



Annual Report
Year ended 31 December 2022

About Sosei Heptares

Sosei Heptares' mission is to make life-changing medicines using world-leading science and our vision is to become one of Japan's global biopharmaceutical champions.

We are a science and technology-led company focused on the discovery and early development of new medicines originating from our proprietary GPCR-targeted StaR[®] technology and structure-based drug design platform. We are advancing a broad and deep pipeline of novel medicines across multiple therapeutic areas, including neurology, immunology, gastroenterology, and inflammatory diseases.

We have established partnerships with some of the world's leading biopharmaceutical companies and multiple emerging technology companies, including AbbVie, AstraZeneca, Genentech (Roche), GSK, Kallyope, Lilly, Neurocrine Biosciences, Novartis, Pfizer, Sanofi, Takeda and Verily.

Sosei Heptares is headquartered in Tokyo, Japan with corporate and R&D facilities in Cambridge, UK.

"Sosei Heptares" is the corporate brand and trademark of Sosei Group Corporation, which is listed on the Tokyo Stock Exchange (ticker: 4565).

Letter from the Chief Executive Officer

Dear Stakeholders,

2022 was a very important and successful year for Sosei Heptares during which our newly appointed leadership team set about implementing a clear and evolved strategy to accelerate the growth and development of the Company, both internationally and in Japan, and to maximise potential future value creation.

Our strategy is based on four key pillars:



The progress we made in 2022 was exceptional and we enter 2023 with a clear vision to build a disruptive commercial-stage biopharmaceutical company making a difference for patients worldwide. We are well positioned and well financed to progress our strategy across all areas of focus to achieve this goal.

We believe this position is further supported by the Company's recent change of TSE listing to the Prime Market segment. We expect this move will help us achieve our vision by improving our ability to attract a broad institutional shareholder base providing long-term support to the Company and its strategy.



CHRIS CARGILL

Representative Executive Officer, President & CEO
Sosei Group Corporation

Enhancing Our Platform

We have established an innovative and highly productive StaR® and SBDD technology platform, focused predominantly on the important G protein-coupled receptor (GPCR) class of proteins. GPCRs represent the largest single class of targets for drug discovery across a wide range of therapeutic areas.

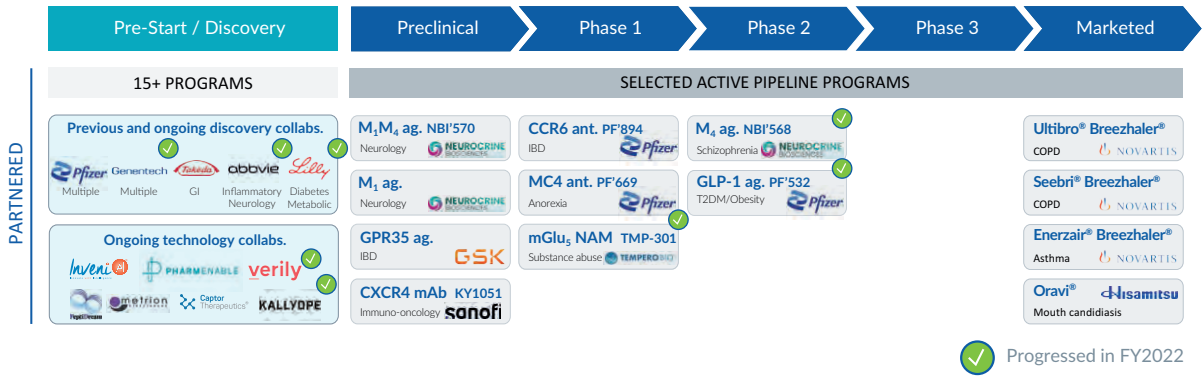
Our capabilities and leadership in this area are recognized across the industry and have enabled the generation of a significant number of novel drug candidates and programs, which are currently being advanced by our global biopharma partners and internally.

This unique platform provides us with unprecedented access to GPCRs as sources of new targets and candidates to continuously feed our rich pipeline. The aim of our first strategic priority is to ensure we both retain our competitive advantage in this space and maximize the drug discovery opportunities our technology has the potential to deliver.

We are focused on doing this through continual internal innovation alongside collaboration with global technology leaders from industry and academia. We added several such collaborations in 2022 focused on improving our ability to select the 'right' targets, including with Verily, the Alphabet-owned precision health company, and Kallyope, pioneers in the science of the gut-brain axis, and through R&D agreements with leading research groups at the University of Oxford and KU Leuven.



Partnering Progress



Partnering with global biopharmaceutical companies around specific candidates/programs that we have developed or for the discovery and development of candidates against partner-nominated targets has long been a successful strategy that we have employed. Our partnered pipeline currently includes over 15 programs being progressed in discovery stage, seven programs in preclinical and Phase 1 and two programs in Phase 2.

Our second strategic priority is to support our existing partnerships as well as to initiate new high-value collaborations to drive this continued revenue flow. During 2022, we saw further substantial progress in these areas, with over US\$125 million in milestone payments from partners resulting from progress with Neurocrine, Pfizer, AbbVie, Genentech and Takeda, and upfront payments from new agreements signed with AbbVie and Lilly.

Our success here provides significant industry validation for our approach and has generated nearly USD1 billion in revenues to date from upfront and milestone payments from our partners, with the potential for significant ongoing revenues as further milestones are reached.

We are particularly excited by the clinical progress made by Neurocrine and Pfizer in 2022.





Neurocrine advanced NBI-1117568 (an investigational, selective muscarinic M4 receptor agonist, formerly HTL-0016878) into Phase 2 trials for the treatment of adults with schizophrenia, triggering a US\$30 million payment. In addition, Neurocrine stated its expectation that it would initiate Phase 1 studies in 2023 of NBI-1117570, a dual M1/M4 agonist, and of a selective M1 agonist, for neurological diseases.

It is important to note that Sosei Heptares retains rights to develop all M1 agonists advancing under this productive collaboration in Japan in all indications.

Pfizer dosed the first subject in a Phase 2 trial with PF-07081532 (lotiglipron), a potentially best-in-class, once-daily, oral small molecule GLP-1 receptor agonist in development for the treatment of Type 2 diabetes and obesity, triggering a US\$10 million payment. PF-07081532 is one of three clinical candidates nominated by Pfizer during its collaboration with Sosei Heptares, all of which are progressing in clinical trials: PF-07054894, a CCR6 antagonist targeting Inflammatory Bowel Disease and PF-07258669, an MC4 antagonist targeting Anorexia are both in Phase 1.

The new deals signed in 2022 were both multi-target collaborations: with AbbVie in neurological diseases worth up to US\$1.2 billion plus royalties, which also adds to an existing agreement in inflammatory and autoimmune diseases; and with Lilly targeting diabetes and metabolic diseases worth up to US\$730 million plus royalties.

Transforming R&D

Building on the first two priorities, we are highly focused on driving the Company through its next phase of evolution by building an agile, best-in-class drug discovery and development organization.

During 2022, we have been working with Weatherden, a specialist R&D consultancy, to transform our in-house R&D to a program-centric operational model. This model is designed to enhance our discovery and translational medicine capabilities and accelerate progress of higher quality candidates into and through Phase 1b/2a trials. This will allow us to establish early clinical proof-of-concept for

our programs, a key milestone for value creation to strengthen our in-house pipeline and support partnering and growth opportunities, including in Japan.

Reflecting this transformation and our growth aspirations, we have expanded our UK R&D operations to a second site in Cambridge, UK.

Importantly, this transformation has allowed us to prioritize and advance three wholly owned candidates towards clinical trials, which are expected to begin in 2023:



EP4 ANTAGONIST

An oral selective EP4 antagonist immunotherapy for solid tumors (HTL0039732), which is being prepared for a first-in-human trial by Cancer Research UK (CRUK), the world's largest private funder of cancer research



GPR52 AGONIST

An oral small molecule GPR52 agonist program, which potentially presents opportunities to address symptoms and cognitive impairment in schizophrenia and psychosis



EP4 AGONIST

An oral, gut-restricted small molecule EP4 agonist potentially for the treatment of Inflammatory Bowel Disease



Commercializing Products in Japan

During 2022, we have refined our strategy for Japan with the aim of commercializing specialty products that target underserved therapy areas. Japan is the third largest pharma market behind the US and China and has a very large aging population and universal health care system.

We believe that there is a huge opportunity for an agile, scalable and effective clinical development and commercialization business in Japan and are committed to building such a business over the coming years.

We intend to start by in-licensing approved products or candidates in late-stage clinical development and, in the longer term, to grow our product offering based on programs discovered and developed in-house, including those partnered candidates, such as the M1 agonist, for which we retain Japan rights.

In addition, we will begin to augment our existing clinical development capabilities by creating a small, highly qualified

team to effectively manage the clinical, regulatory and commercial activities needed to efficiently deliver these products to patients.

Our cash and cash equivalents as at 31 December 2022 amounted to JPY 66,557 million (approximately US\$500 million). This is a strong financial position from which to execute on all four pillars of our strategy as we look to deliver on our long-term mission of using our world-leading science to deliver life-changing medicines to patients worldwide.

Acknowledgements

Finally, this progress would not be possible without the hard work and dedication of all our employees and partners. I would like to thank them for their important contributions to our business during 2022 and I am confident that together we can look forward to another important year of progress in 2023.

CHRIS CARGILL

Representative Executive
Officer, President & CEO

Sosei Group Corporation
23 March 2023

Table of Contents

Part 1: Company Information	
Section 1. Company Overview	1
Section 2. Business Review	8
Section 3. Facilities	41
Section 4. Information about the Filing Company	42
Section 5. Financial Statements.....	82
Section 6. Stock-Related Information relating to the Parent Company.....	170
Section 7. Reference Information Relating to the Filing Company	171
Part 2: Information about a Company which Provides a Guarantee to the Filing Company	
Information about a Company which Provides a Guarantee to the Filing Company	173
Independent Auditor's Reports	
Independent Auditor's Reports	174
Internal Control Report of Management	
Internal Control Report of Management.....	186

Annual Securities Report

Accounting period:	The 33rd Term (January 1, 2022 – December 31, 2022)
Company name:	Sosei Group Corporation
Representative's name and title:	Christopher Cargill, Executive Officer, CEO
Location of head office:	2-1 Kojimachi, Chiyoda-ku, Tokyo
Phone:	+81-3-5210-3290 (main)
Contact person:	Kieran Johnson, Executive Officer, CAO
Nearest contact location:	2-1 Kojimachi, Chiyoda-ku, Tokyo
Phone:	+81-3-5210-3290 (main)
Contact person:	Kieran Johnson, Executive Officer, CAO
Location for public inspection:	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

Sosei Group Corporation

Section 1. Company Overview

1. Changes in Key Management Indices

1.1 Management Indices on consolidated basis

Period		The 29th Term	The 30th Term	The 31st Term	The 32nd Term	The 33rd Term
Financial year-end		December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022
Revenue	¥m	2,872	9,726	8,842	17,712	15,569
Profit (loss) before income taxes	¥m	(7,243)	534	1,622	433	1,078
Net profit (loss) attributable to owners of the parent company	¥m	(5,977)	1,432	1,479	1,017	382
Total comprehensive income attributable to owners of the parent company	¥m	(7,618)	2,367	661	5,623	(255)
Equity attributable to owners of the parent company	¥m	41,577	45,075	52,381	57,468	57,936
Total assets	¥m	58,987	56,680	76,465	96,985	99,417
Equity attributable to owners of the parent company per share	¥	544.89	584.83	649.92	704.97	707.20
Basic earnings (loss) per share	¥	(78.40)	18.70	18.77	12.53	4.68
Diluted earnings (loss) per share	¥	(78.40)	18.50	18.59	12.40	4.63
Ratio of equity attributable to owners of the parent company to total assets	(%)	70.5	79.5	68.5	59.3	58.3
Ratio of profit to equity attributable to owners of the parent company	(%)	(13.2)	3.3	3.0	1.9	0.7
Price earnings ratio (PER)	(Times)	-	116.10	95.90	151.96	456.84
Cash flows from operating activities	¥m	(3,995)	3,441	4,672	7,095	9,952
Cash flows from investing activities	¥m	(2,808)	(246)	(150)	278	1,043
Cash flows from financing activities	¥m	(2,268)	(6,964)	20,278	11,123	(4,887)
Cash and cash equivalents at the end of the year	¥m	18,760	15,375	40,008	60,087	66,557
Number of employees	(Employees)	169	163	190	198	202
[Separately, average number of other workers]		[12.1]	[11.2]	[12.1]	[10.8]	[18.1]

- Notes
1. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS").
 2. Price earnings ratio (PER) was not provided because a net loss was recorded in the 29th Term.
 3. The number of employees presented above represents the number of regular employees at the year end. The annual average number of other workers (including part-time employees and employees engaged through temp agencies) is provided separately in square parentheses [].
 4. The Group changed the end of the financial year from March 31 to December 31 at the 28th ordinary general meeting of shareholders and it will continue to have a December financial year end. The 29th term is a nine month irregular term.
 5. Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. Basic earnings (loss) per share and diluted earnings (loss) per share has been calculated as if the stock split had occurred at the beginning of the 29th consolidated financial year.

Sosei Group Corporation

Section 1. Company Overview

1 Changes in Key Management Indices (continued)

1.2 Filing Company's Management Indices

Period		The 29th Term	The 30th Term	The 31st Term	The 32nd Term	The 33rd Term
Financial year-end		December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022
Operating revenue	¥m	819	675	433	823	1,118
Ordinary loss	¥m	(2,052)	(764)	(1,430)	(4,720)	(1,586)
Net loss	¥m	(2,501)	(504)	(1,308)	(4,260)	(1,497)
Capital stock	¥m	36,854	37,479	40,220	41,036	41,335
Total number of issued shares	(Shares)	76,301,936	77,073,136	80,596,128	81,518,316	81,923,230
Net assets	¥m	57,747	58,089	61,504	58,470	57,544
Total assets	¥m	66,418	59,197	78,886	94,349	89,385
Net assets per share	¥	732.78	735.13	754.79	714.03	699.45
Cash dividends per share	¥	-	-	-	-	-
[Interim dividends per share]		[-]	[-]	[-]	[-]	[-]
Net loss per share	¥	(32.79)	(6.57)	(16.62)	(52.47)	(18.30)
Diluted net income per share	¥	-	-	-	-	-
Equity ratio	(%)	84.2	95.7	77.1	61.7	64.1
Return on equity (ROE)	(%)	-	-	-	-	-
Price earnings ratio (PER)	(Times)	-	-	-	-	-
Dividend payout ratio	(%)	-	-	-	-	-
Number of employees	(Employees)	19	19	23	30	32
[Separately, average number of other workers]		[1.2]	[1.7]	[2.7]	[2.9]	[4.2]
Total shareholder return		36.2	98.5	81.6	86.3	97.0
[Comparative indicator: TSE Mothers Index]	(%)	[67.3]	[74.4]	[99.2]	[81.9]	[60.6]
Highest share price	¥	9,080	2,794	2,217	2,418	2,294
Lowest share price	¥	1,855	780	1,051	1,491	991
		748				

- Notes
- The filing company's financial statements are prepared in accordance with Japanese Generally Accepted Accounting Standards (hereinafter, "JGAAP").
 - Diluted net income per share is not provided despite the existence of residual shares, because a net loss per share was recorded.
 - Return on equity (ROE) and price earnings ratio (PER) are not provided because a net loss was recorded.
 - The number of employees presented above represents the number of regular employees at the year end. The annual average number of other workers (including part-time employees and employees engaged through temp agencies) is provided separately in parentheses [].
 - The Company changed the end of the financial year from March 31 to December 31 at the 28th ordinary general meeting of shareholders and it will continue to have a December financial year end. The 29th term is a nine month irregular term.
 - Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. Net loss per share has been calculated as if the stock split had occurred at the beginning of the 29th Term.
 - The highest and lowest share prices were those recorded on the Growth market of the Tokyo Stock Exchange on April 4, 2022 and thereafter, and on the Mothers market of the Tokyo Stock Exchange before that date.
 - Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. The share prices after the stock split are provided in the second line of the 29th Term.

Sosei Group Corporation

Section 1. Company Overview

2 History

Date	Event
June 1990	Sosei Co. Ltd. established in Bunkyo-ku, Tokyo, aiming to be a biopharmaceutical R&D and technology transfer business company
March 1999	Launched the Drug Reprofilng Platform® (DRP®) project and made a full-scale start in the pharmaceutical development business.
September 2002	Established London office in the U.K.
July 2004	Listed on the Mothers market of the Tokyo Stock Exchange.
June 2005	Moved to a “Company with committees” (Company with Nomination, Compensation and Audit committees in 2015).
August 2005	Acquired 100% of the shares of Sosei R&D Ltd. (formerly Arakis Ltd., U.K.).
October 2006	Moved to a holding company structure and changed the company name to Sosei Group Corporation.
July 2009	Relocated Headquarters to Kojimachi, Chiyoda-ku, Tokyo.
May 2011	Concluded an agreement with Onxeo S.A. (formerly BioAlliance Pharma SA) to in-license SO-1105 (treatment for oropharyngeal candidiasis).
September 2012	NVA237 received MHLW approval in Japan with the product name of “Seebri® Inhalation Capsules 50 mcg” (world’s first approval for glycopyrronium bromide as a COPD treatment).
September 2013	QVA149 received European Commission approval in Europe with the product name of “Ultibro® Breezhaler®” (world’s first approval of a LAMA/LABA combination drug).
February 2014	Concluded agreement with FUJIFILM Toyama Chemical Co., Ltd. (formerly FUJIFILM Pharma Co., Ltd.) for commercialization of SO-1105.
February 2015	Acquired 100% shares of Heptares Therapeutics Ltd.
August 2015	Concluded collaboration agreement with AstraZeneca UK Ltd. for development of immunology treatments.
October 2015	Seebri® (NVA237) and Utibron™ Neohaler® (QVA149 received Food and Drug Administration (FDA) approval in the U.S.).
November 2015	Concluded strategic collaboration agreement with Pfizer Inc. for novel treatments related to up to 10 types of GPCR target.
November 2016	The Company’s subsidiary, Heptares Therapeutics Ltd. acquired 100% of the shares of G7 Therapeutics AG (renamed as Heptares Therapeutics Zurich AG).
May 2017	Acquired a stake in MiNA (Holdings) Ltd., which became an associated undertaking of the Group.
November 2017	International offering of new shares raised ¥21,286m.
September 2018	SO1105 received marketing approval in Japan under the product name of “Oravi®”.
November 2018	UK legal entity reorganization involving the transfer of the trade and assets of Sosei R&D Ltd. to Heptares Therapeutics Ltd.
July 2019	Concluded contract with Genentech Inc. for the worldwide development, manufacturing and commercialization rights for certain GPCR targets.
August 2019	Concluded contract with Millennium Pharmaceuticals Inc. (a 100% subsidiary of Takeda Pharmaceutical Co., Ltd.) for the worldwide development, manufacturing and commercialization rights for certain GPCR targets.
June 2020	Concluded contract with AbbVie Ireland Unlimited Company for the exclusive worldwide development and commercialization rights for new drug candidates which Heptares and AbbVie will jointly develop.
June 2020	Energair® Breezhaler® received manufacturing approval and marketing approval for the treatment of asthma in Japan.
July 2020	Energair® Breezhaler® received manufacturing approval and marketing approval in the EU.
July 2020	International offering of new shares raised ¥5,055m and issuance of euro-yen denominated convertible bonds due 2025 raised ¥16,000m.
November 2020	Concluded contract with Tempero Bio, Inc. for the exclusive global rights to the Group’s mGlu5 negative allosteric modulator program.
November 2020	Concluded contract with Biohaven Pharmaceutical Holding Company Ltd. for the exclusive rights to develop, manufacture, and distribute a portfolio of novel, small-molecule CGRP receptor antagonists.
December 2020	Concluded a contract with GlaxoSmithKline p.l.c. for the exclusive rights to develop, manufacture and distribute a portfolio of GPR35 agonists.
July 2021	Repurchase and cancellation of euro-yen denominated convertible bonds due 2025 which were issued in July 2020 and raised ¥16,000m.
July 2021	Issuance of euro-yen denominated convertible bonds due 2026 raised ¥30,000m.

Sosei Group Corporation

Section 1. Company Overview

2 History (continued)

Date	Event
July 2021	Agreement to transfer the commercialization rights to sell SO-1105 in Japan from FUJIFILM Toyama Chemical Co., Ltd. to Hisamitsu Pharmaceutical Co.,Inc
November 2021	Concluded collaboration and license agreement with Neurocrine Biosciences, Inc. to develop Novel Muscarinic Receptor Agonists for Schizophrenia and Other Neuropsychiatric Disorders.
April 2022	Transferred from the Tokyo Stock Exchange Mothers market to the Growth market following market restructuring of the Tokyo Stock Exchange.
August 2022	Concluded contract with AbbVie Inc. for new multi-target collaboration to discover, develop and commercialize novel medicines targeting neurological diseases.
October 2022	MiNA (Holdings) Limited excluded from associates accounted for using the equity method as the Group no longer exercised significant influence over MiNA (Holdings) Limited.
December 2022	Concluded contract with Eli Lilly and Company for multi-target collaboration and license agreement in diabetes and metabolic diseases.
March 2023	Listing market changed to the Tokyo Stock Exchange Prime market.

* Seebri®, Ultibro®, Seebri® Breezhaler®, Ultibro® Breezhaler®, Enerzair® and Enerzair® Breezhaler® are registered trademarks of Novartis International AG (“Novartis”).

* Oravi® is a registered trademark of Vectans pharma SAS.

Sosei Group Corporation

Section 1. Company Overview

3 Business Description

The Group is a science and technology-led company, specializing in drug discovery and early-stage drug development.

The Group's core scientific focus is to discover new medicines, including novel small molecules, peptides and therapeutic antibodies, targeting G Protein-Coupled Receptors ("GPCRs"). Its proprietary StaR® ("stabilized receptor") technology and structure-based drug design ("SBDD") have enabled the Group to develop small molecules, peptides and antigens for mAb discovery. In addition, the Group also has a legacy business that generates a stream of royalties on global sales of Novartis' respiratory disease products Seebri® Breezhaler®, Ultibro® Breezhaler® and Enerzair® Breezhaler®. These royalties provide the Group with a significant source of capital to support its strategic objectives.

As at December 31, 2022 the Group comprised the Company (Sosei Group Corporation) and five consolidated subsidiaries (one of which, Heptares Therapeutics Zurich AG, is in the process of being liquidated as at March 23, 2023). The Group operates in only one segment, the Pharmaceutical business segment.

Business segment	Company name	Nature of business
Group management and support	Sosei Group Corporation	Strategic management of the entire Group and administrative duties performed on behalf of its subsidiaries.
	Sosei Co. Ltd.	Pharmaceutical R&D and sales.
Pharmaceutical business	Heptares Therapeutics Ltd.	Structural analysis and production of early lead compounds targeting GPCRs, identification of drug candidates using proprietary StaR® technology.

The Company corresponds to a specified listed company provided in Article 49 paragraph 2 of the Cabinet Office Ordinance on Restrictions on Securities Transactions. Therefore, the criteria for assessing the materiality of information under the insider trading regulations are determined based on consolidated figures.

Sosei Group Corporation

Section 1. Company Overview

4 Status of Subsidiaries and Associates

Consolidated subsidiaries

Company Name	Location	Capital Stock	Ratio of Voting Rights (%)	Relationship
Sosei Co. Ltd.	Chiyoda-ku, Tokyo	Million JPY 90	100.0	Parent company provides: - centralized administrative services - provision of officers - funding assistance
Heptares Therapeutics Ltd. Notes 2,3	Cambridge, U.K.	Thousand GBP 416	100.0	Parent company provides: - centralized administrative services - provision of officers

Three other companies

Notes:

1. MiNA (Holdings) Limited was included in the consolidation as an associate accounted for using the equity method up to October 2022 when the Group ceased to exercise significant influence over it and was excluded from associates accounted for using the equity method.
2. Over 10% of the revenue of the Company relates to the specified subsidiaries.
3. The revenue of Heptares Therapeutics Ltd. (excluding internal revenues between consolidated companies) represents more than 10% of the Group's consolidated revenue. Major profit/loss information for the year ended December 31, 2022 is as follows:

	Major profit/loss information (IFRS)				
	Revenue ¥m	Profit before income taxes ¥m	Net profit for the year ¥m	Net assets ¥m	Total assets ¥m
Heptares Therapeutics Ltd.	15,489	3,141	2,079	30,522	40,801

Sosei Group Corporation

Section 1. Company Overview

5 Status of Employees

5.1 Consolidated Companies

At December 31, 2022

Segment	Number of employees
Pharmaceutical business	170 (13.9)
Group administration	32 (4.2)
	202 (18.1)

Notes:

1. The number of employees presented above represents the number of regular employees. The annual average number of other workers (including part-time employees and employees engaged through temp agencies) is provided separately in parentheses.

