JASDAQ

Consolidated Financial Results for the Fiscal Year Ended December 31, 2013

[Japanese GAAP]

February 7, 2014

Company name: tella, Inc.
Stock Exchange Listing: Tokyo Stock Exchange (JASDAQ)
Stock code: 2191
URL: http://www.tella.jp/
Representative: Yuichiro Yazaki, President & Representative Director
Contact: Ryohei Yamamoto, Director of the Board
TEL: +81-3-5572-6590

Scheduled date of annual general meeting of shareholders: March 26, 2014
Scheduled date of filing of securities report: March 27, 2014
Scheduled date of dividend payment: -
Preparation of supplementary materials for financial results: Yes
Holding of financial results meeting: Yes

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(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2013 (Jan. 1, 2013 to Dec. 31, 2013)

(1) Consolidated results of operations (Percentages shown for net sales and incomes represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY12/2013	1,539	(0.3)	23	(89.5)	(24)	-	(58)	-
FY12/2012	1,544	16.8	221	210.9	220	322.1	99	499.6

Note: Comprehensive income (millions of yen) FY12/2013: (34) (n.a.) FY12/2012: 123 (up 385.1%)

	Net income per share	Diluted net income per share	Return on equity	Return on assets	Operating income to net sales
	Yen	Yen	%	%	%
FY12/2013	(4.44)	-	(4.1)	(1.1)	1.5
FY12/2012	7.59	7.48	7.4	10.3	14.3

Reference: Equity in earnings (losses) of affiliates (millions of yen) FY12/2013: - FY12/2012: -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Dec. 31, 2013	2,387	1,529	60.8	109.68
As of Dec. 31, 2012	2,079	1,437	67.3	106.56

Reference: Shareholders' equity (millions of yen) As of Dec. 31, 2013: 1,450 As of Dec. 31, 2012: 1,399

(3) Consolidated cash flow position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the fiscal year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY12/2013	4	(314)	359	1,080
FY12/2012	406	(150)	(318)	1,030

2. Dividends

	Dividend per share					Total cash dividends	Dividend payout ratio (consolidated)	Dividends on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY12/2012	-	0.00	-	0.80	0.80	10	10.5	0.8
FY12/2013	-	0.00	-	0.00	0.00	0	-	-
FY12/2014 (Forecast)	-	0.00	-	0.00	-		-	

3. Consolidated Forecast for the Fiscal Year Ending December 31, 2014 (Jan. 1, 2014 to Dec. 31, 2014)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	1,067	23.3	(78)	-	(95)	-	(97)	-	(7.38)
Full year	2,090	35.7	(135)	-	(156)	(543.6)	(154)	(165.0)	(11.68)

*** Notes**

(1) Changes in significant subsidiaries during the period (change in scope of consolidation): None

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: Yes

4) Restatements: None

(3) Number of shares outstanding (common stock)

1) Number of shares outstanding at the end of period (including treasury stock)

As of Dec. 31, 2013:	13,228,431 shares	As of Dec. 31, 2012:	13,137,000 shares

2) Number of shares of treasury stock at the end of period

As of Dec. 31, 2013:	239 shares	As of Dec. 31, 2012:	239 shares

3) Average number of shares outstanding during the period

FY12/2013:	13,144,181 shares	FY12/2012:	13,124,272 shares

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2013 (Jan. 1, 2013 to Dec. 31, 2013)

(1) Results of operations (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY12/2013	1,098	(9.4)	(46)	-	(94)	-	(77)	-
FY12/2012	1,211	1.5	152	234.7	141	516.6	75	2,058.2

	Net income per share	Diluted net income per share
	Yen	Yen
FY12/2013	(5.93)	-
FY12/2012	5.78	5.70

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Dec. 31, 2013	2,203	1,411	63.3	105.40
As of Dec. 31, 2012	1,952	1,362	69.8	103.75

Reference: Shareholders' equity (millions of yen) As of Dec. 31, 2013: 1,394 As of Dec. 31, 2012: 1,362

Note 1: Indication of audit procedure implementation status

This summary report is not subject to the audit procedures based on the Financial Instruments and Exchange Act. At the time of disclosure, the audit procedures for the consolidated and non-consolidated financial statements have not been completed.

Note 2: Cautionary statement with respect to forward-looking statements and other special items

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time these materials were created. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to "1. Analysis of Results of Operations and Financial Position, (1) Analysis of Results of Operations, Outlook for the Next Fiscal Year" on page 3 of the attachments for forecast assumptions and notes of caution for usage.

Contents of Attachments

1. Analysis of Results of Operations and Financial Position

(1) Analysis of Results of Operations

1) Summary of the Current Fiscal Year

The Japanese economy recovered at a moderate pace in 2013 due to the benefits of a number of government programs. However, the economic situation was uncertain for a number of reasons, including worries about an overseas economic downturn caused by the global economic environment. The promotion of regenerative medicine and cell therapy is one of the main elements of the Abenomics growth strategy. One result was the April 2013 passage of the Act concerning the Comprehensive Promotion of Measures for the Rapid and Safe Use of Regenerative Medicine in Japan. In November 2013, two more laws were passed. One is the Act concerning the Assurance of Quality, Efficacy and Safety for Pharmaceuticals and Medical Devices, which newly defines regenerative medicine products and establishes a system for quick approvals of these products with certain conditions. The other is the Act concerning the Assurance of Safety for Regenerative Medicine, which is aimed at facilitating the commercialization of cell processing operations. Overall, there is rapid progress toward establishing an environment for starting regenerative medicine and cell therapy businesses and even creating an industry for these activities.

The tella Group continued to perform R&D involving the dendritic cell (DC) vaccine therapy and other therapies, which is one type of cancer vaccine therapy. We conducted sales activities targeting medical institutions nationwide, and academic and information activities which include mainly using seminars and other methods to provide information to patients and making announcements at academic events. Activities also include the ongoing provision of maintenance and management services of cell processing facilities by contract chiefly to universities and research institutions.

In April 2013, tella signed an agreement to make an equity investment in Healios K.K. (formerly Retina Institute Japan K.K.). This company aims to commercialize the world's first practical applications of regenerative medicine using iPS cells. Healios is a recognized venture enterprise of the Independent Administrative Institution RIKEN. In December 2013, tella and Healios signed an agreement to establish a business alliance and began studies concerning the development of a cancer cell immunotherapy that uses iPS cells.

In May 2013, The Company established a consolidated subsidiary TITAN Inc. for the purpose of newly participating in 'Imaging CRO (Contract Research Organization)' clinical trial support operations using the latest imaging testing technology and concentrating in new drugs for cancer. TITAN is using the latest imaging testing technology and know-how to provide clinical trials support services.

Board of Directors of tella approved a resolution on December 2013 to establish a wholly owned consolidated subsidiary Tella Pharma Inc. and it was established in January 2014. The Company plans to use the new subsidiary to obtain approval for the DC vaccine Vaccell® as a regenerative medicine product for treating cancer.

In 2013, net sales decreased 4,930 thousand yen, or 0.3%, from one year earlier to 1,539,993 thousand yen. This was attributable to firm sales in the Cell Therapy Support Business but was held down by lower sales in the Cell Therapy Technology Development Business. Operating income decreased 198,409 thousand yen, or 89.5%, from one year earlier to 23,234 thousand yen, mainly because of higher research and development expenses resulting from activities for obtaining approval for the DC vaccine Vaccell®. After depreciation, head office transfer related cost and other items, there was an ordinary loss of 24,247 thousand yen compared with ordinary income of 220,423 thousand yen one year earlier. The net loss was 58,296 thousand yen compared with net income of 99,623 thousand yen one year earlier.

Fiscal year performance by reportable segment was as follows.

Cell Therapy Technology Development Business

In this business segment, we provide unique cancer treatment technologies and know-how, chiefly the DC vaccine therapy, to contracted medical institutions.

To provide information to patients, we held cancer treatment seminars jointly with contracted medical institutions in the prefectures of Hokkaido, Miyagi, Tokyo, Kanagawa, Aichi, Kyoto, Hyogo, and Fukuoka.

Regarding sales activities targeting medical institutions across Japan, the Company entered into client medical institution agreements with following medical institutions: Ikeda Surgery, Gastroenterology, Internal Medicine Clinic (Morioka City, Iwate) in October 2013; Ozaki Clinic ClinicaMedica Tokyo (Meguro-ku, Tokyo) in November 2013; and Hakusan-dori Clinic (Koto-ku, Tokyo) in January 2014. Adding these alliances raised to 34 the number of contracted medical institutions.

Regarding R&D activities, the Company has signed a joint research agreement with the Kitasato Institute in October 2013. Based on this agreement, a phase I clinical study began with Kitasato University Kitasato Institute Hospital for the DC vaccine therapy using cancer antigens for treating hepatocellular carcinoma (liver cancer).

Due to all of these activities, there were approximately 320 cases during the fourth quarter (Oct-Dec) of 2013 in which the DC vaccine therapy was used. This raises to about 7,600 the total number of DC vaccine therapy cases since the Company was established.

