2009 the US Food and Drug Administration designated rigosertib an orphan drug for this indication, and also agreed to special protocol assessment (SPA) (note 12) for the clinical trial protocol.

In addition, Onconova Therapeutics is making progress with development of an oral formulation of rigosertib, and Phase II clinical trials are underway for the indication of low-risk, transfusion-dependent MDS.

In July 2011, the Company signed a license agreement with Onconova Therapeutics, providing us with the exclusive right to develop and commercialize rigosertib in Japan and South Korea. Based on this agreement, we plan to make progress with development of the intravenous rigosertib formulation for the indication of refractory/relapsed MDS, which development is most advanced in the USA and Europe, and subsequently to make progress with development of the oral formulation for the indication of previously untreated MDS. MDS is the pre-pathological state for malignant tumors of blood cells, which have shown increasing numbers of patients in recent years; it frequently affects elderly people; and it is a refractory disease, with a high probability of developing into leukemia. No effective medication is available yet, especially for refractory/relapsed MDS, and it therefore constitutes an underserved therapeutic area.

While Onconova is making steady progress with development, we will look into the option of developing for indications other than MDS. By allocating development of the oral and intravenous formulations to different indications, it is hoped that progress will be made with development of treatment methods that are easy for patients to use, and that place sufficient importance on the need for compliance.

(Note 11) Multi-kinase inhibitors impede the growth, proliferation and metastasis of cancer cells, thereby eradicating them.

(Note 12) SPA is a declaration from FDA after the end of Phase II clinical trials that an uncompleted Phase III clinical trial's design, indications, clinical endpoints, valuation items, and statistical analyses agreed upon at the pre-Phase III meeting are acceptable for FDA approval. New drug licensing application utilizing this scheme facilitates the evaluation and approval by FDA and enhances the possibility of secure product launch in the market because FDA already completes the considerations of the contents of Phase III clinical trials in advance.

(4) Medium to Long-term strategy

The Company is pursuing primarily the following five strategies in order to achieve our Long Range Plan (LRP).

(i) De-risking by post-POC strategy

We in-license drug candidates for which POC (proof of concept) is already confirmed on human subjects in principles. Accordingly, they should be the drugs that are in a relatively late stage of clinical development or already on the market overseas. The advanced development is already conducted overseas for these drug candidates and their efficacy and safety are already confirmed on human subjects, thereby reducing the development risk. We utilize existing clinical data available overseas so as to compress development timelines, reduce the development costs, and increase the likelihood of regulatory approvals in Japan and Asian markets.

(ii) Building high-quality pipeline with exceptional search and evaluation capabilities

Our new drug search engine is connected to the diverse networks with pharmaceutical companies and bio ventures, and enables us to select promising drug candidates from the vast amount of chemical compounds after the careful review by internal experts. Using their wealth of experience at the forefront of research and development, Scientific Advisory Board (SAB) members carefully evaluate and render final judgment on each drug candidate. The highly established screening process up to the final selection of drug candidate, coupled with the post-POC strategy, reduces the development risk and compresses the timelines. It also helps to understand how satisfactorily the healthcare needs are met and to improve the accuracy of revenue projections after the product launch.

(iii) Containment of fixed costs by laboless/fabless strategy

The Company does not own any research or production facilities, which are often regarded as the main causes for fixed costs. Once development candidate compounds are searched and selected, we focus on value-added activities such as the formulation and implementation of development strategy and outsource other necessary routines. This enables us to reduce development costs of pharmaceutical drugs and secure the mobility of financial strategy.

(iv) Realization of high business efficiency by “Blue Ocean strategy” (Note 13)

There are many cases that the standard drug used overseas cannot be prescribed in Japan or a new drug is launched in Japan five years behind its initial approval overseas. This problem is called “drug lag” and becoming aggravated, and the term like “cancer patient refugee” has been created. The drag lug is conspicuous in our strategic therapeutic areas of oncology, hematology, and autoimmune diseases. The market of anticancer drugs is huge and still continues to grow with the population being aged. However, anticancer drugs have a wide range of indications and they are fragmented by type of cancer. There is only the limited number of patients in some therapeutic areas depending on type of cancer. Extremely high degree of specialization is required for the development of anticancer drugs in these therapeutic areas, which are often financially unattractive for larger pharmaceutical companies to pursue despite the high degree of development difficulty. This partially accounts for the causes for drug lag. Contrarily, once a new drug succeeds in receiving an approval and reaching the market for these therapeutic areas, we would be able achieve a superior growth and profitability due to the lack of fierce competition by continuously expanding the indications and bringing new products into the market.

(Note 13) “Blue Ocean strategy” means a strategy of redefining the market, avoiding marketplaces where there is fierce competition to snatch pieces of a finite market-share “pie”, termed “red oceans”, and instead creating a “blue ocean”, which is a competition-free, entirely unexploited market, enabling profits to be maximized while providing customers with high-value products and services.

(v) Expanding Business in Asia Pacific Countries

Significant growth in medical needs and increasing demand for higher quality therapeutic options are expected in Asian countries as they continue to undergo rapid economic development. Similar to in Japan, the trend observed is that the development of new drugs is stagnant with the population being rapidly aging in these countries. Indications in oncology, hematology, and autoimmune diseases are emerging as areas of unmet medical needs with rising demand for effective therapies. We secure the rights to manufacture and commercialize anticancer drugs SyB L-0501 and SyB L-1101/SyB C-1101 in Asian countries not only in Japan.

(5) Issues to be solved by the Company

The Company will solve the following important issues:

(i) Further expansion of pipeline

In order to enhance the enterprise value as a specialty pharmaceutical company, we need to expand the pipeline through continually in-licensing of new candidate drugs for development.

Clinical trials are underway for our products: SyB L-0501 (anti-cancer drug), SyB L-1101 (the intravenous formulation)/C-1101 (the oral formulation). We continue with ongoing efforts to in-license new products in order to expand our pipeline. In addition, progress is currently being made with evaluation of several new candidate products.

(ii) Pursuit of life cycle management of TREAKISYM® (SyB L-0501) and rigosertib (SyB L-1101/ SyB C-1101)

In order to enhance the enterprise value, it is critical to maximize returns from each drug under development by adding new indications for developed drugs after their initial introduction in pursuit of life cycle management.

TREAKISYM® has received the approval for manufacture and marketing with the approved indications of refractory/relapsed indolent non-Hodgkin’s lymphoma and refractory/relapsed mantle cell lymphoma. For additional indications, Phase II clinical trials were completed for refractory/relapsed aggressive non-Hodgkin's lymphoma, and Phase II clinical trials are underway for untreated indolent non-Hodgkin's lymphoma, untreated mantle cell lymphoma and untreated chronic lymphocytic leukemia. Progress is being made with development of intravenous and oral rigosertib formulations for the indication of myelodysplastic syndrome. No useful therapeutic agents are currently available for this indication, so it is an area with very high unmet medical needs.

The aim for the future is to maximize the value of TREAKISYM® and rigisertib by further expansion of indications and by following through with life-cycle management.

(iii) Expansion to other Asian regions

The Company positions China, South Korea, Taiwan, and Singapore as our important strategic geographic domains in addition to Japan. In these areas, high growth in economy and medical needs is expected and we consider that these areas will assume increasing importance in our corporate strategy.

Among our pipelines, we plan to develop and market SyB L-0501 in China, South Korea, Taiwan, and Singapore as well as Japan. It is established by the result of market survey that significant medical needs exist for SyB L-0501 in these countries. We also plan to develop and market SyB L-1101/ SyB C-1101 in South Korea other than Japan and currently consider submitting the application for approval in South Korea. We will aggressively launch clinical trials on these drugs and apply for marketing approvals in these Asian countries.

(iv) Securing people

The Company places the highest priority on people as the company management resource. We cannot make superior achievements in exploring and developing new drugs without talent. We have been continually recruiting talented people, especially after going public, we have recruited the best and brightest people in order to strengthen the management organization. Going forward, we plan to further strengthen our human resources by providing development programs such as OJT and other trainings.

(v) Financial issue

It is necessary for the Company to raise funds required for business activities such as R&D expenditures as the pipeline development progresses and the number of drug candidates increases. Therefore, we make every effort to strengthen the financial base by continually diversifying the method for fund procurement and reducing costs through and thorough budget control.