5.2 Filing Company (the Company)

At December 31, 2022

Number of employees (Employees)	Average age (Years old)	Average years of service (Year)	Average annual salary (¥)
32 (4.2)	43.0	2.9	13,447,521

Notes:

1. The number of employees presented above represents the number of regular employees. The annual average number of other workers (including part-time employees and employees engaged through temp agencies) is provided separately in parentheses.
2. Average annual salary includes bonuses, share-based payments and overtime pay.
3. Employees shown here are part of the Group administration department.

5.3 Status of Labour Union

No labour unions exist. Labour-management relations are regarded as amicable.

Sosei Group Corporation

Section 2. Business Review

Forward-looking statements in this text were determined by management as at December 31, 2022.

1 Management Policy, Management Environment and Issues to be Addressed

1.1 Management Policy

The Group is a science and technology-led company, specializing in drug discovery and early-stage drug development. Its mission is to make life-changing medicines using world-leading science and its vision is to become one of Japan's global biopharmaceutical champions.

1.2 Management Environment

The development of pharmaceutical products is characterized by fierce competition between numerous domestic and overseas companies, research institutions, and other entities, including major international corporations. Development requires massive investment and has long lead times, and the likelihood of success is not high. However, there are still unmet medical needs in the world and expectations exist about the development of new drugs that will offer value to patients.

1.3 Management Strategy

Business

Based on its proprietary StaR[®] technology and SBDD, the Group has established an innovative and productive discovery platform, which enables unprecedented levels of drug discovery towards GPCRs, the largest protein family representing drug discovery targets and are known to influence a wide range of therapeutic areas. A significant number of novel drug candidates have been generated through the application of this platform and are currently in development by global biopharmaceutical partners or in-house.

GPCRs are involved in signaling pathways that influence a wide range of biological processes and are important drug targets implicated in a broad range of human diseases and disorders. GPCRs are involved in approximately 34%¹ of currently marketed drugs. GPCRs form the largest human membrane protein family, with around 400 non-olfactory receptors, of which approximately 75% remain yet to be explored, offering broad untapped potential.

Despite GPCRs representing one of the most important groups of drug targets for modern medicine, drug discovery targeting GPCRs remains challenging. The available structural information about GPCRs strongly suggests that they are intrinsically druggable with small molecules. Historically, however, mapping the structure of GPCRs when they are isolated from the cell membrane has been difficult as GPCRs are inherently unstable in isolation, often preventing their structural determination. The unstable nature of GPCRs has also hindered the ability to generate stable antigens to raise antibodies.

¹ Hauser A. S., Attwood M. M., Rask-Andersen M., Schiöth H. B., Gloriam D. E. (2017). Trends in GPCR drug discovery: new agents, targets and indications. *Nat. Rev. Drug Discovery*. 16, 829–842. 10.1038/nrd.2017.178

Sosei Group Corporation

Section 2. Business Review

1 Management Policy, Management Environment and Issues to be Addressed (continued)

1.3 Management Strategy (continued)

Solution

Anchored by its proprietary stabilized receptor, or StaR[®], technology, the Group has developed technologies that enable us to “unlock” GPCRs through an advanced understanding of their structures. Its StaR[®] technology allows the Group to effectively stabilize a GPCR by engineering a small number of single point mutations outside of the ligand-binding site such that they retain their organized structure even after they are removed from the cell membrane. The resulting stabilized proteins (StaR[®] proteins) are much more robust than the corresponding “wild-type” or unmutated proteins. These StaR[®] proteins are more readily purified and subjected to a variety of hit discovery and biophysical approaches. For example, these StaR[®] proteins enable crystallization for detailed X-ray (or other) structure determination, which facilitates the design of innovative medicines with better safety and efficacy profiles and lower preclinical and clinical attrition rates compared to wild-type proteins. StaR[®] technology also enables the production of stabilized proteins that can be utilized for biologics discovery, either via in vitro phage screening, or for in vivo immunization

GPCR Pipeline

To date, the Group has leveraged its innovative and productive discovery platform to create a pipeline of drug candidates targeting GPCRs that the Group believes have potential to become first-in-class or best-in-class medicines in therapeutic areas including neurology, immunology, gastroenterology and inflammatory diseases.

The Group’s partnered pipeline includes programs with some of the world’s leading pharmaceutical companies, including AbbVie Inc. (“AbbVie”), AstraZeneca UK Limited (“AstraZeneca”), Genentech Inc. (“Genentech”), GlaxoSmithKline p.l.c. (“GSK”), Eli Lilly and Company (“Lilly”), Neurocrine Biosciences, Inc. (“Neurocrine Biosciences”), Novartis International AG (“Novartis”), Pfizer Inc. (“Pfizer”) and Takeda Pharmaceutical Company Limited (“Takeda”) and additionally with multiple emerging technology companies. The Group has established programs in which its partners develop one or more drug candidates that the Group discovered using its SBDD platform, such as that in its muscarinic agonist program. The Group also promotes high value discovery and early-stage development collaborations targeting multiple GPCRs. The Group believes these strategic arrangements validate its GPCR technologies and SBDD platform capabilities and also provide a diversified source of revenues in the form of up-front fees and milestone payments.

The Group’s in-house pipeline comprises discovery and early development programs to generate new candidates for partnering. Going forward, the Group intends to license programs to large pharma or biotech for clinical development and commercialization.

Sosei Group Corporation

Section 2. Business Review

1 Management Policy, Management Environment and Issues to be Addressed (continued)

1.3 Management Strategy (continued)

Business Strategy

Following the creation of a new leadership team in 2022, management has outlined a clear and evolved strategy to grow the business internationally and in Japan leveraging the Group's proprietary drug discovery platform and pipelines. This strategy is based on four key strategic pillars:

- (i) Extending and enhancing the competitive advantages of the Group's world-leading StaR®/SBDD discovery capabilities through continued internal innovation combined with external collaborations that provide access to complementary technologies.
- (ii) Diligently driving forward existing partnerships with global pharmaceutical companies and initiating new high-value partnerships to ensure the continued flow of revenues through upfront and development milestone payments, and ultimately royalties from sales of products that reach the market.
- (iii) Transforming R&D to a program-centric operating model, entrenching target biology, and enhancing translational medicine capabilities to quickly achieve clinical proof of concept, which in turn is expected to enable higher quality candidates more cost effectively, larger out-licensing deals as well as a deeper in-house pipeline and a pathway for clinical development in Japan.
- (iv) Building out an agile, scalable and effective clinical development and commercialization business in Japan. This new strategic initiative is designed to capitalize on significant underserved opportunities that the Group sees within the large attractive market. The Group intends to start this strategy by in-licensing foreign de-risked approved or late-stage clinical assets and will expand the pipeline with internally generated programs in the future.

Other Business Activities

In addition to its core activities in GPCR medicine design and development, the Group also has a legacy business that generates a stream of royalties on global sales of Novartis' respiratory disease products Seebri® Breezhaler®, Ultibro® Breezhaler®, and Enerzair® Breezhaler®. These royalties provide the Group with a significant source of capital to support its strategic objectives.

Sosei Group Corporation

Section 2. Business Review

1 Management Policy, Management Environment and Issues to be Addressed (continued)

1.4 Business and financial issues that should be addressed with priority

Business advancement and strategy

The group drives novel drug discovery and early-stage development against diseases with high unmet medical need. The Group has outlined a strategy to leverage its proprietary StaR® technology and SBDD platform, expert R&D capabilities and emerging pipeline to grow the business internationally and in Japan.

Outside of Japan, the Group intends to take programs from drug discovery through translational medicine into early clinical development internally, and license these in-house programs to partners, while retaining its rights to develop such programs in Japan when possible. In Japan, the Group will start its development and commercialization strategy by in-licensing foreign de-risked approved or late-stage clinical assets and will expand the pipeline with internally generated programs in the future.

Please refer to “Section 1 Management Policy, Management Environment and Issues to be Addressed, 1.3 Management Strategy” for details of the Group’s four key strategic pillars.

Risk recognition and countermeasures

The Group is exposed to a range of risks consistent with the industry in which it operates. The business, financial position and financial results of the Group may be adversely impacted by any of these risks. The main risks relating to the financial position and operating results of the Group that management considers could have a potentially significant impact on investor decisions are described in “Section 2, Sub-section 2 Business and Operational Risks” and management takes appropriate measures to deal with these risks.

Value creation

The pharmaceutical industry is undergoing rapid change due to numerous pressures faced by large companies, such as patent expiries, the higher burden of approval and ever-increasing costs. This has led to a reduction in the number of research-based businesses taking the full financial and commercial risk of drug development.

New strategies across the industry are focused on securing external innovation in an efficient way. Furthermore, ageing populations in many developed countries are driving the need for differentiated and better treatments. As a result, large pharma and biotech companies are increasingly seeking innovative solutions to their R&D challenges, and therefore increasingly executing collaborations across research, discovery and development activities with mid-sized science and technology-led companies. The Group is positioned to take advantage of this growth trend. The Group regularly identifies and evaluates opportunities for business expansion and value creation and is pursuing a capital efficient business model that will sustainably create new commercial opportunities in an evolving industry landscape.

Sosei Group Corporation

Section 2. Business Review

1 Management Policy, Management Environment and Issues to be Addressed (continued)

1.4 Business and financial issues that should be addressed with priority (continued)

Corporate Governance

The Group has business activities in multiple jurisdictions and takes corporate governance very seriously. The Group is continuously evaluating ways to enhance its systems and processes, to ensure it complies with all national regulations. Furthermore, the Group will continue to promote a corporate culture that is committed to the highest standards of openness, integrity and accountability.

The Group's Board of Directors is responsible for overseeing management and conducting risk management and compliance activities to maintain standards and accountability and a majority of members are independent external directors. Executive Officers work closely with the Board of Directors to achieve long-term and sustainable growth for the Group and to create shareholder value. They make decisions on and execute the Group's strategy and business transactions that are significant, based on the authority delegated by the Board of Directors.

Sosei Group Corporation

Section 2. Business Review

2 Business and Operational Risks

The main risks affecting the financial position, operating results and cash flows of the Group are described below. The Group's business faces various risks, not all of which may necessarily be included below. The Group's CEO and CAO have operational responsibility for the management of risk and they have put systems in place for the heads of each department to report significant risks upwards. Management will avoid risks, or introduce countermeasures to reduce the impact of risks, according to the nature and potential severity of those risks, as and when they become apparent. Forward-looking statements in this text were determined by the Group as at December 31, 2022.

2.1 Research and Development of Pharmaceutical Products

Uncertainty of research and development

- Risk

The Group's business is focused on pharmaceutical research and development. Generally, the research and development period for pharmaceutical products, from basic research through to approval, takes a long time and requires a considerable scale of investment. Moreover, the likelihood of success is extremely low compared to other industries. Thus, research and development activities are accompanied by uncertainty, and there is a possibility that this uncertainty may have a significant impact on the Group's financial position and operating results.

- Countermeasure

The Group has expanded its development pipeline by creating multiple new therapeutic drug candidates continuously using its unique platform technology, and subsequently partnering product candidates with other pharmaceutical companies in co-development or licensing models that transfer the R&D funding costs and risks associated with clinical development and commercialization. Thereby the Group benefits from a diversification of funding sources, and from balancing the risks associated with clinical development failure across multiple partnerships.

Matters related to the review of business strategies of business partners

- Risk

The pharmaceutical industry is characterized by fierce competition from numerous domestic and foreign companies and research institutions, including large international organizations. In addition, technological innovation is advancing at a rapid pace. As a result, major pharmaceutical and biopharmaceutical companies are periodically reviewing their business strategies in order to maintain their competitiveness in the industry, and the result of these reviews may have a significant impact on the financial position and operating results of the Group. In addition, as a result of competition with these competitors in their respective business activities of research, development, manufacturing and sales, the Group's financial position and operating results may be significantly impacted.

- Countermeasure

The Group strives to reduce such risks by maintaining and developing good relationships with its business partners and executing appropriate contracts. In addition, through research and development of multiple profitable drugs, the Group aims to minimize the impact on business performance when individual partnerships end.

Sosei Group Corporation

Section 2. Business Review

2 Business and Operational Risks (continued)

2.1 Research and Development of Pharmaceutical Products (continued)

Adverse drug reactions

- Risk

Pharmaceutical products may have adverse drug reactions during clinical trials or after commercialization. For marketed products the Group continues to carry out activities to minimize the risk of damage to patients' health by conducting drug safety monitoring (pharmacovigilance) as a marketing authorization holder. The Group makes every effort to avoid risks and reduce possible impacts. However, if unexpected adverse drug reactions lead to product recall, discontinuance of manufacturing and sales, or filing of lawsuits regarding adverse drug reactions, there may be a significant impact on the Group's financial position and operating results.

- Countermeasure

The Group collects domestic and overseas safety management information (information on adverse drug reactions, etc.) in cooperation with partner companies or sales agents. In addition, the collected safety management information is appropriately evaluated, examined, and analyzed, and appropriately reported to agencies in accordance with the regulations of each country and region, and the information is provided in cooperation with partner companies or sales agents. Thereby the Group promotes the proper use of pharmaceutical products.

Pharmaceutical laws and other regulations

- Risk

The pharmaceutical industry is subject to a variety of regulations due to pharmaceutical laws and pharmaceutical administrative guidance in individual countries, and other laws and regulations applicable to the business activities of research, development, manufacturing and sales. Taking a drug from the discovery stage to the manufacturing and marketing approval stage incurs a great deal of research and development cost over a long period of time. If sufficient data on efficacy and safety is not obtained, and its medical utility as a drug cannot be demonstrated, approval from regulatory authorities may not be granted as planned, and the market launch may become difficult. If this happens with products licensed to other companies, the licensing conditions may change from those established at the outset or licensing itself may become difficult. In such an event, or in the event that there is a large change in applicable regulations, there may be a significant impact on the Group's financial position and operating results.

- Countermeasure

The Group, in cooperation with its business partners, has a system in place to identify trends in the revision of pharmaceutical-related regulations at an early stage and analyze whether or not a response is necessary. In addition, the Group has a governance structure that allows it to take rapid decisions to minimize risks.

Sosei Group Corporation

Section 2. Business Review

2 Business and Operational Risks (continued)

2.1 Research and Development of Pharmaceutical Products (continued)

Product Liability

- Risk

The Group is responsible for the manufacture/supply of pharmaceutical products, including for use in clinical trials. If the Group supplies products and those products are not of the required standards of quality and safety, the Group's financial position and operating results may be severely affected.

- Countermeasure

The Group places the highest priority on product safety and quality, and constantly strives to raise the awareness of its employees through internal education and other means. In addition, the Group mitigates product liability risks by purchasing appropriate insurance.

2.2 Strategic Risks

Execution of business strategy

- Risk

The Group continues to focus its in-house activities on leveraging its platform and expertise to create and develop drug candidates as well as enhancing its pipeline with the aim of achieving important value inflection points that will enable new out-licensing and co-investment agreements. The Group is also focused on in-licensing foreign de-risked approved or late-stage clinical assets to build out a business in Japan. It is possible that investments might be allocated to the development of unsuccessful drug candidates, or failed technologies. In such an event, there may be a significant impact on the Group's financial position and operating results.

- Countermeasure

In considering investments, the Group combines internal and external expertise and evaluates business profitability. The Group's approach to investments is to balance risk and reward appropriately, ensuring excessive capital is not put at risk.

Risks from investment strategy

- Risk

In the past, the Group has made equity investments in companies with highly promising yet unproven technologies. These investments may enable the Group to accelerate its business model as they provide a beneficial risk-reward profile through to a significant value inflection. However, investments in unproven technologies also carry the risk of failure which may lead to the impairment of investments. In such an event, there may be a significant impact on the Group's financial position and financial performance.

- Countermeasure

The Group operates an Investment Committee that is responsible for conducting due diligence and making recommendations to the Group's Board of Directors, who are in turn responsible for approving strategic investments. The Group's approach to investments is to balance risk and reward appropriately, ensuring excessive capital is not put at risk.

Sosei Group Corporation

Section 2. Business Review

2 Business and Operational Risks (continued)

2.3 Business Activities of the Group

Partnerships

- Risk

The Group aims to build broad partnerships at each stage of research and development, and thereby incorporate state-of-the-art technology while avoiding an increase in fixed costs. Should these current partnerships change, or should the Group fail to create partnerships as expected there may be a significant impact on the Group's financial position and operating results.

- Countermeasure

When concluding agreements, the Group assesses possible risks, and strives to discuss and agree mitigation strategies which are then included within the contracts, as appropriate. Furthermore, the Group has built a strong governance system across various functions and organizations with its partners to identify risks in the partnership and discuss solutions closely with those partners. The Group takes necessary steps to minimize the impact on financial results.

Securing and training human resources

- Risk

The business activities of the Group depend on the current management team, as well as divisional leaders and their members. For that reason, the Group continually strives to secure and place high calibre human resources in the right role and invest in their development through training. If human resources cannot be secured due to tight labour markets or trained as planned, this may have a significant impact on the Group's business activities and operating results.

- Countermeasure

The Group believes that it is important to avoid human resource risks by improving the working environment and providing employee training so that employees are invested in the company and work with a sense of security. Management strives to create a sense of unity by sharing its corporate goals based on employees' understanding of the company's philosophy and vision. To this end management maintains a pleasant office environment, allows flexible working styles that suit individual employee's lifestyles (super-flexible working and remote working), organizes events with and training by experts in various fields inside and outside the company, and provides nutritional education to maintain a healthy workforce.

Intellectual property rights

- Risk

The Group uses a variety of intellectual property rights in research and development activities, which are either proprietary or in-licensed by the Group. However, it is possible that the Group may not be able to continue to use the intellectual property rights it needs to operate its businesses. Also, it is possible that a third party will in the future launch a dispute claiming intellectual property right infringement. Such events may have a significant impact on the Group's financial position and operating results.

Sosei Group Corporation

Section 2. Business Review

2 Business and Operational Risks (continued)

2.3 Business Activities of the Group (continued)

- Countermeasure

The Group protects its intellectual property rights through the employment of an internal IP expert (supported by external patent attorneys) who is responsible for monitoring and addressing any third-party infringements.

Financing

- Risk

A large amount of research and development spending is necessary in the pharmaceutical industry and that amount tends to increase as research and development progresses. When the Group requires funds, if it is not possible to carry out flexible funding due to a deterioration in the market environment, there may be a significant impact on the Group's financial position and operating results, such that the Group will be forced to reconsider its research and development structure and plans.

- Countermeasure

Management strives to reduce this risk by creating and updating cash flow forecasts on a timely basis and maintaining sufficient liquidity (Cash and cash equivalents as at December 31, 2022 totaled JPY 66,557 million). In addition, regular review of funding options such as the issuance of new shares, issuance of corporate bonds, arranging commitment lines, taking out term loans, and other refinancing measures enables the Group to secure funds in response to funding market conditions. As part of this, the Company entered into a new commitment line agreement (JPY 5,000 million) in 2022 and issued convertible bonds (JPY 30 billion) during 2021 in order to strengthen liquidity.

Foreign currency fluctuations

- Risk

The Group's international business activities include engaging in foreign currency-denominated licensing transactions with foreign companies and performing overseas research and development activities. Foreign currency risk cannot be completely removed, even by hedging, and if the risk manifests itself through sudden exchange rate fluctuations, it may have an impact on the Group's financial position and operating results.

- Countermeasure

Management reports monthly to the Board of Directors, cash balances broken down by currency and an analysis of foreign exchange gains / losses, to regularly monitor the risk of foreign currency fluctuations from holding foreign currencies. In addition, Management mitigates foreign currency fluctuations by purchasing foreign currency or entering forward exchange contracts.

Sosei Group Corporation

Section 2. Business Review

2 Business and Operational Risks (continued)

2.3 Business Activities of the Group (continued)

Contractual payment obligations

- Risk

In its development pipeline-related contracts with business partners, the Group may have an obligation to make payments to a partner both at a development stage prior to sales and after the commencement of sales. Also, there may be an obligation to pay joint development costs, and to invest in marketing activities after sales start. It is recognized that the form of payment for these considerations is natural due to the nature of our business as a product development type bio-venture. However, if the cost is high compared to the Group's capital resources, the Group may experience a significant financial burden, which could have a significant impact on its financial position and operating results.

- Countermeasure

When concluding agreements, the Group assesses possible risks, and strives to discuss and agree mitigations which are then included within the contracts. Furthermore, the Group has built a strong governance system across various functions and organizations with its partners to identify risks in the partnership and discuss solutions closely with those partners. The Group takes necessary steps to minimize the impact on financial results.

Establishment of domestic sales structure and technology licensing

Sales of the company's products in the domestic market

- Risk

The Group is a licensed marketing authorization holder for pharmaceuticals in Japan. When a pharmaceutical product is approved for manufacturing and marketing, the Group, as a marketing authorization holder, will contract with an appropriate sales agent for the supply of product to the Japanese market, in order to maximize sales. If the Group cannot partner with an appropriate sales agent in Japan, or if product sales by the sales agent are not in line with expectations, or if the Group cannot provide a stable supply of its product to the Japanese market due to compliance issues caused by the sales agent, the Group's financial position and financial performance may be affected as a result of harmed reputation as a marketing authorization holder and decreased revenue.

- Countermeasure

To ensure the quality and safety of its products, the Group has adopted an appropriate corporate structure for a pharmaceutical marketing authorization holder with legal compliance as a top priority. As a marketing authorization holder, management evaluates whether a potential sales agent has sufficient capabilities, including sales expertise and regulatory compliance capabilities, and strives to maintain and develop good relationships with its partners.

Technology licensing of products developed by the Company or its subsidiaries

- Risk

The Group can profit through licensing out products to other companies at an intermediate stage of development and receiving an upfront payment and sales-associated revenues. However, if technology is not licensed out at the planned time due to delays in development or for some other reason, or if it becomes difficult to license out a development product as planned, it could have a significant impact on the Group's financial position and operating results.

Sosei Group Corporation

Section 2. Business Review

2 Business and Operational Risks (continued)

2.3 Business Activities of the Group (continued)

- Countermeasure

Management will seek to resolve any unexpected external issues if they cause delays or have other adverse business impacts. External experts will be engaged to help management avoid the risk of delays in development. In addition, the Group strives to develop the capabilities and expertise of its workforce to drive effective decision making.

Business expansion through M&A (merger, acquisition, or transfer of a business, and other investments)

- Risk

The Group seeks to manage its resources efficiently and strives to maximize corporate value. It is the Group's policy to respond flexibly to business expansion opportunities, including M&A. However, if by these measures the expected benefit is not obtained and an impairment loss relating to goodwill or intangible assets is recorded, there may be a significant impact on the Group's financial position and operating results. Goodwill totaling JPY 15,306 million and intangible assets totaling JPY 8,577 million were carried in the consolidated balance sheet as at December 31, 2022.

- Countermeasure

When entering M&A transactions, management conducts detailed due diligence, using external experts where necessary. It verifies alignment of the opportunity with the Group's medium-term business strategy, the potential impact on enterprise value and the existence and size of synergies.

Significant contracts

- Risk

Important agreements are stated under "Part 1: *Company Information*, Section 2. *Business Review*, sub-section 4. *Significant Contracts in Business Operation*." If significant contracts are terminated, it is possible this will have a significant impact on the Group's financial position and operating results.

- Countermeasure

The Group takes appropriate measures when drafting significant contracts, such as the inclusion of termination clauses drafted by external lawyers, where necessary.

Litigation

- Risk

The Group was not litigated against in the year ended December 31, 2022, but the Group could be subject in the future to litigation or other legal procedures, or investigation by authorities. If the Group has to pay a large settlement, is ordered to pay a large fine or is subject to a disadvantageous legal determination, this could have a significant impact on the Group's financial position and operating results.

- Countermeasure

The Group has established compliance systems, quality management processes and other necessary corporate structures to prevent problems from occurring. It strives to reduce the risk of litigation connected to its business activities through the involvement of its legal department and by obtaining advice from external lawyers and other specialists, as necessary.

Sosei Group Corporation

Section 2. Business Review

2 Business and Operational Risks (continued)

2.3 Business Activities of the Group (continued)

Establishment of internal controls

- Risk

The Group complies with the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting in accordance with the Financial Instruments and Exchange Act. It has established an internal control system for financial reporting and strives to operate the system appropriately. If the internal controls fail to function effectively or an unexpected problem occurs with internal controls such that the Group incurs significant losses, this could have a significant impact on the Group's financial position and operating results.

- Countermeasure

The Group has established an effective internal control system for financial reporting and strives to ensure its proper operation.

Spread of Viruses including COVID-19

- Risk

The COVID-19 situation has normalized in many geographies. However, it is possible that COVID-19 variants or other viruses could arise in the future which could adversely affect the Group's drug discovery and development projects, supply chain, clinical trials, business development activities, partnerships and other business activities.

- Countermeasure

The Group's top priority during the COVID-19 pandemic was the safety of its employees and the containment of the situation to prevent further spreading. There were many learnings from the pandemic which can be redeployed in the future in the event of new outbreaks, and some of the mitigations adopted continue to be used today, such as support for working from home.

Sosei Group Corporation

Section 2. Business Review

3 Management's Analysis of Financial Position, Operating Results and Cash Flows

Forward-looking statements in this text were determined by management as at December 31, 2022.

3.1 Operating Results

The Group is a science and technology-led company, specializing in drug discovery and early-stage drug development. Its mission is to make life-changing medicines using world-leading science and its vision is to become one of Japan's global biotechnology champions.

