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To Our Shareholders:

**Information Disclosure on the Internet
Regarding the Notice of the 31st Ordinary
General Meeting of Shareholders**

31st Term (January 1, 2020 – December 31, 2020)

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Sosei Group Corporation

The matters listed above are provided to shareholders through postings on the Company's Internet website (<https://www.soseiheptares.com/>) in accordance with laws and regulations and Article 14 of the Company's Articles of Incorporation.

■ **Stock acquisition rights (“stock options”), etc. (as of December 31, 2020)**

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

		30th Stock Options		31st Stock Options	
Date of Board resolution		November 13, 2015		May 15, 2017	
Number of stock options		593		21	
Number and class of shares for stock options		237,200 shares of common shares		8,400 shares of common shares	
Amount of payment for stock options		281 yen per stock option		1,234,900 yen per stock option (Note 5)	
Value of assets to be provided on exercise of stock options		411,200 yen per stock option (1,028 yen per share)		400 yen per stock option (1 yen per share)	
Exercise period of stock options		from July 1, 2018 to June 30, 2021		from July 1, 2020 to April 30, 2027	
Terms and conditions for exercise		Note 1, 2 and 4		Notes 3, 4 and 6	
Holdings by directors and executive officers	Directors and executive officers (excluding external directors)	Number of stock options: 593 Number of shares for stock options: 237,200 Number of holders: 3 (Note 7)		Number of stock options: 18 Number of shares for stock options: 7,200 Number of holders: 2 (Note 7)	
	External directors	-		Number of stock options: 3 Number of shares for stock options: 1,200 Number of holders: 1	
		32nd Stock Options		34th Stock Options	
Date of Board resolution		May 15, 2017		November 21, 2017	
Number of stock options		2		2	
Number and class of shares for stock options		800 shares of common shares		800 shares of common shares	
Amount of payment for stock options		7,782.11 yen per stock option (Note 5)		6,214 yen per stock option (Note 8)	
Value of assets to be provided on exercise of stock options		1,227,600 yen per stock option (3,069 yen per share)		1,069,200 yen per stock option (2,673 yen per share)	
Exercise period of stock options		from July 1, 2020 to April 30, 2027		from December 1, 2020 to October 29, 2027	
Terms and conditions for exercise		Notes 3, 4 and 6		Notes 3, 4 and 6	
Holdings by directors and executive officers	Directors and executive officers (excluding external directors)	Number of stock options: 2 Number of shares for stock options: 800 Number of holders: 1 (Note 7)		Number of stock options: 2 Number of shares for stock options: 800 Number of holders: 1 (Note 7)	
	External directors	-		-	

(Notes):

1. (1) Stock option holders may exercise stock options when the cumulative total of revenue on the Company's audited Consolidated Statement of Comprehensive Income reported in securities reports submitted by the Company for the fiscal years ended March 2016 and March 2017 is ¥23.0 billion or greater.
(2) If during the period from the allotment date to the date the stock option exercise period expires, the average closing price for regular trading of the Company's shares of common shares on the Tokyo Stock Exchange ("TSE") for any five consecutive trading days falls below a price that is obtained by multiplying 50% of the exercise price (amounts less than 1 yen rounded off) even one time, stock options may not be exercised even if the conditions of (1) above are met.
2. Stock option holders must be directors, executive officers or employees of the Company or the Company's affiliates when exercising stock options; provided, however, that this does not apply in cases of retirement due to expiration of a term of office or reaching the mandatory retirement age, or when there are other legitimate reasons.
3. Stock option holders must be directors, executive officers or employees of the Company or the Company's subsidiaries when exercising stock options; provided, however, that this does not apply in cases of retirement due to expiration of a term of office or reaching the mandatory retirement age, or when there are other legitimate reasons.
4. (1) Stock options may not be exercised by heirs of stock option holders.
(2) Stock options may not be exercised if by exercising the options the Company's total number of outstanding shares after exercise would exceed the total number of authorized shares at that time.
(3) Stock options may not be exercised in fractions of one unit.
5. The fair value of the stock option granted to directors and executive officers of the Company was offset against the same amount of their rights to remuneration effective on the date of allotment.
6. (1) Stock option holders may exercise the options if the closing price of common shares of the Company in the regular trading on the TSE on July 1, 2020 (for 34th stock options, on December 1, 2020) is one hundred and fifteen percent (115%) or more of the base price. For the purpose of these items, the "base price" means the closing price of common shares of the Company in the regular trading on the TSE on the allotment date.
(2) Notwithstanding the conditions provided in the item (1) above, the options may be exercised in part if certain stipulated conditions are met on the date after one, two or three years from the allotment date.
7. Holdings of the 29th, 30th, 31st, 32nd and 34th Stock Options include the options granted to an employee, a director of a subsidiary and an employee of a subsidiary before his assumption of the office as executive officer.
8. The stock options were granted to executive officers of the Company as incentive remuneration and the grant without payment of cash equivalent to the fair value of the stock option granted does not constitute a particularly favorable condition of issuance.
9. The number of shares for stock options was changed from 100 shares per stock option to 400 shares per stock option following the stock split as of July 1, 2018 and the value of assets to be provided on exercise of stock options was adjusted accordingly.