(6) Other important matters concerning the Company’s management

(i) Capital increase through a public offering and a third-party allotment

The Company made a resolution on November 19, 2013 regarding the issuance of new shares and the secondary offering of the Company’s shares through a public offering and a third-party allotment in order to secure funds necessary for R&D activities. The proceeds of 2,503,744 thousand and 321,118 thousand had been paid in on December 4, 2013 and December 25, 2013, respectively.

4. Financial statements

(1) Balance sheets

(Unit: thousands of yen)

	FY 2012 (as of December 31, 2012)	FY 2013 (as of December 31, 2013)
Assets		
Current assets		
Cash and deposits	4,540,022	6,163,231
Accounts receivable-trade	148,081	—
Marketable securities	300,000	1,100,270
Merchandise and finished goods	164,571	125,056
Supplies	320	173
Prepaid expenses	98,192	64,306
Advances paid	99,036	87,862
Consumption taxes receivable	39,495	32,552
Forward exchange contracts	21,385	52,438
Other	9,517	8,072
Total current assets	5,420,623	7,633,962
Noncurrent assets		
Property, plant and equipment		
Buildings	7,705	7,705
Accumulated depreciation	(5,067)	(5,260)
Buildings, net	2,637	2,444
Tools, furniture and fixtures	33,921	33,921
Accumulated depreciation	(22,837)	(27,733)
Tools, furniture and fixtures, net	11,084	6,187
Total property, plant and equipment	13,721	8,632
Intangible assets		
Software	8,324	5,898
Lease assets	2,540	1,891
Total intangible assets	10,864	7,789
Investments and other assets		
Long-term prepaid expenses	27,646	9,427
Lease and guarantee deposits	29,334	27,135
Total investments and other assets	56,980	36,562
Total noncurrent assets	81,567	52,985
Total assets	5,502,190	7,686,947

(Unit: thousands of yen)

	FY 2012 (as of December 31, 2012)	FY 2013 (as of December 31, 2013)
Liabilities		
Current liabilities		
Accounts payable-trade	329,768	—
Lease obligations	673	682
Accounts payable-other	195,833	207,134
Income taxes payable	15,588	22,554
Other	56,662	20,569
Total current liabilities	598,527	250,941
Noncurrent liabilities		
Lease obligations	2,017	1,334
Provision for retirement benefits	1,688	1,675
Total noncurrent liabilities	3,705	3,009
Total liabilities	602,232	253,950
Net assets		
Shareholders' equity		
Capital stock	6,024,610	8,058,860
Capital surplus		
Legal capital surplus	5,994,610	8,028,860
Total capital surplus	5,994,610	8,028,860
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(7,146,411)	(8,751,636)
Total retained earnings	(7,146,411)	(8,751,636)
Treasury stock	(17)	(17)
Total shareholders' equity	4,872,790	7,336,067
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	—	167
Total valuation and translation adjustments	—	167
Stock acquisition rights	27,167	96,761
Total net assets	4,899,957	7,432,996
Total liabilities and net assets	5,502,190	7,686,947

(2) Statements of operations

(Unit: thousands of yen)

	FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
Net sales		
Net sales of goods	1,955,178	1,432,054
Rights income	—	100,000
Total net sales	1,955,178	1,532,054
Cost of sales		
Beginning goods	207,467	164,571
Cost of purchased goods	1,321,514	1,175,305
Purchase allowance and returns	—	759
Total	1,528,982	1,339,117
Transfer to other account *3	2,211	—
Ending goods	164,571	125,056
Cost of goods sold	1,362,199	1,214,061
Gross profit	592,979	317,993
Selling, general and administrative expenses *1, 2, 3	2,293,253	1,998,522
Operating loss	(1,700,273)	(1,680,528)
Non-operating income		
Interest income	1,585	7,030
Interest on securities	3,353	3,003
Foreign exchange gain	—	97,593
Insurance and dividends income	1,122	1,104
Other	1,247	5,733
Total non-operating income	7,309	114,467
Non-operating expenses		
Interest expenses	137	31
Commission fee	10,829	10,734
Stock issuance cost	—	23,383
Bond-issue expenses	9,473	100
Foreign exchange loss	15,755	—
Other	320	1,113
Total non-operating expenses	36,516	35,363
Ordinary loss	(1,729,480)	(1,601,424)
Extraordinary loss		
Loss on retirement of noncurrent assets *4	39	—
Total extraordinary losses	39	—
Loss before income taxes	(1,729,520)	(1,601,424)
Income taxes-current	3,800	3,800
Total income taxes	3,800	3,800
Net loss	(1,733,320)	(1,605,224)

(3) Statements of changes in net assets

FY 2012 (from January 1, 2012 to December 31, 2012)

(Unit: thousands of yen)

	Shareholders' equity						
		Capital surplus		Retained earnings			
	Capital stock	Legal capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	6,024,610	5,994,610	5,994,610	(5,413,091)	(5,413,091)	(17)	6,606,110
Changes of items during the year							
Net loss				(1,733,320)	(1,733,320)		(1,733,320)
Net changes of items other than shareholders' equity							
Total changes of items during the year	—	—	—	(1,733,320)	(1,733,320)	—	(1,733,320)
Balance at the end of the year	6,024,610	5,994,610	5,994,610	(7,146,411)	(7,146,411)	(17)	4,872,790

(Unit: thousands of yen)

	Valuation and translation adjustments		Stock acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of the year	(546)	(546)	—	6,605,564
Changes of items during the year				
Net loss				(1,733,320)
Net changes of items other than shareholders' equity	546	546	27,167	27,713
Total changes of items during the year	546	546	27,167	(1,705,606)
Balance at the end of the year	—	—	27,167	4,899,957

FY 2013 (from January 1, 2013 to December 31, 2013)

(Unit: thousands of yen)

	Shareholders' equity						
		Capital surplus		Retained earnings			
	Capital stock	Legal capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	6,024,610	5,994,610	5,994,610	(7,146,411)	(7,146,411)	(17)	4,872,790
Changes of items during the year							
Issuance of new shares	2,034,250	2,034,250	2,034,250				4,068,501
Net loss				(1,605,224)	(1,605,224)		(1,605,224)
Net changes of items other than shareholders' equity							
Total changes of items during the year	2,034,250	2,034,250	2,034,250	(1,605,224)	(1,605,224)	—	2,463,276
Balance at the end of the year	8,058,860	8,028,860	8,028,860	(8,751,636)	(8,751,636)	(17)	7,336,067

(Unit: thousands of yen)

	Valuation and translation adjustments		Stock acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of the year	—	—	27,167	4,899,957
Changes of items during the year				
Issuance of new shares				4,068,501
Net loss				(1,605,224)
Net changes of items other than shareholders' equity	167	167	69,594	69,761
Total changes of items during the year	167	167	69,594	2,533,038
Balance at the end of the year	167	167	96,761	7,432,996

(4) Statements of cash flows

(Unit: thousands of yen)

	FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
Net cash provided by (used in) operating activities		
Loss before income taxes	(1,729,520)	(1,601,424)
Depreciation	8,560	8,163
Amortization of guarantee deposits	1,444	1,829
Share-based compensation expenses	27,167	66,534
Increase (decrease) in provision for retirement benefits	(404)	(13)
Interest income	(4,938)	(10,034)
Interest expenses	137	31
Gain on sale of marketable securities	―	(5,354)
Foreign exchange losses (gains)	1,630	(37,733)
Stock issuance cost	―	23,383
Commission fee	10,829	10,734
Loss on retirement of noncurrent assets	39	―
Decrease (increase) in accounts receivable-trade	14,328	148,081
Decrease (increase) in inventories	42,575	39,662
Decrease (increase) in prepaid expenses	(19,183)	32,751
Decrease (increase) in advances paid	25,552	11,174
Decrease (increase) in consumption taxes receivable	30,076	6,943
Decrease (increase) in other current assets	(6,835)	(26,743)
Decrease (increase) in long-term prepaid expenses	(3,346)	18,219
Increase (decrease) in accounts payable-trade	20,814	(329,768)
Increase (decrease) in accounts payable-other	(82,105)	2,037
Increase (decrease) in advances received	(1,382)	―
Increase (decrease) in other current liabilities	15,458	(29,221)
Other	291	100
Subtotal	(1,648,808)	(1,670,646)
Interest and dividends income received	4,917	6,729
Commitment fees paid	(10,800)	(9,600)
Interest expenses paid	(96)	(31)
Income taxes paid	(3,800)	(3,800)
Net cash provided by (used in) operating activities	(1,658,588)	(1,677,348)
Net cash provided by (used in) investing activities		
Decrease (increase) in time deposits	(300,000)	(1,138,419)
Proceeds from withdrawal of time deposits	―	600,000
Purchase of marketable securities	(300,000)	(2,399,205)
Proceeds from redemption of securities	200,000	1,100,000
Proceeds from sale of marketable securities	―	505,000
Purchase of property, plant and equipment	(1,858)	―
Purchase of intangible assets	(1,190)	―
Payments for lease and guarantee deposits	(8,105)	―
Proceeds from collection of lease and guarantee deposits	590	370
Net cash provided by (used in) investing activities	(410,563)	(1,332,254)

(Unit: thousands of yen)

	FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
Net cash provided by (used in) financing activities		
Proceeds from issuance of stock resulting from exercise of stock acquisition rights	—	241,598
Proceeds from issuance of bonds with stock acquisition rights	—	1,000,000
Proceeds from issuance of stock acquisition rights	—	5,100
Payments for issuance of common stock	—	(14,119)
Proceeds from issuance of common stock	—	2,824,862
Repayments for lease obligations	(719)	(682)
Other payments	—	(100)
Net cash provided by (used in) financing activities	(719)	4,056,658
Effect of foreign exchange rate change on cash and cash equivalents	(1,084)	7,059
Net increase (decrease) in cash and cash equivalents	(2,070,956)	1,054,115
Cash and cash equivalents at the beginning of the year	6,310,978	4,240,022
Cash and cash equivalents at the end of the year *	4,240,022	5,294,137

(5) Events and conditions with indicate there could be substantial doubt about going concern assumption

None to be reported.

(6) Significant accounting policies

1. Valuation basis and method of marketable and investment securities
   Available-for-sale securities with determinable market value
   Available-for-sale securities with a determinable market value are stated at fair value with any changes in unrealized holding gain or loss, net of applicable income taxes, included directly in shareholders' equity. Cost of securities sold is calculated by the moving average method.
   Available-for-sale securities without determinable market value
   Available-for-sale securities without determinable market value are stated at cost determined by the moving average method.

2. Valuation basis and method of derivative transactions
   Derivative financial instruments are stated at fair value.

3. Valuation basis and method of inventories
   Inventories held for the purpose of ordinary sale are measured at lower of cost determined by the weighted-average method or net selling value.

4. Depreciation of property, plant and equipment
   (1) Property, plant and equipment (excluding lease assets)
   Depreciation of property, plant and equipment is computed by the straight-line method.
   The useful lives of major property, plant and equipment are summarized as follows:

Buildings	2 to 18 years
Tools, furniture and fixtures	4 to 10 years

   (2) Intangible assets (excluding lease assets)
   Amortization of intangible assets is computed by the straight-line method.
   Capitalized software costs are being amortized over the period of the internal use of 5 years.
   (3) Lease assets
   Depreciation of lease assets is computed by the straight-line method over the lease term with no residual value.

5. Deferred assets
   (1) Stock issuance costs are charged to income as incurred.
   (2) Bond-issue expenses are charged to income as incurred.

6. Foreign currency translation
   Monetary assets and liabilities denominated in foreign currencies are translated into yen at the spot exchange rates prevailing at the balance sheet dates, and resulting gains or losses are credited or charged to income.

7. Basis for reserves and provisions
   (1) Allowance for doubtful accounts
   The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.
   For FY2013, no allowance for doubtful accounts is provided due to no historical experience of bad debt and no receivable balances that are deemed uncollectible.
   (2) Provision for retirement benefits
   The provision for retirement benefits is provided at an amount to be required as of the balance sheet date.

8. Cash and cash equivalents in the statements of cash flows
   Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less that can easily be converted to cash and are subject to little risk of change in value.

9. Other significant basis for the preparation of financial statements
Accounting for consumption tax
Transactions are recorded at amounts exclusive of consumption tax.

(This part is intentionally left blank)

(7) Notes to financial statements

(Balance sheets)

1. The Company has overdraft and commitment line contracts with three banks in a business relationship to efficiently procure working capital. The status of the bank overdraft and loan commitments based on these contracts at the end of each fiscal year is as follows:

(Unit: thousands of yen)

	FY 2012 (as of December 31, 2012)	FY 2013 (as of December 31, 2013)
Total amounts of bank overdraft limit and loan commitment line	1,350,000	1,350,000
Balance of borrowing outstanding	—	—
Unused balance	1,350,000	1,350,000

(Statements of operations)

* 1 Selling expense ratio is roughly 2.1% and 1.5% for FY 2012 and FY 2013, respectively, and administrative expense ratio is roughly 97.9% and 98.5 % for FY 2012 and FY 2013, respectively.
Major expense items and amounts are as follows.

(Unit: thousands of yen)

	FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
Directors' compensation	106,108	124,067
Salaries	305,679	316,434
Retirement benefit expenses	921	811
Research and development expenses	1,438,125	1,052,790
Depreciation expenses	6,990	6,639

* 2 Total amounts of research and development expenses included in general and administrative expenses

(Unit: thousands of yen)

FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
1,438,125	1,052,790

* 3 Details of transfer to other accounts are as follows.

(Unit: thousands of yen)

	FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
Selling, general and administrative expenses	2,211	—

* 4 Details of loss on retirement of noncurrent assets are as follows.

(Unit: thousands of yen)

	FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
Software	39	—

(Statements of changes in net assets)

FY 2012 (from January 1, 2012 to December 31, 2012)

1. Shares issued and outstanding / Treasury stock

(Unit: number of shares)

	At the beginning of the fiscal year	Increase	Decrease	At the end of the fiscal year
Shares issued				
Common stock	19,130,900	—	—	19,130,900
Total	19,130,900	—	—	19,130,900
Treasury stock				
Common stock	75	—	—	75
Total	75	—	—	75

2. Stock acquisition rights and treasury acquisition rights

Company	Description	Type of shares to be issued	Number of shares to be issued				Balance as of December 31, 2012 (thousands of yen)
			At the beginning of the fiscal year	Increase	Decrease	At the end of the fiscal year	
The Company	Stock acquisition rights as stock options	—	—	—	—	—	27,167
Total			—	—	—	—	27,167

(Note) The information about type of shares to be issued and the number of shares to be issued is described in “Stock options.”

3. Dividends

None to be reported.

FY 2013 (from January 1, 2013 to December 31, 2013)

1. Shares issued and outstanding / Treasury stock

(Unit: number of shares)

	At the beginning of the fiscal year	Increase	Decrease	At the end of the fiscal year
Shares issued				
Common stock	19,130,900	11,503,357	—	30,634,257
Total	19,130,900	11,503,357	—	30,634,257
Treasury stock				
Common stock	75	—	—	75
Total	75	—	—	75

(Note) The increase in common stock of 11,503,357 shares consisted of: (i) an increase of 3,921,257 shares due to exercise of stock acquisition rights, (ii) an increase of 6,720,200 shares due to issuance of new shares through the public offering and (iii) an increase of 861,900 shares due to issuance of new shares through the third party allotment.

2. Stock acquisition rights and treasury acquisition rights

Company	Description	Type of shares to be issued	Number of shares to be issued				Balance as of December 31, 2013 (thousands of yen)
			At the beginning of the fiscal year	Increase	Decrease	At the end of the fiscal year	
The Company	Stock acquisition rights as stock options	Common stock	—	—	—	—	93,701
Total			—	—	—	—	93,701

(Note) The information about type of shares to be issued and the number of shares to be issued is described in "Stock options."

3. Dividends

None to be reported.