Based on its proprietary StaR[®] technology and SBDD, the Group has established an innovative and productive discovery platform, which enables unprecedented levels of drug discovery towards GPCRs, the largest protein family representing drug discovery targets and are known to influence a wide range of therapeutic areas.

A significant number of novel drug candidates have been generated through the application of this platform and are currently in development by global biopharmaceutical partners or in-house.

Following the creation of a new leadership team in 2022, management has outlined a clear and evolved strategy to leverage the Group's proprietary platform, pipeline and capabilities to grow the business internationally and in Japan. This strategy is based on four key strategic pillars:

- (i) Extending and enhancing the competitive advantages of the Group's world-leading StaR[®]/SBDD discovery capabilities through continued internal innovation combined with external collaborations that provide access to complementary technologies.
- (ii) Diligently driving forward existing partnerships with global pharmaceutical companies and initiating new high-value partnerships to ensure the continued flow of revenues through upfront and development milestone payments, and ultimately royalties from sales of products that reach the market.
- (iii) Transforming R&D to a program-centric operating model, entrenching target biology, and enhancing translational medicine capabilities to quickly achieve clinical proof of concept, which in turn is expected to enable higher quality candidates more cost effectively, larger out-licensing deals as well as a deeper in-house pipeline and a pathway for clinical development in Japan.
- (iv) Building out an agile, scalable and effective clinical development and commercialization business in Japan. This new strategic initiative is designed to capitalize on significant underserved opportunities that the Group sees within the large attractive market. The Group intends to start this strategy by in-licensing foreign de-risked approved or late-stage clinical assets and will expand the pipeline with internally generated programs in the future.

Sosei Group Corporation

Section 2. Business Review

3 Management's Analysis of Financial Position, Operating Results and Cash Flows (continued)

3.1 Operating Results (continued)

In 2022, the Group continued to make progress in extending and enhancing its world-leading StaR®/SBDD discovery capabilities mentioned in (i). The Group entered into a collaboration with Verily Life Sciences LLC, to leverage its Immune Profiler, a next generation immune mapping platform, to identify novel targets and generate drug candidates for immune-mediated diseases. The Group also entered into a collaboration with Kallyope Inc., which has an innovative gut-brain axis platform, to identify and validate novel gastrointestinal GPCR targets. Furthermore, the Group entered into R&D agreements with the University of Oxford and KU Leuven to identify and validate key GPCRs driving gastrointestinal and immune disorders.

The Group's partnerships with major pharmaceutical companies mentioned in (ii) progressed well in 2022 with two new agreements signed and multiple milestones achieved. Notably, the Group entered into a second collaboration agreement with AbbVie to discover novel medicines targeting neurological diseases, and it expands the 2020 agreement focused on inflammatory and autoimmune diseases. The Group also entered into a new drug discovery collaboration with Lilly in diabetes and metabolic diseases.

In the collaboration with Neurocrine Biosciences, the first patient was randomized in its Phase 2 clinical study of NBI-1117568 (formerly HTL0016878) in adults with schizophrenia. Furthermore, in the drug discovery collaboration signed with Pfizer in 2015, three clinical candidates are progressing well, with PF-07081532 (a GLP-1 agonist for diabetes and obesity) being advanced by Pfizer into a Phase 2b clinical trial.

The Group also made significant progress in transforming its R&D and operations, as mentioned in (iii) above, including working in collaboration with Weatherden Limited ("Weatherden"), a specialist R&D and clinical development consulting group. The focus of the collaboration is to embed an agile program-centric operating model and enhance the Group's discovery and translational medicine capabilities to deliver higher quality candidates faster and more cost-effectively into its pipeline. The Group also expanded its UK R&D operations within Granta Park, Cambridge as part of its growth strategy to become a multi-program, early clinical stage business and a partner-of-choice for leading biopharmaceutical companies.

Furthermore, the Group aims to rapidly take its wholly owned programs to a clinical proof of concept stage, with the following three candidates at the forefront:

- EP4 antagonist (HTL0039732) for solid tumors - the Group signed an agreement with Cancer Research UK, the world's largest private funder of cancer research, to bring this cancer immunotherapy candidate into a first-in-human trial.
- GPR52 agonist for schizophrenia and psychosis
- EP4 agonist for Inflammatory Bowel Disease

As mentioned in (iv) above, the Group announced that it will build out an agile, scalable and effective clinical development and commercialization business in the important healthcare market of Japan.

Sosei Group Corporation

Section 2. Business Review

3 Management's Analysis of Financial Position, Operating Results and Cash Flows (continued)

3.1 Operating Results (continued)

The Group is highly motivated and committed to growing and developing its business internationally and in Japan over the coming years, and focusing its R&D investments accordingly. At the same time, the Group will continue to rigorously manage costs and remain flexible to all value-creating opportunities.

Sosei Group Corporation

Section 2. Business Review

3 Management's Analysis of Financial Position, Operating Results and Cash Flows (continued)

3.1 Operating Results (continued)

As of December 31, 2022, the Group had a total of 202 employees (an increase of 4 employees vs. the end of the prior year).

Financial results for the year ended December 31, 2022:

Revenue of JPY 15,569 million (a decrease of JPY 2,143 million vs. the prior year), an operating profit of JPY 3,436 million (a decrease of JPY 339 million vs. the prior year), a net profit before income taxes of JPY 1,078 million (an increase of JPY 645 million vs. the prior year) and a net profit of JPY 382 million (a decrease of JPY 635 million vs. the prior year).

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m	Change
Revenue	15,569	17,712	(2,143)
Cost of sales	(926)	(933)	7
Research & development expenses	(7,454)	(5,931)	(1,523)
Selling, general & administrative expenses	(4,377)	(3,940)	(437)
Operating expenses	(12,757)	(10,804)	(1,953)
Net other income (expense)	624	(3,133)	3,757
Operating profit	3,436	3,775	(339)
Net finance costs	(93)	(3,598)	3,505
Share of (loss) gain of associates accounted for using the equity method	(429)	50	(479)
(Impairment loss) or gain on reversal of impairment loss on investments accounted for using the equity method	(1,836)	206	(2,042)
Net profit before income taxes	1,078	433	645
Income tax (expense) benefit	(696)	584	(1,280)
Net profit	382	1,017	(635)

Alternative performance measure

Core operating profit (Note 1)

Operating profit (as stated above)	3,436	3,775	(339)
<i>Adjustments:</i>			
Depreciation	563	541	22
Amortization	782	737	45
Share-based payments (excluding amounts in Restructuring)	542	713	(171)
Restructuring	533	-	533
Impairment	-	3,138	(3,138)
Core operating profit	5,856	8,904	(3,048)

Average exchange rate for the period

USD:JPY	131.30	110.16	21.14
GBP:JPY	161.76	151.50	10.26

Notes

1. Core operating profit is defined as IFRS Operating profit/loss + material non-cash costs + material one-off costs and provide insights into the underlying recurring cash generating capability of the business.

Sosei Group Corporation

Section 2. Business Review

3 Management's Analysis of Financial Position, Operating Results and Cash Flows (continued)

3.1 Operating Results (continued)

The Group operates as a single business segment and, therefore, segmental information has been omitted. Further explanation of the Group's financial performance is detailed below.

Revenue

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m	Change
Upfront fees and milestone income	12,063	14,667	(2,604)
Upfront fee revenue recognized at contract inception	4,666	11,408	(6,742)
Milestone revenue recognized at milestone event	6,429	1,963	4,466
Deferred revenue releases	968	1,296	(328)
Royalty income	2,564	2,311	253
Pharmaceutical product sales	80	28	52
Other	862	706	156
	15,569	17,712	(2,143)

Revenue in the year under review totaled JPY 15,569 million (a decrease of JPY 2,143 million vs. the prior year).

Revenue relating to upfront fees and milestone income in the year under review totaled JPY 12,063 million (a decrease of JPY 2,604 million vs. the prior year). Upfront fees and milestone income comprises upfront fee revenue, milestone income and deferred revenue releases. Upfront fees and milestone income can vary considerably year on year and depend on the commencement of new partnership agreements and the achievement of defined milestone events within that year. The decrease in upfront fees and milestone income is primarily due to substantial upfront fees from Neurocrine Biosciences recognized in the amount of JPY 11,408 million (USD 100 million) in the prior year compared to upfront fees revenue recognized at contract inception from two new collaborations (AbbVie Neurology and Lilly) totaling JPY 4,666 million (USD 35 million) in 2022. This decrease was partially offset by a rise in milestone income recognized upon the occurrence of milestone events. There were five milestone events in 2022 generating JPY 6,429 million, as a result of significant progress including advancement into Phase 2 clinical trials, vs. 8 milestone events in 2021 generating JPY 1,963 million. Deferred revenue releases decreased compared to the prior year due to maturation of the older platform collaborations. In addition, as the majority of the Group's revenues are earned in USDs, the substantially stronger USD in 2022 also had an offsetting effect.

Revenue relating to royalties in the year under review totaled JPY 2,564 million (an increase of JPY 253 million vs. the prior year). The Group's royalty revenue relates to sales of Ultibro[®] Breezhaler[®], Seebri[®] Breezhaler[®] and Enerzair[®] Breezhaler[®] by Novartis².

² Glycopyrronium bromide and certain use and formulation intellectual property were exclusively licensed to Novartis in April 2005 by Sosei and Vectura. Seebri[®], Ultibro[®], Enerzair[®] and Breezhaler[®] are registered trademarks of Novartis.

Sosei Group Corporation

Section 2. Business Review

3 Management's Analysis of Financial Position, Operating Results and Cash Flows (continued)

3.1 Operating Results (continued)

Operating expenses

Cost of sales

Cost of sales in the year under review totaled JPY 926 million (a decrease of JPY 7 million vs. the prior year). Cost of sales comprises the cost of pharmaceutical product sold in the period plus the internal costs of delivering research and development services to customers.

Research & development expenses

Research and development ("R&D") expenses in the year under review totaled JPY 7,454 million (an increase of JPY 1,523 million vs. the prior year). The increase is primarily due to increased investment in our in-house discovery and early development programs, the cost of a restructuring program designed to accelerate the development of medicines, the impact of the weaker Yen and cost inflation. In addition, the reclassification of share-based payment expenses relating to scientists to the R&D expenses line from the Selling, general and administrative expenses line as this is regarded as a better presentation of that spend. In the year under review 98% of R&D expenses relates to our UK operations.

Selling, general & administrative expenses

Selling, general and administrative ("G&A") expenses in the year under review totaled JPY 4,377 million (an increase of JPY 437 million vs. the prior year). This was primarily due to the cost of a restructuring program designed to accelerate the development of medicines, the impact of the weaker Yen and cost inflation. These increases were partly offset by the reclassification of share-based payment expenses relating to scientists from the G&A expenses line to the R&D expenses line as this is regarded as a better presentation of that spend.

Net other income

Net other income in the year under review totaled JPY 624 million (an increase of JPY 3,757 million vs. the prior year). This was primarily due to intangible asset impairment loss recorded in the amount of JPY 3,138 million following the decision by a partner not to proceed with clinical trials for certain out-licensed products in the prior year compared to no equivalent in 2022. In addition, the R&D expenditure related UK tax credit increased in 2022.

Operating profit

Operating profit in the year under review totaled JPY 3,436 million (a decrease of JPY 339 million vs. the prior year). The main reasons for the decrease in the operating profit are the decrease in revenue and increase in R&D expenditure, for the reasons stated above, which were partially offset by higher net other income.

Sosei Group Corporation

Section 2. Business Review

3 Management's Analysis of Financial Position, Operating Results and Cash Flows (continued)

3.1 Operating Results (continued)

Net finance costs

Net finance costs in the year under review totaled JPY 93 million (a decrease of JPY 3,505 million vs. the prior year). This decrease was primarily due to a non-recurring event in the prior year which resulted in a substantial contingent consideration expense being recorded for the Neurocrine Biosciences licensing transaction. In addition, interest income has risen due to higher UK interest rates. These reductions in the net cost have been partially offset by higher bond amortization costs, which have increased following (i) the issuance of new convertible bonds with a face value of JPY 30,000 million and (ii) the repurchase of existing convertible bonds with a face value of JPY 16,000 million in July 2021.

Share of loss of associates accounted for using the equity method

Share of loss of associates accounted for using the equity method in the year under review totaled JPY 429 million (an increase of JPY 479 million vs. the prior year). This was due to MiNA (Holdings) Limited ("MiNA"), an associated company of the Group, generating no licensing revenue leading to a net loss for the year under review vs. MiNA recording a net profit in the prior year. The Group has excluded MiNA from associates accounted for using the equity method since October 2022 as management determined that it no longer exercised significant influence over MiNA from that date.

(Impairment loss) or gain on reversal of impairment loss on investments accounted for using the equity method

Impairment loss of JPY 1,836 million on investments accounted for using the equity method was recorded during the year under review. This was due to a decrease in the fair value of MiNA. In the prior year, a gain of JPY 206 million arose on reversal of impairment loss on investments accounted for using the equity method. This was due to an increase in the fair value of Jitsubo CO., LTD., an associated company of the Group, which was disposed of in April 2021.

Net profit before income tax

Net profit before income tax in the year under review totaled JPY 1,078 million (an increase of JPY 645 million vs. the prior year). This increase reflects the combined effect of all of the movements explained above.

Income tax expense

Income tax expense in the year under review totaled JPY 696 million (vs. an income tax benefit of JPY 584 million in the prior year). This was primarily due to the cessation of entitlement of Heptares Therapeutics Ltd., a subsidiary of the Group, to claim certain UK R&D expenditure related tax incentives due to its sustained growth.

Net profit

Net profit in the year under review totaled JPY 382 million (a decrease of JPY 635 million vs. the prior year). This decrease reflects the combined effect of all of the movements explained above.

Sosei Group Corporation

Section 2. Business Review

3 Management's Analysis of Financial Position, Operating Results and Cash Flows (continued)

3.1 Operating Results (continued)

Alternative performance measure: Core operating profit / loss

Core operating profit / loss is an alternative performance measure which adjusts for material non-cash costs and one-off costs in order to provide insights into the recurring cash generating capability of the core business.

Core operating profit in the year under review totaled JPY 5,856 million (a decrease of JPY 3,048 million vs. the prior year). The main reasons for the decrease are a reduction in revenues in 2022 for the reasons explained above, and an increase in investment in R&D in line with the Group's growth strategy. In calculating core operating profit the following adjustments to the IFRS operating profit have been made:

- Depreciation totaling JPY 563 million (an increase of JPY 22 million vs. the prior year).
- Amortization totaling JPY 782 million (an increase of JPY 45 million vs. the prior year).
- Share-based payments totaling JPY 542 million (a decrease of JPY 171 million vs. the prior year).
- Restructuring costs totaling JPY 533 million. These costs related to the management reorganization announced on February 1, 2022 (including JPY 158 million of accelerated share-based payment expenses).
- No impairment loss in the year under review (JPY 3,138 million charge recorded in the prior year). This was mainly due to the impairment of intangible assets recorded in the prior year as a result of a decision by a partner not to proceed with clinical trials for certain out-licensed products.

Analysis of financial position: Assets, liabilities and equity

Assets

Total assets as at December 31, 2022 were JPY 99,417 million (an increase of JPY 2,432 million vs. the end of the prior year). This was primarily due to increased cash and cash equivalents following the receipt of USD 77 million in upfront payments from AbbVie and Lilly and an increase in the yen value of assets held by our consolidated subsidiary Heptares Therapeutics Ltd. as a result of the appreciation of the British pound against the yen, partially offset by the impairment loss recorded on the Group's shareholding in MiNA and a decrease in other financial assets due to a fall in the share price of Centessa Pharmaceuticals plc.

Liabilities

Total liabilities as at December 31, 2022 were JPY 41,481 million (an increase of JPY 1,964 million vs. the end of the prior year). This was primarily due to the increase in deferred revenue arising from our new collaborations with AbbVie and Lilly, partially offset by a decrease in the contingent consideration liability arising from business combinations due to the payment of contingent consideration to the former shareholders of Heptares Therapeutics Ltd.

Sosei Group Corporation

Section 2. Business Review

3 Management's Analysis of Financial Position, Operating Results and Cash Flows (continued)

3.1 Operating Results (continued)

Equity

Total equity as at December 31, 2022 was JPY 57,936 million (an increase of JPY 468 million vs. the end of the prior year). This was primarily due to the net profit for the year.

The ratios of Cash and cash equivalents, Interest-bearing debt and Equity attributable to owners of the parent company to total assets were 66.9%, 29.9% and 58.3%, respectively.

3.2 Analysis of cash flows

Cash and cash equivalents as at December 31, 2022 increased by JPY 6,470 million from the beginning of the year and amounted to JPY 66,557 million. The status and main drivers of each cash flow during the year under review were as follows:

Cash flows from operating activities

Net cash provided by operating activities in the year under review totaled JPY 9,952 million. This was primarily due to cash revenues exceeding cash operating costs.

Cash flows from investing activities

Net cash provided by investing activities in the year under review totaled JPY 1,043 million. This was primarily due to proceeds received from the sale of shares in Biohaven Pharmaceutical Holding Company Ltd in response to its tender offer.

Cash flows from financing activities

Net cash used in financing activities in the year under review totaled JPY 4,887 million. This was primarily due to the payment of contingent consideration totaling JPY 4,680 million to the former shareholders of Heptares Therapeutics Ltd.

3.3 Capital resources and liquidity of funds

Working capital to advance business is generated through the receipt of upfront fees and milestone income, as well as royalty income from partner companies in accordance with the terms of collaboration and licensing agreements. In addition, funds are raised for working capital purposes and business acquisitions through the issuance of new shares and bonds in the holding company and through bank borrowings.

The Group's organic funding requirement on an ongoing basis primarily relates to the cost of the developing candidate drugs and developing the Group's drug discovery platform. R&D activities include clinical trials of candidate drugs, the in-house development of pipeline drugs and seeking approval from regulatory authorities. The Group will continue investing in research and development activities and related facilities.

Please also refer to "Section 5 *Financial Statements Notes to the Consolidated Financial Statements*, Note 9 *Financial Instruments*, sub-section 9.1 *Capital management*".

Sosei Group Corporation

Section 2. Business Review

3 Management's Analysis of Financial Position, Operating Results and Cash Flows (continued)

3.4 Status of production, orders received and sales

The Group reported only one pharmaceutical segment in the year under review and prior year. Group sales are primarily driven by upfront fees and milestone income associated with developmental progress, and royalty income. Inventory purchases and sales orders were not relevant.

Purchases of inventory

There were no significant purchases of inventory in the year under review.

Status of Product Sales Orders Received

There were no significant product sales orders in the year under review.

Sales Result

Sales for the year ended December 31, 2022 were as follows:

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m	Change %
Upfront fees and milestone income	12,063	14,667	(17.8)
Royalty income	2,564	2,311	10.9
Pharmaceutical product sales	80	28	185.7
Other	862	706	22.1
	15,569	17,712	(12.1)

Notes:

1. Sales to major business partners and their percentage of Total Sales for the year ended December 31, 2022 and the year ended December 31, 2021 were as follows. Sales in the table below include sales to subsidiaries of the customer groups listed.

Business partner	Year ended December 31, 2022		Year ended December 31, 2021	
	Amount ¥m	Percentage %	Amount ¥m	Percentage %
Neurocrine Biosciences, Inc.	4,138	26.6	11,408	64.4
Eli Lilly and Company	3,429	22.0	-	-
AbbVie Inc.	2,849	18.3	301	1.7
Novartis International AG	2,564	16.5	2,311	13.1

3.5 Significant accounting estimates and associated assumptions

The Group's significant accounting policies and estimates are described in "Section 5 *Financial Statements*, Note 3 *Significant accounting policies* and Note 4 *Significant accounting estimates and associated judgments*." In addition, the impact of COVID-19 on accounting estimates is described in "Section 5 *Financial Statements*, Note 33 *Additional information - COVID 19*."

Sosei Group Corporation

Section 2. Business Review

4 Significant Contracts in Business Operation

The significant contracts that existed during the year ended December 31, 2022 were as follows:

4.1 Contracts Involving Sosei Group Corporation

Contract regarding acquisition of Heptares

Contract name	Share Purchase Agreement
Counterparty	105 Heptares shareholders
Execution date	February 20, 2015
Contract period	Not determined
Main contents of contract	The Company acquired all of the issued shares of Heptares for a maximum price of USD 400 million, comprising USD 180 million as consideration for the shares and a maximum price of USD 220 million in contingent consideration, payable in the event that Heptares receives milestone or royalty revenues upon the occurrence of certain events stipulated in the agreement.

Commitment line contract

Contract name	Commitment Line Agreement
Counterparty	Financial institutions, with Mizuho Bank, Ltd. as arranger and agent
Execution date	December 30, 2022
Borrowing limit	JPY 5,000 million
Commitment period	From December 30, 2022 to December 29, 2023 (However, the Company has the right to extend the Commitment period until December 30, 2024 or December 30, 2025.
Collateral	Non-collateral agreement

4.2 Contracts Involving Heptares

Development of Respiratory Drugs

Contract name	License Agreement
Counterparty	Novartis International AG, Vectura Ltd. (Note: Originally contracted with Sosei R&D Ltd and novated to Heptares UK Ltd. in November 2018)
Execution date	April 12, 2005
Contract period	From the date of conclusion of the agreement until the later of (1) the expiry of the last patent licensed by Sosei R&D Ltd. and its joint licensor Vectura, or (2) 10 years after the initial launch date of the last product commercialized by Sosei R&D Ltd. or a licensee.
Main contents of contract	Sosei R&D Ltd. and Vectura granted exclusive licenses to Novartis to develop and commercialize NVA237 and QVA149 globally.

Sosei Group Corporation

Section 2. Business Review

4 Significant Contracts in Business Operation (continued)

4.2 Contracts Involving Heptares (continued)

Contract name	Research and License Agreement
Counterparty	AstraZeneca UK Limited
Execution date	August 6, 2015
Contract period	From the effective date of the agreement (the end of the waiting period under the United States antitrust law) until the later for each applicable product and country of (1) the expiry date of the applicable patent rights, (2) the end of the legal monopoly period, or (3) the earlier of 10 years after the market launch or the launch of a generic version.
Main contents of contract	Heptares granted to AstraZeneca exclusive worldwide development, manufacturing and commercialization rights for the adenosine A2A receptor antagonist HTL1071 and receives as consideration an upfront payment, milestone and royalty revenues. In addition, both companies are to conduct a joint research program.
Contract name	Research Collaboration and License Agreement
Counterparty	Pfizer Inc.
Execution date	November 18, 2015
Contract period	From the date of conclusion of the agreement until the later for each applicable product and country of either (1) the final patent expiry date of the applicable patent rights, or (2) 10 years after the market launch.
Main contents of contract	Heptares granted to Pfizer exclusive rights to develop, manufacture, and commercialize new pharmaceutical products related to up to 10 types of GPCR targets in multiple fields in return for development and commercialization milestone payments and royalties on net sales.
Contract name	Research Collaboration and License Agreement
Counterparty	Genentech, Inc.
Execution date	July 12, 2019
Contract period	From the Contract Date to the later of either (1) the expiration date of the patent term for the subject patent rights, etc., or (2) the date 10 years after the commencement of marketing, for each covered product and country.
Main contents of contract	The two companies will jointly develop multiple GPCR targets, and Heptares granted to Genentech exclusive worldwide development, manufacturing and commercialization rights for the identified Exclusive Targets. Heptares is eligible to receive an upfront payment, milestones and royalties in consideration.

Sosei Group Corporation

Section 2. Business Review

4 Significant Contracts in Business Operation (continued)

4.2 Contracts Involving Heptares (continued)

Contract name	Multi-Target Collaboration Agreement
Counterparty	Millennium Pharmaceuticals, Inc. (a 100% subsidiary of Takeda Pharmaceutical Co., Ltd.)
Execution date	August 2, 2019
Contract period	From the Contract Date to the later of (1) the expiration date of the patent term for the Subject Patent Rights, etc., (2) the expiration date of 10 years after the commencement of marketing, or (3) the end date of the statutory monopoly period, for each Subject Product and country.
Main contents of contract	Heptares granted to Millennium Pharmaceuticals, Inc. exclusive worldwide development, manufacturing and commercialization rights for selected GPCR targets. Heptares is eligible to receive an upfront payment, milestones and royalties in consideration. The two companies have also implemented a joint research program.
Contract name	Collaboration and Option to License Agreement
Counterparty	AbbVie Ireland Unlimited Company
Execution date	June 24, 2020
Contract period	From the Contract Date to the later of (1) the expiration date of the patent term for the Subject Patent Rights, etc., (2) the expiration date of 10 years after the commencement of marketing, or (3) the end date of the statutory monopoly period, for each Subject Product and country.
Main contents of contract	Heptares and AbbVie will jointly develop new drug candidates. Heptares granted to AbbVie an option to exclusively license the worldwide development and commercialization rights. Heptares is eligible to receive an upfront payment, milestones and royalties in consideration. AbbVie has the option to expand the collaboration up to a total of four targets.
Contract name	Collaboration and License Agreement
Counterparty	Tempero Bio, Inc.
Execution date	November 2, 2020
Contract period	From the Contract Date to the later of (1) the expiration date of the patent term for the Subject Patent Rights, etc., or (2) the expiration date of 10 years after the commencement of marketing, for each Subject Product and country.
Main contents of contract	Heptares granted to Tempero Bio exclusive global rights to its mGlu5 negative allosteric modulator (NAM) program including the candidate HTL0014242. Heptares is eligible to receive an upfront payment, Tempero Bio stock, milestones and royalties in consideration.