2. Other important matters regarding stock acquisition rights, etc.

The Company issues the following bonds with stock acquisition rights.

Name of Issue	Sosei Group Corporation Euro-yen Denominated Convertible Bonds due 2025
Issue Date	July 16 2020
Number of Stock Acquisition Right	1,600
Types of shares for which Stock Acquisition Rights are to be made	Common stock
Exercise period of Stock Acquisition Right	from July 30, 2020 to July 2, 2025
Conversion Price	1,834 yen per share
Number of remaining Stock Acquisition Right as of December 31 2020	1,600

■ **Outline of the systems for ensuring the appropriateness of operations and their operating status**

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

1. Systems for ensuring the appropriateness of operations

<<Matters required for execution of duties by the Audit Committee>>

- (1) Matters related to directors and employees who assist in Audit Committee duties
Employees who assist in the duties of the Audit Committee conduct their duties in coordination with the Internal Audit Department in accordance with the directions of the chairman of the Committee. Evaluations related to the performance of these employees are conducted by the Committee, and transfers of such employees are subject to approval by the Committee.
- (2) Systems regarding matters to be reported by directors (excluding directors who are Audit Committee members), executive officers, and employees to the Audit Committee and other matters to be reported to the Audit Committee
 - Directors, executive officers and employees of the Company and subsidiaries who learn of facts that may cause material damages to the Company or acts, etc. that are in violation of laws and regulations or Articles of Incorporation shall report them to the Audit Committee, and those who make such reports shall not be treated unfairly for reporting such facts or actions.
 - The Internal Audit Department reports timely and properly to the Audit Committee on the implementation status of internal audits as well as the status and content of any whistleblowing communications.
- (3) Other systems to ensure that audits are conducted effectively by the Audit Committee
 - The Internal Audit Department consults in advance with the Audit Committee regarding internal audit policies and plans, etc. and closely coordinates with the Committee, which includes holding discussions related to audits.
 - The Company promptly processes requests by the Audit Committee members for advancement or reimbursement of expenses necessary for the performance of Audit Committee duties.

<<Systems for ensuring that the execution of duties by executive officers conforms with laws and regulations and Articles of Incorporation, and other systems required to ensure the appropriateness of the Company's operations>>

- (4) System to ensure the performance of duties by executive officers and employees and by directors and employees of subsidiaries to conform with laws and regulations and Articles of Incorporation
 - Compliance with laws and regulations and adherence to corporate ethics are stipulated in the Group's code of corporate conduct, and every effort is made to raise awareness of this among all executive officers and employees, including at subsidiaries. An independent whistle-blower hotline exists and is operated

appropriately.

- The Internal Audit Department conducts internal audits related to performance of duties at the Company and its subsidiaries.
- (5) System related to preservation and management of information related to performance of duties by executive officers
- Information related to performance of duties by executive officers is appropriately prepared, retained and managed in accordance with internal company rules.
- (6) Rules and other systems related to management of risk of loss
- Specific policies and measures are determined to deal with risks related to the Group's business operations, and risk management procedures are appropriately conducted at the Company and its subsidiaries.
 - Important management decisions are made after adequate deliberation by the Board of Directors, etc. and based on the opinions of outside experts as necessary.
- (7) System to ensure that performance of duties by executive officers and directors, etc. of subsidiaries is conducted efficiently
- Operational responsibilities of executive officers and official authority for respective executives and employees of the Company and subsidiaries are clearly stipulated, and reporting on operational performance and deliberations on important matters are conducted with flexibility in accordance with these rules.
 - System construction is promoted to improve operational efficiency.
- (8) System to ensure the appropriateness of operations at the corporate group consisting of the Company and its subsidiaries
- Reports on operational matters at subsidiaries are received in accordance with internal company rules, and instructions and support relating to the establishment of systems designed to ensure operational appropriateness are provided to subsidiaries.
 - The Internal Audit Department provides instructions and recommendations for improvements to subsidiaries based on the findings of internal audits of subsidiaries.
 - Efforts are made to ensure the appropriateness of the Group's financial reporting, which is evaluated, maintained, and improved.

2. Outline of the operational status of systems for ensuring the appropriateness of operations

(1) Compliance system

The Group has established a code of corporate conduct that applies to the entire Group, and is proceeding with further revisions, which include exhaustive efforts to promote awareness, in order to respond to recent changes in the business environment. In addition, whistle-blowing incidents are handled appropriately through a whistle-blower hotline established externally, and internal audits are conducted by the Internal Audit Department at the Group's companies in accordance with the internal auditing plan.

(2) Information retention and management system

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

(3) Risk management system

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

(4) System for efficient and appropriate execution of duties

The Group stipulates authority levels for executives and employees in accordance with formal authority rules at each company. In order to ensure that operations are carried out efficiently and appropriately, the Group requires management of affiliated companies to provide reports to the parent company in accordance with the relevant rules, and provides suitable supervision and guidance by the parent to affiliated companies. In addition, the business performance of subsidiaries is reported as necessary at meetings of the Board of Directors. The Internal Audit Department provides guidance on recommended improvements identified through internal audits.