(Statements of cash flows)

* Cash and cash equivalents as of the fiscal year end are reconciled to the accounts reported in the balance sheets as follows:

(Unit: thousands of yen)

	FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
Cash and deposits	4,540,022	6,163,231
Marketable securities	300,000	1,100,270
Time deposits with maturities of more than three months	(300,000)	(869,093)
Debt securities with a remaining maturity in excess of three month	(300,000)	(1,100,270)
Cash and cash equivalents	4,240,022	5,294,137

(Lease transactions)

Finance lease transaction

Finance lease transactions other than those which transfer the ownership of leased property

(1) Description of lease assets

Intangible assets ---Software

(2) Depreciation and amortization of lease assets

Depreciation and amortization of lease assets is described in significant accounting policies "4. Depreciation of property, plant and equipment."

(Financial instruments)

1. Financial instruments

(1) Policies for financial instruments

The Company procures the funds necessary in light of the pipeline development plan (primarily by third-party allotment and offering by new stock issuance). Temporary surplus fund is invested in financial instruments which are highly safe and liquid.

As a principle, the Company does not enter into derivative transactions for speculative trading purpose but uses them within the scope prescribed in the internal rules.

(2)Types of financial instruments and related risks

Operating receivables such as accounts receivable-trade and advances paid in connection with joint development are exposed to credit risk of customers and joint development partners. Operating receivables denominated in foreign currencies are exposed to foreign exchange fluctuation risk.

The Company intends to invest in marketable and investment securities which have relatively low risk of falling below initial investments. However, it might carry a finite risk.

Operating payables such as accounts payable-trade and accounts payable-other are mostly due within two months. Operating payables denominated in foreign currencies are exposed to foreign exchange fluctuation risk.

The Company uses derivative transactions to avoid foreign exchange fluctuation risks and enters into forward exchange contracts within the scope prescribed in the internal rules based on balances of receivables and payables denominated in foreign currencies as well as actual volume of exports and imports transactions denominated in foreign currencies.

Lease and guarantee deposits are mostly security deposits related to rented office premises and their refunds are subject to the credit risk of the lessor.

Lease obligations are associated with the finance lease transactions that intend to finance capital expenditures and the longest maturity of lease term is 3 years after December 31, 2013.

(3)Risk management for financial instruments

(i) Monitoring of credit risks (the risk that customers or counterparties may default)

In accordance with the internal credit policies for managing credit risk arising from operating receivables, the Company’s marketing department periodically monitors the credit worthiness of major customers and monitors due dates and outstanding balances by individual customer. In addition, the Company is making efforts to promptly identify and mitigate risks of bad debts from customers who are having financial difficulties.

The Company enters into derivative transactions only with financial institutions which have a sound credit profile in order to mitigate the counterparty risk.

(ii) Monitoring of market risk (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

The Company deposits cash primarily with financial institutions with high credit ratings.

For marketable and investment securities, the Company intends to avoid risks of falling below initial investments by investing in securities with the satisfactory credit rating and investment period in accordance with the internal investment policies.

The Company enters into forward exchange contracts in order to avoid foreign exchange fluctuation risks in connection with receivables and payables denominated in foreign currencies.

Followed by appropriate authorization procedures prescribed in the internal rules, Finance & Accounting, Corporate Planning Group executes and monitors derivative transactions. Monthly transaction performances are reported to the executive management committee.

(iii) Monitoring of liquidity risks (the risk that the Company may not be able to meet its obligations on scheduled due date)

Based on the report from each department, the responsible department of the Company prepares and updates its cash flow plans on a timely basis and ensures to maintain liquidity on hand to manage liquidity risk.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in notes to “Derivative transactions” are not necessarily indicative of the actual market risk involved in derivative transactions.

(5) Concentration of credit risk

As of December 31, 2013, all operating receivables are from one particular major customer.

2. Fair value of financial instruments

Carrying value on the balance sheets, fair values and their differences are as follows. The financial instruments whose fair value is extremely difficult to determine are not included. (See (Note) 2.)

FY 2012 (as of December 31, 2012)

(Unit: thousands of yen)

	Carrying value	Fair value	Differences
(1) Cash and deposits	4,540,022	4,540,022	－
(2) Accounts receivable-trade	148,081	148,081	－
(3) Marketable securities	300,000	300,000	－
(4) Advances paid	99,036	99,036	－
(5) Consumption taxes receivable	39,495	39,495	－
Assets, total	5,126,635	5,126,635	－
(1) Accounts payable-trade	329,768	329,768	－
(2) Lease obligations (current)	673	678	4
(3) Accounts payable-other	195,833	195,833	－
(4) Income taxes payable	15,588	15,588	－
(5) Lease obligations (non-current)	2,017	2,023	5
Liabilities, total	543,882	543,892	10
Derivative transactions, total (*1)	21,385	21,385	－

(* 1) Net assets and liabilities arising from derivative transactions are presented on a net basis.

FY 2013 (as of December 31, 2013)

(Unit: thousands of yen)

	Carrying value	Fair value	Differences
(1) Cash and deposits	6,163,231	6,163,231	—
(2) Accounts receivable-trade	—	—	—
(3) Marketable securities	1,100,270	1,100,270	—
(4) Advances paid	87,862	87,862	—
(5) Consumption taxes receivable	32,552	32,552	—
Assets, total	7,383,915	7,383,915	—
(1) Accounts payable-trade	—	—	—
(2) Lease obligations (current)	682	683	0
(3) Accounts payable-other	207,134	207,134	—
(4) Income taxes payable	22,554	22,554	—
(5) Lease obligations (non-current)	1,334	1,334	0
Liabilities, total	231,706	231,707	0
Derivative transactions, total (*1)	52,438	52,438	—

(* 1) Net assets and liabilities arising from derivative transactions are presented on a net basis.

(Note)

1. Fair value measurement of financial instruments and other matters related to securities and derivative transactions

Assets

(1) Cash and deposits, (2) Accounts receivable-trade, (4) Advances paid and (5) Consumption taxes receivable

The carrying value is deemed as the fair value since these are scheduled to be settled in a short period of time.

(3) Marketable securities

The fair value of debt securities is based on the quoted price obtained from financial institutions. See notes to “Marketable and investment securities” for notes pertaining to securities by holding purpose.

Liabilities

(1) Accounts payable-trade, (3) Accounts payable-other and (4) Income taxes payable

The carrying value is deemed as the fair value since these are scheduled to be settled in a short period of time.

(2) Lease obligations (current) and (5) Lease obligations (non-current)

The fair value of lease obligations, that is determined at present value calculated by discounting total amounts of principle and interests at a presumable rate used for similar new lease transactions.

Derivative transactions

See notes to “Derivative transactions.”

2. Financial instruments whose fair value is extremely difficult to determine

(Unit: thousands of yen)

	FY 2012 (as of December 31, 2012)	FY 2013 (as of December 31, 2013)
Lease and guarantee deposits	29,334	27,135

Lease and guarantee deposits are not included in above tables since no market quote is available and their fair value is extremely difficult to determine.

3. The redemption schedule for monetary assets and securities with maturities

FY 2012 (as of December 31, 2012)

(Unit: thousands of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	4,539,915	—	—	—
Accounts receivable-trade	148,081	—	—	—
Securities				
Available-for-securities with maturities				
Debt securities				
(1) Others	300,000	—	—	—
Advances paid	99,036	—	—	—
Total	5,087,032	—	—	—

FY 2013 (as of December 31, 2013)

(Unit: thousands of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	6,163,194	—	—	—
Securities				
Available-for-securities with maturities				
Debt securities				
(1) Corporate bond	499,940	—	—	—
Other	600,330	—	—	—
Advances paid	87,862	—	—	—
Total	7,351,326	—	—	—

4. Maturities of lease obligations after the fiscal year end

FY 2012 (as of December 31, 2012)

(Unit: thousands of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Lease obligations (current)	673	—	—	—	—	—
Lease obligations (non-current portion)	—	682	692	642	—	—
Total	673	682	692	642	—	—

FY 2013 (as of December 31, 2013)

(Unit: thousands of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Lease obligations (current)	682	—	—	—	—	—
Lease obligations (non-current)	—	692	642	—	—	—
Total	682	692	642	—	—	—

(Marketable and investment securities)