Segment sales in 2013 decreased 113,581 thousand yen, or 9.4%, from one year earlier to 1,098,381 thousand yen because of slower growth in the number of cases. Profits were affected mainly by the decline in sales and higher research and development expenses caused by measures to obtain approval for the DC vaccine Vaccell® as a regenerative medicine product for treating cancer. As a result, operating loss totaled 46,454 thousand yen, compared with an operating income of 152,426 thousand yen in the previous fiscal year.

Cell Therapy Support Business

Activities in this segment include the operation of cell processing facilities by contract for research and medical institutions, the provision of maintenance and management services for these facilities, sales of replacement supplies and devices, sales support, CRO business and others.

Segment sales in 2013 increased 140,323 thousand yen, or 42.1%, from one year earlier to 473,285 thousand yen. This was due to the strong new orders for cell processing devices. Operating income increased 6,424 thousand yen, or 9.3%, to 75,642 thousand yen.

2) Outlook for the Next Fiscal Year

In 2013, tella worked on increasing the number of client medical institutions that treat patients in association with its current contracted medical institutions. tella will continue to expand support for the client medical institution system and establish ties with more medical institutions. In addition, tella will perform planning in 2014 for rebuilding and reinforcing the framework for business activities and building tella’s brand to raise public awareness of tella’s activities. Another goal is increasing the number of cases by creating a practical new cancer antigen and a practical ZNK® cell immunotherapy. Consolidated subsidiary Tella Pharma Inc., which was established in January 2014, is speeding up activities for obtaining approval for the DC vaccine Vaccell® as Japan’s first regenerative medicine product for treating cancer. Regarding the overseas operations, we will continue to prepare for establishing business alliances as soon as possible in Southeast Asia and China. Regarding activities associated with advanced medical care, Bio Medica Solution Co., Ltd. has a cell therapy support business that involves primarily the operation and maintenance of cell cultivation equipment for customers and the sale of this equipment. TITAN Inc. which was established in May 2013 is using the latest imaging testing technology and know-how to provide clinical trials support services (CRO business). In February 2014, tella and Genaris, Inc., which has a competitive edge in developing software for genome analysis, signed an agreement to establish a company. This led to the decision by tella to establish a consolidated subsidiary called GenoCypher Inc. that is owned jointly with Genaris. GenoCypher will use tella’s network of relationships in the cancer domain with medical institutions and physicians along with the sophisticated genetic data processing technology of Genaris. The goal is to provide genetic diagnosis support by building a new B-to-B service for personalized treatment for cancer patients. GenoCypher will move quickly to start a CRO business and a genetic diagnosis support business, both of which are associated with advanced medical care technologies.

In 2014, there will be substantial investments in line with the medium-term growth strategy outlined earlier. For example, tella will be working on increasing the number of cases at contracted medical institutions and expanding the Cell Therapy Support Business. Obtaining approval for the DC vaccine Vaccell® as a regenerative medicine product is another goal. Consequently, we forecast net sales of 2,090 million yen, operating loss of 135 million yen, ordinary loss of 156 million yen and net loss of154 million yen.

(2) Analysis of Financial Position

1) Assets, Liabilities and Net Assets

Total assets, liabilities and net assets at the end of the current fiscal year were as follows.

(Thousands of yen)

	FY12/2012	FY12/2013	Change
Total assets	2,079,231	2,387,234	308,002
Total liabilities	641,505	858,039	216,534
Net assets	1,437,725	1,529,194	91,468

Total assets increased 308,002 thousand yen from the end of the previous fiscal year to 2,387,234 thousand yen as of the end of the current fiscal year. It was mainly due to increases of 49,557 thousand yen in cash and cash deposits, 54,204 thousand yen in advances paid, 34,464 thousand yen in intangible assets, 100,000 thousand yen in investment securities, and 42,636 thousand yen in lease deposits.

Liabilities increased 216,534 thousand yen to 858,039 thousand yen. It was mainly due to an increase of 366,100 thousand yen in long-term loans payable, while there were decreases of 95,900 thousand yen in redemption of bonds and 31,760 thousand yen in repayments of lease obligations.

Net assets increased 91,468 thousand yen to 1,529,194 thousand yen, mainly due to an increase of 119,781 thousand yen in total of capital stock and legal capital surplus due to the exercise of subscription rights to shares, a decrease of 68,806 thousand yen in retained earnings due to the booking of net loss and cash dividends paid, increases of 16,978 thousand yen in subscription rights to shares and 23,514 thousand yen in minority interests.

2) Cash Flows

Cash flows by category were as follows.

(Thousands of yen)

	FY12/2012	FY12/2013	Change
Cash flow from operating activities	406,200	4,674	(401,526)
Cash flow from investing activities	(150,217)	(314,778)	(164,560)
Cash flow from financing activities	(318,102)	359,661	677,763
Net increase (decrease) in cash and cash equivalents	(62,119)	49,557	111,677
Cash and cash equivalents at end of period	1,030,551	1,080,109	49,557

Cash and cash equivalents as of the end of the current fiscal year totaled 1,080,109 thousand yen, 49,557 thousand yen more than as of the end of the previous fiscal year.

Net cash provided by operating activities totaled 4,674 thousand yen. Major items included loss before income taxes and minority interests of 23,225 thousand yen, depreciation and amortization of 165,630 thousand yen, an increase in notes and accounts payable-trade of 22,986 thousand yen, and income taxes paid of 112,955 thousand yen.

Net cash used in investing activities totaled 314,778 thousand yen. In addition to the expenditures of 134,362 thousand yen for the purchase of property, plant and equipment to support our facilities and basic affiliated medical institutions, 41,321 thousand yen for the purchase of intangible assets, there were payments of 100,000 thousand yen for the purchase of investment securities through the third-party allotment by Healios K.K., and 42,675 thousand yen for lease and guarantee deposits related to relocation of company headquarters.

Net cash provided by financing activities totaled 359,661 thousand yen. There were 500,000 thousand yen in proceeds from long-term loans payable, 133,900 thousand yen in repayment of long-term loans payable, 95,900 thousand yen in redemption of bonds, and 119,070 thousand yen in proceeds from issuance of stock resulting from exercise of subscription rights to shares.

Reference: Cash flow indicators

	FY12/2011	FY12/2012	FY12/2013
Shareholders' equity ratio (%)	58.3	67.3	60.8
Shareholder's equity ratio on a market value basis (%)	244.0	537.0	1,460.7
Interest-bearing debt to cash flow ratio (%)	524.5	100.5	13,833.1
Interest coverage ratio (Times)	9.2	35.1	0.6

Shareholders' equity ratio: Shareholders' equity / Total assets
Shareholder's equity ratio on a market value basis: Market capitalization / Total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt / Operating cash flow
Interest coverage ratio: Operating cash flow / Interest payments

Notes:
1. Since we began preparing consolidated financial statements starting from FY12/2011, there are no figures for the prior fiscal years.
2. Market capitalization is calculated using the closing price quoted at the period end times the number of shares outstanding (less treasury stocks).
3. Cash flows are calculated using the figures for operating cash flows in the statements of cash flows.
4. Interest-bearing debt includes all liabilities on the consolidated balance sheets that incur interest.

(3) Profit Allocation Policy and Dividend Payment Plan for the Current and Next Fiscal Years

Returning earnings to shareholders while strengthening the financial position and becoming more competitive is one of the highest priorities of tella. Management is committed to conducting business operations while adapting swiftly to changes in the operating environment and preserving the Company's competitive edge. To accomplish this, the Company has a policy of distributing earnings by taking into account results of operations and the financial position and by reflecting growth in earnings along with the need to increase retained earnings. The dividend policy is to link the dividend to earnings by allocating about 10% of net income to dividends while placing emphasis on reinvesting earnings to support our corporate growth.

However, tella has decided to pay no year-end dividend for 2013 because of results of operations in this year. For 2014, tella again plans to pay no dividend because of the need to retain funds for reinvestments required for its medium-term growth strategy. For example, there will be expenditures to obtain approval for the DC vaccine Vaccell® as Japan's first regenerative medicine product for treat cancer. The tella Articles of Incorporation include a provision allowing the Board of Directors to approve dividends from surplus as stipulated in Article 459, Paragraph 1 of the Companies Act. Consequently, the Board of Directors is the decision-making body for both interim and year-end dividends.

(4) Business Risk

The following section presents significant information regarding business and financial matters that may affect the decisions of investors. In addition, from the standpoint of fully disclosing information to investors, this section includes items that may not be risks involving business operations but are significant with regard to investment decisions by investors. The Group is aware of these risks and takes actions aimed at preventing these problems and responds to these problems if they should occur. Before reaching a decision concerning an investment in the Group's stock, investors are cautioned to carefully study these risk factors as well as other information in this document.

Forward-looking statements are based on the judgment of the Group as of the end of the current fiscal year.

1) Risks Associated with Business Activities

i) Cost of medical care and number of patients

The Group provides technologies and know-how concerning the DC vaccine therapy and other therapies, and receives contract-based fees according to the number of patients treated by contracted medical institutions. As a result, changes in the relevant medical fees of these treatments received by them and the number of patients have a significant effect on the Group's earnings.