(5) System for execution of duties by the Audit Committee

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

■ **Policy on the conduct of persons influencing decision on the Company's financial and business policies**

Not applicable.

Consolidated Statement of Changes in Equity

(Millions of yen)

	Capital Stock	Capital surplus	Treasury stock	Retained earnings	Other elements of shareholders' equity	Equity attributable to owners of the parent
Balance at January 1, 2020	37,479	26,548	(0)	(12,264)	(6,688)	45,075
Profit (loss) for the year	-	-	-	1,479	-	1,479
Other comprehensive income (loss)	-	-	-	-	(818)	(818)
Total comprehensive income (loss)	-	-	-	1,479	(818)	661
Issuance of new shares	2,741	2,404	-	-	-	5,145
Issuance of convertible bonds	-	841	-	-	-	841
Share-based payments	-	659	-	-	-	659
Change on loss of control of subsidiary	-	-	-	-	-	-
Total transactions with owners	2,741	3,904	-	-	-	6,645
Balance at December 31, 2020	40,220	30,452	(0)	(10,785)	(7,506)	52,381

	Non-controlling interests	Total equity
Balance at January 1, 2020	3	45,078
Profit (loss) for the year	(0)	1,479
Other comprehensive income (loss)	-	(818)
Total comprehensive income (loss)	(0)	661
Issuance of new shares	-	5,145
Issuance of convertible bonds	-	841
Share-based payments	-	659
Change on loss of control of subsidiary	(3)	(3)
Total transactions with owners	(3)	6,642
Balance at December 31, 2020	-	52,381

Note: Amounts less than 1 million yen have been rounded

Notes to the Consolidated Financial Statements

1. Basis of preparation of the consolidated financial statements

(1) Standards for preparation of the consolidated financial statements

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

(2) Scope of consolidation

1) Consolidated subsidiaries

i. Number of subsidiaries: 5

ii. Names of principal consolidated subsidiaries:

Sosei Co. Ltd.

Heptares Therapeutics Ltd.

(3) Scope of equity accounting

1) Associates accounted for using the equity method

i. Number of associates accounted for using the equity method: 2

ii. Names of principal companies:

JITSUBO Co., Ltd.

MiNA (Holdings) Ltd.

(4) Accounting policies

1) Valuation standards and methods for significant assets and liabilities

i. Valuation standards and methods for financial assets and liabilities

Financial assets

Initial recognition and measurement of financial assets

Trade receivables and other receivables are recognized initially on their settlement dates. Other financial assets are recognized on their transaction dates. At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

At the time of initial recognition, the classification of financial assets is determined as follows:

Debt instruments

Financial assets measured at amortized cost

A financial asset is measured at amortized cost when both of the following conditions are met:

(a) the financial asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through profit or loss are financial assets other than those defined above.

Equity instruments

Financial assets measured at fair value through other comprehensive income

The Group may irrevocably elect to classify equity investments, other than those held for trading, upon initial recognition as financial assets measured at fair value through other comprehensive income.

Equity financial assets measured at fair value through profit or loss are equity financial assets other than those defined above.

Subsequent measurement of financial assets

After initial recognition, the Group measures a financial asset according to its classification as follows:

- (a) a financial asset measured at fair value through profit or loss is recognized as the change in the amount of the fair value.
- (b) a financial asset measured at fair value through other comprehensive income is recognized as the change in the amount of the fair value. Dividends from a financial asset are recognized as part of financial income in net income (loss) for the current period, except for those portions considered to be part of the cost of investment.
- (c) a financial asset measured at amortized cost is recognized by the effective interest method.

Derecognition of financial assets

The Group derecognizes a financial asset when, and only when:

- (a) the contractual rights to cash flows from the financial asset expire, or
- (b) it transfers the contractual rights to receive cash flows from the financial asset and transfers substantially all the risks and rewards of ownership of the financial asset.

Impairment of financial assets

For financial assets measured at amortized cost expected credit losses are recorded through an allowance for doubtful accounts. At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. The Group measures the loss allowance for a financial instrument at an amount equal to the expected annual credit loss where the credit risk on that financial instrument has not increased significantly since initial recognition. Alternatively, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit loss if the credit risk on that financial instrument has increased significantly since initial recognition. The Group uses the change in risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make this assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. The Group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit losses. The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Whether or not a financial asset is credit impaired is determined by the default of the borrower, or if the lender, for economic or contractual reasons relating to the borrower's financial difficulty, grants to the borrower a concession(s) that the lender would not otherwise have granted, or when other factors occur, such as the disappearance of an active market. Expected credit losses are measured as the difference between contractual cash flows that are due to the Group in accordance with a contract and the cash flows that the entity expects to receive, discounted at the original effective interest rate. The Group directly reduces the value of a credit impaired-financial asset when it, or a part of it, cannot realistically be expected to be realized and its collateral is realized or transferred to the Group. Where an impairment loss is reduced after initial recognition, the decrease in impairment loss (decrease to the allowance for doubtful accounts) is reversed in profit or loss. The impairment loss is reversed up to the value of the amortization at the time the impairment loss was recognized.