1. Available-for-sale securities

FY 2012 (as of December 31, 2012)

(Unit: thousands of yen)

	Type	Carrying value	Acquisition cost	Difference
Carrying value does not exceed the acquisition cost	(1)Equity securities	—	—	—
	(2)Debt securities			
	(a) Government and municipal bond	—	—	—
	(b) Corporate bond	—	—	—
	(c) Other	300,000	300,000	—
	(3)Other	—	—	—
	Total	300,000	300,000	—

FY 2013 (as of December 31, 2013)

(Unit: thousands of yen)

	Type	Carrying value	Acquisition cost	Difference
Carrying value exceeds the acquisition cost	(1)Equity securities	—	—	—
	(2)Debt securities			
	(a) Government and municipal bond	—	—	—
	(b) Corporate bond	—	—	—
	(c) Other	—	—	—
	(3)Other	600,330	600,000	330
	Total	600,330	600,000	330
Carrying value does not exceed the acquisition cost	(1)Equity securities	—	—	—
	(2)Debt securities			
	(a) Government and municipal bond	—	—	—
	(b) Corporate bond	499,940	500,000	(60)
	(c) Other	—	—	—
	(3)Other	—	—	—
	Total	499,940	500,000	(60)

2. Available-for-sale securities sold

FY 2012 (from January 1, 2012 to December 31, 2012)

(Unit: thousands of yen)

Type	Proceeds	Realized gains	Realized losses
(1)Equity securities	－	－	－
(2)Debt securities			
(a) Government and municipal bond	－	－	－
(b) Corporate bond	－	－	－
(c) Other	－	－	－
(3)Other	1,853,428	－	－
Total	1,853,428	－	－

FY 2013 (from January 1, 2013 to December 31, 2013)

(Unit: thousands of yen)

Type	Proceeds	Realized gains	Realized losses
(1)Equity securities	－	－	－
(2)Debt securities			
(a) Government and municipal bond	－	－	－
(b) Corporate bond	505,000	5,354	－
(c) Other	－	－	－
(3)Other	－	－	－
Total	505,000	5,354	－

(Derivative transactions)

1. Derivative transactions to which hedge accounting is not applied
Currency-related transaction

FY 2012 (as of December 31, 2012)

(Unit: thousands of yen)

Classification	Type	Notional amount	Portion due after one year included herein	Fair value	Unrealized gain
OTC transactions	Forward exchange contract				
	Buy				
	Euro	242,027	－	21,385	21,385
Total		242,027	－	21,385	21,385

(Note) Fair value measurement
The fair value is measured based on the quoted prices obtained from financial institutions with business relationship.

FY 2013 (as of December 31, 2013)

(Unit: thousands of yen)

Classification	Type	Notional amount	Portion due after one year included herein	Fair value	Unrealized gain
OTC transactions	Forward exchange contract				
	Buy				
	US dollar	81,004	—	3,260	3,260
	Euro	635,710	—	49,177	49,177
Total		716,714	—	52,438	52,438

(Note) Fair value measurement

The fair value is measured based on the quoted prices obtained from financial institutions with business relationship.

2. Derivative transactions to which hedge accounting is applied

None to be reported.

(Retirement benefits)

1. Outline of retirement benefit plans

The Company has adopted a lump-sum payment plan as a defined benefit plan and a defined contribution pension plan as a defined contribution plan.

2. Retirement benefit obligation

(Unit: thousands of yen)

	FY 2012 (as of December 31, 2012)	FY 2013 (as of December 31, 2013)
(1) Retirement benefit obligation	(1,688)	(1,675)
(2) Provision for retirement benefits	(1,688)	(1,675)

(Note) The simplified method is applied to calculate amounts of retirement benefit obligation. That is, the amounts shown as retirement benefit obligation are the payments required for voluntary retirement as of each fiscal year end.

3. Retirement benefit expenses

(Unit: thousands of yen)

	FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
Retirement benefit expenses	2,133	2,091
(1) Service costs	311	224
(2) Contribution made for defined contribution pension plan	1,822	1,867

4. Assumption used in accounting for retirement benefit obligation

Actuarial assumption is omitted since the Company applies the simplified method.

(Stock options)

1. The account name and the amount of stock options charged as expenses

(Unit: thousands of yen)

	FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
Selling, general and administrative expenses	27,167	66,534

2. Description of stock options/ Changes in the size of stock options

(1) Description of stock options

	The 1st Series	The 2nd Series
Individuals covered by the plan and number of persons granted	Directors of the Company 3 Auditor & supervisory board member of the Company 1 Employees of the Company 6 External collaborators 12 Total 22	External collaborator 1
Class and number of shares to be issued upon the exercise of the stock option	Common stock 390,000 shares	Common stock 2,000 shares
Grant date	June 20, 2005	June 22, 2005
Vesting condition	1. The persons granted must be in a status of the Company's director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the person granted retires due to the expiry of her/his term or the compulsory retirement, if otherwise the board of directors approves, or if the person granted is an external collaborator. 2. The Company's stock must be listed on a stock exchange.	Same as on the left
Vesting period	Vesting period is not fixed.	Same as on the left
Exercise period	From June 21, 2007 to June 20, 2015	From June 23, 2007 to June 22, 2015

	The 5th Series	The 6th Series
Individuals covered by the plan and number of persons granted	Directors of the Company 1 Employees of the Company 16 External collaborators 1 Total 18	Auditors & supervisory board members of the Company 1 Employees of the Company 3 External collaborators 6 Total 10
Class and number of shares to be issued upon the exercise of the stock option	Common stock 117,000 shares	Common stock 45,000 shares
Grant date	January 31, 2006	April 18, 2006
Vesting condition	1. The persons granted must be in a status of the Company's director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the person granted retires due to the expiry of her/his term or the compulsory retirement, if otherwise the board of directors approves, or if the person granted is an external collaborator. 2. The Company's stock must be listed on a stock exchange.	Same as on the left
Vesting period	Vesting period is not fixed.	Same as on the left
Exercise period	From February 1, 2008 to September 1, 2015	From April 19, 2008 to March 30, 2016

	The 7th Series	The 8th Series
Individuals covered by the plan and number of persons granted	Directors of the Company 6 Auditors & supervisory board members of the Company 2 Employees of the Company 16 External collaborators 9 Total 33	Employees of the Company 6 External collaborators 5 Total 11
Class and number of shares to be issued upon the exercise of the stock option	Common stock 200,000 shares	Common stock 52,000 shares
Grant date	July 1, 2006	December 4, 2006
Vesting condition	1. The persons granted must be in a status of the Company's director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the person granted retires due to the expiry of her/his term or the compulsory retirement, if otherwise the board of directors approves, or if the person granted is an external collaborator. 2. The Company's stock must be listed on a stock exchange.	Same as on the left
Vesting period	Vesting period is not fixed.	Same as on the left
Exercise period	From July 2, 2008 to March 30, 2016	From December 2, 2008 to March 30, 2016

	The 9th Series	The 11th Series
Individuals covered by the plan and number of persons granted	Directors of the Company 3 Auditors & supervisory board members of the Company 2 Total 5	Employees of the Company 6 External collaborators 3 Total 9
Class and number of shares to be issued upon the exercise of the stock option	Common stock 66,000 shares	Common stock 34,000 shares
Grant date	February 1, 2007	March 15, 2007
Vesting condition	1. The persons granted must be in a status of the Company's director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the person granted retires due to the expiry of her/his term or the compulsory retirement, if otherwise the board of directors approves, or if the person granted is an external collaborator. 2. The Company's stock must be listed on a stock exchange.	Same as on the left
Vesting period	Vesting period is not fixed.	Same as on the left
Exercise period	From January 24, 2009 to January 23, 2017	From March 3, 2009 to March 2, 2017

	The 12th Series	The 13th Series
Individuals covered by the plan and number of persons granted	Directors of the Company 5 Auditor & supervisory board member of the Company 1 Total 6	Employees of the Company 33 External collaborators 12 Total 45
Class and number of shares to be issued upon the exercise of the stock option	Common stock 82,000 shares	Common stock 170,000 shares
Grant date	August 29, 2007	August 29, 2007
Vesting condition	1. The persons granted must be in a status of the Company's director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the person granted retires due to the expiry of her/his term or the compulsory retirement, if otherwise the board of directors approves, or if the person granted is an external collaborator. 2. The Company's stock must be listed on a stock exchange.	Same as on the left
Vesting period	Vesting period is not fixed.	Same as on the left
Exercise period	From August 29, 2009 to August 28, 2017	From August 29, 2009 to August 28, 2017