Sosei Group Corporation

Section 2. Business Review

4 Significant Contracts in Business Operation (continued)

4.2 Contracts Involving Heptares (continued)

Contract name	Global Collaboration and License Agreement
Counterparty	Biohaven Pharmaceutical Holding Company Ltd. (acquired by Pfizer in 2022)
Execution date	November 30, 2020
Contract period	From the Contract Date to the later of (1) the expiration date of the patent term for the Subject Patent Rights, etc., (2) the expiration date of 10 years after the commencement of marketing, or (3) the end date of the statutory monopoly period, for each Subject Product and country.
Main contents of contract	Heptares granted to Biohaven exclusive rights to develop, manufacture and distribute a portfolio of novel, small-molecule CGRP receptor antagonists and is eligible to receive an upfront payment, milestones and royalties in consideration.
Contract name	Collaboration and License Agreement
Counterparty	GlaxoSmithKline Intellectual Property (No.5) Limited
Execution date	December 18, 2020
Contract period	From the Contract Date to the later of (1) the expiration date of the patent term for the Subject Patent Rights, etc., (2) the expiration date of 10 years after the commencement of marketing, or (3) the end date of the statutory monopoly period, for each Subject Product and country.
Main contents of contract	Heptares granted to GSK, exclusive rights to develop, manufacture and distribute a portfolio of GPR35 agonists and is eligible to receive an upfront payment, milestones and royalties in consideration.
Contract name	Collaboration and License Agreement
Counterparty	Neurocrine Biosciences, Inc.
Execution date	November 22, 2021
Contract period	From the Contract Date to the later of (1) the expiration date of the patent term for the Subject Patent Rights, etc., (2) the expiration date of 10 years after the commencement of marketing, or (3) the end date of the statutory monopoly period, for each Subject Product and country.
Main contents of contract	Heptares granted to Neurocrine Biosciences exclusive rights to develop, manufacture and commercialize novel subtype-selective muscarinic receptor agonists for the treatment of major neurological disorders, including Alzheimer's disease in return for an upfront payment, development and commercialization milestone payments and royalties on net sales.

Sosei Group Corporation

Section 2. Business Review

4 Significant Contracts in Business Operation (continued)

4.2 Contracts Involving Heptares (continued)

Contract name	Amendment to Collaboration and Option to License Agreement
Counterparty	AbbVie Global Enterprises Ltd.
Execution date	August 1, 2022
Contract period	From the Contract Date to the later of (1) the expiration date of the patent term for the Subject Patent Rights, etc., (2) the expiration date of 10 years after the commencement of marketing, or (3) the end date of the statutory monopoly period, for each Subject Product and country.
Main contents of contract	Heptares and AbbVie will jointly develop new drug candidates targeting neurological diseases. Heptares granted to AbbVie an option to exclusively license the worldwide development and commercialization distribution rights. Heptares is eligible to receive an upfront payment, milestones and royalties in consideration.
Contract name	Multi-Target Collaboration and License Agreement
Counterparty	Eli Lilly and Company
Execution date	December 15, 2022
Contract period	From the Contract Date to the later of (1) the expiration date of the patent term for the Subject Patent Rights, etc., (2) the expiration date of 10 years after the commencement of marketing, or (3) the end date of the statutory monopoly period, for each Subject Product and country.
Main contents of contract	Heptares and Eli Lilly will jointly develop new drug candidates targeting diabetes and metabolic diseases. Heptares granted to Eli Lilly exclusive worldwide development and commercialization rights. Heptares is eligible to receive an upfront payment, milestones and royalties in consideration.

Sosei Group Corporation

Section 2. Business Review

5 Research and Development Activities

As a biotechnology Group oriented towards product development, management focuses resources on pharmaceutical research and development activities. The Group's research and development expenses comprise development expenses for the Group's development products, expenses for discovering the next generation of development candidates and research for foundational technologies for drug discovery.

The Group's research and development expenses for the year ended December 31, 2022 were JPY 7,454 million (measured in accordance with IFRS).

Details of the Group's Research and Development activities during the year were as follows:

(i) Extending and enhancing the Group's world-leading StaR®/SBDD discovery capabilities

Verily Life Sciences LLC – to identify novel targets and generate drug candidates for immune-mediated diseases

On January 6, 2022, the Group and Verily Life Sciences LLC ("Verily"), an Alphabet precision health company, announced that they had entered into a strategic research collaboration bringing together the complementary capabilities of Verily's immune profiling platform and the Group's GPCR SBDD. The collaboration aims to:

- Advance the understanding of GPCR biology in immune cells, particularly in the fields of immunology, gastroenterology, immuno-oncology and other disorders with immunoprotective or immunopathogenic mechanisms
- Prioritize and validate GPCR targets with strong potential as drug targets
- Discover and develop novel drug candidates that modulate these targets

Verily's proprietary Immune Profiler is a next generation immune mapping platform that combines high-resolution molecular phenotyping performed in Verily's labs and advanced computational analysis techniques to generate insights into immune system functions. It will be used to identify GPCR targets that represent new opportunities to modulate immune cell function and ameliorate disease pathology. The companies will collaborate to prioritize the GPCR targets using the Group's world-leading StaR® platform and structure-based drug design expertise, with the goal of generating lead molecules for further development or out-licensing. We have reached our first milestone in identifying and prioritizing targets in only 6 months from the start of the collaboration and have entered validation, hit generation and lead selection.

Kallyope Inc. - to identify and validate novel gastrointestinal GPCR targets

On May 17, 2022, the Group and Kallyope Inc. ("Kallyope"), a pioneer in drug discovery involving the gut-brain axis, announced that they had entered into a strategic research collaboration to identify and validate novel GPCR targets with a goal of creating new drug discovery programs in the area of gastrointestinal diseases. The agreement leverages the Group's GPCR Diversified Compound Library and GPCR expertise with the innovative Kallyope gut-brain axis platform, which combines single-cell sequencing, circuit mapping, computational biology and enteroid phenotypic screening. Together, the companies will prioritize and validate GPCR drug targets that represent new opportunities for potential

Sosei Group Corporation

Section 2. Business Review

5 Research and Development Activities (continued)

therapeutic intervention in gastrointestinal diseases and create programs for the development of novel small molecules that modulate these targets.

University of Oxford and KU Leuven - R&D Agreements to identify and validate key GPCRs driving gastrointestinal and immune disorders

On December 8, 2022, the Group announced it had entered into translational medicine and R&D agreements with the MRC Weatherall Institute of Molecular Medicine at the University of Oxford, UK and KU Leuven, Belgium. The focus of the agreements is to apply the innovative technologies and research capabilities of the respective academic groups to identify, validate and prioritise key GPCRs driving gastrointestinal and immune disorders, including Inflammatory Bowel Disease, as targets for SBDD.

(ii) Supporting our existing partnerships with major global pharmaceutical companies to drive continued revenue flow

AbbVie partnership

On August 1, 2022, the Group and AbbVie, a research-based global biopharmaceutical company, announced that they had entered into a new drug discovery collaboration and option-to-license agreement to discover, develop and commercialize small molecules that modulate novel GPCR targets associated with neurological disease. The new agreement leverages the Group's StaR[®] technology and SBDD platform and AbbVie's extensive neuroscience and disease area expertise. The agreement expands the breadth of the ongoing collaboration between the Group and AbbVie, building on the first multi-target discovery agreement signed between the companies in June 2020, which is focused on the inflammatory and autoimmune disease areas.

Under the terms of the new agreement, the Group will conduct and fund R&D activities through to the completion of Investigational New Drug (IND)-enabling studies. AbbVie has the exclusive option to license up to three programs at this stage and will have responsibility for clinical, regulatory and commercial development thereafter.

The Group received an upfront payment of US\$40 million on signing and is eligible to receive up to US\$40 million in near-term research milestone payments expected over the next three years, as well as further potential option, development and commercial milestones totaling up to US\$1.2 billion, plus tiered royalties on global sales.

On December 13, 2022, the Group announced that it had reached an important R&D milestone under its discovery collaboration with AbbVie focused on inflammatory and autoimmune diseases. The achievement triggered a payment of US\$10 million to Group.

Neurocrine Biosciences partnership

On August 4, 2022 (UK time), the Group announced that it had been notified by its partner Neurocrine Biosciences that a US\$30 million milestone had become payable to the Group following Neurocrine Biosciences's determination that it could proceed as planned with a Phase 2 clinical trial of NBI-1117568 for the treatment of adults with schizophrenia after receiving approval of its IND application by the US Food and Drug Administration ("FDA").

Sosei Group Corporation

Section 2. Business Review

5 Research and Development Activities (continued)

NBI-1117568 is an oral, selective muscarinic M4 receptor agonist in development for the treatment of schizophrenia and other neuropsychiatric disorders. As a selective M4 orthosteric agonist, NBI-1117568 offers the potential to deliver therapeutic effects without the need for combination therapy to minimize side effects, as required with non-selective muscarinic agonists, whilst also avoiding the requirement for cooperativity with acetylcholine (ACh) when compared to positive allosteric modulators. Clinical studies completed to date have shown NBI-1117568 to be generally safe and well tolerated.

NBI-1117568 is the most advanced candidate from a broad portfolio of novel clinical and preclinical subtype-selective muscarinic M1, M4 and dual M1/M4 receptor agonists discovered by the Group and in development under the 2021 collaboration with Neurocrine Biosciences for the treatment of major neurological disorders. Upon successful completion of pre-clinical studies, Neurocrine Biosciences anticipates initiating Phase 1 studies for a dual M1/M4 and selective M1 agonist. Advancing additional compounds into clinical studies would trigger further milestone payments from Neurocrine Biosciences to the Group.

On October 28, 2022, the Group noted that its partner, Neurocrine Biosciences, had announced the first patient had been randomized for its Phase 2 placebo-controlled study evaluating the efficacy, safety, tolerability and pharmacokinetics of NBI-1117568 in adults with schizophrenia. The Phase 2 study will enroll approximately 200 adults and is being conducted at 15 centres throughout the US. The study will evaluate multiple active dose levels of NBI-1117568. The primary outcome measure will be the change in total Positive and Negative Syndrome Scale (PANSS) score from baseline to Week 6.

Lilly partnership

On December 16, 2022, the Group announced that it had entered into a drug discovery collaboration with Lilly, a global biopharmaceutical company, to discover, develop and commercialize small molecules that modulate novel GPCR targets associated with diabetes and metabolic diseases. This new agreement leverages the Group's StaR® technology and SBDD platform and Lilly's extensive drug development and commercialization expertise as well as its therapeutic area expertise in diabetes and metabolic diseases.

Under the terms of the agreement, the Group will focus its efforts on multiple GPCR targets nominated by Lilly to deliver novel target-selective small molecule candidates for further development and commercialization. The Group received an upfront payment of US\$37 million on signing and is eligible to receive development and commercial milestones totaling up to US\$694 million, plus tiered royalties on global sales.

Pfizer partnership

On December 21, 2022, the Group announced that it had been notified by Pfizer that the first subject had been dosed in a Phase 2 clinical trial with Pfizer's candidate PF-07081532. Achievement of this milestone triggered a US\$10 million payment to Group. PF-07081532 is a once-daily, next-generation oral small molecule GLP-1 receptor agonist in development for the treatment of Type 2 diabetes and obesity. PF-07081532 was discovered by Pfizer scientists during a multi-target research collaboration in which Pfizer had access to the Group's proprietary StaR® technology. PF-07081532 had successfully completed Phase 1 clinical studies conducted by Pfizer.

Sosei Group Corporation

Section 2. Business Review

5 Research and Development Activities (continued)

PF-07081532 is one of three clinical candidates nominated by Pfizer during its collaboration with the Group, all of which are now progressing in clinical trials. The other two candidates, both currently in Phase 1 trials, are:

- PF-07054894 (a CCR6 receptor antagonist targeting Inflammatory Bowel Disease), and
- PF-07258669 (an MC4 receptor antagonist for anorexia)

(iii) Transforming in-house R&D to a program-centric operating model designed to enhance productivity, value and success

Weatherden Limited – strategic collaboration to embed an agile operating model and enhance discovery and translational medicine capabilities

On April 26, 2022, the Group announced a strategic collaboration with Weatherden Limited ("Weatherden"), a specialist R&D and clinical development consulting group. The collaboration aims to build upon the Group's world-leading GPCR SBDD platform and expertise and Weatherden's translational medicine and drug development expertise to create an agile operating model supported by best-in-class drug discovery and development teams.

The goal of this collaboration is to accelerate the prioritisation and progression of multiple pipeline programs through Phase 1b/2a trials to establish clinical proof-of-concept. This stage represents a key value inflection point that will potentially drive the Group to enter high-value global licensing and development deals as a way to generate significant revenues and fund accelerated growth over the long term.

By leveraging Weatherden's extensive experience, scientific expertise and data driven approach, together with its commercial focus on pharmaceutical asset evaluation and development, the Group has assembled the capabilities needed to enable a 'venture-like' capital allocation approach to pipeline development.

In this way, the Group aims to optimize decision-making and value generation by:

- creating new, efficient drug discovery and development pathways,
- accelerating the translation of its world-leading science into life-changing therapeutics for patients, and
- maximizing partnering transaction opportunities by taking selected in-house programs to a clinical proof-of-concept stage.

Expansion of UK R&D operations to a second site in Cambridge, UK

On May 26, 2022, the Group announced that it had expanded its UK R&D operations into a second and adjacent site within Granta Park, Cambridge. The expansion has been driven by the Group's growth strategy to become a multi-program, early clinical stage business and a partner-of-choice for leading biopharmaceutical companies.

Sosei Group Corporation

Section 2. Business Review

5 Research and Development Activities (continued)

Advancing three wholly owned candidates towards clinical trials

Based on the new strategy to transform R&D to a program-centric operating model, entrench target biology and enhance translational medicine capabilities, the Group aims to swiftly progress its wholly owned programs to a clinical proof of concept stage, with the following three candidates at the forefront:

- An oral EP4 antagonist (HTL0039732), a potential novel immunotherapy for solid tumors. On July 22, 2022, the Group and Cancer Research UK, the world's largest private funder of cancer research, announced the signing of an agreement to bring HTL0039732 into a first-in-human trial.
- An oral small molecule GPR52 agonist program, which potentially presents opportunities to address both the positive and negative symptoms and cognitive impairment in schizophrenia and psychosis, without adverse effects typically associated with existing antipsychotics.
- An oral, gut-restricted small molecule EP4 agonist potentially for the treatment of Inflammatory Bowel Disease. The Group's candidate, which acts through combined anti-inflammatory and gut barrier-protecting effects to promote mucosal healing, has shown robust efficacy across a range of preclinical models.

(iv) Building out a leading commercialization business in Japan

During 2022, the Group has been refining its strategy for Japan to focus on specialty products targeting underserved therapy areas. The Group believes that a huge opportunity exists for an agile, scalable and effective clinical development and commercialization business in Japan and intends to capitalize on significant underserved opportunities that the Group sees within the large attractive market. The Group is committed to building such a business over the coming years. This belief is based on the fact that Japan is the third largest pharma market behind the US and China, has a very large aging population and universal health care system. The Group intends to in-license foreign de-risked approved or late-stage clinical assets initially and, in the longer term, to expand the pipeline with internally generated programs.

Sosei Group Corporation

Section 3. Facilities

1 Overview of Capital Expenditures

In the year under review, UK R&D Operations in Cambridge were expanded. As a result, a right-of-use asset in the amount of JPY 102 million was recorded. There were no disposals or sales of important facilities during the year under review.

2 Status of Main Facilities

The Group's main facilities as at December 31, 2022 were as follows:

2.1 Filing Company

Office name (Location)	Description	Book value				Number of employees
		Buildings ¥m	Furniture and fixtures ¥m	Leases ¥m	Total ¥m	
Head office (Chiyoda-ku, Tokyo)	Group administration	27	11	-	38	24 (1.7)

Notes:

1. The above amounts are based on JGAAP.
2. The Head office is a leased facility.
3. The annual average number of other workers is provided separately in parentheses.

2.2 Overseas Subsidiaries

Subsidiary (Location)	Description	Book value					Total ¥m	Number of employees
		Buildings and structures ¥m	Machinery and equipment ¥m	Furniture and fixtures ¥m	Construction in progress ¥m	Right-of-use Assets ¥m		
Heptares Therapeutics Ltd. Head office (Cambridge, U.K.)	Research facility	1,474	502	124	109	1,520	3,729	158 (13.6)

Notes:

1. The above amounts are based on IFRS.
2. The Research facility is a leased facility.
3. The annual average number of other workers is provided separately in parentheses.

3 Plans for New Installation and Retirement of Facilities

3.1 New Installation of Important Facilities

Not applicable.

3.2 Retirement of Important Facilities

Not applicable.

Sosei Group Corporation

Section 4. Information about the Filing Company

1 Stock Information

1.1 Total Number of Shares

Total Number of Shares

Type	Total number of authorized shares (shares)
Common shares	149,376,000

Issued Shares

Type	Number of issued shares at December 31, 2022 (shares)	Number of issued shares at the date of submission-March 23, 2023 (shares)	Name of listed financial instruments exchange or name of registered authorized financial instruments firms' associations	Details
Common shares	81,923,230	81,923,230	Tokyo Stock Exchange Growth (at December 31, 2022) Prime (at the date of submission - March 23, 2023)	Number of shares constituting one unit: 100 shares
Total	81,923,230	81,923,230	-	-

Notes:

1. In the "number of issued shares at the date of submission" the number of shares issued through the exercise of stock options during the period between March 1, 2023 and the submission date of this securities report is not included.
2. On March 15, 2023, the company's shares changed market from the Growth market to the Prime market on the Tokyo Stock Exchange.

1.2 Stock Acquisition Rights (Stock Options)

Details of Stock Acquisition Rights

Please refer to "Section 5 Financial Statements Notes to the Consolidated Financial Statements, Note 22 Share-based payments".

Contents of Rights Plan

Not applicable.

Sosei Group Corporation

Section 4. Information about the Filing Company

1 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

Contents of Exercise of others

Sosei Group Corporation Euro-Yen Convertible Bonds due 2026 (Hereinafter referred to as the "Bonds with Stock Acquisition Rights", of which only the bonds are referred to as the "Bonds" and only the stock acquisition rights are referred to as the "Stock Acquisition Rights".)

Resolution date	July 7, 2021
Number of stock acquisition rights (units) (*)	3,000
Number of treasury stock acquisition rights among stock acquisition rights (*)	-
Class and number of shares underlying stock acquisition rights (shares) (Note 1) (*)	Common Shares 13,422,818
Amount to be paid into exercise stock acquisition rights (yen) (Note 2) (*)	2,235
Period for exercising stock acquisition rights (Note 3) (*)	From August 10, 2021 to July 13, 2026
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of stock acquisition rights (yen) (Note 4) (*)	Issue price: 2,235 Additional paid-in capital per share: 1,118
Conditions for exercising stock acquisition rights (*)	(Note 5)
Matters relating to transfer of stock acquisition rights (*)	The stock acquisition rights are attached to convertible bond-type bonds with stock acquisition rights and cannot be transferred separately from the bonds.
Matters relating to granting of stock acquisition rights in association with acts of organizational restructuring (*)	(Note 6)
Details and value of assets to be contributed for the exercise of stock	Upon the exercise of each stock acquisition right, the bonds pertaining to such stock acquisition rights shall be contributed, and the value of such bonds shall be equal to the nominal value thereof.
Balance of stock acquisition rights at the end of the financial year (\m)	30,000

(*) The position as at the end of the current year (December 31, 2022) is described above. As at the end of the month prior to the submission date (February 28, 2023) there had been no change. Accordingly, equivalent disclosures relating to the position as at the end of the month prior to the submission date have been omitted.

Note 1 The type and content of shares to be issued upon exercise of the Stock Acquisition Rights shall be shares of the Company's common stock (100 shares per unit), and the number of shares of the Company's common stock to be delivered by the Company upon exercise of the Stock Acquisition Rights shall be the number obtained by dividing the total face value of the Bonds pertaining to the exercise request by the conversion price set forth in 2 (1) and (2) below. However, any fraction of a share resulting from the exercise of the Stock Acquisition Rights shall be rounded down and no adjustment in cash shall be made. In addition, if the exercise of the Stock Acquisition Rights results in the issuance of shares constituting less than one unit, such shares constituting less than one unit shall be delivered to the holders of the Bonds (the "Bondholders") in the same manner as shares constituting one unit, and the Company shall not make any cash settlement for such shares constituting less than one unit.

Sosei Group Corporation

Section 4. Information about the Filing Company

1 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

Note 2 (1) The amount to be paid in at the time of exercise of the Stock Acquisition Rights (the "Conversion Price") shall initially be JPY 2,235.

(2) The conversion price shall be adjusted in accordance with the following formula if, after the issuance of the Bonds, the Company issues shares of common stock of the Company at a paid in price below the market price of the Company's common stock or disposes of shares of common stock of the Company held by the Company. In the following formula, the "number of shares already issued" refers to the total number of the Company's issued common shares (excluding those held by the Company).

$$\begin{array}{rcccl} \text{Conversion Price} & & & & \text{Net balance of} \\ \text{after adjustment} & = & \text{Conversion Price} & \times & \text{newly issued} \\ & & \text{before} & & \text{and disposed} \\ & & \text{adjustment} & & \text{shares} \\ & & & & \times \text{ Amount paid per} \\ & & & & \text{share} \\ & & \text{Number of} & + & \\ & & \text{outstanding} & & \\ & & \text{shares} & & \\ & & & & \hline & & & & \text{Market value} \\ & & \text{Number of} & + & \text{Net balance of newly issued and} \\ & & \text{outstanding shares} & & \text{disposed shares} \end{array}$$

The Conversion Price shall also be adjusted from time to time in the event of a split or consolidation of the Company's common stock, the distribution of a certain amount of surplus, the issuance of stock acquisition rights (including those attached to bonds with stock acquisition rights) that allow the Company to request the delivery of the Company's common stock at a price lower than the market price of the Company's common stock, or the occurrence of certain other events.

Note 3 Provided, however, that (i) in the event of early redemption by the Company as provided for in the terms and conditions of the Bonds, no later than three business days prior to the redemption date in Tokyo (however, this excludes the Stock Acquisition Rights pertaining to the Bonds that are elected not to be subject to early redemption due to Tax Reform), (ii) in the event of early redemption at the option of the Bondholders, until the time when the Redemption Notice is deposited with the Agent for Receipt of Payment and Exercise of Stock Acquisition Rights, (iii) in the case of a purchase and cancellation, until the time of cancellation of the Bonds, and in the case of forfeiture of the benefit of the term of the Bonds, until the time of forfeiture of the benefit of the term. In any of the above cases, the Stock Acquisition Rights may not be exercised later than July 13, 2026 (local time at the place where the Bonds are deposited for the exercise of the Stock Acquisition Rights). Notwithstanding the foregoing, if the Company reasonably determines that it is necessary in order to carry out organizational restructuring, etc. of the Company, the Stock Acquisition Rights may not be exercised during the period designated by the Company that ends within 14 days from the day following the effective date of the organizational restructuring, etc. Notwithstanding the foregoing, the Bondholders shall not be entitled to receive payment of interest on the Bonds if the Depository Date (as defined below) is the record date (including the same date) for the payment of interest on the Bonds. Notwithstanding the above, the Stock Acquisition Rights may not be exercised if the calendar day in Japan on which the exercise of the Stock Acquisition Rights takes effect (or, if such calendar day is not a business day in Tokyo, the next

Sosei Group Corporation

Section 4. Information about the Filing Company

1 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

business day in Tokyo) falls within the following period: from the date two business days prior to the record date set by the Company in Tokyo (or, if such date is not a business day in Tokyo, the date three business days prior to such date in Tokyo) (including the same date) (the "Record Date") or any other date set by the Company to determine shareholders in connection with Article 151, Paragraph 1 of the Act on Book-Entry Transfer of Company Bonds, Shares, etc., to the date of determination of shareholders (or, if the date of determination of shareholders is not a business day in Tokyo, the next business day in Tokyo) (including the same date). However, if Japanese laws, regulations or practices relating to the delivery of shares upon exercise of stock acquisition rights through the book-entry transfer system under the Act on Book-Entry Transfer of Corporate Bonds, Shares, etc. are changed, the Company may amend the limitation on the period during which the Stock Acquisition Rights may be exercised under this paragraph to reflect such change. The "Deposit Date" shall mean the date on which the Bond with Stock Acquisition Rights and other documents necessary for the exercise request are deposited with the Payment and Stock Acquisition Rights Exercise Request Agent and the other conditions necessary for the exercise request are satisfied.