Financial liabilities

Initial recognition and measurement of financial liabilities

Financial liabilities are recognized on the transaction date. At initial recognition, the Group measures a financial liability at its fair value minus, in the case of a financial liability not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. The Group classifies financial liabilities upon initial recognition as financial liabilities subsequently measured at fair value through profit or loss, or financial liabilities measured at amortized cost.

Subsequent measurement of financial liabilities

After initial recognition, the Group measures a financial liability as follows:

- (a) a financial liability measured at fair value through the profit or loss is recognized as a change in fair value.
- (b) a financial liability measured at amortized cost is recognized by the effective interest method.

If the discontinuation of amortization and derecognition using the effective interest method occur, a gain or loss is recognized within net profit or loss for the current period as part of finance costs.

Derecognition of financial liabilities

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

iii. Presentation of financial assets and financial liabilities

The Group offsets financial assets and financial liabilities showing the net amount only when the Group has the legal right to offset the balances, and either settles the balances on a net basis or intends to simultaneously realize the asset and settle the liability.

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

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost is directly attributable to the acquisition of the asset, the initial estimate of costs for dismantling and removing the asset and the costs of restoring property to its original state.

Goodwill and intangible assets

Goodwill

Goodwill arising from an acquisition of a subsidiary is recorded at cost less accumulated impairment losses. Upon initial recognition goodwill is measured at the fair value of the transfer consideration, including the amount recognized for non-controlling interests, less the net recognized value (normally, the fair value) of identifiable assets and assumed liabilities at the time of the acquisition. Goodwill is not amortized. It is allocated to cash-generating units and an annual impairment test is conducted at the same time in each fiscal year or whenever there is an indication that goodwill may be impaired. Impairment losses on goodwill are recognized in the consolidated statement of profit or loss and other comprehensive income and are not reversed subsequently.

Intangible assets

Separately acquired intangible assets with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. The cost is directly attributable to the acquisition of the intangible asset.

Development assets

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

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

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

Lease (as a lessee)

The Group has assessed whether any new contracts include a lease at inception of a contract. If a contract conveys the right to control the use of an identified asset for a period in exchange for consideration, the contract is, or contains, a lease.

Initial recognition and measurement

At the commencement date of the contract, a right-of-use asset is measured at an amount equal to the initial measurement of the lease liability, adjusted by an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset itself. The lease liability is measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the commencement date.

Subsequent measurement

A right-of-use asset is depreciated using the straight-line method over the shorter of the lease term or the useful life of the right-of-use asset. Interest on the lease liability is calculated to be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The lease liability is reduced by lease payments net of the interest expense.

Presentation

In the Interim Condensed Consolidated Balance Sheet, the Group presents right-of-use assets in "Property, plant and equipment" and lease liabilities in "Lease liabilities". In the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Group presents interest expense at an amount that produces a constant periodic rate of interest on the remaining balance of the lease liability in "Financial costs".

Short-term leases and leases of low-value assets

For low-value asset leases and short-term leases with lease terms of 12 months or less, the Group has adopted the exemption provisions of IFRS 16 *Leases*, and has elected not to recognize right-of-use assets and lease liabilities. The Group recognizes lease payments for these leases as expenses over the lease term using the straight-line method.

v. Impairment of non-financial assets

The book values of non-financial assets are reviewed for indications of impairment at each reporting date. If any such indications exist, the asset's recoverable amount is estimated. For goodwill and intangible assets with indefinite useful lives or intangible assets not yet available for use, the recoverable amount is estimated at the same time in each fiscal year. The recoverable amount of assets or cash-generating units is the higher of value in use or fair value less disposal costs. In the calculation of value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects the time value of money and risks inherent to the asset. In respect of cash-generating units, assets are grouped into the smallest units generating largely independent cash flows from other assets or units, through continued usage.

In respect of cash-generating units for goodwill, goodwill is assessed based on those business units defined for the purposes of internal reporting. In principle, a cash-generating unit is classified as a type of business and geographical region. Corporate assets do not generate independent cash inflows. Therefore, when there are indications of impairment in corporate assets the recoverable amount of the cash-generating unit to which the corporate asset belongs is calculated for the impairment test. Assets that do not have external cash flows are included within the cash-generating units of the business units that they support. Impairment loss is recognized in profit or loss when the book value of the asset or cash-generating unit exceeds the recoverable amount. Impairment loss recognized in connection with cash-generating units is allocated first to reduce the book value of goodwill relating to that cash-generating unit. Any additional impairment required is allocated next to reduce the book values of other assets within the cash-generating unit proportionally.