	The 14th Series	The 16th Series
Individuals covered by the plan and number of persons granted	Directors of the Company 5 Auditor & supervisory board member of the Company 1 Total 6	External collaborators 14
Class and number of shares to be issued upon the exercise of the stock option	Common stock 207,000 shares	Common stock 85,000 shares
Grant date	October 1, 2008	October 1, 2008
Vesting condition	1. The persons granted must be in a status of the Company's director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the person granted retires due to the expiry of her/his term or the compulsory retirement, if otherwise the board of directors approves, or if the person granted is an external collaborator. 2. The Company's stock must be listed on a stock exchange.	Same as on the left
Vesting period	Vesting period is not fixed.	Same as on the left
Exercise period	From October 1, 2010 to September 30, 2018	From October 1, 2010 to September 30, 2018

	The 17th Series	The 19th Series
Individuals covered by the plan and number of persons granted	Directors of the Company 3 Auditor & supervisory board member of the Company 1 Total 4	External collaborators 2
Class and number of shares to be issued upon the exercise of the stock option	Common stock 72,000 shares	Common stock 12,500 shares
Grant date	March 18, 2009	March 18, 2009
Vesting condition	1. The persons granted must be in a status of the Company's director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the person granted retires due to the expiry of her/his term or the compulsory retirement, if otherwise the board of directors approves, or if the person granted is an external collaborator. 2. The Company's stock must be listed on a stock exchange.	Same as on the left
Vesting period	Vesting period is not fixed.	Same as on the left
Exercise period	From March 19, 2011 to March 18, 2019	From March 19, 2011 to March 18, 2019

	The 20th Series	The 21st Series
Individuals covered by the plan and number of persons granted	Directors of the Company 6 Auditor & supervisory board member of the Company 1 Total 7	Employees of the Company 50
Class and number of shares to be issued upon the exercise of the stock option	Common stock 361,000 shares	Common stock 326,500 shares
Grant date	March 31, 2010	March 31, 2010
Vesting condition	1. The persons granted must be in a status of the Company's director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the person granted retires due to the expiry of her/his term or the compulsory retirement, if otherwise the board of directors approves, or if the person granted is an external collaborator. 2. The Company's stock must be listed on a stock exchange.	Same as on the left
Vesting period	Vesting period is not fixed.	Same as on the left
Exercise period	From April 1, 2012 to March 31, 2020	From April 1, 2012 to March 31, 2020

(This part is intentionally left blank)

	The 22nd Series	The 23rd Series
Individuals covered by the plan and number of persons granted	External collaborators 13	Employees of the Company 9
Class and number of shares to be issued upon the exercise of the stock option	Common stock 153,000 shares	Common stock 32,000 shares
Grant date	March 31, 2010	October 15, 2010
Vesting condition	1. The persons granted must be in a status of the Company's director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the person granted retires due to the expiry of her/his term or the compulsory retirement, if otherwise the board of directors approves, or if the person granted is an external collaborator. 2. The Company's stock must be listed on a stock exchange.	Same as on the left
Vesting period	Vesting period is not fixed.	Same as on the left
Exercise period	From April 1, 2012 to March 31, 2020	From October 15, 2012 to October 14, 2020

	The 24th Series	The 25th Series
Individuals covered by the plan and number of persons granted	Directors of the Company 5	Employees of the Company 59
Class and number of shares to be issued upon the exercise of the stock option	Common stock 192,000 shares	Common stock 195,000 shares
Grant date	March 31, 2011	March 31, 2011
Vesting condition	1. The persons granted must be in a status of the Company's director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the person granted retires due to the expiry of her/his term or the compulsory retirement, if otherwise the board of directors approves, or if the person granted is an external collaborator. 2. The Company's stock must be listed on a stock exchange.	Same as on the left
Vesting period	Vesting period is not fixed.	Same as on the left
Exercise period	From March 31, 2013 to March 30, 2021	From March 31, 2013 to March 30, 2021

	The 26th Series	The 27th Series
Individuals covered by the plan and number of persons granted	Directors of the Company 4	Employees of the Company 70
Class and number of shares to be issued upon the exercise of the stock option	Common stock 362,500 shares	Common stock 430,700 shares
Grant date	May 2, 2012	May 2, 2012
Vesting condition	No specific conditions are prescribed in the allotment agreement of stock acquisition rights entered between the Company and the person granted, except for certain vesting conditions stipulated in the exercise condition. The exercise conditions are described in *(1) to (6).	Same as on the left
Vesting period	The period that fulfills the requirement of the exercise condition* (2) and (3).	Same as on the left
Exercise period	From April 18, 2014 to April 17, 2022	From April 18, 2014 to April 17, 2022

	The 28th Series	The 30th Series
Individuals covered by the plan and number of persons granted	Employees of the Company 5	Directors of the Company 5
Class and number of shares to be issued upon the exercise of the stock option	Common stock 16,500 shares	Common stock 116,000 shares
Grant date	September 28, 2012	May 29, 2013
Vesting condition	No specific conditions are prescribed in the allotment agreement of stock acquisition rights entered between the Company and the person granted, except for certain vesting conditions stipulated in the exercise condition. The exercise conditions are described in *(1) to (6).	Same as on the left
Vesting period	The period that fulfills the requirement of the exercise condition *(2) and (3).	Same as on the left
Exercise period	From September 14, 2014 to September 13, 2022	From May 15, 2015 to May 14, 2023

	The 31st Series
Individuals covered by the plan and number of persons granted	Employees of the Company 68
Class and number of shares to be issued upon the exercise of the stock option	Common stock 124,000 shares
Grant date	May 29, 2013
Vesting condition	No specific conditions are prescribed in the allotment agreement of stock acquisition rights entered between the Company and the person granted, except for certain vesting conditions stipulated in the exercise condition. The exercise conditions are described in *(1) to (6).
Vesting period	The period that fulfills the requirement of the exercise condition *(2) and (3).
Exercise period	From May 15, 2015 to May 14, 2023

*(1) Fraction less than one unit of a stock acquisition right shall be un-exercisable.

(2) Those who were granted the right may exercise all or part of the rights in accordance with the following classifications:

＜The 26th Series and the 27th Series stock option＞

(a) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-fourth (1/4) from April 18, 2014 to April 17, 2015.
(b) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-half (1/2) from April 18, 2015 to April 17, 2016.
(c) Those who were granted the stock acquisition rights may exercise the rights within the limit of three-fourths (3/4) from April 18, 2016 to April 17, 2017
(d) Those who were granted the stock acquisition rights may exercise all the rights from April 18, 2017 to April 17, 2022

＜The 28th Series stock option＞

(a) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-fourth (1/4) from September 14, 2014 to September 13, 2015.
(b) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-half (1/2) from September 14, 2015 to September 13, 2016.
(c) Those who were granted the stock acquisition rights may exercise the rights within the limit of three-fourths (3/4) from September 14, 2016 to September 13, 2017.
(d) Those who were granted the stock acquisition rights may exercise all the rights from September 14, 2017 to September 13, 2022.

＜The 30th and the 31st Series stock option＞

(e) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-fourth (1/4) from May 15, 2015 to May 14, 2016.
(f) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-half (1/2) from May 15, 2016 to May 14, 2017.
(g) Those who were granted the stock acquisition rights may exercise the rights within the limit of three-fourths (3/4) from May 15, 2017 to May 14, 2018.
(h) Those who were granted the stock acquisition rights may exercise all the rights from May 15, 2018 to May 14, 2023.

(3) Those who received the allotment of the stock acquisition rights (hereinafter the ""Person Granted") must be in a status of the director, auditor & supervisory board member or employee of the Company or its affiliates at the time of exercise. However, this is not necessarily the cases where;

(a) The Person Granted is the director or auditor & supervisory board member of the Company or its affiliates and retires due to the expiry of her/his term.
(b) The Person Granted is the employee of the Company or its affiliates and retires due to the compulsory retirement.
(c) The Person Granted is the director, auditor & supervisory board member or employee of the Company or its affiliates and the board of directors resolves that he/she resigns or retires with honorable recognition.