If there is a decline in the medical fees for treatments contracted medical institutions provide for some reason as actions are taken to increase the use of cancer immunotherapies, primarily the DC vaccine therapy, if there is a revision in rate of fees that the Group receives in return for its services, or if there is a decline in the number of patients at contracted medical institutions, there may be an impact on the Group's performance and financial condition.

ii) Competition with peers in the pricing of services

The innovative nature and growth potential of cancer immunotherapies, primarily the DC vaccine therapy, may result in increasingly heated competition from companies currently active in this business sector as well as from new competitors. Furthermore, the DC vaccine therapy for which tella provides technologies and know-how is one type of immunotherapy. This creates the possibility of the DC vaccine therapy, as a therapy of the immunotherapy category, being mistakenly viewed as a treatment that is similar to other therapies belonging to this category. The Group will continue to work on differentiating its therapies from other apparently similar treatment methods. However, the emergence of many competitors offering various immunotherapy methods along with more heated competition may result in competitive pressure on prices paid for these services. If this happens, there may be an impact on the Group's performance and financial condition.

iii) Decline in the public's perception of the DC vaccine therapy and other therapies

The Group provides technologies and know-how concerning the DC vaccine therapy and other therapies. Currently, these therapies are provided in Japan as a discretionary treatment that patients pay for on their own. Discretionary treatments can be provided without having first completed the clinical studies that are required for treatments covered by the national health insurance. Compared with those covered by the national health insurance, discretionary treatments present a mixture of treatments that are good and bad in quality. Some competitors that offer cancer immunotherapy may cause problems by providing technologies and know-how or services with inferior quality. If such problems occur, the resulting damage to the public's perception of the DC vaccine therapy and other therapies may have an impact on the Group's performance and financial condition.

iv) Changes in market conditions or demand

The Group's earnings are vulnerable to changes in the cancer therapy market, the market for treatments not covered by the national health insurance, the cancer immunotherapy market, and demand for the DC vaccine therapy and other therapies. There may be a decline in the number of cancer patients in Japan because of the nation's falling population or advances and increasing utilization of cancer prevention technologies. There is also a possibility that the number of discretionary treatments may fall as insurance coverage is enlarged for certain new cancer therapies or that cancer treatments other than DC vaccine therapy may emerge in the cancer immunotherapy domain. Any of these events may have an impact on the Group's performance and financial condition.

v) Advances in technology

The speed of technological innovation and progress is rapid in the field of cancer treatments, which is the Group's business domain. Many R&D projects are under way to create new cancer drugs and other ways to treat cancer. The Group performs R&D programs based on the understanding of the need to constantly make revisions to its DC vaccine therapy and other therapies based on new ideas. If the Group loses its competitive edge because other companies develop technologies first or the Group falls behind in developing new and better technologies, there may be an impact on the Group's performance and financial condition.

vi) Framework for assisting with quality assurance

The Group provides contracted medical institutions with technologies and know-how concerning the DC vaccine therapy and other therapies. However, the contracted medical institutions grow cells in a cell culture themselves. This step is not performed by the Group.

The Group provides the following support to contracted medical institutions to assist them in growing high-quality cells for therapy.

(a) To prevent contamination by microbes, cell cultures are located in a cell processing facility that has air cleanliness conforming to GMP standards and sterility is maintained during the cell processing stage.

(b) Contracted medical institutions are asked to establish Standard Operating Procedures (SOP) for all tasks and ensure that these procedures are followed. This minimizes the possibility of human error during the cell processing stage.

(c) They are asked to purchase cell culture fluids, reagents and other materials required to grow cells in accordance with contracts with suppliers that have exacting and carefully defined terms. This helps prevent the receipt of defective products and the degradation of products received. The Group also asks them to upgrade their purchasing, storage and inspection systems.

(d) The Group periodically inspects contracted medical institutions to check the quality of cells and the operation of associated facilities for the purpose of preventing a decline in quality.

However, even though a contracted medical institution complies with the Group's guidelines, there is a possibility of a decline in the quality of cells grown by a contracted medical institution and, as a result, a decline in the quality of therapies provided to patients. If this happens for some reason, there may be an impact on the Group's performance and financial condition.

2) Risks Associated with Sudden Changes in Financial Position, Operating Results and Cash Flows

i) Possibility of asset impairment charges

The Group makes capital expenditures to purchase equipment that is loaned to basic affiliated medical institutions and invests in intellectual property rights and other assets. When determining the value of noncurrent assets, the Group applies "Accounting for Impairment of Fixed Assets" and "Guidance for Accounting Standard for Impairment of Fixed Assets." If there is a need for any additional asset impairment for some reason, there may be an impact on the Group's performance and financial condition.

ii) Acquisition or establishment of new companies

The Group may establish more subsidiaries and affiliates to increase business opportunities. However, there is no assurance that these companies will be able to conduct business activities as planned. Furthermore, higher expenses from these business activities or other aspects of these activities may have a negative impact on the Group's performance.

3) Reliance on Particular Customers, Products and Technologies

i) Reliance on particular customers

The Group provides technologies and know-how to medical institutions. Currently, there is a significant reliance on four medical institutions that accounted for sales of 533,241 thousand yen (34.6% of consolidated sales) in 2013. These institutions are Seren Clinic Tokyo (Minato-ku, Tokyo), Seren Clinic Nagoya (Naka-ku, Nagoya City, Aichi), Seren Clinic Kobe (Chuo-ku, Kobe City, Hyogo), and Seren Clinic Fukuoka (Chuo-ku, Fukuoka City, Fukuoka). We believe that our reliance on specific basic affiliated medical institutions will decrease over time as the number of contracted medical institutions increases. However, if there are delays in increasing the number of new basic affiliated medical institutions or a change in the relationships of current basic affiliated medical institutions with the Group, there may be an impact on the Group's performance and financial condition.

ii) Contracts with contracted medical institutions

The Group has alliance agreements with contracted medical institutions concerning the use of the DC vaccine therapy and other therapies. In principle, these contracts are extended automatically upon their completion unless either party notifies the other party of its intent to terminate the contract within a certain period prior to the termination date. However, contracts may be terminated due to a change in the management policies of contracted medical institutions or cancelled due to a violation by the Group of the terms of contracts with contracted medical institutions. If this happens, there may be an impact on the Group's performance and financial condition.

iii) Reliance on particular physicians and cell culture specialists at contracted medical institutions

The Group's earnings are derived primarily from medical treatments and cell culture activities at contracted medical institutions. The provision of medical treatment depends on the decisions of physicians and cell culture activities depend on the skill of cell culture technicians. A contracted medical institution may no longer be able to provide proper medical treatment if a physician with expertise in DC vaccine therapy and other therapies or a cell culture technician resigns or for some other reason. If this happens, there may be an impact on the Group’s performance and financial condition.

iv) Infringement of intellectual property rights

The Group may infringe on the patents or other intellectual property of other companies. We use technological consultants to perform studies of technologies and patents to prevent such infringements. However, in the field of cancer treatments, where technology-based competition is fierce, there is a possibility that patents or other intellectual property may exist without our knowledge. In this case, we may violate the rights of other companies. If this happens, there may be an impact on the Group’s performance and financial condition.

v) Leaks of technologies and know-how

The provision of technologies and know-how involving the DC vaccine therapy and other therapies to contracted medical institutions is the Group’s primary source of revenue. We have confidentiality agreements with all contracted medical institutions. In addition, we ask contracted medical institutions to have all associated employees and other associated parties sign confidentiality agreements. Furthermore, we have strict rules for the storage and handling of confidential documents and other materials. The Group is also purchasing exclusive licenses, exclusive utilization rights and other rights concerning materials involving the DC vaccine therapy and other therapies. These purchases are intended to prevent parties that do not have a contract with the Group from performing a similar therapy including the DC vaccine therapy even in the unlikely event of a leak of the Group’s technologies or know-how. Nevertheless, a leak of technologies or know-how may have an impact on the Group’s performance and financial condition.

vi) Inability to receive permission from holders of rights

In some instances, the Group uses WT1 peptide as artificial antigen with regard to the technologies and know-how provided for performing the DC vaccine therapy. We have acquired the exclusive right from the original holder to use this peptide. There is a possibility of an increase in the cost of this utilization right or the loss of the approval to use WT1 peptide resulting from a change in the policies of the party holding this right, a violation by the Group of the contract terms, or for some other reason. If this happens, there may be an impact on the Group’s performance and financial condition.

vii) R&D activities and expenditures

The Group conducts a variety of joint R&D programs with universities and other partners. One goal is to improve the clinical effectiveness of the DC vaccine therapy and other therapies. Another goal is to create new sources of earnings from a medium- and long-term perspective. If there is a significant increase in the cost of these R&D programs because of a change in the policies of a university or other partner, a project that requires more time than expected or for some other reason, there may be an impact on the Group’s performance and financial condition.