Note 4 The amount of stated capital to be increased shall be half of the maximum increased amount of stated capital, etc., as calculated in accordance with Article 14, Paragraph 1 of the Rules of Account Settlement of Corporations, with any fraction less than one yen resulting from the calculation being rounded up to the nearest one yen. In addition, the amount of capital reserve to be increased shall be the amount obtained by subtracting the amount of capital to be increased from the relevant maximum amount of increase in capital, etc.

Note 5 Each Stock Acquisition Right may not be exercised in part.

Note 6 (1) In the event of Organizational Restructuring, etc., the Company shall use its best efforts to have the Succeeding Company, etc. (as defined below) succeed to the position as the principal debtor of the Bonds with Stock Acquisition Rights and deliver new stock acquisition rights in place of the Stock Acquisition Rights in accordance with the terms and conditions of the Bonds with Stock Acquisition Rights. However, such succession and delivery shall take place only if (i) such succession and delivery are feasible under the laws applicable at the time, (ii) a mechanism for such succession and delivery has already been established or can be established, and (iii) the Company or the Succeeding Company, etc. does not incur any costs (including taxes) that are unreasonable (as determined by the Company) from the perspective of the Reorganization, etc. as a whole. In such cases, the Company shall also make its best efforts to ensure that the Succeeding Company, etc. is a listed company in Japan as at the effective date of the Reorganization, etc. This shall not apply if the Company issues a certificate to the effect that the Succeeding Company, etc. is not expected by the Company to be a listed company in Japan on the effective date of the Reorganization, etc. for any reason whatsoever. The "Succeeding Company, etc." means the counterparty in the Reorganization, etc., which assumes the obligations of the Company with respect to the Bonds with Stock Acquisition Rights or the Stock Acquisition Rights.

Sosei Group Corporation

Section 4. Information about the Filing Company

1 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

(2) The details of the stock acquisition rights of the Succeeding Company, etc. to be delivered in accordance with the provisions of (1) above shall be as follows:

(i) Number of Stock Acquisition Rights:

The number of Stock Acquisition Rights shall be the same as the number of Stock Acquisition Rights pertaining to the Bonds with Stock Acquisition Rights remaining immediately prior to the effective date of the Reorganization.

(ii) Class of shares to be issued upon exercise of stock acquisition rights:

Common stock of the Succeeding Company, etc.

(iii) Number of shares to be issued upon exercise of stock acquisition rights:

The number of shares of common stock of the Succeeding Company, etc. to be delivered upon exercise of the stock acquisition rights of the Succeeding Company, etc. shall be determined by reference to the terms and conditions of the Bonds, taking into consideration the terms and conditions of the Reorganization, etc., and shall also be subject to (I) or (II) below. The conversion price shall be subject to adjustment in the same manner as set forth above.

(I) In the case of certain mergers, share exchanges, or share transfers, the conversion price shall be determined so that the number of shares of common stock of the succeeding company, etc. that the holders of the number of shares of common stock of the Company that would be obtained if they exercised the Stock Acquisition Rights immediately prior to the effective date of the Reorganization, etc. receive in the Reorganization, etc. shall be received when they exercise the Stock Acquisition Rights of the succeeding company, etc. immediately after the effective date of the Reorganization, etc. If securities or other property other than the common stock of the Succeeding Company, etc. are delivered upon the Reorganization, etc., the number of shares of common stock of the Succeeding Company, etc. equal to the number obtained by dividing the value of such securities or property by the market value of the common stock of the Succeeding Company, etc. shall be received together.

(II) In the case of organizational restructuring, etc. other than the above, the conversion price shall be determined so that the Bondholders with Stock Acquisition Rights will receive the same economic benefits as they would receive if they exercised their Stock Acquisition Rights immediately prior to the effective date of said organizational restructuring, etc. when they exercise the Stock Acquisition Rights of the Surviving Entity, etc. immediately after the effective date of said organizational restructuring, etc.

(iv) Details of property to be contributed upon the exercise of stock acquisition rights and the amount thereof:

Upon exercise of the stock acquisition rights of the Succeeding Company, etc., the Succeeded Bonds shall be contributed, and the value of such Succeeded Bonds shall be the same as the face value of the Succeeded Bonds.

(v) Period during which the Stock Acquisition Rights may be exercised:

From the effective date of the Reorganization, etc. (or a date within 14 days after the effective date of the Reorganization, etc., as the case may be) until the expiration date

Sosei Group Corporation

Section 4. Information about the Filing Company

1 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

of the exercise period of the Stock Acquisition Rights set forth above.

(vi) Other conditions for the exercise of stock acquisition rights:

Partial exercise of each stock acquisition right of the Surviving Entity shall not be permitted.

(vii) Capital stock and capital reserve to be increased in the event of the issuance of shares upon the exercise of stock acquisition rights:

The amount of stated capital to be increased in the event of the issuance of shares by the exercise of stock acquisition rights of the Successor Company, etc. shall be the maximum amount of increase in stated capital, etc. calculated in accordance with the provisions of Article 17 of the Corporate Calculation Rules multiplied by 0.5, with any fraction less than one yen resulting from the calculation being rounded up to the nearest one yen. The amount of additional paid-in capital to be increased shall be the amount obtained by subtracting the amount of stated capital to be increased from the maximum amount of increase in stated capital, etc.

(viii) In the event of reorganization, etc.:

In the event of an organizational restructuring, etc. of the Succeeding Company, etc., the Bonds will be treated in the same manner.

(ix) Other matter:

If a Succeeding Company, etc. exercises the stock acquisition rights, fractions of less than one share resulting from the exercise of stock acquisition rights shall be rounded down and no cash adjustment shall be made. The stock acquisition rights of the Succeeding Company, etc. cannot be transferred separately from the Succeeded Bonds.

(3) In the event that the Company's obligations under the Trust Deed are assumed or succeeded to by the Successor Company, etc., the Company shall comply with the terms and conditions of the Bonds, in addition to attaching a guarantee in certain cases as set forth in the terms and conditions of the Bonds.

1.3 Status of Exercise of Moving Strike Convertible Bonds (MSCB)

Not applicable.

Sosei Group Corporation

Section 4. Information about the Filing Company

1 Stock Information (continued)

1.4 Changes in the Total Number of Issued Shares, and Capital Stock

Date	Increase/ (decrease) in total number of issued shares (shares)	Balance of total number of issued shares (shares)	Increase/ (decrease) in capital stock ¥m	Balance of capital stock ¥m	Increase/ (decrease) in legal capital reserve ¥m	Balance of legal capital reserve ¥m
April 1, 2018 – December 31, 2018 Notes 1,2	57,246,952	76,301,936	72	36,854	72	24,971
January 1, 2019 – December 31, 2019 Note 3	771,200	77,073,136	625	37,479	625	25,596
January 1, 2020 – December 31, 2020 Notes 4,5,6	3,522,992	80,596,128	2,741	40,220	2,741	28,337
January 1, 2021 – December 31, 2021 Notes 7,8,9	922,188	81,518,316	816	41,036	816	29,153
January 1, 2022 – December 31, 2022 Notes 10,11,12	404,914	81,923,230	299	41,335	299	29,452

Notes:

- On May 10, 2018 the Board of Directors resolved to conduct a stock split. The Company revised its Articles of Incorporation to increase the total number of authorized shares in proportion to the stock split ratio with effect on 1 July 2018. Therefore, issued shares increased by 57,164,952 shares.
- The total number of issued shares increased by 82,000 due to the exercise of stock acquisition rights between April 1, 2018 and December 31, 2018, and the resulting increases in capital stock and legal capital reserve were JPY 72 million each.
- The total number of issued shares increased by 771,200 due to the exercise of stock acquisition rights between January 1, 2019 and December 31, 2019, and the resulting increases in capital stock and legal capital reserve were JPY 625 million each.
- The total number of issued shares increased by 3,301,400 due to the issuance of new shares by way of an international offering and third-party allotment in association with a secondary offering with a payment date of July 16, 2020 based on the resolution at the meeting of the Board of Directors held on June 30, 2020, and the resulting increases in capital stock and legal capital reserve were JPY 2,528 million each:
 - Issue price JPY 1,595
 - Payment amount JPY 1,531.2
 - Additional paid-in capital per share JPY 765.6
- The total number of issued shares increased by 149,200 due to the exercise of stock acquisition rights between January 1, 2020 and December 31, 2020, and the resulting increases in capital stock and legal capital reserve were JPY 132 million each.
- The total number of issued shares increased by 72,392 due to the issue of new shares under the Restricted Stock Unit (RSU) scheme and the resulting increases in capital stock and legal capital reserve were JPY 81 million each.
- The total number of issued shares increased by 136,312 due to the exercise of stock acquisition rights of Euro-yen denominated convertible bonds due 2025 between January 1, 2021 and December 31, 2021, and the resulting increases in capital stock and legal capital reserve were JPY 127 million each.
- The total number of issued shares increased by 584,000 due to the exercise of stock acquisition rights between January 1, 2021 and December 31, 2021, and the resulting increases in capital stock and legal capital reserve were JPY 503 million each.

Sosei Group Corporation

Section 4. Information about the Filing Company

1 Stock Information (continued)

1.4 Changes in Total Number of Issued Shares, and Capital Stock (continued)

9. The total number of issued shares increased by 201,876 as a result of the issue of new shares under the RSU scheme and the resulting increases in capital stock and legal capital reserve were JPY 186 million each.
10. The total number of issued shares increased by 5,200 due to the exercise of stock acquisition rights between January 1, 2022 and December 31, 2022, and the resulting increases in capital stock and legal capital reserve were JPY 9 million each.
11. The total number of issued shares increased by 380,071 as a result of the issue of new shares under the RSU scheme and the resulting increases in capital stock and legal capital reserve were JPY 278 million each.
12. The total number of issued shares increased by 19,643 as a result of the issue of new shares under the Performance Share Unit (PSU) scheme and the resulting increases in capital stock and legal capital reserve were JPY 12 million each.

1.5 Shareholding by Shareholder Category as at December 31, 2022

Category	Shareholding status (Number of shares per share unit: 100 shares)							Total	Fractional shares (shares)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors, etc.		Individuals, etc.		
					Companies, etc.	Individuals			
Number of shareholders (persons)	-	8	33	256	168	44	22,939	23,448	-
Number of shares held (units)	-	82,340	45,513	49,507	223,743	1,160	416,589	818,852	38,030
Shareholding ratio (%)	-	10.055	5.558	6.045	27.323	0.141	50.874	100.000	-

Notes:

1. Common shares in the "Individuals, etc." column include 2 units and the "Fractional shares" column includes 54 treasury shares (totaling 254 shares) owned by the Company.

Sosei Group Corporation

Section 4. Information about the Filing Company

1 Stock Information (continued)

1.6 Major Shareholders as at December 31, 2022

Name	Address	Number of shares held (shares)	Ratio of shares held to total number of shares issued (%)
Daisuke Gomi	Matsumoto-shi, Nagano	6,570,000	8.02
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo, JPN	4,686,000	5.72
TAIYO FUND, L.P. (Standing proxy: MUFG Bank, Ltd.)	5300 CARILLON POINT KIRKLAND, WA 98033, USA (Standing proxy: 2-7-1, Marunouchi, Chiyoda-ku, Tokyo, JPN)	3,545,400	4.33
Custody Bank of Japan, Ltd. (trust account)	1-8-12, Harumi, Chuo-ku, Tokyo, JPN	2,447,800	2.99
SBI SECURITIES Co., Ltd.	1-6-1, Roppongi, Minato-ku, Tokyo, JPN	1,909,109	2.33
Pfizer Pharmaceuticals K.K.	3-22-7, Yoyogi, Shibuya-ku, Tokyo, JPN	1,885,136	2.30
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: HSBC Tokyo Branch, Custody Business Department)	ONE LINCOLN STREET, BOSTON MA USA 02111 (Standing proxy: 3-11-1, Nihonbashi, Chuo-ku, Tokyo, JPN)	1,820,835	2.22
TAIYO HANEI FUND, L.P. (Standing proxy: MUFG Bank, Ltd.)	5300 CARILLON POINT KIRKLAND, WA 98033, USA (Standing proxy: 2-7-1, Marunouchi, Chiyoda-ku, Tokyo, JPN)	1,682,800	2.05
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB (Standing proxy: BofA Securities Japan Co., Ltd.)	MERRILL LYNCH FINANCIAL CENTRE 2 KING EDWARD STREET LONDON UNITED KINGDOM (Standing proxy: Mitsui building, 1-4-1, Nihonbashi, Chuo-ku, Tokyo, JPN)	1,519,692	1.86
STATE STREET BANK AND TRUST COMPANY 505227 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (Standing proxy: Shinagawa Intercity Tower A, 2-15-1, Konan, Minato-ku, Tokyo, JPN)	1,429,800	1.75
		27,496,572	33.57

Notes:

1. Of the above number of shares, the number of shares held in association with fiduciary activities is as follows:

The Master Trust Bank of Japan, Ltd. (trust account)	4,686,000 shares
Custody Bank of Japan, Ltd. (trust account)	2,447,800 shares

Sosei Group Corporation

Section 4. Information about the Filing Company

1 Stock Information (continued)

1.6 Major Shareholders as at December 31, 2022 (continued)

2. In the amended report of possession of large volumes provided for public inspection on April 22, 2022, the following shareholdings are respectively attributed to Capital Research and Management Company and its three joint holders as at April 15, 2022. However, since the Company is unable to confirm the actual number of shares held at December 31, 2022, they are not included in the major shareholders table above. The contents of the amended report of possession of large volumes is as follows:

Name	Address	Number of shares held (shares)	Ratio of shares held to total number of shares issued (%)
Capital Research and Management Company	333 South Hope Street, Los Angeles, CA 90071, USA	1,189,700	1.46
Capital International Inc.	11100 Santa Monica Boulevard, 15 th Fl., Los Angeles, CA 90025, USA	372,780	0.46
Capital International Sarl	3 Place des Bergues, 1201 Geneva, Switzerland	334,322	0.41
Capital International Corp.	Meiji Yasuda Seimei Building, 14 th Fl., 2-1-1, Marunouchi, Chiyoda-ku, Tokyo, JPN	2,920,100	3.58
		4,816,902	5.91

Sosei Group Corporation

Section 4. Information about the Filing Company

1 Stock Information (continued)

1.7 Voting Rights

Issued Shares as at December 31, 2022

Item	Number of shares (shares)	Number of voting rights	Details
Non-voting shares	-	-	-
Shares with restricted voting rights (treasury shares, etc.)	-	-	-
Shares with restricted voting rights (other)	-	-	-
Shares with full voting rights (treasury shares, etc.)	Common shares 200	-	-
Shares with full voting rights (other)	Common shares 81,885,000	818,850	Note
Shares less than one unit	Common shares 38,030	-	-
Total number of issued shares	81,923,230	-	-
Voting rights held by all the shareholders	-	818,850	-

Notes:

1. These shares are standard shares of the Company which do not have any limitation of rights.
2. The number of shares less than one unit includes 54 treasury shares owned by the Company.

Treasury Shares, Etc. as at December 31, 2022

Name or trade name of holder	Holder's address	Number of shares held in own name (shares)	Number of shares held in another's name (shares)	Total number of shares held (shares)	Ratio of shares held to total number of shares issued (%)
Sosei Group Corporation	2-1 Kojimachi, Chiyoda-ku, Tokyo	200	-	200	0.00

2 Acquisitions, etc. of Treasury Shares

Classes of shares: Acquisition of ordinary shares that falls under Article 155, Item 7 of the Companies Act

2.1 Acquisitions by Resolution of General Meeting of Shareholders

Not applicable.

2.2 Acquisitions by Resolution of Board of Directors

Not applicable.

Sosei Group Corporation

Section 4. Information about the Filing Company

2 Acquisitions, etc. of Treasury Shares (continued)

2.3 Acquisitions not Based on Resolution of General Meeting of Shareholders or Board of Directors

Category	Number of shares (shares)	Total amount of purchase price (yen)
Acquired treasury shares during the financial year ending December 31, 2022	41	55,801
Acquired treasury shares during the period from the end of the financial year to the filing date of annual securities report	-	-

Notes:

1. "Acquired treasury shares during the period from the end of the financial year to the filing date of annual securities report" do not include fractional shares purchased from March 1, 2023 to the filing date of this annual securities report.

2.4 Status of Disposals or Holdings of Acquired Treasury Shares

Item	During the financial year ending December 31, 2022		The period from the end of the financial year to the filing date of annual securities report	
	Number of shares (shares)	Total amount of disposal price (yen)	Number of shares (shares)	Total amount of disposal price (yen)
Undertaken treasury shares	-	-	-	-
Retirement treasury shares	-	-	-	-
Mergers, Stock exchange, Share delivery, company split treasury shares	-	-	-	-
Others	-	-	-	-
Holding of Acquired Treasury Shares	254	-	254	-

Notes:

1. Treasury shares disposed of in the period from the end of the financial year to the filing date of annual securities report do not include fractional shares sold from March 1, 2023 to the filing date of this annual securities report.
2. Treasury shares held in the period from the end of the financial year to the filing date of annual securities report do not include fractional shares purchased from March 1, 2023 to the filing date of this annual securities report.

3 Dividend Policy

The declaration and payment of any dividends in the future will depend on the results of operations, financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed by the Board to be relevant at the time.

At present, the Group is making prudent investments to build a globally competitive biotechnology business and, therefore, does not expect to pay any dividends in the near to medium term. The Board will continue to reassess this position based on the factors above. With regard to dividends of surplus, except where stipulated otherwise by laws and regulations, the Company's Articles of Incorporation stipulate that the Board of Directors may decide without a resolution of the General Meeting of Shareholders. Moreover, the record date for the year-end dividend shall be December 31, and the record date for the interim dividend shall be June 30.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance

4.1 Corporate Governance

Overview of Corporate Governance

The Group aims to become one of Japan's global biotechnology champions. It has been building business systems to support further business expansion and recognizes that building an effective corporate governance system is an important management priority for achieving an increase in corporate value over the medium to long term. For this reason, the Group utilizes independent external directors and establishes communication channels between the Audit Committee, the external auditor and the internal audit department, to support the strategic management and oversight functions of the Board of Directors. At the same time, the Group is striving to increase the integrity and transparency of management and further improve its corporate governance through measures such as fulfilling its accountability to various stakeholders, including shareholders, employees, business partners, customers, creditors, consumers and local communities.

Overview of the Corporate Governance System and Reason for Adoption of the System

The Company has adopted the "company with nomination committee, etc." system in order to strengthen Board oversight, increase transparency and speed up management decision-making, among other duties. Under this system, the Company has clearly separated the oversight function and business execution function of management and has largely delegated business execution authority to its executive officers. It judges this system to be appropriate to increase management efficiency and strengthen the oversight of management.

Overview of the Board of Directors and Committees

a. Board of Directors

The Board of Directors comprises 9 directors, including 7 independent external directors, one of whom is scheduled to assume office on April 1, 2023. The Board sets basic management policies, supervises the execution of duties by executive officers and directors, and deliberates on management strategies to realize sustainable growth and add corporate value. One of the directors serves concurrently as representative executive officer.

b. Nomination Committee

The Nomination Committee comprises 3 independent external directors and the Chairman of the Board. The Committee makes proposals for the election of directors for resolution by the Shareholders. The Committee assesses whether candidates have sufficient expertise and experience to support the Company's global strategy.

c. Compensation Committee

The Compensation Committee comprises 3 independent external directors, the Chairman of the Board and 1 director serving concurrently as a representative executive officer. The Committee sets the remuneration policy for directors and executive officers, and, based on that policy determines their individual remuneration in view of performance and other contributions to the Company.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.1 Corporate Governance (continued)

d. Audit Committee

The Audit Committee comprises 5 independent external directors. The Committee is responsible for overseeing the execution of the directors' and executive officers' duties as well as the appointment and dismissal of the external auditor. The Committee does not have full-time members, but it works closely with the Internal Audit Department.

e. Executive officers

As described in "4.2 Status of Officers as at March 23, 2023", 6 executive officers are currently appointed (including one representative executive officer). They perform the decision-making and business execution functions entrusted to them by the Board of Directors.

The Board of Directors elects the representative executive officer and other senior executive officers as well as assigning responsibilities to them.

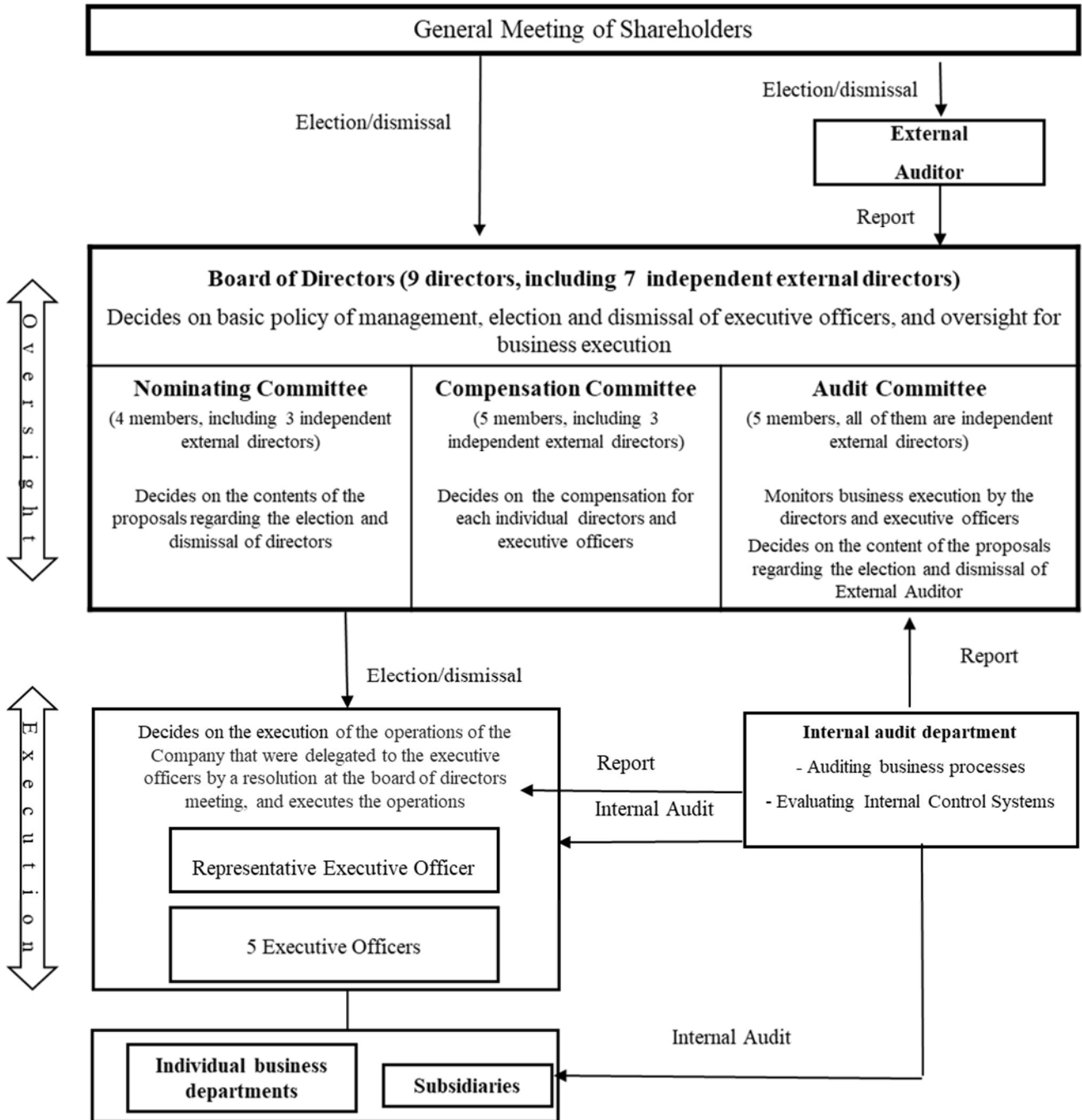
Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.1 Corporate Governance (continued)

Schematic Depiction of the Group's Corporate Governance System



Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.1 Corporate Governance (continued)

Other Matters relating to corporate governance

a. Status of Establishment of Internal Control Systems

To ensure that management complies with all aspects of the law, the reliability of financial reporting, and implementation of appropriate risk management practices, the Board of Directors has resolved a basic policy for the establishment of internal control systems in accordance with the Companies Act and aims to implement it thoroughly. An overview of the basic policy is as follows:

- i. 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.
- ii. 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 damage 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.
 - The Legal and Compliance Department reports timely and properly to the Audit Committee on the status and content of any whistleblowing communications.
- iii. 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.
- iv. System to ensure the performance of duties, by executive officers and employees and by directors and employees of subsidiaries, 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 whistleblower hotline exists and is operated appropriately.
 - The Internal Audit Department conducts internal audits related to the performance of duties at the Company and its subsidiaries.
- v. System related to preservation and management of information related to the 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.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.1 Corporate Governance (continued)

- vi. Rules and other systems related to the management of risk of loss:
 - Specific policies and measures are created to deal with risks relating 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.
- vii. System to ensure that the performance of duties by executive officers and directors, etc. of subsidiaries is conducted efficiently:
 - The operational responsibilities of executive officers and the authority granted to executives and employees of the Company and subsidiaries are clearly defined. 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.
- viii. 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.
 - Efforts are made to ensure the appropriateness of the Group's financial reporting processes, which are evaluated, maintained, and improved.

b. Overview of Details of Liability Limitation Agreements

The Company and the Independent External Directors have concluded agreements limiting liability for damages under Article 423, Paragraph 1 of the Companies Act, in accordance with the provisions of Article 427, Paragraph 1 of the same act. The maximum amount of liability for damages under these agreements for each Independent External Director is the minimum amount stipulated in Article 425, Paragraph 1 of the Companies Act.

c. Outline of the directors and executive officers, etc. liability insurance policy, etc.