(4) The Person Granted shall exercise the rights starting from the date of resolution by the below-mentioned stockholders' meeting or the board of directors' meeting until one day before the effective date of the Organizational Restructuring as followed, regardless the conditions of exercise period originally stipulated, when the Organizational Restructuring are approved by the resolution of the Company's stockholders' meeting (including the case where resolution of a stockholders' meeting is deemed to exist pursuant to the provision of Article 319 of the Companies Act) or the board of directors' meeting (limited to the case where no stockholders' meeting is required for the said Organizational Restructuring) before the exercise period (hereinafter "Exercise Period") of the stock acquisition rights comes into effect: an absorption-type merger or an incorporation-type merger where the Company becomes a dissolving company and an absorption-type split or an incorporation-type company split where the Company becomes a split company or a share exchange or a share transfer where the Company becomes a wholly-owned subsidiary (collectively, "Organizational Restructuring" as mentioned above).

(5) In the event where;

(a) The Person Granted died before the exercise period comes into effect, the inheritor shall exercise the rights of up to one-half (1/2) within six months from the date of inherited, or

(b) The Person Granted died during the exercise period, the inheritor shall exercise all the rights within six months from the date of inherited.
However, in the event that the inheritor died, the rights shall be discarded and shall not be exercised by his/her inheritor.

(6) The stock acquisition rights shall not be offered for pledge or disposed of in any other way.

(This part is intentionally left blank)

(2) Change in the size of stock option

The number of stock option is converted into the number of shares subject to the numbers exist in FY2013.

(a) Number of stock options

(Unit: number of shares)

	The 1st Series	The 2nd Series	The 5th Series	The 6th Series
Grant date	June 20, 2005	June 22, 2005	January 31, 2006	April 18, 2006
Non-vested shares:				
At the beginning of the year	—	—	—	—
Granted	—	—	—	—
Expired	—	—	—	—
Vested	—	—	—	—
At the end of the year	—	—	—	—
Vested shares:				
At the beginning of the year	351,000	2,000	2,000	2,000
Vested	—	—	—	—
Exercised	59,000	2,000	—	—
Expired	—	—	—	—
At the end of the year	292,000	—	2,000	2,000

(Unit: number of shares)

	The 7th Series	The 8th Series	The 9th Series	The 11th Series
Grant date	July 1, 2006	December 4, 2006	February 1, 2007	March 15, 2007
Non-vested shares:				
At the beginning of the year	—	—	—	—
Granted	—	—	—	—
Expired	—	—	—	—
Vested	—	—	—	—
At the end of the year	—	—	—	—
Vested shares:				
At the beginning of the year	61,000	1,000	3,000	7,000
Vested	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
At the end of the year	61,000	1,000	3,000	7,000

(Unit: number of shares)

	The 12th Series	The 13th Series	The 14th Series	The 16th Series
Grant date	August 29, 2007	August 29, 2007	October 1, 2008	October 1, 2008
Non-vested shares:				
At the beginning of the year	—	—	—	—
Granted	—	—	—	—
Expired	—	—	—	—
Vested	—	—	—	—
At the end of the year	—	—	—	—
Vested shares:				
At the beginning of the year	23,000	61,000	28,000	70,000
Vested	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
At the end of the year	23,000	61,000	28,000	70,000

(Unit: number of shares)

	The 17th Series	The 19th Series	The 20th Series	The 21st Series
Grant date	March 18, 2009	March 18, 2009	March 31, 2010	March 31, 2010
Non-vested shares:				
At the beginning of the year	—	—	—	—
Granted	—	—	—	—
Expired	—	—	—	—
Vested	—	—	—	—
At the end of the year	—	—	—	—
Vested shares:				
At the beginning of the year	4,000	2,500	361,000	259,500
Vested	—	—	—	—
Exercised	—	—	16,500	2,000
Expired	—	—	—	23,000
At the end of the year	4,000	2,500	344,500	234,500

(Unit: number of shares)

	The 22nd Series	The 23rd Series	The 24th Series	The 25th Series
Grant date	March 31, 2010	October 15, 2010	March 31, 2011	March 31, 2011
Non-vested shares:				
At the beginning of the year	—	—	192,000	185,000
Granted	—	—	—	—
Expired	—	—	—	5,000
Vested	—	—	192,000	180,000
At the end of the year	—	—	—	—
Vested shares:				
At the beginning of the year	153,000	32,000	—	—
Vested	—	—	192,000	180,000
Exercised	—	—	—	—
Expired	—	6,000	—	16,500
At the end of the year	153,000	26,000	192,000	163,500

(Unit: number of shares)

	The 26th Series	The 27th Series	The 28th Series	The 30th Series
Grant date	May 2, 2012	May 2, 2012	September 28, 2012	May 29, 2013
Non-vested shares:				
At the beginning of the year	362,500	401,400	16,500	—
Granted	—	—	—	116,000
Expired	—	33,100	500	—
Vested	—	—	—	—
At the end of the year	362,500	368,300	16,000	116,000
Vested shares:				
At the beginning of the year	—	—	—	—
Vested	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
At the end of the year	—	—	—	—

(Unit: number of shares)

	The 31st Series
Grant date	May 29, 2013
Non-vested shares:	
At the beginning of the year	—
Granted	124,000
Expired	8,400
Vested	—
At the end of the year	115,600
Vested shares:	
At the beginning of the year	—
Vested	—
Exercised	—
Expired	—
At the end of the year	—

(b) Per share prices

	The 1st Series	The 2nd Series	The 5th Series	The 6th Series
Grant date	June 20, 2005	June 22, 2005	January 31, 2006	April 18, 2006
Exercise price (yen) (Note 1)	487	500	974	974
Average stock price at the time of exercise (yen)	880	711	—	—
Fair value price at grant date (yen)	—	—	—	—

	The 7th Series	The 8th Series	The 9th Series	The 11th Series
Grant date	July 1, 2006	December 4, 2006	February 1, 2007	March 15, 2007
Exercise price (yen) (Note 1)	1,461	1,461	1,461	1,461
Average stock price at the time of exercise (yen)	—	—	—	—
Fair value price at grant date (yen)	0	0	0	0

	The 12th Series	The 13th Series	The 14th Series	The 16th Series
Grant date	August 29, 2007	August 29, 2007	October 1, 2008	October 1, 2008
Exercise price (yen) (Note 1)	1,461	1,461	1,169	1,169
Average stock price at the time of exercise (yen)	—	—	—	—
Fair value price at grant date (yen)	0	0	0	0

	The 17th Series	The 19th Series	The 20th Series	The 21st Series
Grant date	March 18, 2009	March 18, 2009	March 31, 2010	March 31, 2010
Exercise price (yen) (Note 1)	1,169	1,169	585	585
Average stock price at the time of exercise (yen)	—	—	1,034	880
Fair value price at grant date (yen)	0	0	0	0

	The 22nd Series	The 23rd Series	The 24th Series	The 25th Series
Grant date	March 31, 2010	October 15, 2010	March 31, 2011	March 31, 2011
Exercise price (yen) (Note 1)	585	585	682	682
Average stock price at the time of exercise (yen)	—	—	—	—
Fair value price at grant date (yen)	0	0	0	0

	The 26th Series	The 27th Series	The 28th Series	The 30th Series
Grant date	May 2, 2012	May 2, 2012	September 28, 2012	May 29, 2013
Exercise price (yen) (Note 1)	555	555	555	799
Average stock price at the time of exercise (yen)	—	—	—	—
Fair value price at grant date (yen)	(a) 179 (b) 187 (c) 195 (d) 202	(a) 179 (b) 187 (c) 195 (d) 202	(a) 203 (b) 208 (c) 213 (d) 217	(a) 586 (b) 602 (c) 617 (d) 631

	The 31st Series
Grant date	May 29, 2013
Exercise price (yen) (Note 1)	799
Average stock price at the time of exercise (yen)	—
Fair value price at grant date (yen)	(a) 586 (b) 602 (c) 617 (d) 631

Note: 1. The Company increased its capital through the public offering on December 4, 2013 and through the third party allotment on December 25, 2013, at the per share amount less than the exercise price of options. Thus, the exercise amounts above are stated after price adjustments clause.
2. Each of (a), (b), (c) and (d) above is corresponding to (a), (b), (c) and (d) of exercise period in the table shown on 2 (1).