4) Regulatory Restrictions, Business Practices and Management Policies

i) Reliance on a particular individual

The Company’s president and representative director, Yuichiro Yazaki is the Group’s chief executive officer. As a physician and research scientist, Dr. Yazaki has extensive knowledge and experience involving the DC vaccine therapy and advanced medical treatment technologies. He uses his extensive personal relationships with individuals at medical institutions and research facilities for sales activities. Overall, Dr. Yazaki plays an enormous role in the business activities of the Group. Consequently, if Dr. Yazaki is no longer able to perform his duties at the tella Group for some reason, there may be an impact on the Group’s performance and financial condition.

ii) Recruiting and training activities

Most of the business activities of the Group depend on research scientists, technicians and other individuals with highly specialized skills. We use on-the-job training and other programs to upgrade the skills of our employees. However, the inability to recruit a sufficient number of individuals in relation to the scale of our investments or to develop the skills of these individuals may limit the Group's ability to grow, thereby impacting the Group's performance and financial condition.

iii) Stock options

The Group is considering a continuation in the use of stock options as an incentive plan for recruiting and retaining talented individuals. Consequently, if stock options granted in the future are exercised, there may be dilution in the value of each share of the Group stock.

In addition, for newly granted stock options, the Group is required to post expenses for stock options in accordance with "Accounting Standard for Stock Options" (Accounting Standards Board of Japan (ASBJ) Statement No. 8) and "Guidance on Accounting Standard for Stock Options" (ASBJ Guidance No. 11). As a result, new stock options may impact the Group's performance.

The Company has newly issued the No. 8 to No. 11 series of stock acquisition rights in May 2013. The value of each share of the Group stock may be diluted if these and other stock options outstanding are exercised. On December 31, 2013, stock options outstanding represented a total of 906,923 shares of the Group stock. If all of these options had been exercised, the resulting shares issued would have been equivalent to 6.86% of the 13,228,431 shares issued as of December 31, 2013.

iv) Internal ethical standards (system for investigations)

The Group has an Ethics Committee that includes professionals from outside the Group. The committee members study the suitability of new treatments and other services to be provided at contracted medical institutions from the standpoints of ethics and safety. The committee then decides if the treatment should be performed. If approval is granted, technologies and know-how for the applicable treatment are supplied to the contracted medical institutions. Based on contracts with contracted medical institutions, these institutions assume responsibility for providing treatments that use our technologies and know-how. However, an accident or other problem involving this treatment may, regardless of the cause, result in a loss of faith in the Group among medical institutions and patients. If this happens, there may be an impact on the Group's performance and financial condition.

v) Laws and regulations

Services provided by the Group are governed by the Pharmaceutical Affairs Act, Medical Practitioners Act, Medical Care Act and other laws and regulations. For example, Article 12 of the Pharmaceutical Affairs Act stipulates that a party that has not received permission to manufacture pharmaceuticals, etc. may not conduct a business for the purpose of manufacturing and selling pharmaceuticals, etc. Furthermore, Article 17 of the Medical Practitioners Act states that "a medical care business can be performed only by a physician."

When the Group provides technologies and know-how, cell cultures are performed by staff members of the contracted medical institutions under the direction of that institution's physicians. In addition, the Group does nothing other than provide technologies and know-how to contracted medical institutions. The Group is not involved at all in the management of these institutions.

When the Group was established, management carefully created a business model that would not violate these applicable laws and regulations. Consequently, business operations at this time are not in violation of any of them. However, future changes to applicable laws, regulations and other items may have an impact on the Group's performance and financial condition.

5) Significant Litigation

Litigation concerning medical treatment

Thus far, the Group has not been named in any lawsuits filed by contracted medical institutions or their patients or other associated individuals that demand compensation for alleged damages. If there is such litigation in the future for whatever reason, there may be an impact on the Group's performance and financial condition.

6) Others Items

i) Risks involving natural disasters

Although earthquakes and other natural disasters cannot be predicted, damage resulting from such a natural disaster at the Group or a contracted medical institution may have an impact on the Group's performance and financial condition.

ii) New business activities

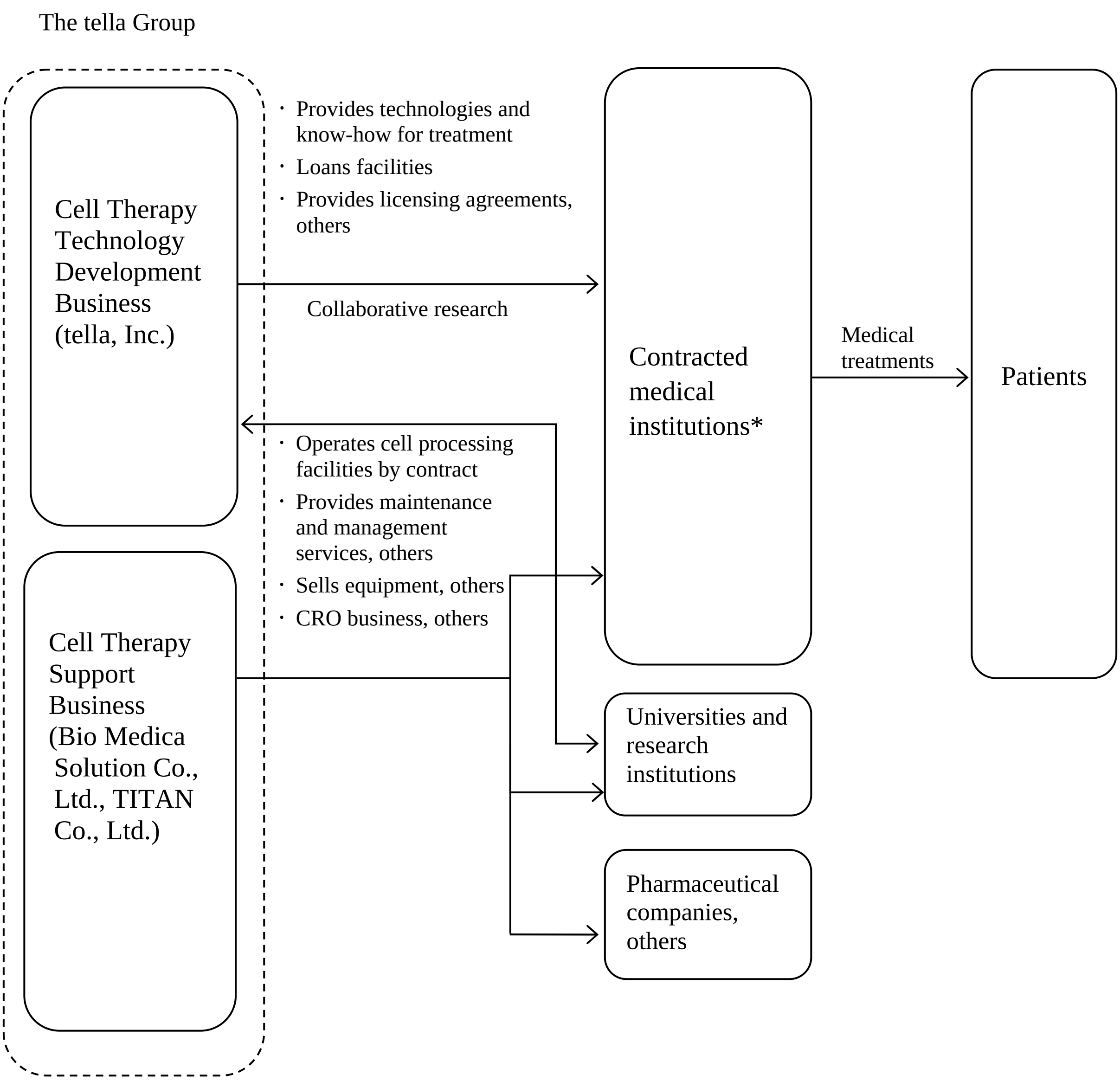
The Group is engaged in the provision of technologies and know-how concerning the DC vaccine therapy and other therapies to contracted medical institutions. To achieve further growth in corporate value, we are also moving quickly to start new business activities. Plans include building new business models, launching associated businesses, starting overseas operations and taking other actions. Investments in these businesses are made only after thorough research and other studies. However, if market conditions change rapidly, greater than expected expenses are needed for recruiting, equipment and other items, or a business plan falls far behind schedule, there may be an impact on the Group's performance and financial condition.

2. Group Organization

Business Activities

The tella Group consists of tella Inc. and two consolidated subsidiaries and is dedicated to the mission of "Medical Care Creation." The Group performs R&D involving the dendritic cell (DC) vaccine therapy and other therapies. We conducted sales activities targeting medical institutions nationwide, and academic and information activities which include mainly using seminars and other methods to provide information to patients and making announcements at academic events. Activities also include the provision of maintenance and management services for cell processing equipment, chiefly to university medical institutions, and the sale of this equipment. There are two reportable segments. One is the cell therapy technology development business (tella, Inc.). This business includes the provision to contracted medical institutions of cancer treatment technologies and know-how, chiefly the DC vaccine therapy. The other segment is the cell therapy support business (Bio Medica Solution Co., Ltd. and TITAN Co., Ltd.). This business includes operation of cell processing facilities by contract and providing maintenance and management services for research and medical institutions, selling equipment and replacement supplies, and a CRO business.

A business diagram of business operations is as follows.



*Services provided differ depending on the terms of the contract with each contracted medical institution.

There are three types of contracted medical institutions* described in the business diagram of business operations, depending on the type of contract used: (1) basic affiliated medical institutions, (2) clinical affiliated medical institutions and (3) client medical institutions.