Impairment losses related to goodwill are not reversed. In respect of impairment losses on other assets recognized in the past, the existence of indications showing that the loss has decreased or been eliminated is assessed on each reporting date. If there are indications of a reversal of impairment and the estimate used for determining the recoverable amount has changed, the impairment loss is reversed. The previously recognized impairment loss is reversed to the extent that the carrying amount of the asset does not exceed what the carrying amount would have been (net of amortization and depreciation) had no impairment loss been recognized for the asset in prior years.

2) Depreciation methods for significant depreciable assets

i. Property, plant and equipment

Property, plant and equipment are depreciated based on their depreciable amounts by the straight-line method over the expected useful life of each asset. The normal expected useful lives of major asset categories are as follows:

- Buildings and structures: 6 to 18 years
- Machinery and equipment: 3 to 8 years
- Furniture and fixtures: 2 to 10 years

The expected useful lives, residual values and depreciation methods are reviewed at the end of each fiscal year, and changes in these items, if any, are applied prospectively as changes in accounting estimates.

ii. Intangible assets

Intangible assets are amortized based on their amortizable amounts by the straight-line method over the expected useful life of each asset. The amortization method, expected useful lives, and residual values are reviewed at the end of each fiscal year, and changes in these items, if any, are applied prospectively as changes in accounting estimates. Expected useful lives of major asset categories are as follows.

- Product-related assets: 20 years
- Core technology: 12 to 20 years
- Customer-related assets: 20 years

Intangible assets with indefinite useful lives and intangible assets that are not yet available for use and therefore not yet amortized, are tested for impairment at the same time in each fiscal year and whenever there is an indication of impairment.

3) Accounting standards for significant income and expenditure

i. Revenue recognition

The Group earns revenue through sales of a developed pharmaceutical product, license agreements providing development and marketing rights of pharmaceutical products and research and development service agreements contracted with third parties. These agreements are classified into the following types of revenue based on their purpose and performance obligations:

Types of revenue classified by purpose:

- Milestone income and upfront fees: Upfront fees, Development milestone income, Sales milestone income
- Royalty income: Sales royalty income
- Product supply revenue
- Income from contracted research and development services

Each research and licensing agreement is analyzed to identify the consideration receivable (the transaction price) and the underlying performance obligations. Such obligations can include the promise to grant a license, the provision of research and development services and the supply of product. The transaction price is then allocated to these performance obligations and revenue is recognized at a point in time or over time as the performance obligations are satisfied.

If variable consideration arises under a contract the Group includes in the transaction price only those amounts in respect of which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Revenue excludes amounts collected on behalf of tax authorities (for example, sales taxes and value added taxes).

The promise to grant a license is regarded as a distinct performance obligation if the customer can benefit from the license either on its own or together with other resources that are readily available to the customer, and the Group's promise to transfer the license to the customer is separately identifiable from other promises in the contract.

The promise to grant a license under a contract is a promise to provide a right to access intellectual property if all of the following criteria are met:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly

- affect the intellectual property to which the customer has rights;
- the rights granted by the license directly expose the customer to any positive or negative effects of the Group's activities identified in (a); and
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

Where the above criteria are met, the promise to grant a license is accounted for as a performance obligation satisfied over time and revenue is recognized over time accordingly. Where these criteria are not met the promise to grant a license is determined to provide a right-to-use intellectual property accounted for as a performance obligation satisfied at a point in time.

ii. Cost of sales

Cost of sales comprises (i) the fully loaded cost of those employees providing research and development services for specific customers under contracts (including other costs directly associated with these activities such as lab consumables and an allocated share of depreciation of lab equipment) and (ii) the costs directly associated with product supply.

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

i. Foreign-denominated transactions

Transactions denominated in foreign currencies are translated into the functional currency of each Group company at the rates of exchange prevailing at the dates of the transactions. Foreign-denominated monetary assets and liabilities are translated into the functional currency of each Group company using the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are retranslated into the functional currency at the exchange rates on the date fair value is determined. Non-monetary items measured at cost are translated at the exchange rate on the transaction date. Exchange differences resulting from retranslation or settlement are recognized in profit or loss in the period incurred.

ii. Financial statements of foreign operations

The assets and liabilities of the Group's foreign operations (such as overseas subsidiaries) are translated into Japanese yen at the exchange rates prevailing at the end of the period. Income and expenses are translated into Japanese yen at the average exchange rates for the period as long as there is no significant exchange rate fluctuation. Exchange differences arising from the translation of the financial statements of foreign operations are recognized in "Other comprehensive income" in the consolidated statement of profit or loss and other comprehensive income and accumulated in "Other components of equity" in the consolidated balance sheet.

5) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed, and equity instruments issued by the Company in exchange for control of the acquiree. If the consideration transferred exceeds the fair value of identifiable assets and liabilities, the excess is recorded as goodwill in the consolidated balance sheet. Conversely, if the fair value of such assets and liabilities exceeds the consideration transferred, the excess is immediately recognized as a gain in the consolidated statement of profit or loss and other comprehensive income. If the initial accounting for a business combination is incomplete by the end of the period in which the business combination occurred, the Group reports provisional amounts for items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period which lasts no more than one year from the acquisition date. Acquisition costs are expensed as incurred.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

2. Notes to consolidated statement of financial position

Cumulative depreciation on property, plant and equipment was 1,237 million yen.