3. Method for estimating the fair value of stock options

The method for estimating the fair value of stock options that were granted during this fiscal year is estimated based on the following method.

(1) Estimate technique used: Black-Scholes option pricing model

(2) Major assumptions and estimate method

	The 30th Series	The 31st Series
Volatility of stock price (Note 2)	86.59%	86.59%
Estimated remaining outstanding period (Note 3)	(a) 5.96 years (b) 6.46 years (c) 6.96 years (d) 7.46 years	(a) 5.96 years (b) 6.46 years (c) 6.96 years (d) 7.46 years
Estimated dividend (Note 4)	0 yen per share	0 yen per share
Risk free interest rate (Note 5)	(a) 0.402% (b) 0.520% (c) 0.634% (d) 0.797%	(a) 0.402% (b) 0.520% (c) 0.634% (d) 0.797%

Note: 1. Each of (a), (b), (c) and (d) above is corresponding to (a), (b), (c) and (d) of exercise period in the table shown on 2 (1).
2. The calculation was made based on the historical stock quotes by each classification below.
The calculation was made based on the historical stock quotes during the period from June 6, 2011 to May 29, 2013.
Since the Company listed on the stock exchange on October 20, 2011, stock quotes were not available during the period from June 6, 2011 to October 19, 2011. The Company selected several companies which were very close in resemblance to the Company and used their historical quotes for the period.
3. Since it is very difficult to make reliable estimates due to insufficient historical data, the remaining period was calculated based on the assumption that the rights were exercised in the middle of each exercise period.
4. The Company estimates dividends to be zero since no dividends have been paid in the past.
5. It represents yields of Japanese government bonds corresponding to estimated remaining outstanding period.

4. Estimation of the number of stock options vested

The number of expired shares is estimated based on the historical turnover ratio.

(Deferred tax accounting)

1. Significant components of deferred tax assets and liabilities

(Unit: thousands of yen)

	FY 2012 (as of December 31, 2012)	FY2013 (as of December 31, 2013)
Deferred tax assets:		
Excess depreciation for lump-sum depreciable assets	1,094	1,920
Excess depreciation for depreciable assets	621	501
Excess amortization for deferred assets	212,730	145,726
Research and development expenses	836,309	607,327
Accounts payables-trade	14,899	―
Account payable-other	19,905	14,536
Provision for retirement benefits	601	596
Enterprise tax payable	5,203	7,850
Asset retirement obligation	3,143	3,736
Share-based compensation expense	4,908	16,829
Loss carried forward	1,454,943	2,012,894
Subtotal	2,554,361	2,811,921
Valuation allowance	(2,554,361)	(2,811,921)
Total deferred tax assets	―	―
Deferred tax liabilities		
Valuation difference on available-for-sale securities	―	102
Total deferred tax liabilities	―	102
Net deferred tax assets	―	―

2. The reconciliation between the effective tax rates reflected in the financial statements and the statutory tax rate is omitted since the Company reported loss before income taxes for the years ended December 31, 2012 and 2013.

(Equity in earnings)

None to be reported.

(Asset retirement obligations)

The Company has future restoration obligations related to leasehold contracts of office premises.
Carrying the balance of lease and guarantee deposits as an asset, the Company reasonably estimates non-recoverable amounts of lease and guarantee deposits under lease contracts and records the amount attributable to the respective fiscal year as expenses, instead of accounting for asset retirement obligations by recognizing a liability and an associated asset.

(Investment and rental property)

None to be reported.

(Segment information)

【Segment information】

FY 2012 (from January 1, 2012 to December 31, 2012) and FY 2013 (from January 1, 2013 to December 31, 2013)

Segment information is omitted since the Company operates a single segment of pharmaceutical businesses including research and development of pharmaceutical drugs as well as manufacturing and marketing and other related activities.

【Related information】

FY 2012 (from January 1, 2012 to December 31, 2012)

1. Information by product and service

Information by product and service is omitted since external sales of a single service category account for more than 90% of total net sales stated in the statement of income.

2. Information about geographical area

(1) Net sales

Net sales information about geographical area is omitted since external sales to Japanese customers account for more than 90% of total net sales stated in the statement of income.

(2) Property, plant and equipment

All property, plant and equipment are located in Japan.

3. Information by major customer

(Unit: thousands of yen)

Name of customer	Net sales	Name of related segment
Eisai Co., Ltd.	1,929,615	Pharmaceutical businesses including research and development of pharmaceutical drugs as well as manufacturing marketing and other related activities.

FY 2013 (from January 1, 2013 to December 31, 2013)

1. Information by product and service

Information by product and service is omitted since external sales of a single service category account for more than 90% of total net sales stated in the statement of income.

2. Information about geographical area

(1) Net sales

Net sales information about geographical area is omitted since external sales to Japanese customers account for more than 90% of total net sales stated in the statement of income.

(2) Property, plant and equipment

All property, plant and equipment are located in Japan.

3. Information by major customer

(Unit: thousands of yen)

Name of customer	Net sales	Name of related segment
Eisai Co., Ltd.	1,485,877	Pharmaceutical businesses including research and development of pharmaceutical drugs as well as manufacturing marketing and other related activities.

【Information about impairment loss on long-lived assets by reportable segment】

FY 2012 (from January 1, 2012 to December 31, 2012) and FY 2013 (from January 1, 2013 to December 31, 2013)

None to be reported.

【Information about the amortization and unamortized balance of goodwill by reportable segment】

FY 2012 (from January 1, 2012 to December 31, 2012) and FY 2013 (from January 1, 2013 to December 31, 2013)

None to be reported.

【Information about the gain recognized on negative goodwill by reportable segment】

FY 2012 (from January 1, 2012 to December 31, 2012) and FY 2013 (from January 1, 2013 to December 31, 2013)

None to be reported.

(Related parties information)

None to be reported.

(Per share information)

FY 2012 (from January 1, 2012 to December 31, 2012)		FY 2013 (from January 1, 2013 to December 31, 2013)	
Net assets per share	254.71 yen	Net assets per share	239.48 yen
Net loss per share	(90.60) yen	Net loss per share	(69.29) yen
While having potential dilutive stocks, diluted net income per share is not provided since the Company reported net loss per share.		While having potential dilutive stocks, diluted net income per share is not provided since the Company reported net loss per share.	

(Note 1) The basis for calculating net loss per share is as follows:

	FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
Net loss (thousand yen)	(1,733,320)	(1,605,224)
Amount not attributable to the shareholders of common stock (thousand yen)	—	—
Net loss attributable to the shareholders of common stock (thousand yen)	(1,733,320)	(1,605,224)
Average number of shares outstanding during the year (shares)	19,130,825	23,167,804
Description of potential dilutive stocks not included in the earning-per-share calculation due to anti-dilutive.	23 types of Stock acquisition rights (25,804 units) in accordance with the Commercial Code of 1890 Article 280 (20) and (21), and Companies Act Article 236, 238, and 239.	23 types of Stock acquisition rights (23,564 units) in accordance with the Commercial Code of 1890 Article 280 (20) and (21), and Companies Act Article 236, 238, and 239.

(Note 2) The basis for calculating net assets per share is as follows:

	FY 2012 (from January 1, 2012 to December 31, 2012)	FY 2013 (from January 1, 2013 to December 31, 2013)
Net assets (thousand yen)	4,899,957	7,432,996
Amount to be deducted from net assets	27,167	96,761
(Of which, Stock acquisition right herein)	(27,167)	(96,761)
Net assets attributable to the shareholders of common stock (thousand yen)	4,872,790	7,336,234
Number of shares used in the calculation of net assets per share (shares)	19,130,825	30,634,182

(Significant subsequent events)

None to be reported.

5. Other

(1) Changes in Officers

None to be reported.

(2) Other

None to be reported.