(1) Basic Affiliated Medical Institutions

At these medical institutions, tella loans equipment, provides technologies and know-how, performs marketing activities, distributes information to medical institutions and patients, and provides licensing agreements associated with cancer immunotherapy, primarily the DC vaccine therapy. In return, we receive facility utilization fees, technology and know-how fees and fees for the utilization of licensed rights based on the number of treatments provided. For newly established medical institutions, we provide support extending from the establishment process to the installation of equipment and associated activities. For current medical institutions, our support covers the installation of equipment and associated activities.

(2) Clinical Affiliated Medical Institutions

At these medical institutions, tella provides technologies and know-how, performs marketing activities, distributes information to medical institutions and patients, and provides licensing agreements associated with cancer immunotherapy, primarily the DC vaccine therapy. In return, we receive technology and know-how fees and fees for the utilization of licensed rights based on the number of treatments provided. Unlike with basic affiliated medical institutions, no facility utilization fees are received because we do not install any equipment to these medical institutions.

(3) Client Medical Institutions

These medical institutions provide treatments in association with basic affiliated medical institutions or clinical affiliated medical institutions. tella provides support for marketing to medical institutions, distributes information to medical institutions and patients, and coordinates of medical care professionals in the hospital. In return, we receive a consulting fee according to the number of the relevant treatments by the basic affiliate and client medical institutions.

3. Management Policies

(1) Fundamental Management Policy

The tella Group is dedicated to fulfilling the mission of “Medical Care Creation.” By developing and providing innovative medical care technologies and know-how, we aim to conduct business activities that contribute to a better future for everyone, both patients and people in good health, as well as society as a whole.

Based on this fundamental management policy, we conduct R&D concerning new technologies and know-how that involve cancer immunotherapy, primarily the DC vaccine therapy which is one type of cancer vaccine therapy. At the same time we improve the quality and utilization of cancer immunotherapy, and perform other activities. We thereby aim to increase earnings, continue to grow and raise corporate value.

We also base activities on a commitment to corporate social responsibility (CSR) so that the growth and development makes a contribution to society.

(2) Targeted Performance Indicators

The medical care sector involving cell immunotherapy treatment for cancer is growing steadily along with the spreading use of this type of therapy, and this growth is expected to continue. Against this backdrop, the Group is performing R&D activities concerning unique cancer treatment technologies and know-how that involve cancer immunotherapy, primarily the DC vaccine therapy. The Group aims to achieve growth while establishing an even more stable base of operations through providing technologies and know-how concerning these cancer treatments to contracted medical institutions.

The Group places emphasis on two performance indicators: net sales and ordinary income as a percentage of net sales. Our goal for net sales is to resume double-digit growth in the Cell Therapy Technology Development and Cell Therapy Support businesses. Our medium- and long-term goal for ordinary income is a ratio of at least 10% in relation to net sales.

(3) Medium- and Long-term Management Strategy

The Group is dedicated to making more improvements to technologies involving the DC vaccine therapy and to achieving more progress in increasing the quality and utilization of cancer immunotherapy, primarily the DC vaccine therapy. In addition, we will acquire rights to new cancer antigens and other substances that are vital to the DC vaccine therapy in order to facilitate the practical use of these therapies in actual medical care. Furthermore, we are considering the launch of overseas operations to provide the DC vaccine therapy as well as the development of pharmaceuticals and other products. By supplying a comprehensive line of assistance in the field of cell therapy and CRO business, we will continue to fulfill our corporate mission.

With these goals in mind, we conduct R&D activities centered on cancer therapies that we believe will be key elements of our profit structure from a medium and long-term perspective. These therapies are focused on the following themes: cancer, cell therapy, immunotherapy, cancer vaccines, dendritic cells and regenerative medicine.

In addition, these R&D activities are in fields that can yield significant synergies with our current business model.

(4) Key Issues

This section lists key issues associated with the Group’s business activities, which involve R&D primarily associated with the DC vaccine therapy which is one type of cancer vaccine therapy, and the provision of unique cancer treatment technologies and know-how.

1) Issues Involving the DC Vaccine Therapy

i) Acquisition of artificial antigens

Artificial antigens are one of the most important substances that are required for the DC vaccine therapy. We believe that increasing the number of antigens available to us will broaden the scope of patients who can undergo the DC vaccine therapy and make this therapy more effective.

The Group has a contract granting exclusive rights to use patents involving the use of WT1*, MAGE-A4 and

Survivin peptides for the DC vaccine therapy and other therapies. Since these peptides can be combined with each other, we hope to use these combinations to make the DC vaccine therapy even more effective.

* WT1

In September 2009, WT1 were ranked first as an ideal cancer antigen among 75 types of cancer antigens in Clinical Cancer Research (2009 Volume 15, pages 5323-37), an academic publication of the American Association for Cancer Research (AACR).

ii) Improving dendritic cell quality and the cell culture efficiency

The quality of dendritic cells given to a patient has an enormous influence on the clinical efficacy of the DC vaccine therapy. The Group's technologies and know-how in dendritic cell culture is based on clinical research performed at The Institute of Medical Science at the University of Tokyo and at the University of Tokushima. Furthermore, we have been making constant improvements by using information gained from the practical use of the DC vaccine therapy. However, we believe there is a need for more improvements to make cell culture methods more efficient and stable and a need to develop cell processing equipment and quickly begin distributing this equipment.

iii) Increase the volume of scientific evidence

We would like to earn the support and understanding of even more medical professionals so that patients can obtain medical examinations with even greater confidence. We plan to accumulate and analyze data involving basic and clinical research and perform other activities in order to strengthen the scientific evidence. We will accomplish this by using medical care provided at clinical affiliated medical institutions as well as by performing research jointly with universities and other research institutes.

2) Greater Awareness and Understanding among Medical Care Professionals and Patients

Until recently, medical care professionals in Japan have generally recommended discretionary treatments that are not covered by the national health insurance in very rare instances. Furthermore, we believe there is a lack of awareness and understanding about the DC vaccine therapy among medical care professionals and patients because this therapy uses new technologies and know-how.
Increasing the use of the DC vaccine therapy will require a better understanding of this therapy among medical care professionals and patients. This is why we use academic conferences and seminars, the media and other means to provide information about the results of treatments at contracted medical institutions as well as new technologies and know-how. We will use these activities to increase the awareness and understanding of these therapies among medical care professionals and patients.

3) Recruiting and Training of Technicians

The Group provides cell culture specialists at contracted medical institutions with training concerning advanced technologies for culturing dendritic cells and other tissues used for medical therapies. As the number of contracted medical institutions increases, we will have to work harder on recruiting and training technicians who can provide assistance involving these advanced cell culture technologies.
We plan to meet this requirement by recruiting talented individuals based on a plan and by upgrading training programs for those individuals. We plan to use these measures to create a framework for the consistent training and supervision of cell culture specialists at contracted medical institutions.

4) Establishment of Internal Systems for New Restrictions

We will establish the internal systems that are needed to comply with new legal restrictions. For example, the Law concerning the Comprehensive Promotion of Measures for the Rapid and Safe Use of Regenerative Medicine in Japan was passed in April 2013 and the Law concerning the Assurance of Safety for Regenerative Medicine and Law concerning the Assurance of Quality, Efficacy and Safety for Pharmaceuticals and Medical Devices were passed in November 2013.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen)

	FY12/2012 (As of Dec. 31, 2012)	FY12/2013 (As of Dec. 31, 2013)
Assets		
Current assets		
Cash and deposits	1,030,551	1,080,109
Notes and accounts receivable-trade	291,667	273,120
Raw materials	3,390	4,237
Prepaid expenses	50,390	61,566
Deferred tax assets	9,666	23,736
Income taxes receivable	-	26,034
Advances paid	1,623	54,204
Other	24,263	20,752
Allowance for doubtful accounts	(8,506)	(250)
Total current assets	1,403,047	1,543,510
Noncurrent assets		
Property, plant and equipment		
Buildings, net	212,256	212,325
Tools, furniture and fixtures, net	215,570	187,493
Lease assets, net	54,633	26,442
Construction in progress	-	37,421
Total property, plant and equipment	482,460	463,681
Intangible assets		
Software	9,167	15,595
Software in progress	41,567	74,103
Right of using patent	14,791	10,291
Total intangible assets	65,526	99,991
Investments and other assets		
Investment securities	36,750	136,750
Lease deposits	64,666	107,302
Insurance funds	9,681	11,639
Deferred tax assets	16,837	22,495
Other	2,207	1,863
Allowance for doubtful accounts	(1,946)	-
Total investments and other assets	128,196	280,050
Total noncurrent assets	676,183	843,723
Total assets	2,079,231	2,387,234

(Thousands of yen)