3. Notes to the consolidated statement of changes in equity

(1) Total shares outstanding

Share class	Shares at beginning of consolidated fiscal period	Increase in shares during consolidated fiscal period	Decrease in shares during consolidated fiscal period	Shares at end of consolidated fiscal period
Common shares	77,073,136	3,522,992	-	80,596,128

Note: The increase in common shares outstanding is due to the issuance of new shares (3,301,400), exercise of stock options (149,200 shares) and vesting of RSUs (72,392 shares).

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

Type and number of shares for subscription warrants at the end of the consolidated fiscal period under review (excluding warrants prior to the first day of their exercise period): Common shares 677,200

4. Notes on financial instruments

(1) Financial instruments

1) Policies for management of financial instruments

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

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

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

(2) Fair value of financial instruments

Amounts stated in the consolidated balance sheet at December 31, 2020, their corresponding fair values and the differences between these amounts are as follows:

	Amount stated in consolidated statement of financial position	Fair value	Difference
	¥m	¥m	¥m
Other financial assets	1,593	1,593	-
Trade receivables	939	939	-
Cash and cash equivalents	40,008	40,008	-
Contingent consideration related to corporate acquisition	1,107	1,107	-
Corporate bonds	14,789	15,246	(457)
Trade and other payables	1,508	1,508	-

Notes: Valuation methodology for financial instruments

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

These are settled over short time periods so fair values approximate book values.

2. Corporate bonds

The fair value of the corporate bond is calculated by discounting the total amount of principal and interest at an interest rate that considers the remaining maturity of the bonds and credit risk.

3. Contingent consideration related to corporate acquisitions

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

4. Other financial assets

Fair value of financial instruments that are traded in an active financial market is determined based on market prices. Where an active market does not exist, the fair value is measured using an appropriate valuation method.

(3) Corporate bonds and Lease liabilities scheduled for repayment after the date of the consolidated financial statements

	Due within 1 year	Due more than 1 year and less than 5 years	Due more than 5 years
	¥m	¥m	¥m
Corporate bonds	-	16,000	-
Lease liabilities	220	721	1,245

5. Notes on revenue recognition

Types of Revenue	Performance obligations		
	Grant of Licenses	Research and Development services	Total
	¥m	¥m	¥m
Milestone income and upfront fees	4,889	464	5,353
Royalty income	2,544	-	2,544
Other	-	945	945
	7,433	1,409	8,842

Performance obligations satisfied in past periods amounting to JPY 3,952 million are included in revenue for fiscal year ended December 31, 2020.

6. Notes on per-share information

Equity attributable to owners of parent per share	¥
	649.92
Basic earnings per share	18.77

7. Subsequent event

On January 5th, 2021 Sosei Heptares announced that it would be regaining the worldwide rights to its muscarinic agonist program following a decision by AbbVie to end the collaboration. The program was licensed to Allergan in April 2016, and Allergan was acquired by AbbVie in May 2020. AbbVie's decision to return the worldwide rights was based on business decisions regarding AbbVie's pipeline strategy and not on any efficacy, safety or other data related to the collaboration program. AbbVie will return all assets in development under the program, together with all associated intellectual property licensed by Sosei Heptares to Allergan, and all clinical and preclinical data generated under the partnership. Reversion of this program has been taken account of in management's impairment reviews and in the calculation of the contingent consideration liability. **As a result of the impairment test**, management has concluded that no impairment has occurred. Management is conducting a full internal review to determine a strategy for the further development and re-partnering of the program.

8. Other notes

(1) Interest-bearing debt

On December 30, 2019 Mizuho bank and others provided the Company with a JPY 5,000 million commitment line ("the Facility") which was extended by one year in December 8, 2020. The Facility's covenants require consolidated net assets to be maintained at not less than 75% of the immediately preceding period. Under the Facility the Company has the following rights:

- (i) to extend the maturity of the Facility from 30 Dec 2021 by one year;
- (ii) to convert, at any time during the commitment period, the Facility to a four year amortizing term loan.

(2) Contingent consideration in business combinations

The contingent consideration liability is a fair value estimate by management of the amount payable to the former shareholders of Heptares Therapeutics Limited under the 2015 Share Purchase Agreement. It has been calculated on a risk adjusted and discounted basis. The probabilities of success used in the Group's financial models are based on industry standard rates which are adjusted when management judge the probability of success of the current phase of development of an asset to be different to the standard rate. The maximum amount of contingent consideration payable under the contract is US\$220m of which US\$81m has been paid out to date. Under the agreement there are defined mechanisms for determining the amounts payable. In instances where the agreement is not explicit the liability includes management's best estimate of the probable outflows. It is therefore possible that the amounts ultimately payable will be different to those provided for as there may be differing interpretations of the agreement.