The Company has concluded a directors and officers liability insurance ("D&O insurance") policy with an insurance company as provided for in Article 430-3, Paragraph 1 of the Companies Act with all Directors, Executive Officers and Corporate Auditors of the Company and its subsidiaries as insured parties. The Company pays the full premium for the provision of this policy.

This insurance policy covers losses arising from the liability borne by the insured party in the course of the execution of his/her duty or claims pertaining to the pursuit of such liability.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.1 Corporate Governance (continued)

d. Number of Directors and election of Directors

The Company's Articles of Incorporation stipulate that there may be no more than 10 directors. Furthermore, the Articles of Incorporation stipulate that a resolution to elect a director must be made by a majority vote where shareholders holding at least one-third of the voting rights of the shareholders eligible to exercise voting rights are present, furthermore that a resolution to elect a director may not be made by cumulative voting.

e. Matters Requiring a Special Resolution of the General Meeting of Shareholders

With regard to special resolutions of the General Meeting of Shareholders stipulated in Article 309, Paragraph 2 of the Companies Act, to ensure the smooth operation of the General Meeting of Shareholders, the Company's Articles of Incorporation stipulate that these resolutions must be made by a vote of at least two-thirds where shareholders holding at least one-third of the voting rights of the shareholders eligible to exercise voting rights are present.

f. Decision-Making Body for Declaring Dividends of Surplus

With regard to matters such as the dividend of surplus stipulated in the items under Article 459, Paragraph 1 of the Companies Act, the Company's Articles of Incorporation stipulate that in order to enable flexible decision-making the Board of Directors shall decide on these matters without a resolution from the General Meeting of Shareholders, except in cases where it is otherwise stipulated by laws and regulations.

g. Interim Dividend

With regard to matters such as the interim dividend stipulated in the items under Article 454, Paragraph 5 of the Companies Act, the Company's Articles of Incorporation stipulate that in order to enable flexible decision-making the Company shall pay any interim dividend on June 30 as the reference date.

h. Acquisition of Treasury Shares

To enable execution of flexible capital policies in response to changes in the business environment, the Company's Articles of Incorporation stipulate that the Company may acquire its own stock from market exchanges by resolution of the Board of Directors, in accordance with the provision of Article 165, Paragraph 2 of the Companies Act.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.2 Status of Officers as at March 23, 2023

Men: 11, Women: 3 (percentage of female officers: 21.4 %)

The above number includes 1(one) woman who is scheduled to be appointed as an Independent external director from April 1, 2023.

Status of Directors

Job title	Name	Date of birth	Summary of career	Term of office	No. of shares owned	
Director Chairman of the Board	Shinichi Tamura	Sep. 17, 1949	Apr. 1978	Joined Fujisawa Pharmaceutical Co., Ltd. (currently Astellas Pharma Inc.)	Note 3	1,172,152
			Feb. 1987	Joined Genentech Inc.		
			Jul. 1989	Representative Director & President, Genentech Limited		
			Jun. 1990	Representative Director & CEO of the Company		
			Jun. 2005	Board Director, Representative Executive Officer and President, CEO of the Company		
			Mar. 2012	Managing Director, Sosei R&D Ltd.		
			Jun. 2016	Chairman of the Board of the Company Representative Executive Officer and Executive Chairman of the Company		
			Jan. 2019	Representative Executive Officer, Chairman, President and CEO of the Company		
			Sep. 2021	Representative Executive Officer, CEO of the Company		
			Mar. 2022	Chairman of the Board of the Company (to the present)		
Director	Christopher Cargill	Jan. 3, 1984	Feb. 2009	Joined KPMG	Note 3	21,050
			Apr. 2010	Joined J.P. Morgan Chase & Co		
			Sep. 2017	Head of IR and Corporate Communication Dept of the Company		
			Jun. 2018	Interim CFO of the Company		
			Jun. 2018	Director, Sosei R&D Ltd.		
			Nov. 2018	Executive Officer and Executive Vice President, CFO of the Company		
			Jan. 2019	Director, Heptares Therapeutics Ltd. (to the present)		
			Apr. 2021	Executive Officer, COO, CFO of the Company		
			Sep. 2021	Executive Officer, CFO of the Company		
			Mar. 2022	Board Director, Representative Executive Officer, President and CEO of the Company (to the present)		
			Aug. 2022	Director, Sosei Group USA Inc. (to the present)		
Apr. 2023	Representative Director and President, Sosei Co. Ltd. (Scheduled)					
Director	Tomohiro Tohyama	Feb. 21, 1950	Apr. 1978	Entered Legal Training and Research Institute, Supreme Court of Japan	Note 3	39,982
			Apr. 1980	Registered with Dai-ichi Tokyo Bar Association Joined Nishimura & Sanada Law Office		
			May 1984	Mason & Sloane LLP., USA		
			Feb. 1985	Pollock, Bloom & Dekom, USA		
			Jun. 1985	Pryor, Cashman, Sherman & Flynn, USA		
			Aug. 1985	Returned to Nishimura & Sanada Law Office as a partner		
			Oct. 1990	Partner (one of founders) at TMI Associates (to the present)		
			Nov. 1999	Outside Corporate Auditor, Nippon Shikizai, Inc.		
			Jun. 2010	Outside Director, Avex Group Holdings Inc.		
			Jun. 2011	Independent External Director of the Company (to the present)		
			May 2016	Outside Director, Member of the Audit and Supervisory Committee, Nippon Shikizai, Inc. (to the present)		
			May 2016	Outside Director, Trust Capital Co., Ltd.		
			Jun. 2016	Outside Statutory Auditor, WOWOW Inc.		

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.2 Status of Officers as at March 23, 2023 (continued)

Job title	Name	Date of birth	Summary of career	Term of office	No. of shares owned
Director	Kuniaki Kaga	Sep. 1, 1951	<p>Apr. 1975 Joined Mitsubishi Kasei Kogyo Kabushiki Kaisha (current Mitsubishi Chemical Corporation)</p> <p>Jun. 2004 Deputy Director, Head of Healthcare Planning Department, Mitsubishi Chemical Corporation</p> <p>Oct. 2005 Deputy Director, Mitsubishi Chemical Holdings Corporation (current Mitsubishi Chemical Group Corporation)</p> <p>Head of Healthcare Strategy Office</p> <p>Jun. 2006 Executive Officer and Head of Healthcare Strategy Office, Mitsubishi Chemical Holdings Corporation (current Mitsubishi Chemical Group Corporation)</p> <p>Executive Officer, Head of Healthcare Business Domain, and General Manager of Healthcare Planning Office, Healthcare Business Domain, Mitsubishi Chemical Corporation</p> <p>Jun. 2009 Board Director, Mitsubishi Tanabe Pharma Corporation</p> <p>Jun. 2010 Representative Director, Managing Executive Officer, General Manager of International Business Department, Mitsubishi Tanabe Pharma Corporation</p> <p>Apr. 2012 Representative Director, Senior Managing Executive Officer, General Manager of Research Division and International Business Department, Mitsubishi Tanabe Pharma Corporation</p> <p>Apr. 2014 President and Representative Director, Life Science Institute, Inc.</p> <p>Board Director, Mitsubishi Tanabe Pharma Corporation</p> <p>Board Director, The KAITEKI Institute, Inc.</p> <p>Feb. 2015 President and Representative Director, The KAITEKI Institute, Inc.</p> <p>Jun. 2018 Independent External Director of the Company (to the present)</p> <p>Jan. 2021 External Director, SUSMED, Inc (to the present)</p>	Note 3	29,322
Director	David Roblin	Sep. 25, 1966	<p>Apr. 1991 Medical practice at St George's and St Bartholomew's Hospital, London</p> <p>Jun. 1997 Head of Therapy Area for Anti-Infectives, Bayer Pharma AG</p> <p>Jun. 2008 Senior Vice President, Head of Research, Site Head, Chief Medical Officer (CMO) Europe R&D, Pfizer Inc.</p> <p>Apr. 2011 CMO, Creabilis</p> <p>Sep. 2013 Honorary Professor, Swansea University, School of Medicine (to the present)</p> <p>Feb 2014 COO, The Francis Crick Institute</p> <p>Jun. 2015 Honorary Professor of Translational Medicine, St George's Hospital Medical School (to the present)</p> <p>Feb. 2017 Chairman of Scientific Translation, The Francis Crick Institute (to the present)</p> <p>Feb. 2017 President of R&D, Summit Therapeutics</p> <p>Jun. 2018 Independent External Director of the Company (to the present)</p> <p>Mar. 2020 COO and CEO JuvRX, Juvenescence Ltd</p> <p>Apr. 2022 CEO, Relation Therapeutics Limited (to the present)</p> <p>Chairman of the Board, Centauri Therapeutics Limited (to the present)</p>	Note 3	2,022

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.2 Status of Officers as at March 23, 2023 (continued)

Job title	Name	Date of birth	Summary of career	Term of office	No. of shares owned	
Director	Noriaki Nagai	Dec. 1, 1957	Apr. 1981 Sep. 1998 Jun. 2000 Apr. 2006 Apr. 2010 Apr. 2011 Jun. 2013 Jun. 2013 Apr. 2014 Apr. 2015 Mar. 2019	Joined Nomura Securities, Co., Ltd. (NSC) Managing Director, Head of European Administration Division of Nomura International plc General Manager, Legal Dept., NSC Executive Officers in charge of Corporate, Nomura Holdings, Inc. (NHI) Executive Officer in charge of Legal, NSC Executive Managing Director in charge of corporate planning, legal and secretary, NSC Executive Officer and Chief Legal Officer, NHI Executive Managing Director in charge of legal and secretary, NSC External Director, Japan Securities Depository Center, Inc. External Director, Japan Securities Clearing Corporation Executive Officer in charge of Corporate and Chief Legal Officer, NHI Executive Managing Director in charge of planning management, NSC Professor of Business Law, Doshisha University Independent External Director of the Company (to the present)	Note 3	25,888
Director	Rolf Soderstrom	Jul. 29, 1965	Jan. 1988 Dec. 2000 Jun. 2002 Jan. 2004 Aug. 2007 Dec. 2008 Jul. 2019 Mar. 2020 Sep. 2020 Jul. 2021	Joined PricewaterhouseCoopers Corporate Finance Director, Cable & Wireless plc External Director, MobileOne Ltd. (current M1 Ltd.) Divisional Finance Director, Cobham plc Chief Financial Officer, Protherics plc (current BTG plc) Chief Financial Officer, BTG plc Senior Independent Director, Ergomed plc Independent External Director of the Company (to the present) Non Executive Director, BioPharma Credit plc (to the present) Chief Financial Officer, Syncona Investment Management Limited (to the present)	Note 3	7,425
Director	Miwa Seki	Feb. 25, 1965	Apr. 1988 Apr. 1989 Sep. 1993 Feb. 1997 Jan. 2003 Apr. 2015 Jun. 2018 Jun. 2020 Apr. 2021 May. 2021 Mar. 2022	Joined DENTSU INC. Joined Smith Barney Joined Morgan Stanley Joined Clay Finlay Limited General Manager, Tokyo Branch, Clay Finlay Limited Associate Professor, Faculty of Foreign Studies, Kyorin University External Director, World Co., Ltd. (to the present) External Director, DAIWA HOUSE INDUSTRY CO., LTD. (to the present) Specially Appointed Associate Professor, Faculty of Foreign Studies, Kyorin University General Partner MPOWER PARTNERS FUND (to the present) Independent External Director of the Company (to the present)	Note 3	-

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.2 Status of Officers as at March 23, 2023 (continued)

Job title	Name	Date of birth	Summary of career	Term of office	No. of shares owned
Director	Eiko Tomita	Apr.20, 1961	<p>Apr. 1984 Joined Eisai Co., Ltd.</p> <p>Sep. 1994 Joined IBRD Japan Corporation</p> <p>Sep. 1999 Joined Monsanto Japan Ltd. (current Pfizer Inc.)</p> <p>Nov. 2000 Joined AstraZeneca K.K.</p> <p>Sep. 2006 Joined Pfizer Japan Inc.</p> <p>Apr. 2007 Joined Bristol-Myers Squibb K.K.</p> <p>Nov. 2017 Bristol-Myers Squibb Vice President, Global Regulatory Sciences Intercontinental responsible for Japan, Korea, Taiwan and Intercontinental (Australia, Brazil, Turkey, India, Middle East and South America, etc.)</p> <p>Mar. 2020 Bristol-Myers Squibb Vice President, Global Regulatory Sciences Intercontinental responsible for Intercontinental (China, Korea, Taiwan, Australia, Russia, Brazil, Turkey, India, Middle East, South America, etc.) (to the present (Scheduled to retire at the end of March 2023))</p> <p>Apr. 2023 Independent External Director of the Company (Scheduled)</p>	Note 4	-
Total					1,297,841

Notes:

- Directors Tomohiro Tohyama, Kuniaki Kaga, David Roblin, Noriaki Nagai, Rolf Soderstrom and Miwa Seki are External Directors.
- The Company's committee structure is as follows:

Nomination Committee:	Chairman: Shinichi Tamura, Member: David Roblin, Member: Noriaki Nagai, Member: Miwa Seki
Compensation Committee:	Chairman: David Roblin, Member: Shinichi Tamura, Member: Christopher Cargill, Member: Tomohiro Tohyama, Member: Rolf Soderstrom
Audit Committee:	Chairman: Tomohiro Tohyama, Member: Kuniaki Kaga, Member: Noriaki Nagai, Member: Rolf Soderstrom, Member: Miwa Seki
- From appointment at the Ordinary General Meeting of Shareholders held on March 23, 2023, to the conclusion of the Ordinary General Meeting of Shareholders relating to the period ending December 31, 2023.
- Eiko Tomita will retire from Bristol-Myers Squibb on March 31, 2023 and will be appointed as the Independent External Director of the Company on April 1, 2023. Therefore, the term of office will be from April 1, 2023 to the conclusion of the Ordinary General Meeting of Shareholders relating to the period ending December 31, 2023.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.2 Status of Officers as at March 23, 2023 (continued)

Status of Executive Officers

Job title	Name	Date of birth	Summary of career	Term of office	No. of shares owned
Representative Executive Officer, President and Chief Executive Officer	Christopher Cargill	Jan. 3, 1984	See previous section	Note	21,050
Executive Officer and Executive Vice President, Chief Financial Officer	Hironoshin Nomura	Nov.26, 1983	Apr. 2009 Jan. 2015 Sep. 2020 Mar. 2022 Apr. 2023	Joined Mitsubishi Research Institute Joined Mizuho Securities Senior Vice President, IR & Corporate Strategy, the Company Executive Officer and Executive Vice President, Chief Financial Officer, the Company (to the present) Director, Sosei Co. Ltd. (Scheduled)	Note 1,400
Executive Officer and Executive Vice President, Chief Accounting Officer	Kieran Johnson	May 13, 1969	Jan. 1992 Oct. 2002 Apr. 2004 Sep. 2017 Jan. 2019 May 2019 Mar. 2022 Aug. 2022	Joined KPMG (UK) Founded Amberley Consulting Ltd. Joined GSK (UK) Senior Vice President, Group Financial Controller, the Company Director, Heptares Therapeutics Ltd. (to the present) Director, MiNA (Holdings) Ltd. (to October 13, 2022) Executive Officer and Executive Vice President, Chief Accounting Officer, the Company (to the present) Director, Sosei Group USA Inc. (to the present)	Note 6,907
Executive Officer and Executive Vice President, Chief Compliance Officer	Kazuhiko Yoshizumi	Feb. 19, 1954	Apr. 1977 Jan. 2003 Dec. 2007 Apr. 2010 Apr. 2015 Jul. 2016 Apr. 2018 Sep. 2021 Mar. 2022	Joined NEC Corporation General manager of legal department, NEC Corporation General Manager of NEC Fielding Co., Ltd. Associate Senior Vice President and General Manager of NEC Fielding Co., Ltd. General manager of legal department, the Company General manager of legal department and general manager of group compliance, the Company Executive Officer and Executive Vice President, Group Chief Compliance Officer, the Company Executive Officer and Group Chief Compliance Officer, the Company Executive Officer and Executive Vice President, Chief Compliance Officer, the Company (to the present)	Note 8,344
Executive Officer and Executive Vice President	Matthew Barnes	May 2, 1973	Mar. 1998 Jan. 2003 Aug. 2016 Jan. 2022 Mar. 2022	Joined Celltech R&D (now UCB) Joined Takeda Pharmaceuticals (formerly Paradigm Therapeutics) Joined Heptares Therapeutics Ltd. Senior Vice President, Drug Discovery, Head of R&D Portfolio Management, the Company Executive Officer and Executive Vice President, the Company (to the present) President of Heptares Therapeutics Ltd. (to the present)	Note 2,786

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.2 Status of Officers as at March 23, 2023 (continued)

Job title	Name	Date of birth	Summary of career	Term of office	No. of shares owned
Executive Officer and Executive Vice President Chief of Staff	Candelle Chong	Oct. 16, 1989	Feb. 2013 Apr. 2018 Apr. 2022 Mar. 2023	Joined J.P. Morgan Chase & Co. Vice President, Corporate Strategy, the Company Senior Vice President, Corporate Strategy, the Company Executive Officer and Executive Vice President, Chief of Staff, the Company (to the present)	Note 5,688
Total					46,175

Notes:

1. From the conclusion of the first Board of Directors meeting held after the conclusion of the Ordinary General Meeting of Shareholders on March 23, 2023 to the conclusion of the first Board of Directors meeting to be held after the conclusion of the Ordinary General Meeting of Shareholders relating to the period ending December 31, 2023.

External Officers

Number of external directors and personal, capital or business relationships with the Group and other interests

The Company has 7 external directors (one of whom is scheduled to assume office on April 1, 2023). There are no reportable personal or transactional relationships or other special interests between the external directors and the Company. The holdings of external directors in the Company's shares are shown in the number of shares owned column above.

Functions and roles of external directors in the corporate governance of the Company

Mr. Tomohiro Tohyama is expected to play a significant role in making decisions on important management matters and supervising the execution of operations of the Company as an external director of the Company, in addition to making comments as necessary on deliberations of agenda items at meetings of the Board of Directors, from his professional perspective as an attorney at law, and leading audits as the chairman of the Audit Committee.

Mr. Kuniaki Kaga, based on his experience in corporate management at one of Japan's leading chemical and pharmaceutical companies, is expected to make comments as necessary for deliberations on agenda items at meetings of the Board of Directors and play a significant role in making decisions on important matters concerning the Company's management and supervising the execution of business as an external director of the Company.

Mr. David Roblin, based on his clinical experience as a physician and his experience in research and development at a pharmaceutical company, is expected to make comments as necessary for deliberations on agenda items at meetings of the Board of Directors and to play a significant role in making decisions on important management matters and supervising business execution as an external director of the Company.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.2 Status of Officers as at March 23, 2023 (continued)

Mr. Noriaki Nagai, based on his experience in the corporate division of a major securities company and as a professor at the Faculty of Law, is expected to play a significant role in making decisions on important management matters and supervising the execution of business operations of the Company as an external director of the Company.

Mr. Rolf Soderstrom has extensive experience in M&A, risk management, governance, etc. as a finance leader at companies in Europe, North America, and Asia, and is expected to play a significant role in making decisions on important management matters and supervising business execution as an external director of the Company.

Ms. Miwa Seki has extensive experience as Head of Japan at a foreign capital financial institution and as a founding partner of an ESG-oriented investment fund and is expected to play a significant role in making decisions on important management matters and supervising business execution as an external director of the Company.

Ms. Eiko Tomita (scheduled to assume office on April 1, 2023) has been deeply involved in the international pharmaceutical approval process for global pharmaceutical companies both domestically and internationally and is expected to play a significant role in making decisions on important management matters and supervising business execution as an external director of the Company

Details of the Company's stance on the appointment of external directors and the criteria for their independence from the Company

When appointing external directors, the Company considers it important to ensure the effectiveness of the Board of Directors and their independence from the management team and makes individual judgments that they meet the criteria set forth by the Company below, based on their background and relationship with the Company. The Company has designated Mr. Tomohiro Tohyama, Mr. Kuniaki Kaga, Mr. David Roblin, Mr. Noriaki Nagai, Mr. Rolf Soderstrom, Ms. Miwa Seki and Ms. Eiko Tomita (scheduled to assume office on April 1, 2023) as independent directors in accordance with the provisions of Tokyo Stock Exchange, Inc.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.2 Status of Officers as at March 23, 2023 (continued)

Criteria for determining the independence of external directors:

An external director will be determined to be independent if he or she does not fall under any of the following categories:

- (1) A person who is or was an executive director, executive officer or other officer or employee (hereinafter collectively referred to as "Executive") of our Group (the Company and its subsidiaries and associates);
- (2) A person who is or was in any of the last three business years an Executive at one of the Group's principal business partners (a company with which the annual amount of transactions (the amount of products and services provided or procured) exceeds 2% of the consolidated net sales of the Company or the partner, or a financial institution from which the amount of borrowing outstanding at the end of the financial year exceeds 2% of the Company's consolidated total assets) and its parent and subsidiary companies, and subsidiaries of such parent company;
- (3) A consultant, or accounting or legal expert who has received in any of the last three business years cash or other property exceeding JPY 10 million from our Group, other than the remuneration as a director or officer (or a person who belongs to an organization if the said property has been received by a juridical person, partnership or any other organization);
- (4) A person who belongs or belonged to an auditing firm that is an external auditor of the Company or its consolidated subsidiaries in any of the last three business years;
- (5) A major shareholder of the Company (shareholder holding 10% or more on a voting rights basis of the shares in the Company in their own or other's name) at the end of the most recent business year;
- (6) A spouse or relative within the second degree of kinship of a person who falls under any of the items (1) to (5) above provided that an Executive shall be in an "Important Position." For the purpose of this item, a person is in an "Important Position" when the person is a director (excluding external director), executive officer, officer, employee in a senior management position or general manager or higher, or other person who is objectively and reasonably judged to be in a position of equivalent importance; or
- (7) A person who is reasonably judged to be unable to perform his or her duties as an independent external director due to a potential conflict of interest with shareholders.

Mutual collaboration between supervision by external directors and audits by the Audit Committee, internal audits and external audits, and relationship with other departments in charge of internal control

The Company's external Directors make comments as appropriate to ensure the adequacy and appropriateness of management supervision and decision-making by the Board of Directors, such as by asking questions and expressing opinions, as appropriate, based on their expertise during deliberations at Board of Directors meetings. In addition, external directors who are members of the Audit Committee have regular opportunities to exchange opinions and reports by the external auditor and receive timely and appropriate reports from the Internal Audit Department on the implementation status of internal audits in order to gather information and share issues. Furthermore, the external Directors share awareness of internal controls with the Internal Audit Department and other departments in charge of internal controls, and work to continuously improve internal controls.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.3 Status of Audits

Status of Audit Committee's Audits

The Audit Committee comprises 5 independent external directors. Mr. Noriaki Nagai, having had years of experience from senior positions including as a director of a corporate planning division at a major securities company, Mr. Rolf Soderstrom, a Chartered Certified Accountant in the UK and having had experience as Head of a Finance department, and Ms. Miwa Seki, having had experience as Head of Japan at a foreign capital financial institution and as a founding partner of an ESG-oriented investment fund, possess considerable knowledge in accounting and finance.

The Audit Committee was held 18 times during the year ended December 31, 2022. The Committee received an explanation of the annual audit plan from the External Auditor at the beginning of the financial year and subsequently received reports and explanations of the audit procedures and audit results from the External Auditor at each quarter-end and at the financial year-end. The Committee also evaluated the appropriate qualification and independence of the External Auditor and evaluated the appropriateness of the audit conducted by the External Auditor.

The Audit Committee receives and comments on a report from the Internal Audit Department regarding the annual internal audit policy and audit plan. When required, the Committee provides instructions regarding the content, method, and other aspects of internal audits. The Audit Committee determines its own annual audit policy and audit plan and receives regular reports from the directors and the executive officers on their execution of duties. The Audit Committee receives reports on the results of internal audits conducted by the Internal Audit Department and provides instructions to the relevant departments as necessary.

The Audit Committee has conducted audits in close coordination with the internal audit department and employees who assist in the performance of duties of the Committee, and believes it is not essential that a full-time committee member be selected. Accordingly, a full-time committee member has not been selected.

The attendance status of each Audit Committee members during the current financial year was as follows.