	FY12/2012 (As of Dec. 31, 2012)	FY12/2013 (As of Dec. 31, 2013)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	18,085	41,071
Current portion of bonds	95,900	73,200
Current portion of long-term loans payable	116,400	122,500
Lease obligations	36,991	16,437
Asset retirement obligations	-	6,000
Accounts payable-other	56,411	57,605
Income taxes payable	69,753	13,131
Other	33,649	22,339
Total current liabilities	427,192	352,285
Noncurrent liabilities		
Bonds payable	113,200	40,000
Long-term loans payable	22,500	382,500
Lease obligations	23,204	11,998
Long-term lease deposited	50,537	50,537
Asset retirement obligations	4,871	10,924
Other	-	9,793
Total noncurrent liabilities	214,313	505,754
Total liabilities	641,505	858,039
Net assets		
Shareholders' equity		
Capital stock	593,017	652,908
Capital surplus	464,694	524,585
Retained earnings	342,390	273,584
Treasury stock	(270)	(270)
Total shareholders' equity	1,399,832	1,450,808
Subscription rights to shares	-	16,978
Minority interests	37,892	61,407
Total net assets	1,437,725	1,529,194
Total liabilities and net assets	2,079,231	2,387,234

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Thousands of yen)

	FY12/2012 (Jan. 1 – Dec. 31, 2012)	FY12/2013 (Jan. 1 – Dec. 31, 2013)
Net sales	1,544,923	1,539,993
Cost of sales	517,194	573,938
Gross profit	1,027,729	966,054
Selling, general and administrative expenses	806,084	942,820
Operating income	221,644	23,234
Non-operating income		
Interest income	201	207
Rent income of real estate	78,640	76,881
Subsidy income	533	147
Reversal of allowance for doubtful accounts	162	-
Other	11,817	2,160
Total non-operating income	91,355	79,397
Non-operating expenses		
Interest expenses	8,782	4,983
Interest on bonds	2,756	1,650
Rent cost of real estate	78,640	76,881
Head office transfer related cost	-	19,458
Depreciation	-	20,947
Stock issuance cost	174	83
Guarantee commission	1,308	817
Other	913	2,055
Total non-operating expenses	92,576	126,878
Ordinary income (loss)	220,423	(24,247)
Extraordinary income		
Gain on sales of noncurrent assets	-	1,465
Total extraordinary income	-	1,465
Extraordinary loss		
Loss on retirement of noncurrent assets	11	396
Loss on abandonment of noncurrent assets	345	46
Loss on valuation of investment securities	9,999	-
Loss on cancellation of lease contracts	0	-
Total extraordinary losses	10,356	442
Income (loss) before income taxes and minority interests	210,066	(23,225)
Income taxes-current	91,284	31,283
Income taxes-deferred	(4,631)	(19,726)
Total income taxes	86,652	11,556
Income (loss) before minority interests	123,414	(34,782)
Minority interests in income	23,791	23,514
Net income (loss)	99,623	(58,296)

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	FY12/2012 (Jan. 1 – Dec. 31, 2012)	FY12/2013 (Jan. 1 – Dec. 31, 2013)
Income (loss) before minority interests	123,414	(34,782)
Other comprehensive income		
Total other comprehensive income	-	-
Comprehensive income	123,414	(34,782)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	99,623	(58,296)
Comprehensive income attributable to minority interests	23,791	23,514

(3) Consolidated Statements of Changes in Net Assets

FY12/2012 (Jan. 1 – Dec. 31, 2012)

(Thousands of yen)

	Shareholders' equity					Subscription rights to shares	Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity			
Balance at the beginning of current period	588,418	460,095	242,767	(258)	1,291,023	-	14,101	1,305,124
Changes of items during the period								
Purchase of treasury stock				(11)	(11)			(11)
Issuance of new shares-exercise of subscription rights to shares	4,599	4,599			9,198			9,198
Net income			99,623		99,623			99,623
Net changes of items other than shareholders' equity							23,791	23,791
Total changes of items during the period	4,599	4,599	99,623	(11)	108,809	-	23,791	132,601
Balance at the end of current period	593,017	464,694	342,390	(270)	1,399,832	-	37,892	1,437,725

FY12/2013 (Jan. 1 – Dec. 31, 2013)

(Thousands of yen)

	Shareholders' equity					Subscription rights to shares	Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity			
Balance at the beginning of current period	593,017	464,694	342,390	(270)	1,399,832	-	37,892	1,437,725
Changes of items during the period								
Issuance of new shares-exercise of subscription rights to shares	59,890	59,890			119,781			119,781
Dividends from surplus			(10,509)		(10,509)			(10,509)
Net loss			(58,296)		(58,296)			(58,296)
Issuance of subscription rights to shares						17,690		17,690
Exercise of subscription rights to shares						(711)		(711)
Net changes of items other than shareholders' equity							23,514	23,514
Total changes of items during the period	59,890	59,890	(68,806)	-	50,975	16,978	23,514	91,468
Balance at the end of current period	652,908	524,585	273,584	(270)	1,450,808	16,978	61,407	1,529,194

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	FY12/2012 (Jan. 1 – Dec. 31, 2012)	FY12/2013 (Jan. 1 – Dec. 31, 2013)
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	210,066	(23,225)
Depreciation and amortization	158,184	165,630
Increase (decrease) in allowance for doubtful accounts	(92)	(10,203)
Interest and dividends income	(201)	(207)
Interest expenses paid on loans and bonds	11,539	6,633
Subsidy income	(533)	(147)
Loss (gain) on sales and valuation of investment securities	9,999	-
Loss (gain) on sales of noncurrent assets	-	(1,465)
Loss on retirement of noncurrent assets	11	396
Loss on abandonment of noncurrent assets	345	46
Stock issuance cost	174	83
Loss on cancellation of leases	0	-
Decrease (increase) in notes and accounts receivable-trade	47,213	18,547
Decrease (increase) in inventories	1,150	(847)
Increase (decrease) in notes and accounts payable-trade	6,885	22,986
Decrease (increase) in prepaid expenses	2,296	(10,155)
Increase (decrease) in accounts payable-other	3,733	3,737
Other, net	6,537	(48,068)
Subtotal	457,311	123,740
Interest and dividends income received	201	207
Interest expenses paid	(11,577)	(7,940)
Subsidies received	4,761	1,622
Income taxes paid	(45,900)	(112,955)
Income taxes refund	1,405	-
Net cash provided by (used in) operating activities	406,200	4,674
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(103,695)	(134,362)
Proceeds from sales of property, plant and equipment	25	5,500
Purchase of investment securities	-	(100,000)
Purchase of intangible assets	(43,884)	(41,321)
Purchase of insurance funds	(1,957)	(1,957)
Payments for lease and guarantee deposits	(705)	(42,675)
Proceeds from collection of lease and guarantee deposits	5,203	39
Repayments of long-term deposits received	(5,203)	-
Net cash provided by (used in) investing activities	(150,217)	(314,778)

(Thousands of yen)

	FY12/2012 (Jan. 1 – Dec. 31, 2012)	FY12/2013 (Jan. 1 – Dec. 31, 2013)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	250,000	150,000
Decrease in short-term loans payable	(250,000)	(150,000)
Proceeds from long-term loans payable	-	500,000
Repayment of long-term loans payable	(158,200)	(133,900)
Redemption of bonds	(124,400)	(95,900)
Repayments of lease obligations	(44,491)	(37,206)
Proceeds from issuance of stock resulting from exercise of subscription rights to shares	9,023	119,070
Proceeds from issuance of subscription rights to shares	-	17,690
Purchase of treasury stock	(11)	-
Cash dividends paid	(22)	(10,092)
Net cash provided by (used in) financing activities	(318,102)	359,661
Net increase (decrease) in cash and cash equivalents	(62,119)	49,557
Cash and cash equivalents at beginning of period	1,092,670	1,030,551
Cash and cash equivalents at end of period	1,030,551	1,080,109

(5) Going Concern Assumption

Not applicable.

(6) Significant Accounting Policies in the Preparation of Consolidated Financial Statements

1. Scope of consolidation

All subsidiaries are included in the consolidation.

(1) Number of consolidated subsidiaries: 2

(2) Name of main consolidated subsidiaries: Bio Medica Solution Co., Ltd.

2. Application of equity method

There is no equity-method subsidiary and affiliate.

3. Fiscal year of consolidated subsidiary

The fiscal year of the consolidated subsidiary Bio Medica Solution Co., Ltd. ends on November 30, 2013.

The financial statements of this subsidiary as of its balance sheet date are used for consolidation purpose where appropriate adjustments are made for significant transactions during December 1 to December 31, the balance sheet date of the consolidated financial statements.

4. Accounting standards

(1) Valuation standards and methods for principal assets

Securities

Available-for-sale securities

Securities without market quotations: Moving average cost method.

Raw materials

First-in first-out cost method. (The carrying value on the balance sheet is written down to reflect the effect of lower profit margins.)

(2) Depreciation and amortization method for major depreciable assets

1) Property, plant and equipment (excluding lease assets)

Declining-balance method except for buildings (excluding attached structures), which are accounted for by the straight-line method.

Useful lives of principal assets are as follows:

Buildings:	14 to 21 years
Attached structures:	8 to 18 years
Tools, furniture and fixtures:	3 to 10 years

2) Intangible assets (excluding lease assets)

Straight-line method.

Amortization periods of principal assets are as follows:

Software:	5 years
Right of using patent:	Shorter of 8 years or contract period

3) Lease assets

Lease assets associated with finance lease transactions where there is no transfer of ownership:

The straight-line method is applied over the lease period used as the useful life of the assets with no residual value.