(3) Transaction with Tempero Bio

During the current fiscal year, Heptares Therapeutics Limited, a wholly owned subsidiary of the Group, entered into a structured financing agreement with Aditum Bio Fund 1, L.P., a biotech investment fund specializing in the progression of phase 1 / phase 2 clinical trial assets, to create an independent company, Tempero Bio. Inc. ("Tempero Bio"). Tempero Bio aims to develop drugs based on negative allosteric modulators of the mGluR5 receptor for the treatment of substance use disorders and anxiety. Under the terms of the agreement, Tempero Bio obtained certain related intellectual property from the Group as well as access to proprietary know-how and development capabilities, and the Group received an assignment fee plus equity interest in Tempero Bio. Under IFRS 15, the license of proprietary know-how is treated as a 'right-to-use' license. The assignment fee and the fair value of the equity investment received have been included in revenue within milestone income and upfront fees. The initial fair value of the Tempero Bio shares was calculated using a probability adjusted discounted cashflow model that estimates the cost of drug development and the potential returns available from the target indications, and then applies a lack of control / marketability discount. The investment in Tempero Bio is accounted for as an investment under IFRS 9 as management has determined that it does not exercise control or significant influence over the company and, accordingly, the investment does not fall within the scope of IFRS 10 *Consolidated Financial Statements* or IAS 28 *Accounting for Associates and Joint Ventures*. Management has elected to take fair value movements relating to Tempero Bio through Other Comprehensive Income.

(4) Changes in the scope of consolidation

At a board meeting held on May 20, 2020 the directors resolved to sell the Group's shareholding in Sosei CVC Ltd., a consolidated subsidiary, and completed the disposal on June 19, 2020. With the disposal of these shares the Group's ownership of Sosei CVC Ltd. decreased from 90% to 0%, and both Sosei CVC Ltd. and Sosei RMF1 Investment Limited Partnership, controlled by Sosei CVC Ltd. as a General Partner, were excluded from the scope of consolidation from this date.

(5) Impact of COVID-19

During 2020 the Group deployed counter-measures to mitigate the impact of COVID-19 on its operations. Delays in some R&D programs have, however, been experienced. The Directors have considered the actual impact to date and a range of potential impacts of COVID-19 on the Group's operations in the preparation of these consolidated financial statements. The Director's assessment assumes, for accounting purposes, that the impact is not long term.

The Directors believe the Group retains enough liquidity to continue to pursue its stated business strategy and, accordingly, it is appropriate to use the going-concern basis of preparation. This assessment did not identify any adjustments necessary to the underlying carrying amounts of assets and liabilities carried at cost / at amortized cost (including goodwill and intangible assets), but the indirect impact COVID-19 has had on exchange rates has impacted their carrying amounts in the Japanese yen denominated consolidated statement of financial position. The carrying amounts of assets and liabilities carried at fair value have also been impacted by the volatility in foreign exchange rates and interest rates. The assessment did not identify any adjustments necessary to the underlying values of revenues and expenditures recorded in the period. In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, foreign exchange gains and losses and exchange differences on translating foreign operations continue to be recorded in the consolidated statement of profit or loss and other comprehensive income in line with normal procedures.

The extent to which COVID-19 impacts our future financial results is will depend on the duration and severity of the pandemic.

Non-Consolidated Statement of Changes in Equity

(Millions of yen)

	Shareholders' equity				
	Capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
		Capital reserve	Other retained earnings		
			Retained earnings brought forward		
Balance at January 1, 2020	37,479	25,596	(6,415)	(0)	56,660
Changes during the period					
Issuance of new shares	2,741	2,741	-	-	5,482
Net loss for the year	-	-	(1,308)	-	(1,308)
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes during the period	2,741	2,741	(1,308)	-	4,174
Balance at December 31, 2020	40,220	28,337	(7,723)	(0)	60,834

	Subscription rights to shares	Total net assets
Balance at January 1, 2020	1,429	58,089
Changes of during the period		
Issuance of new shares	-	5,482
Net loss for the year	-	(1,308)
Net changes of items other than shareholders' equity	(759)	(759)
Total changes during the period	(759)	3,415
Balance at December 31, 2020	670	61,504

Note: Amounts less than 1 million yen have been rounded

Notes to the Non-Consolidated Financial Statements

1. Significant accounting policies

(1) Asset valuation standards and methods

1) Marketable securities

Shares of subsidiaries and affiliated companies are carried at cost determined by the moving-average method.

(2) Fixed asset depreciation methods

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

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

- Buildings (facilities attached to buildings): 6-18 years
- Tools, furniture and fixtures: 5-10 years

2) Intangible fixed assets (except lease assets):

The straight-line method is used.

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

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

The straight-line method is used over the term of the lease with a residual value of zero.

(3) Accounting for deferred assets

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

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

(4) Recognition standards for provision

1) Allowance for doubtful accounts

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

2) Provision for bonuses

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

3) Provision for stock-based compensation

Provision is made for stock based compensation based on an estimation of the expenses incurred in the fiscal year.