Name	Number of times held	Number of times attendance
Tomohiro Tohyama	18	18
Kuniaki Kaga	18	18
Noriaki Nagai	18	18
Rolf Soderstrom	18	16
Miwa Seki	12	12

Notes:

1. Ms. Seki assumed office as a director at the 32nd Ordinary General Meeting of Shareholders held on March 24, 2022 and was elected Member of the Audit Committee at the meeting of the Board of Directors held on the same day. Accordingly, the number of meetings attended and percentage of attendance at the meetings of the Audit Committee stated above only count meetings held since her assumption of office.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.3 Status of Audit (continued)

Status of Internal Audits

The Company's Internal Audit Department conducts internal audits of the Company and its subsidiaries. The Internal Audit Department is staffed by two members, who investigate and evaluate the effectiveness, efficiency, and appropriateness of operations, including internal controls over financial reporting, and based on the results provides guidance on improvements to relevant internal departments and subsidiaries whenever needed. The staff members also report the audit results to the Representative Executive Officer and CEO, and to the Audit Committee.

Status of External Audits

Name of the audit firm:

Ernst & Young ShinNihon LLC

Number of consecutive periods of audits:

5 periods

The certified public accountants that performed the external audit:

Hironao Yazaki (number of consecutive years of audits: 5)

Yutaka Mishima (number of consecutive years of audits: 5)

Number of audit team members:

9 certified public accountants and 7 others

Policy and reason for Nominating External Auditor

The Audit Committee has selected Ernst & Young ShinNihon LLC as the candidate for External Auditor, as it concluded that Ernst & Young ShinNihon LLC is qualified for the role based on a comprehensive review of its auditing systems, including its capability to conduct audits of the consolidated financial statements on a global basis. Ernst & Young ShinNihon LLC demonstrated significant expertise in quality control systems and has assured independence, and according to our judgment, is well qualified for the position of External Auditor.

If circumstances arise that would interfere with the appropriate execution of the duties of the independent auditors or cause the Audit Committee to deem it appropriate to dismiss or not to reappoint the independent auditors, the Audit Committee will make a proposal for dismissal or non-reappointment of the independent auditors for submission to the Ordinary General Meeting of Shareholders. Also, when it deems that any cause stipulated in each item of Article 340, Paragraph 1 of the Companies Act applies to the independent auditors, the Audit Committee can dismiss the independent auditors by agreement of all Committee members.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.3 Status of Audit (continued)

Compensation for Audits paid to the External Auditor

Classification	Year ended December 31, 2022		Year ended December 31, 2021	
	Compensation for audit certification services ¥m	Compensation for non-audit services ¥m	Compensation for audit certification services ¥m	Compensation for non-audit services ¥m
Filing company	60	-	64	17
Consolidated subsidiaries	-	-	-	-
Total	60	-	64	17

Notes:

1. In the audit agreement between the Company and the External Auditor, there is no clear distinction between the compensation for audits based on the Companies Act and the compensation for audits based on the Financial Instruments and Exchange Act, and no distinction can be made in practice, so amounts of compensation for the External Auditor for the year ending December 31, 2022 are the total of these two components.
2. Compensation for non-audit services in the previous year relates to providing a comfort letter for the international offering.

Compensation paid to auditors from the same network as the External Auditor (excluding the above amounts)

Classification	Year ended December 31, 2022		Year ended December 31, 2021	
	Compensation for audit certification services ¥m	Compensation for non-audit services ¥m	Compensation for audit certification services ¥m	Compensation for non-audit services ¥m
Filing company	-	8	-	-
Consolidated subsidiaries	47	-	43	-
Total	47	8	43	-

Notes:

1. Non-audit services to the filing company include support services such as the provision of advice on the preparation of an expatriate policy.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.3 Status of Audit (continued)

Other Compensation for Audit Certification Services by the External Auditor from the same network

Year ended December 31, 2022

Not applicable

Year ended December 31, 2021

Not applicable

Policy for Determining Compensation for Audits

Audit compensation paid to the Company's External Auditor is decided with the consent of the Audit Committee after discussion with the External Auditor regarding the audit content, conditions, and other factors for that financial year.

Reason for Compensation for Audits

The Audit Committee has confirmed the audit plan of the independent External Auditor, the state of execution of duties for external audits, the basis of remuneration estimates, etc. and has considered whether audit remuneration is adequate for the implementation of appropriate audits. The Committee concluded that the audit remuneration is appropriate and has given its consent to the remuneration, etc. of the independent External Auditor in accordance with Article 399, Paragraph 1 of the Companies Act.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.4 Remuneration paid to Officers

Policy concerning decisions on the content of individual remuneration for Executive Officers and Directors by the Compensation Committee

The Compensation Committee of the Company has adopted a policy (please see below) to determine the remuneration for individual Executive Officers and Directors. The Compensation Committee concluded that the individual remuneration packages of Executive Officers and Directors during the year under review was in line with the above mentioned policy, as the method in which the content of remuneration was decided and the remuneration content itself were consistent with the policy.

i. Basic Policy

- The basic policy of the remuneration for Officers is to provide incentives for attracting and retaining talent, and implementing management strategies designed to deliver sustainable growth and enhance the corporate value of the Group.
- Remuneration for Directors is set to provide incentives for attracting and retaining excellent talent to act as Directors of the Company, to enable strengthening the oversight function of Group management, as well as to enable a proactive contribution to the enhancement of corporate value by sharing the benefits and risks of stock price fluctuations with shareholders. Director's remuneration consists of a fixed amount of base salary and share-based payments in the form of restricted stock units (RSUs).
- Remuneration for Executive Officers is set to provide incentives for realization of the Company's vision and strategy, medium-to long-term enhancement of corporate value and shareholder value, as well as to compensate for the individuals' roles and achievements. Executive Officer's remuneration consists of a fixed amount of base salary, a bonus determined according to the accomplishment of the individual's business objectives, retirement allowances, and share-based payments in the form of Restricted Stock Units (RSUs).
- The Compensation Committee, of which a majority comprises external directors, determines compensation fairly and appropriately, ensuring transparency under the chairmanship of an external director.

ii. Policy for determining the amount or the method of calculation of individual remuneration (excluding non-monetary remuneration outlined in iii. below)

a. Remuneration paid to Directors

The amount of fixed base salary (annual salary) is the same for all Directors except for the Chairperson, and determined referring to the market data obtained from benchmarking surveys and other available databases of external research organizations. Directors who concurrently serve as Executive Officers shall not be paid Directors' compensation.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.4 Remuneration paid to Officers (continued)

b. Remuneration paid to Executive Officers

- Fixed base salary (annual salary) is determined based on an individual performance in the previous financial year and an evaluation of their contribution to the Company, taking into consideration factors such as remuneration levels at comparable companies in the country where the individual is acting or resides, using available databases of external research organizations for reference.
- Bonuses, are determined by multiplying the amount of base salary by a certain percentage determined for each individual according to factors such as his/her responsibilities and performance, and the difficulty in acquiring the talent that is fit for the role. The amount payable is determined in accordance with the accomplishment of the individual business objectives.
- Retirement allowances are equivalent to the sum of the bonus and the annual salary for the previous business year. However, retirement allowances are not paid to Executive Officers who are not re-appointed or dismissed due to misconduct, violation of law, regulations and the Articles of Incorporation of the Company, breach of trust, gross negligence, incompetence or inability to execute duties, disqualification as an Executive Officer under the Companies Act, or any other justifiable reason. Furthermore, in case where the law stipulates that a dismissal notice allowance is payable following a contract termination, only the difference between the amount of the annual salary of the previous year and the dismissal notice allowance will be paid.

iii. Contents of non-monetary remuneration and policy for determining the amount or number or the method of calculating the amount or number of non-monetary remuneration

The Company has introduced a post-hoc granted share-based payments (RSUs) as non-monetary remuneration. An overview of which is as follows.

a. Conditions for allotment

Shares of the Company are allotted on the condition that an individual has served continuously in the position of Director or Executive Officer of the Company throughout the performance period. However, in cases where a Director or Executive Officer ceases to hold office due to the expiration of his/her term of office, other grounds deemed by the Board of Directors to be justifiable, or death during the performance period, a number of shares calculated by the Company under the applicable share-based payment regulations will be allotted.

b. Maximum number of the Company's shares to be delivered

The number of shares of the Company to be delivered under the plan, together with the number of shares issued under other share-based payment plans, cannot exceed 10% of the total number of issued and outstanding shares of the Company.

c. Performance period and number of allotted shares:

- The performance period for Directors (excluding Directors who concurrently serve as Executive Officers) is one year, after the expiration of which, a number of shares to be allotted is calculated by dividing an amount equivalent to 130% of the base salary by the stock price at the start of the performance period.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.4 Remuneration paid to Officers (continued)

- The performance period for Executive Officers and Directors who concurrently serve as Executive Officers are two years and three years from the first day of the performance period respectively. After the expiration of each performance period, half of the total number of shares will be allotted respectively. The number of shares to be allotted is calculated by dividing the amount of basic compensation multiplied by a certain ratio (97.5% to 195%), set by position, by the stock price at the start of the performance period.

d. Method for the allotment of shares

Shares are allotted in exchange for the contribution in kind of monetary compensation claims. Monetary compensation claims is provided to Officers to whom the allocation of shares is scheduled and the amount is calculated by multiplying the number of allocated shares by the amount to be paid per share determined by decision of the Board of Directors or a Representative Executive Officer authorized thereby.

iv. Policy for determining the composition of Officer compensation

The composition ratio of the amount of individual remuneration, etc. is as follows:

	Base salary	Bonus	Stock compensation Restricted Stock Units (RSU).	Retirement allowances
Director	1	-	1~2	-
Representative Executive Officer & CEO	1	0.75	2	1.75
Executive Officer	1	0.4~0.6	1	1.4~1.6

Notes:

1. In the above table, the model for the bonus to be paid is a payment of standard amount determined by the Company. This ratio may change in accordance with factors such as the Company's business results and share price.

v. Policy for determining the timing or conditions for granting remuneration to Officers

- One twelfth of the base salary is payable monthly.
- Bonuses are paid annually in February.
- Share-based payments: Restricted Stock Units (RSU) are granted in April of each year, and shares are allotted after the end of the performance period.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.4 Remuneration paid to Officers (continued)

vi. Overview and activities of the Compensation Committee's process of determining the amount of remuneration for Officers in the current financial year

The Compensation Committee consists of four directors including three external directors and one director who also serves as a representative executive officer. It set the policy for determining the remuneration packages for Directors and Executive Officers and determined the remuneration for each Officer based on this policy, considering individual performance and their contribution to the Company. The Compensation Committee was held six times during the current financial year, and the attendance was as follows:

Name	Attendance at meetings
Shinichi Tamura	5 out of 6
Christopher Cargill	3 out of 3
Tomohiro Tohyama	6 out of 6
David Roblin	6 out of 6
Rolf Soderstrom	6 out of 6

Notes:

1. For Christopher Cargill, the number of Compensation Committee meetings held is shown after his appointment as a director.

The amount of individual base salary, bonuses, share-based payments and retirement allowance was decided in consideration of the roles, the achievements and other contributions to the company of each Officer as well as the remuneration level of other companies in the same industry.

Additional Information: Summary of the Performance Share Units (PSUs) granted in 2019:

a. Conditions for Allotment

The Company allots shares of the Company to the Executives according to a pre-defined method, on the condition that they serve in their position during the three-year performance period.

b. Maximum number of the Company's shares to be delivered

The number of shares of the Company to be delivered under the plan, together with the number of shares issued under other share-based payment plans, cannot exceed 10% of the total number of issued and outstanding shares of the Company.

c. Number of Allotted Shares

The number of the Company's shares allotted to each individual (Allotted Shares) is calculated for each individual by setting the base number of shares at the start of the performance period and multiplying the base number of shares by certain coefficients after the performance period has elapsed.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.4 Remuneration paid to Officers (continued)

(i) Base number of shares

The base number of shares is determined by dividing the amount obtained from multiplying the base salary by a certain percentage determined for each individual, by the stock price at the start of the performance period.

(ii) The number of shares to be allotted is determined by multiplying the sum of the following figures by the base number of shares:

- 50% of the number between 25% to 100 % to be determined based on the coefficients according to the Relative Total Shareholder Return (“TSR”) Achievement level measured against an agreed peer group at the end of the performance period where such TSR is above the median.
- 50% of the number between 50% to 200% to be determined based on the coefficients according to the Absolute TSR of the Company Achievement Level where Absolute TSR at the end of the performance period increases by 25% or more.

For Relative TSR the Company has selected multiple domestic competitors based on market capitalization and R&D expense ratios. The above coefficients are subject to change in the future.

As described above, the TSR ratio is selected as an indicator for PSUs. To increase awareness of competitors, to share the benefits and risks of stock price fluctuations with shareholders, and to actively contribute to the increase of stock prices and corporate value, the Group adopts figures based on the Company's TSR growth rate at the end of the Relevant Calculation Period (Absolute TSR), and the average of the figures based on percentiles (Relative TSR) compared to TSRs of multiple domestic peers. The actual achievement level of the performance target was 12.5%.

d. Board of Directors meeting for issuance or disposition

The Board of Directors meeting for issuance or disposition of shares to be allotted is held, in principle, within one month after the date of the Ordinary General Meeting of Shareholders for the most recent business year during which the performance period ends; provided, however, that if there are exceptional circumstances, the date of the Board of Directors meeting for issuance or disposition may be changed.

e. Method of delivery of the Company shares

Under this Plan, common shares of the Company are allotted to Executives after the expiration of the pre-defined performance period in exchange for the contribution in kind of monetary compensation claim. Monetary compensation claim is provided to Executives to whom the allocation of shares is scheduled.

The amount of monetary compensation claims to be provided to each individual is calculated by multiplying the number of Allotted Shares set forth in “c.” above by the issue price or disposal price per share determined by the Board of Directors for issuance or disposition of shares to be allotted.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.4 Remuneration paid to Officers (continued)

f. Grounds for Forfeiture

If during the performance period an Executive falls under certain specified circumstances, such as being subject to criminal punishment equivalent to or more severe than imprisonment, being subject to a filing for the commencement of insolvency proceedings or civil rehabilitation proceedings, etc., the Executive will not obtain any rights to be allotted Company shares under the Plan and the rights to receive the Company's shares shall lapse at the time such circumstances in question occur.

g. Treatment in Cases of Reorganization or Change of Control Transactions

If during the performance period a transaction involving a reorganization or a change of control such as a merger agreement in which the Company becomes a dissolved entity, or a share exchange/transfer agreement under which the Company becomes a wholly owned subsidiary is approved by a general meeting of shareholders, etc. of the Company and that transaction becomes effective before the completion of the performance period, the Company will, by resolution of the Board of Directors, allot the maximum number of shares to be allotted under the Plan prior to the reorganization transaction coming into effect.

Total Amount of Remuneration, Total Amount of Remuneration by Type, and Number of Officers to Be Paid, by Executive Category

Executive category	Total amount of remuneration ¥m	Total amount of remuneration by type (¥m)				Number of officers to be paid
		Base salary	Bonuses	Share-based payments	Retirement allowance	
Directors (External directors)	208 (159)	101 (77)	- (-)	107 (82)	- (-)	7 (6)
Executive Officers	772	194	186	207	185	5

Notes:

1. Remuneration of Christopher Cargill, Director and Executive Officer is excluded from Directors remuneration.
2. Remuneration of Christopher Cargill, Director and Executive Officer is included in Executive Officers remuneration.
3. Number of officers to be paid in the table indicates the total number of officers. Remuneration of Shinichi Tamura until March 2022 is included in Executive Officers remuneration, and remuneration from April 2022 is included in Directors remuneration.
4. Remuneration of four Executive Officers whose expenses were borne by Company subsidiaries, including two Executive Officers who retired in March 2022, are not included in the above table. Please refer to Note 5 for details on their remuneration.
5. The table above does not include the following:
 - Retirement allowance of JPY 155 million paid to two Executive Officers paid by a Company subsidiary in March 2022 in accordance with the resolution of the Compensation Committee held in March 2022.
 - Based salary of JPY 84 million, bonus of JPY 39 million (paid in February 2023 in accordance with the resolution of the Compensation Committee held in January 2023), and share-based payments of JPY 24 million, which were paid by Company subsidiaries to four Executive Officers including two Executive Officers who retired in March 2022.
6. The remuneration of the two retired Executive Officers until March 2022 is reflected in the above numbers until March 2022, as well as the remuneration of the two Executive Officers who assumed office in April 2022.
7. Share-based payments include the Company's shares. The terms of allocation are as described in "iii Contents of non-monetary remuneration and policy for determining the amount or number or the method of calculating the amount or number of non-monetary remuneration" of "Policy concerning decisions on the content of individual remuneration for Executive Officers and Directors by the Compensation Committee".
8. The amount of share-based payments in the table above shows the amount recorded as expenses in the current financial year in accordance with JGAAP.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.4 Remuneration paid to Officers (continued)

Total amount of Consolidated Compensation and Other Payments for Individuals whose Consolidated Compensation and Other Payments amount to JPY 100 million or more

Name	Company category	Executive category	Total amount of remuneration by type				Total amount of consolidated remuneration (¥m)
			Base salary	Bonuses	Share-based compensation	Retirement allowance	
Shinichi Tamura (Chairman of the Board)	Filing company	Director	24	-	25	-	332
		Executive Officer	24	-	74	185	
Christopher Cargill (Representative Executive Officer, President & Chief Executive Officer)	Filing company	Executive Officer	88	112	92	-	292

Notes:

1. Remuneration of Shinichi Tamura until March 2022 is included in Executive Officer remuneration, and remuneration from April 2022 is included in Director remuneration.
2. The amount of share-based payments in the table above shows the amount recorded as expenses in the current financial year in accordance with JGAAP.

4.5 Status of Holdings in Investment Shares

Criteria and Concepts for Classification of Investment Shares

The Group classifies any shares that it acquires according to the purpose of the investment. Shares held for the purpose of receiving profits solely from fluctuations in the value of those shares or dividends on those shares are classified as *investment shares for the purpose of net investment*. Shares acquired and not held for the purpose of net investment are classified as *policy-held shares*.

Investment shares held for purposes other than investment for gain from capital or dividend

a. Holding policy, the method of verifying the reasonableness of a holding, and the details of verification by the Board of Directors (or organization equivalent to the Board of Directors) regarding the appropriateness of holding individual issues

The Group holds investments in a number of listed companies which arose from past business development transactions. After any restrictive holdings periods have passed Management periodically assesses whether or not to continue to hold each investment after performing a balanced assessment of various factors, including the investment's expected returns and future prospects, general markets conditions and the Group's liquidity needs. Management's policy is to divest non-core

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.5 Status of Holdings in Investment Shares (continued)

investments when there is no strategic or financial rationale to continue to hold such investments.

At a meeting held on February 15, 2023 the Board of Directors reviewed the Group's listed securities holdings as at December 31, 2022 and concluded the holdings should be maintained for the time being.

b. Shareholding status of the Company

Not applicable

c. Shareholdings in companies (largest holding company) with the highest balance sheet values (amount of investment shares) of the Company and its consolidated subsidiaries

Shareholdings of Heptares Therapeutics Ltd., the largest holding company, are as follows:

Class	Number of companies in which investment shares are held	Carrying Value ¥m
Unlisted shares	2	983
Listed shares	2	428

Notes:

1. Amounts accounted for under IFRS.

Description of shareholdings that increased during the year:

Class	Number of companies in which investment shares are held	Total purchase price related to the increase in the number of shares ¥m (Note 1)	Reason for increase in the number of shares
Unlisted shares	-	-	-
Listed shares	1	28	Shares in a listed spinout company were received in partial consideration following the takeover by another corporation of the listed company that the Group had held shares in.

Notes:

1. The purchase price above represents the value of the listed shares received in partial consideration.

Description of shares sold during the year:

Class	Number of companies in which investment shares are held	Total sales price related to the decrease in the number of shares ¥m
Unlisted shares	-	-
Listed shares	1	1,209

Shares acquired and sold during the year do not include reverse split, share split, share transfer, share exchange, merger and such kind of changes in shares.

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.5 Status of Holdings in Investment Shares (continued)

d. Information on the number of shares for each specific investment share and shares deemed to be held through trust companies

Specific Investment Shares

Description	December 31, 2022	December 31, 2021	Purpose of holding, quantitative effect of holding, and reason for the increase or decrease in the number of shares	Does the investment company hold shares in the Company?
	Number of shares	Number of shares		
	Carrying value ¥m	Carrying value ¥m		
Centessa Pharmaceuticals PLC	929,353	929,353	<p><i>Purpose of holding</i></p> <p>To benefit from value created through the exploitation of IP rights</p> <p><i>Quantitative Possession Effect</i></p> <p>Note 2</p>	No
	378	1,205		
Biohaven Pharmaceutical Holding Company Ltd.	-	54,617	<p><i>Purpose of holding</i></p> <p>To benefit from value created through the exploitation of IP rights</p> <p><i>Quantitative Possession Effect</i></p> <p>Note 2</p> <p><i>Reason for the decrease in the number of shares</i></p> <p>The shares were sold in response to a takeover bid by Pfizer Inc. in the year under review. Shares in a listed spinout company Biohaven Ltd., were received in partial consideration (in addition to cash).</p>	No
	-	866		
Biohaven Ltd.	27,308	-	<p><i>Purpose of holding</i></p> <p>To benefit from value created through the exploitation of IP rights</p> <p><i>Quantitative Possession Effect</i></p> <p>Note 2</p> <p><i>Reason for the increase in the number of shares</i></p> <p>A takeover bid by Pfizer Inc. for shares in Biohaven Pharmaceutical Holding Company Ltd. occurred in the year under review. Shares in Biohaven Ltd. (a listed spinout company) were received in partial consideration.</p>	No
	50	-		

Sosei Group Corporation

Section 4. Information about the Filing Company

4 Corporate Governance (continued)

4.5 Status of Holdings in Investment Shares (continued)

Notes:

1. Amounts accounted for under IFRS
2. Quantitative holding effects are not described in order to preserve confidential information in contracts. The appropriateness of holding these shares is explained in "Investment shares held for purposes other than investment for gain from capital or dividend a." above.

Deemed Shares held through trust companies:

Not applicable.

Investment shares held for net investment purposes

a. Status of shareholdings of the Company

Class	December 31, 2022		December 31, 2021	
	Number of companies in which investment shares are held	Carrying value ¥m	Number of companies in which investment shares are held	Carrying value ¥m
Unlisted shares	1	117	1	125
Listed shares	-	-	-	-

Class	Year ended December 31, 2022		
	Dividend income ¥m	Gain or loss on disposal ¥m	Unrealized gain or loss on revaluation ¥m
Unlisted shares	-	-	(8)
Listed shares	-	-	-

Notes:

1. Amounts accounted for under JGAAP.

b. Status of shareholdings of Heptares Therapeutics Ltd., the largest holding company

Not applicable.

Sosei Group Corporation

Section 5. Financial Statements

1 Policy for the preparation of the Consolidated and Non-Consolidated Financial Statements

The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (hereinafter, “IFRS”) pursuant to the provisions of Article 93 of the “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976).

The non-consolidated financial statements of the Company are prepared in accordance with the “Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc.” (Ordinance of the Ministry of Finance No. 59 of 1963) (hereinafter, the “Ordinance on FS”).

The Company is categorized as a company allowed to file specified financial statements, and the non-consolidated financial statements are prepared in accordance with the provisions of Article 127 of the Ordinance on FS.

2 Audit Attestation

In accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements and the non-consolidated financial statements for the year ended December 31, 2022 were audited by Ernst & Young ShinNihon LLC.

3 Special effort to ensure the appropriateness of Financial Statements and development of a system for the fair preparation of Consolidated Financial Statements in accordance with IFRS

Significant effort is made to ensure the appropriateness of the financial statements. Specifically, the Company is a member of the Financial Accounting Standards Foundation (FASF), and has developed a system that enables the timely acquisition of information regarding the establishment and revision of accounting standards, practical guidelines, etc.

The Company keeps up to date with accounting developments by reviewing new and amended standards published by the International Accounting Standards Board. To prepare appropriate consolidated financial statements under IFRS, management has developed accounting policies for the Group that comply with IFRS and performs accounting procedures based on those policies.