(3) Recognition of significant allowances

Allowance for doubtful accounts

To prepare for credit losses on receivables, an allowance equal to the estimated amount of uncollectible receivables is provided for general receivables based on the historical write-off ratio and for bad receivables based on a case-by-case determination of collectibility.

(4) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents consists of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value.

(5) Other significant accounting policies in the preparation of consolidated financial statements

Accounting for consumption taxes

The consumption, national and local taxes are accounted by the tax-exclusion method.

(7) Changes in Accounting Policies

Changes in accounting policies that are difficult to distinguish from changes in accounting-based estimates

In line with revisions to the Corporation Tax Law, the property, plant and equipment acquired on or after January 1, 2013 are depreciated according to the depreciation method stipulated in the revised Corporation Tax Law from the current fiscal year.

The effect of this change on operating income, ordinary loss, and loss before income taxes and minority interests for the current fiscal year is insignificant.

(8) Reclassifications

Consolidated Balance Sheets

“Advances paid,” included in “Other” under “Current assets” in the previous fiscal year, is reclassified and presented as a separate line item in the current fiscal year since it has increased the materiality of impact in the context of consolidated financial statements. To conform to this change, the consolidated financial statements for the previous fiscal year are reclassified.

As a result, “Other” (25,887 thousand yen) under “Current assets” shown in the previous fiscal year is reclassified and divided into “Advances paid (1,623 thousand yen) and “Other” (24,263 thousand yen).

(9) Notes to Consolidated Financial Statements

Segment and Other Information

Segment information

1. Overview of reportable segments

Segments used for financial reporting are tella's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The Company has two reportable segments that are based on services provided to customers: Cell Therapy Technology Development Business and Cell Therapy Support Business.

The Cell Therapy Technology Development Business involves the provision of unique cancer treatment technologies and know-how, chiefly the DC vaccine therapy. The Cell Therapy Support Business involves the operation of cell processing facilities by contract, the provision of maintenance and management services for these facilities, sales of cell processing devices, and others.

2. Methods of calculation of net sales, profit or loss, assets, liabilities and other items for each reportable segment

The accounting treatment methods for reportable segments are generally the same as those listed in "Significant Accounting Policies in the Preparation of Consolidated Financial Statements."

Profits for reportable segments are operating income figures.

3. Information related to net sales, profit or loss, assets, liabilities and other items for each reportable segment

FY12/2012 (Jan. 1 – Dec. 31, 2012) (Thousands of yen)

	Reportable segment			Total	Adjustments (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Cell Therapy Technology Development	Cell Therapy Support	Subtotal			
Net sales						
External sales	1,211,962	332,961	1,544,923	1,544,923	-	1,544,923
Inter-segment sales and transfers	-	-	-	-	-	-
Total	1,211,962	332,961	1,544,923	1,544,923	-	1,544,923
Segment profit	152,426	69,217	221,644	221,644	-	221,644
Segment assets	1,952,929	127,301	2,080,231	2,080,231	(1,000)	2,079,231
Segment liabilities	589,989	51,516	641,505	641,505	-	641,505
Other items						
Depreciation	147,102	5,460	152,563	152,563	-	152,563
Increase in property, plant and equipment and intangible assets	138,291	5,226	143,517	143,517	-	143,517

Notes: 1. The -1,000 thousand yen adjustment to segment assets comprises elimination for inter-segment transactions.
2. Segment profit is adjusted to be consistent with operating income shown on the consolidated statements of income.

FY12/2013 (Jan. 1 – Dec. 31, 2013) (Thousands of yen)

	Reportable segment			Total	Adjustments (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Cell Therapy Technology Development	Cell Therapy Support	Subtotal			
Net sales						
External sales	1,098,381	441,611	1,539,993	1,539,993	-	1,539,993
Inter-segment sales and transfers	-	31,673	31,673	31,673	(31,673)	-
Total	1,098,381	473,285	1,571,666	1,571,666	(31,673)	1,539,993
Segment profit	(46,454)	75,642	29,188	29,188	(5,953)	23,234
Segment assets	2,203,305	219,674	2,422,979	2,422,979	(35,745)	2,387,234
Segment liabilities	792,019	66,619	858,638	858,638	(598)	858,039
Other items						
Depreciation	151,921	4,650	156,571	156,571	(370)	156,201
Increase in property, plant and equipment and intangible assets	232,838	-	232,838	232,838	-	232,838

Notes: 1. Adjustments are as follows.

(1) The -5,953 thousand yen adjustment to segment profit includes elimination for inter-segment transactions of -6,324 thousand yen and noncurrent assets of 370 thousand yen.

(2) The -35,745 thousand yen adjustment to segment assets includes elimination for inter-segment transactions of -31,598 thousand yen and noncurrent assets of -4,146 thousand yen.

(3) The -598 thousand yen adjustment to segment liabilities comprises elimination for inter-segment transactions.

2. Segment profit is adjusted to be consistent with operating income shown on the consolidated statements of income.

Related information

FY12/2012 (Jan. 1 – Dec. 31, 2012)

1. Information by product or service

This information is omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales

Not applicable because there are no sales outside Japan.

(2) Property, plant and equipment

Not applicable because there are no property, plant and equipment outside Japan.

3. Information by major client

(Thousands of yen)

Name	Net sales	Related segments
SEREN CLINIC Tokyo	184,100	Cell Therapy Technology Development Cell Therapy Support
Tokyo Midtown Medical Center	173,067	Cell Therapy Technology Development Cell Therapy Support
SEREN CLINIC Nagoya	164,412	Cell Therapy Technology Development Cell Therapy Support

FY12/2013 (Jan. 1 – Dec. 31, 2013)

1. Information by product or service

This information is omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales

Not applicable because there are no sales outside Japan.

(2) Property, plant and equipment

Not applicable because there are no property, plant and equipment outside Japan.

3. Information by major client

(Thousands of yen)

Name	Net sales	Related segments
Tokyo Midtown Medical Center	181,479	Cell Therapy Technology Development Cell Therapy Support
SEREN CLINIC Nagoya	177,821	Cell Therapy Technology Development Cell Therapy Support
Panasonic Healthcare Co., Ltd.	174,377	Cell Therapy Support

Information related to impairment losses of noncurrent assets for each reportable segment

FY12/2012 (Jan. 1 – Dec. 31, 2012)
Not applicable.

FY12/2013 (Jan. 1 – Dec. 31, 2013)
Not applicable.

Information related to goodwill amortization and the unamortized balance for each reportable segment

FY12/2012 (Jan. 1 – Dec. 31, 2012)
Not applicable.

FY12/2013 (Jan. 1 – Dec. 31, 2013)
Not applicable.

Information related to gain on bargain purchase for each reportable segment

FY12/2012 (Jan. 1 – Dec. 31, 2012)
Not applicable.

FY12/2013 (Jan. 1 – Dec. 31, 2013)
Not applicable.

Per-share Information

(Yen)

FY12/2012 (Jan. 1 – Dec. 31, 2012)		FY12/2013 (Jan. 1 – Dec. 31, 2013)	
Net assets per share	106.56	Net assets per share	109.68
Net income per share	7.59	Net loss per share	4.44
Diluted net income per share	7.48	Diluted net income per share	-

Notes: 1. Diluted net income per share in FY12/2013 is not presented since the Company posted a net loss.

2. Basis for calculation of net assets per share

Item	FY12/2012 (As of Dec. 31, 2012)	FY12/2013 (As of Dec. 31, 2013)
Total net assets carried on the consolidated balance sheets (Thousands of yen)	1,437,725	1,529,194
Net assets applicable to common stock (Thousands of yen)	1,399,832	1,450,808
Breakdown of differences (Thousands of yen)		
Minority interests	37,892	61,407
Number of shares of common stock outstanding (Thousands of shares)	13,137	13,228
Number of shares of treasury common stock (Thousands of shares)	0	0
Number of shares of common stock used in calculation of net assets per share (Thousands of shares)	13,136	13,228

3. Basis for calculation of net income per share and diluted net income per share

Item	FY12/2012 (Jan. 1 – Dec. 31, 2012)	FY12/2013 (Jan. 1 – Dec. 31, 2013)
(1) Net income (loss) per share		
Net income (loss) carried on the consolidated statements of income (Thousands of yen)	99,623	(58,296)
Net income (loss) applicable to common stock (Thousands of yen)	99,623	(58,296)
Amount not available to shareholders of common stock (Thousands of yen)	-	-
Average number of shares of common stock outstanding during period (Thousands of shares)	13,124	13,144
(2) Diluted net income per share		
Adjusted to net income (Thousands of yen)	-	-
Increase in common stock (Thousands of shares)	187	-
Summary of potential stock not included in the calculation of diluted net income per share since there was no dilutive effect	-	-

Material Subsequent Events

1. Exercise of stock acquisition rights

No. 8 and No. 9 series of stock acquisition rights issued by the Company have been exercised during the period from January 1, 2014 to February 7, 2014 as follows.