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

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

(6) Basis of preparation of the financial statements

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

2. Notes to the Balance Sheet

	¥m
(1) Cumulative depreciation on property, plant and equipment	58
(2) Monetary claims and obligations to subsidiaries and affiliates (other than the ones shown separately in the balance sheet)	
Monetary obligations to subsidiaries and affiliates	64
(3) Monetary claims and obligations to directors and officers	
Monetary obligations	131

(4) Guarantee liabilities

Debt guarantees totaling 2,015 million yen have been provided in relation to land and building lease agreements signed by the Company's subsidiary, Heptares Therapeutics Ltd.

3. Notes to the Statement of Profit or Loss

Operating transactions with subsidiaries and affiliates totaled 446 million yen.

Non-operating transactions with subsidiaries and affiliates totaled 222 million yen.

4. Notes to the Statement of Changes in Equity

Share class	Shares at beginning	Increase in shares	Decrease in shares	Shares at end
	of fiscal year	during fiscal year	during fiscal year	of fiscal year
Ordinary Treasury shares	213	-	-	213

5. Tax

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

	¥m
Tax loss carried forward	1,098
Stock in subsidiaries and affiliates	3,567
Allowance for doubtful debts	633
Other	228
Deferred tax assets subtotal	5,526
Valuation allowance	(5,526)
Total deferred tax assets	-

6. Related party transactions

(1) Subsidiaries

Type	Name of company	Share of voting rights holding (held)		Transaction type	Transaction amount ¥m	Account	Ending balance ¥m
Subsidiary	Sosei Co. Ltd.	Direct holding	100%	Provision of management services to subsidiary	45	Accounts receivable	4
				Loan to subsidiary	350	Long-term loans to subsidiaries and affiliates	2,068
Subsidiary	Heptares Therapeutics Ltd.	Direct holding	100%	Provision of management services to subsidiary	386	Accounts receivable	52
				Reversal of advances received	151	-	-
				Loan to subsidiary	-	Short-term loans to subsidiaries and affiliates	3,997
				Debt guarantees	2,015	-	-
				Receipt of interest income	71	Accounts receivable-sub-subsidiaries and affiliates	-

Notes:

- Transaction amounts do not include consumption taxes, etc.; term-end balances include consumption taxes, etc.
- Prices and other transaction terms are determined upon discussion and agreement by the two parties on terms equivalent to other parties unrelated to the Company.
- Intercompany receivables and interest are collected based on the available cash position of each company.
- Loans to Sosei Co., Ltd. and Heptares Therapeutics Ltd., are made at market interest rates. Collateral has not been requested.
- At the end of the fiscal year under review, 2,068 million yen was set aside as an allowance for doubtful debts in respect of a long-term loan receivable from a subsidiary company, Sosei Co., Ltd. During the current fiscal period 350 million yen was recorded as a provision of allowance for doubtful accounts for affiliated companies.
- Debt guarantees have been provided in relation to land and building lease agreements and building contract signed by the Company's subsidiary, Heptares Therapeutics Ltd. No fee for the provision of the guarantees has been charged to the subsidiary.

(2) Officers and major individual shareholders

Type	Name	Share of voting rights holding (held)	Relationship with related parties	Transaction type	Transaction amount ¥m	Account	Ending balance ¥m
Officer	Shinichi Tamura	Directly held 1.41	Representative Executive Officer, Chairman, President and CEO	In-kind contribution of monetary compensation claim	11	-	-
Officer	Tomohiro Tohyama	Directly held 0.03	Director	Legal advice	1	Account payable	0
				Exercise of stock options	12	-	-
				In-kind contribution of monetary compensation claim	30	-	-
Officer	Julia Gregory	Directly held -	Director	In-kind contribution of monetary compensation claim	30	-	-
Officer	Kuniaki Kaga	Directly held 0.02	Director	In-kind contribution of monetary compensation claim	40	-	-
Officer	David Roblin	Directly held -	Director	In-kind contribution of monetary compensation claim	40	-	-
Officer	Noriaki Nagai	Directly held 0.01	Director	In-kind contribution of monetary compensation claim	11	-	-
Officer	Malcolm Weir	Directly held 0.01	Executive Officer and Executive Vice Chairman	Payment of contingent consideration	46	Account payable	39
				Exercise of stock options	0	-	-
Officer	Tim Tasker	Directly held -	Executive Officer and Executive Vice President	Payment of contingent consideration	11	-	-
Officer	Tadayoshi Yasui	Directly held 0.01	Executive Officer and Executive Vice President	Exercise of stock options	18	-	-

Notes:

1. Transaction prices and other conditions are determined by reference to similar third-party contracts.
2. In-kind contribution of monetary compensation claim relates to the Restricted Stock Unit plan
3. Transactions with Mr. Tohyama, Director, relate to transactions with TMI Associates, of which he is a partner.
4. The exercise of stock options by Mr. Tohyama and Mr. Yasui in the current fiscal year relates to the 29th stock acquisition rights approved by the Board of Directors on November 13, 2015.
5. The exercise of stock options by Mr. Weir in the current fiscal year relates to the 31st stock acquisition rights approved by the Board of Directors on May 15, 2017.

7. Notes on per-share information

	¥
(1) Net assets per share	754.79
(2) Net loss per share	(16.62)