No. 8 stock acquisition rights

Number of stock acquisition rights exercised	53
Number of shares delivered	278,115
Total exercise price (Thousands of yen)	662,500
Number of unexercised stock acquisition rights	0
Increase in the number of shares outstanding	278,115
Increase in capital stock (Thousands of yen)	333,345
Increase in legal capital surplus (Thousands of yen)	333,345

No. 9 stock acquisition rights

Number of stock acquisition rights exercised	55
Number of shares delivered	288,610
Total exercise price (Thousands of yen)	687,500
Number of unexercised stock acquisition rights	7
Increase in the number of shares outstanding	288,610
Increase in capital stock (Thousands of yen)	345,924
Increase in legal capital surplus (Thousands of yen)	345,924

2. Establishment a consolidated subsidiary

The Company's Board of Directors approved a resolution on February 7, 2014 to establish a consolidated subsidiary as follows.

(1) Purpose of establishing the subsidiary

GenoCypher will use tella's network of relationships in the cancer domain with medical institutions and physicians along with the sophisticated genetic data processing technology of Genaris. The goal is to provide genetic diagnosis support by building a new B-to-B service for personalized treatment of primarily individuals with cancer and genetic diseases.

(2) Overview of the subsidiary

1) Name:	GenoCypher Inc.
2) Address:	1-1-40 Suehiro-cho, Tsurumi-ku, Yokohama City, Kanagawa
3) Establishment:	February 2014 (tentative)
4) Capital:	20,000 thousand yen
5) Representative:	Yuichiro Yazaki, President & Representative Director
6) Major shareholders and ownership ratio:	tella, Inc. 51%, Genaris, Inc. 49%
7) Business:	Outsourced genetic analysis, examinations and research concerning diseases and other disorders

5. Non-consolidated Financial Statements

(1) Balance Sheets

(Thousands of yen)

	FY12/2012 (As of Dec. 31, 2012)	FY12/2013 (As of Dec. 31, 2013)
Assets		
Current assets		
Cash and deposits	962,793	936,179
Accounts receivable-trade	256,700	216,533
Prepaid expenses	49,945	61,016
Accounts receivable-other	23,046	15,973
Deferred tax assets	7,645	22,383
Income taxes receivable	-	26,034
Advances paid	1,623	54,204
Other	137	5,309
Allowance for doubtful accounts	(8,297)	-
Total current assets	1,293,595	1,337,633
Noncurrent assets		
Property, plant and equipment		
Buildings, net	211,809	211,952
Tools, furniture and fixtures, net	200,920	183,861
Lease assets, net	54,633	26,442
Construction in progress	-	37,421
Total property, plant and equipment	467,362	459,677
Intangible assets		
Software	9,167	15,595
Software in progress	41,567	74,103
Right of using patent	14,791	10,291
Total intangible assets	65,526	99,991
Investments and other assets		
Investment securities	36,750	136,750
Stocks of subsidiaries and affiliates	1,000	31,000
Lease deposits	62,229	104,905
Insurance funds	9,681	11,639
Deferred tax assets	16,531	19,845
Other	2,197	1,863
Allowance for doubtful accounts	(1,946)	-
Total investments and other assets	126,443	306,002
Total noncurrent assets	659,333	865,671
Total assets	1,952,929	2,203,305

(Thousands of yen)

	FY12/2012 (As of Dec. 31, 2012)	FY12/2013 (As of Dec. 31, 2013)
Liabilities		
Current liabilities		
Accounts payable-trade	7,175	5,688
Current portion of bonds	95,900	73,200
Current portion of long-term loans payable	116,400	122,500
Lease obligations	36,991	16,437
Asset retirement obligations	-	6,000
Accounts payable-other	51,928	52,754
Income taxes payable	47,939	-
Accrued consumption taxes	10,654	-
Other	8,685	9,684
Total current liabilities	375,675	286,264
Noncurrent liabilities		
Bonds payable	113,200	40,000
Long-term loans payable	22,500	382,500
Lease obligations	23,204	11,998
Long-term lease deposited	50,537	50,537
Asset retirement obligations	4,871	10,924
Other	-	9,793
Total noncurrent liabilities	214,313	505,754
Total liabilities	589,989	792,019
Net assets		
Shareholders' equity		
Capital stock	593,017	652,908
Capital surplus		
Legal capital surplus	464,694	524,585
Total capital surplus	464,694	524,585
Retained earnings		
Other retained earnings		
Retained earnings brought forward	305,498	217,083
Total retained earnings	305,498	217,083
Treasury stock	(270)	(270)
Total shareholders' equity	1,362,940	1,394,307
Subscription rights to shares	-	16,978
Total net assets	1,362,940	1,411,286
Total liabilities and net assets	1,952,929	2,203,305

(2) Statements of Income

(Thousands of yen)

	FY12/2012 (Jan. 1 – Dec. 31, 2012)	FY12/2013 (Jan. 1 – Dec. 31, 2013)
Operating revenues	1,211,962	1,098,381
Operating cost	327,920	281,238
Operating gross profit	884,042	817,143
Selling, general and administrative expenses		
Directors’ compensations	83,790	84,375
Salaries and allowances	130,422	159,614
Legal welfare expenses	23,054	26,112
Advertising expenses	130,949	121,751
Entertainment expenses	11,669	8,636
Traveling and transportation expenses	34,356	42,008
Commission fee	27,620	27,432
Compensations	61,518	70,798
Depreciation	5,386	17,777
Contribution	161	1,550
Research and development expenses	145,535	232,203
Provision of allowance for doubtful accounts	-	(10,243)
Other	77,151	81,579
Total selling, general and administrative expenses	731,615	863,597
Operating income (loss)	152,426	(46,454)
Non-operating income		
Interest income	510	187
Rent income of real estate	78,640	76,881
Subsidy income	533	147
Reversal of allowance for doubtful accounts	162	-
Other	530	959
Total non-operating income	80,376	78,176
Non-operating expenses		
Interest expenses	8,782	4,983
Interest on bonds	2,756	1,650
Rent cost of real estate	78,640	76,881
Head office transfer related cost	-	19,458
Depreciation	-	20,947
Stock issuance cost	174	83
Guarantee commission	1,308	817
Other	36	1,626
Total non-operating expenses	91,699	126,450
Ordinary income (loss)	141,103	(94,727)

(Thousands of yen)

	FY12/2012 (Jan. 1 – Dec. 31, 2012)	FY12/2013 (Jan. 1 – Dec. 31, 2013)
Extraordinary income		
Gain on sales of noncurrent assets	-	1,465
Total extraordinary income	-	1,465
Extraordinary loss		
Loss on retirement of noncurrent assets	11	396
Loss on abandonment of noncurrent assets	345	46
Loss on valuation of investment securities	9,999	-
Loss on cancellation of lease contracts	0	-
Total extraordinary losses	10,356	442
Income (loss) before income taxes	130,746	(93,705)
Income taxes-current	59,465	2,251
Income taxes-deferred	(4,550)	(18,052)
Total income taxes	54,915	(15,800)
Net income (loss)	75,831	(77,905)

(3) Statements of Changes in Net Assets

FY12/2012 (Jan. 1 – Dec. 31, 2012)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus		Retained earnings	
				Other retained earnings	Total retained earnings
		Legal capital surplus	Total capital surplus	Retained earnings brought forward	
Balance at the beginning of current period	588,418	460,095	460,095	229,666	229,666
Changes of items during the period					
Issuance of new shares-exercise of subscription rights to shares	4,599	4,599	4,599		
Purchase of treasury stock					
Net income				75,831	75,831
Total changes of items during the period	4,599	4,599	4,599	75,831	75,831
Balance at the end of current period	593,017	464,694	464,694	305,498	305,498

(Thousands of yen)

	Shareholders' equity		Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' equity		
Balance at the beginning of current period	(258)	1,277,922	-	1,277,922
Changes of items during the period				
Issuance of new shares-exercise of subscription rights to shares		9,198		9,198
Purchase of treasury stock	(11)	(11)		(11)
Net income		75,831		75,831
Total changes of items during the period	(11)	85,018	-	85,018
Balance at the end of current period	(270)	1,362,940	-	1,362,940

FY12/2013 (Jan. 1 – Dec. 31, 2013)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus		Retained earnings	
				Other retained earnings	Total retained earnings
		Legal capital surplus	Total capital surplus	Retained earnings brought forward	
Balance at the beginning of current period	593,017	464,694	464,694	305,498	305,498
Changes of items during the period					
Issuance of new shares-exercise of subscription rights to shares	59,890	59,890	59,890		
Dividends from surplus					
Net loss				(10,509)	(10,509)
Issuance of subscription rights to shares				(77,905)	(77,905)
Exercise of subscription rights to shares					
Total changes of items during the period	59,890	59,890	59,890	(88,414)	(88,414)
Balance at the end of current period	652,908	524,585	524,585	217,083	217,083

(Thousands of yen)

	Shareholders' equity		Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' equity		
Balance at the beginning of current period	(270)	1,362,940	-	1,362,940
Changes of items during the period				
Issuance of new shares-exercise of subscription rights to shares		119,781		119,781
Dividends from surplus		(10,509)		(10,509)
Net loss		(77,905)		(77,905)
Issuance of subscription rights to shares			17,690	17,690
Exercise of subscription rights to shares			(711)	(711)
Total changes of items during the period	-	31,367	16,978	48,345
Balance at the end of current period	(270)	1,394,307	16,978	1,411,286

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.