Sosei Group Corporation

Section 5. Financial Statements

Consolidated Balance Sheet as December 31, 2022

	Note	December 31, 2022 ¥m	December 31, 2021 ¥m
Assets			
Non-current assets			
Property, plant and equipment	10,12	3,791	3,817
Goodwill	4,11	15,306	15,095
Intangible assets	4,11,28	8,577	9,120
Investments accounted for using the equity method	27	-	3,479
Other financial assets	9	1,737	2,564
Other non-current assets	15	64	102
Total non-current assets		29,475	34,177
Current assets			
Trade and other receivables	9,14,20	2,462	2,138
Income taxes receivable		58	70
Other financial assets	9	-	86
Other current assets	15	865	427
Cash and cash equivalents	9,13	66,557	60,087
Total current assets		69,942	62,808
Total assets	9	99,417	96,985
Liabilities and Equity			
Liabilities			
Non-current liabilities			
Deferred tax liabilities	28	2,922	2,706
Contingent consideration in business combinations	9,30	-	47
Corporate bonds	9,16,28,30	27,981	27,440
Lease liabilities	9,12,30	1,577	1,638
Other non-current liabilities	18,20	4,909	495
Total non-current liabilities		37,389	32,326
Current liabilities			
Trade and other payables	9,17	1,628	1,176
Contingent consideration in business combinations	9,30	-	4,048
Income taxes payable		260	279
Lease liabilities	9,12,30	176	193
Other financial liabilities	9	36	-
Other current liabilities	18,20	1,992	1,495
Total current liabilities		4,092	7,191
Total liabilities		41,481	39,517
Equity			
Capital stock	19	41,335	41,036
Capital surplus	19	29,525	29,100
Treasury stock	19	(1)	(0)
Retained earnings	9,19	(8,911)	(9,768)
Other components of equity	9,19	(4,012)	(2,900)
Equity attributable to owners of the parent		57,936	57,468
Total equity	9	57,936	57,468
Total liabilities and equity		99,417	96,985

Sosei Group Corporation

Section 5. Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income Year ended December 31, 2022

	Note	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Revenue	4,6,20	15,569	17,712
Cost of sales	10,21,22	(926)	(933)
Gross profit		14,643	16,779
Research and development expenses	10,11,21,22	(7,454)	(5,931)
Selling, general and administrative expenses	10,11,21,22, 23	(4,377)	(3,940)
Other income	24	626	8
Other expenses	11,25	(2)	(3,141)
Operating profit		3,436	3,775
Finance income	9,26	663	199
Finance costs	9,12,26	(756)	(3,797)
Share of (loss) gain of associates accounted for using the equity method	27	(429)	50
Impairment loss on investments accounted for using the equity method	27	(1,836)	-
Gain on reversal of impairment loss on investments accounted for using the equity method	7,27	-	206
Profit before income taxes		1,078	433
Income tax (expense) benefit	28	(696)	584
Net profit		382	1,017
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	8,9	(928)	760
Total items that will not be reclassified subsequently to profit or loss		(928)	760
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	9,10,11,19, 28	291	3,846
Total items that may be reclassified subsequently to profit or loss		291	3,846
Total other comprehensive income	19	(637)	4,606
Total comprehensive income for the year		(255)	5,623
Net profit attributable to:			
Owners of the parent		382	1,017
		382	1,017
Total comprehensive income for the year attributable to:			
Owners of the parent		(255)	5,623
		(255)	5,623
Earnings per share (yen)			
Basic earnings per share	29	4.68	12.53
Diluted earnings per share	29	4.63	12.40

Sosei Group Corporation

Section 5. Financial Statements

Consolidated Statement of Changes in Equity

Year ended December 31, 2022

	Note	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity:	Equity attributable to owners of the parent ¥m	Total equity ¥m
Balance at January 1, 2021		40,220	30,452	(0)	(10,785)	(7,506)	52,381	52,381
Net profit		-	-	-	1,017	-	1,017	1,017
Other comprehensive income	8,19	-	-	-	-	4,606	4,606	4,606
Total comprehensive income for the year		-	-	-	1,017	4,606	5,623	5,623
Issuance of new shares	19	689	(89)	-	-	-	600	600
Share-based payments	19,22	-	699	-	-	-	699	699
Issuance of convertible bonds	16,19	-	1,809	-	-	-	1,809	1,809
Repurchase and cancellation of convertible bonds	16	-	(3,877)	-	-	-	(3,877)	(3,877)
Conversion of convertible bonds	16	127	106	-	-	-	233	233
Total transactions with owners		816	(1,352)	-	-	-	(536)	(536)
Balance at December 31, 2021		41,036	29,100	(0)	(9,768)	(2,900)	57,468	57,468
Net profit		-	-	-	382	-	382	382
Other comprehensive income	19	-	-	-	-	(637)	(637)	(637)
Total comprehensive income for the year		-	-	-	382	(637)	(255)	(255)
Issuance of new shares	19	299	(299)	-	-	-	0	0
Share-based payments	19,22	-	724	-	-	-	724	724
Purchase of treasury stock	19	-	-	(1)	-	-	(1)	(1)
Transfer from other components of equity to retained earnings	9,19	-	-	-	475	(475)	-	-
Total transactions with owners		299	425	(1)	475	(475)	723	723
Balance at December 31, 2022		41,335	29,525	(1)	(8,911)	(4,012)	57,936	57,936

Sosei Group Corporation

Section 5: Financial Statements Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Cash flows from operating activities			
Profit before income taxes		1,078	433
Adjustments for:			
Depreciation and amortization	10,11	1,345	1,278
Share-based payments	21,22	700	713
Impairment loss	11,25	-	3,138
Loss (gain) on revaluation of investments in capital	26	41	(2)
Change in fair value of contingent consideration	26	(114)	2,787
Net foreign exchange loss (gain)	26	195	(194)
Interest income	26	(236)	(4)
Interest expenses	12,26	714	529
Share of loss (gain) of associates accounted for using the equity method	27	429	(50)
Impairment loss on investments accounted for using the equity method	27	1,836	-
Gain on reversal of impairment loss on investments accounted for using the equity method	27	-	(206)
Increase in trade and other receivables		(210)	(799)
Increase (decrease) in trade and other payables		315	(184)
Increase (decrease) in deferred revenue		5,153	(800)
Other		(1,154)	495
Subtotal		10,092	7,134
Grants received		57	27
Interest and dividends received		236	4
Interest paid	12	(171)	(157)
Income taxes paid		(262)	(296)
Income tax refunded		0	383
Net cash provided by operating activities		9,952	7,095
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(277)	(193)
Purchase of intangible assets	11	(26)	(8)
Proceeds from sale of investment in associate	7	-	206
Proceeds from sale of investment in securities	8	1,209	-
Proceeds from settlement of contingent consideration receivable	9	137	273
Net cash provided by investing activities		1,043	278
Cash flows from financing activities			
Repayments of lease liabilities	12	(206)	(183)
Proceeds from issuance of convertible bonds	16,30	-	29,855
Payments for repurchase and cancellation of convertible bonds	30	-	(18,958)
Payments for settlement of contingent consideration	9,30	(4,680)	(191)
Proceeds from issuance of common stock	19	0	600
Other		(1)	-
Net cash (used in) provided by financing activities		(4,887)	11,123
Effects of exchange rate changes on cash and cash equivalents		362	1,583
Net increase in cash and cash equivalents		6,470	20,079
Cash and cash equivalents at the beginning of the year		60,087	40,008
Cash and cash equivalents at the end of the year	13	66,557	60,087

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

1 Reporting entity

Sosei Group Corporation (the “Company”) is a joint-stock company located in Japan. The address of its registered head office and principal place of business is available on the Company’s website (URL: <https://www.soseiheptares.com/>). The consolidated financial statements reflect the transactions and balances of the Company and its subsidiaries (the “Group”) and its interests in associated companies as at the end of December 31, 2022 and for the twelve month period then ended. The Group is engaged in the pharmaceutical business.

2 Basis of preparation

2.1 *Compliance with International Financial Reporting Standards*

The Japanese language consolidated financial statements of the Group have been prepared in accordance with IFRS published by the International Accounting Standards Board since the Company meets the requirements of a "Specified Company applying Designated International Financial Reporting Standards", pursuant to Article 1-2 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976), and applied the provisions of Article 93 of said Ordinance. The Group’s Japanese language consolidated financial statements were approved by the Board of Directors on March 23, 2023. The Group’s English language consolidated financial statements were approved by the Board of Directors subsequently on June 20, 2023. Refer to Note 34 Significant subsequent events for details of material event which occurred subsequent to the date of the Japanese language consolidated financial statements, which required additional disclosure in the English language consolidated financial statements.

2.2 *Basis of measurement*

The consolidated financial statements of the Group have been prepared on the historical cost basis except for specified financial instruments and other balances measured at fair value as explained in Note 3 *Significant accounting policies*.

2.3 *Presentation currency*

The consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company, and amounts are rounded up or down to the nearest million yen.

3 Significant accounting policies

3.1 *Basis of consolidation*

The consolidated financial statements are prepared based on the financial statements of the Company and entities controlled by the Company as at December 31. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The Company reassesses whether or not it controls the investee if facts and circumstances indicate that there are changes to either of the elements of control above.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

Subsidiaries

All subsidiaries are consolidated from the date the Group obtains control of such subsidiaries until the date on which the Group loses control of those subsidiaries. Where the accounting policies of subsidiaries are different from those of the Group, adjustments are made to the financial statements of the subsidiaries. Intragroup transactions are eliminated in the preparation of the consolidated financial statements.

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control of the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent.

When the Group loses control of a subsidiary, a gain or loss on disposal is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests.

Associates

An associate is an entity which is not controlled or jointly controlled by the Group but for which the Group has significant influence over the financial and operating policies of the entity. When the Group holds 20% or more but less than 50% of the voting rights of other companies, there is a rebuttable presumption that the Group has a significant influence over the other companies. Investments in associates are accounted for using the equity method from the date the Group gains significant influence until the date it loses that influence over the entities.

An investment in an associate is tested for impairment as a single asset if there is objective evidence indicating that the investment in the associate is impaired.

Unrealized gains arising from transactions with entities accounted for using the equity method are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains unless there is evidence of impairment.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.2 *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.

Changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments are accounted for through either of the following:

- a) Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates, and its subsequent settlement is accounted for within equity.
- b) Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with *IFRS 9 Financial Instruments* or *International Accounting Standards (“IAS”) 37 Provisions, Contingent Liabilities and Contingent Assets*, with the corresponding gain or loss being recognized in profit or loss.

The Group chooses whether non-controlling interests are measured at fair value or based on the proportionate interest of the recognized amount of identifiable net assets on the acquisition date for each transaction.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.3 *Foreign currency translations*

Transactions denominated in foreign currencies

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 retranslated into the functional currency of each Group company using the exchange rates 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 finance income or finance costs in the period incurred. Exchange differences resulting from the translation of financial assets measured through other comprehensive income 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.

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 have been 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.

3.4 *Property, plant and equipment*

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost includes costs 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.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.4 *Property, plant and equipment (continued)*

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: 3 - 18 years
- Machinery and equipment: 4- 8 years
- Furniture and fixtures: 3 - 18 years

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

3.5 *Goodwill*

Goodwill arising from the acquisition of a subsidiary is recorded at cost less accumulated impairment losses. Upon initial recognition goodwill is measured at the fair value of the consideration transferred, 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 financial 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.

3.6 *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.

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 financial 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: 18 years
- Core technology: 12 - 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 financial year and whenever there is an indication of impairment.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.6 *Intangible assets (continued)*

Expenditure on research activities is recognized as a cost in the period in which it occurs. Internally generated intangible assets arising at the development stage are recognized only when all the following criteria have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the total cost incurred from the date that the intangible asset initially met the above recognition criteria. When an internally generated intangible asset cannot be recognized, development costs are expensed in the period they occur. After initial recognition, internally generated intangible assets are stated at acquisition cost less cumulative amortization and cumulative impairment in line with other intangible assets. 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 in the same way as individually acquired intangible assets.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.7 Leases (as a lessee)

Management assesses whether any new contract includes a lease at the inception of the 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. The expected useful life used in calculating the depreciation expense is 3 to 16 years. 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 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 "Finance 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.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.8 *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 financial 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 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.

3.9 *Financial assets (excluding derivatives)*

Initial recognition and measurement of financial assets

Trade receivables and other receivables are recognized initially on the date they occur. 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 measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.9 *Financial assets (excluding derivatives) (continued)*

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

- Debt instruments:
 - Financial assets measured at amortized cost:
Debt instruments are 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 debt instruments 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.
 - Financial assets measured at fair value through profit or loss are equity instruments 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 remeasured at fair value at year-end with a change in fair value recognized in profit or loss.
- (b) a financial asset measured at fair value through other comprehensive income is recognized as the change in the amount of the fair value. When the financial asset is derecognized, the cumulative gain or loss in other components of equity is transferred to retained earnings. 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.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.9 *Financial assets (excluding derivatives) (continued)*

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 to determine whether the credit risk has increased significantly. 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, such as late payment or financial information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. Regardless of a significant increase 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 indication of a bankruptcy of the borrower or the issuing company or 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 and weighted by each asset's probability of default risk. 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 reversed, had no impairment loss been recognized.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.10 Financial liabilities (excluding derivatives)

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 profit or loss is remeasured at fair value at year-end with a change in fair value recognized in profit or loss.
- (b) a financial liability measured at amortized cost is recognized by the effective interest method. If the discontinuation of amortization using the effective interest method and derecognition 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 balance sheet when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

3.11 Derivatives

The Group uses forward exchange contracts to manage its foreign currency risk. These derivatives are initially recognized at fair value on the date the contract is entered into and are remeasured at fair value at each balance sheet date after initial recognition. Changes in fair value are recognized through profit or loss. These derivatives do not qualify for hedge accounting.

3.12 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.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.13 *Compound Financial Instruments*

The liability element of a compound financial instrument is initially recognized at the fair value of a similar liability that does not have an embedded equity conversion option. The equity element of a compound financial instrument is initially recognized at the fair value of the compound financial instrument as a whole minus the fair value of the liability element. The directly attributable transaction costs are allocated to each element in proportion to the initial carrying amounts.

After initial recognition, the liability element of a compound financial instrument is measured at amortized cost using the effective interest method. The equity element of a compound financial instrument is not remeasured after initial recognition. Interest on the liability element is recognized in finance costs. At the time of conversion, the liability element is transferred to equity and no gains or losses are recognized.

3.14 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at hand, readily available deposits and short-term investments having maturities of three months or less from the date of acquisition that are readily convertible into cash and are exposed to insignificant risk of changes in value.

3.15 *Government grants*

Government grants are recognized at their fair value when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

The amount of government grants relating to assets is recognized as deferred income and transferred to profit or loss on a systematic and reasonable basis over the useful life of the related assets. Government grants relating to items of expenses are recognized in profit or loss systematically over the period during which the related expenses are to be compensated by the grants.

3.16 *Shareholders' equity*

Common shares

With regard to equity instruments issued by the Company, the issuance value is recorded in "Capital stock" and "Capital surplus", and any directly attributable costs of issuing shares are deducted from "Capital surplus".

3.17 *Revenue recognition*

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.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.17 Revenue recognition (continued)

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, 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 above; 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.

3.18 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 sales.

3.19 Share-based payments transactions

The Group operates a Stock Option Plan, Restricted Stock Unit Plan, and Performance Share Unit Plan as incentive plans for its officers and employees. These incentive plans are estimated at fair value at the grant date and recognized in profit or loss over the period up to the time of vesting. The equivalent amount is recognized as an increase in equity. The fair value of options granted is measured using a valuation model, such as the Black-Scholes model, taking into account the terms and conditions of the options.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.20 *Borrowing costs*

With regard to assets that require a substantial period of time to prepare for their intended use or sale, borrowing costs directly attributable to the acquisition, construction, or production of such assets are capitalized as part of the cost of the assets.

3.21 *Income taxes*

Income tax expenses comprise current and deferred taxes. These are recognized in profit or loss, except for items arising from business combinations and items recognized in other comprehensive income.

Current tax expenses are calculated at an expected amount of taxes to be paid to the tax authorities (or to be returned from tax authorities) using the tax rates (and tax laws and regulations) that have been enacted, or substantially enacted, by the end of the period.

Deferred tax assets or liabilities are recognized for temporary differences arising between the carrying amount of an asset or liability in the consolidated balance sheet and their tax base. However, if temporary differences arise from the initial recognition of an asset or liability in a transaction, other than business combinations, that have no effect on profit or loss for accounting purposes and taxable profits (tax losses) on the transaction date, deferred tax assets or liabilities are not recognized.

Deferred tax assets or liabilities are calculated in accordance with laws and regulations that have been enacted, or substantially enacted, by the end of the period, using the tax rates expected to be applicable when the related deferred tax assets are realized or the related deferred tax liabilities are settled.

Deferred tax assets such as deductible temporary differences, unused tax losses and tax credits are recognized to the extent that it is probable that future taxable profits will be available against which these assets can be utilized.

Deferred tax assets and liabilities are recognized for temporary differences associated with subsidiaries. However, deferred tax liabilities are not recognized when the Group is able to control the timing of the reversal of temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future. Deferred tax assets are recognized to the extent that it is deemed probable that there will be sufficient taxable profits against which benefits from temporary differences can be utilized and the temporary differences will be reversed in the foreseeable future.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

3 Significant accounting policies (continued)

3.22 Earnings per share

Basic earnings per share are calculated by dividing net profit attributable to common shareholders of the parent by the weighted-average number of common shares outstanding, adjusted by the number of treasury shares for the period concerned. Diluted earnings per share are calculated by adjusting net profit and the weighted-average number of common shares outstanding, net of treasury shares, for the effects of all dilutive common shares.

4 Significant accounting estimates and associated judgments

In preparing consolidated financial statements in accordance with IFRS, management is required to make judgements, estimates, and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates due to their nature. The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized prospectively in the period in which the estimate is revised and in any future periods affected. The key judgements and estimates made by management that have had a significant effect on the amounts recognized in the consolidated financial statements are as follows:

Valuation and impairment of Goodwill and Intangible Assets

The carrying amounts of Goodwill and Intangible Assets were JPY 15,306 million and JPY 8,577 million, respectively, as at December 31, 2022.

- *Method of calculation of the carrying amounts in the consolidated financial statements and significant assumptions used in the calculation*

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 financial year. Goodwill is not amortized. It is allocated to cash-generating units and an annual impairment test is conducted at the same time in each financial 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. 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. In respect of cash-generating units for intangible assets, intangible assets are grouped based on the smallest cash-generating unit that produces largely independent cash inflows.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

4 Significant accounting estimates and associated judgments (continued)

The recoverable amounts of the cash generating units have been assessed using a fair value less costs of disposal model. Fair value less costs of disposal has been calculated based on estimated future cash flows that have been risk adjusted and discounted to take into account the time value of money. Assumptions in business plans used for future cash flows include the timings of milestone achievements and product launches, the probabilities of success of R&D activities and projected revenues including expected future product sales and the weighted average cost of capital. Management uses its experience, external sources, knowledge of the activities of competitors and industry trends in forming these assumptions.

- *Effects on the consolidated financial statements for the year ending December 31, 2023*
If there are material adverse differences between management's projected cash flows and the actual cash flows (for example, the timing of the achievement of milestones could differ), impairment may be recognized to reduce the carrying amounts of goodwill and intangible assets down to their recoverable amounts.

Revenue recognition

The balance of contract liabilities was JPY 6,221 million as at December 31, 2022. JPY 968 million of former contract liabilities was recognized as revenue during the financial year ended December 31, 2022.

- *Method of calculation of the carrying amounts in the consolidated financial statements and significant assumptions used in the calculation*

When performance obligation is not satisfied at a point in time and consideration is received prior to the satisfaction of the performance obligation, the consideration is recorded as a contract liability (deferred revenue). Revenue is measured, and the same amount is derecognized from the contract liability (deferred revenue), based on the ratio of actual time incurred on each R&D program at the reporting period end to the total time estimated to be incurred from the commencement of the R&D plan until its scheduled completion date.

For the following reasons, the calculation of total estimated time is characterized by uncertainty:

- Research and development generally takes a long time and is highly individualized for each project.
 - By its nature, the achievement of results is not guaranteed, and the total estimated time required varies depending on the progress of the R&D.
 - The total estimated time for R&D is subjective in that it depends on the judgment of project managers who have expertise and experience in R&D.
- *Effects on the consolidated financial statements for the year ending December 31, 2023*
Fluctuations in the total estimated time due to above uncertainties may have a significant impact on the amount of revenue recognized in the consolidated financial statements for the year ending December 31, 2023.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

5 New standards and new interpretations not yet adopted

There were no accounting standards that were newly established or amended by the approval date of the consolidated financial statements that are expected to have a significant effect on the Group.

6 Operating segments

6.1 Overview of reportable segments

The Group operates a single business segment being the pharmaceutical business.

6.2 Information regarding products and services

The breakdown of revenue is as follows:

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Upfront fees and milestone income	12,063	14,667
Royalty income	2,564	2,311
Pharmaceutical product sales	80	28
Other	862	706
	15,569	17,712

6.3 Geographical information

The following table provides the Group's revenue from external customers by location and information about non-current assets by location.

Revenues from external customers

Country	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Japan	80	(22)
USA	9,934	13,937
Bermuda	2,849	301
Switzerland	2,564	2,311
UK	142	1,178
Ireland	-	7
	15,569	17,712

Notes: Revenues in the table are based on the address of customers.

Non-current assets

	At December 31, 2022 ¥m	At December 31, 2021 ¥m
Japan	167	252
UK	27,571	27,882
	27,738	28,134

Notes: Non-current assets do not include investments accounted for using the equity method and other financial assets.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

6 Operating segments (continued)

6.4 Information about major customers

Revenues: Customers that account for 10% or more of revenue in the consolidated statement of profit or loss and other comprehensive income are as follows:

Name of customer	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Neurocrine Biosciences, Inc.	4,138	11,408
Eli Lilly and Company	3,429	-
AbbVie Inc.	2,849	301
Novartis International AG.	2,564	2,311

Notes: Revenues in the table above include revenues from subsidiaries of the customer groups listed.

7 Disposal of shares in associate

Year ended December 31, 2022

Not applicable.

Year ended December 31, 2021

The Group's investment in Jitsubo CO., LTD. ('JITSUBO'), an associate of the Group, was classified as an investment accounted for using the equity method in the consolidated balance sheet as at December 31, 2020. In the three month period ended March 31, 2021, the Group resolved to sell its entire shareholding in JITSUBO and recorded a JPY 206 million gain on reversal of impairment loss for investments accounted for using the equity method based on the sale price in the share transfer agreement. The carrying amount of the Group's shareholding as at March 31, 2021 was measured at fair value less costs of disposal, which was lower than the carrying amount before recognizing the impairment loss. On April 30, 2021, the Group completed the disposal of its entire shareholding in JITSUBO. The fair value was based on the sale price in the share transfer agreement and it was categorized as Level 3 of the fair value hierarchy. Please refer to Note 9 *Financial Instruments* for an explanation of the fair value hierarchy.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

8 Licensing transactions with equity components

Year ended December 31, 2022

Heptares Therapeutics Ltd., a subsidiary of the Company, entered into a global research and development collaboration and license agreement with Biohaven Pharmaceutical Holding Company Ltd. in 2020 ("Biohaven") and received common shares in Biohaven under the terms of this agreement. On October 3, 2022, Pfizer completed its tender offer for Biohaven, and the Group received JPY 1,209 million (USD 8.1 million) in cash and 27,308 shares in Biohaven Ltd., a spin-out company that included Biohaven's non-CGPR development stage pipeline, in exchange for the Biohaven shares. Biohaven Ltd. is listed on the New York Stock Exchange. Management recognizes the investment in Biohaven Ltd. as an equity financial asset and designates it as a financial asset measured at fair value through other comprehensive income.

Year ended December 31, 2021

In January 2021, the Group exchanged its shares in Orexia Limited ("Orexia") and Inexia Limited ("Inexia"), companies established in 2019 by Medicxi and the Group, for shares in a new Medicxi company, Centessa Pharmaceuticals plc ("Centessa"). Centessa was established as a holding company for a portfolio of bio-pharmaceutical and similar businesses that Medicxi held stakes in, including the Orexia and Inexia businesses. Centessa subsequently changed its name to Centessa Pharmaceuticals plc and was listed on NASDAQ in the United States on May 28, 2021. Management recognizes the investment in Centessa as an equity instrument and designates it as a financial instrument measured at fair value through other comprehensive income.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments

9.1 Capital management

The Group maintains a capital structure designed to facilitate sustainable growth and maximize corporate value, in support of its long-term strategy. The capital structure mainly comprises equity and convertible bonds, with additional flexibility provided by a commitment line.

The Group's capital structure is regularly reviewed and adjusted in response to commercial opportunities, changes in economic conditions and associated risks. In order to maintain or adjust the Group's capital structure, management may issue new shares, convert bonds to equity, draw down funds under the commitment line, convert the commitment line to a term loan or raise funds through other means (including corporate bonds, bank borrowings and leases).

Please refer to Note 16 *Corporate bonds and borrowings* for details of the commitment line.

The capital structure of the Group is as follows:

	December 31, 2022		December 31, 2021	
	Amount (¥m)	Ratio to total asset (%)	Amount (¥m)	Ratio to total asset (%)
Cash and cash equivalents	66,557	66.9	60,087	62.0
Corporate bonds (Note 1)	(27,981)	(28.1)	(27,440)	(28.3)
Drawn commitment line	-	-	-	-
Lease liabilities	(1,753)	(1.8)	(1,831)	(1.9)
Net cash	36,823	37.0	30,816	31.8
Total equity	57,936	58.3	57,468	59.3
Total assets	99,417	100.0	96,985	100.0
Ratio of cash and cash equivalents to interest-bearing debt (%)		223.8		205.3

Notes:

1. The aggregate principal amount of the convertible bonds issued is JPY 30,000 million. The corporate bonds are carried at amortized cost using the effective interest method after deducting an amount equivalent to the value of the stock acquisition rights as well as directly attributable transaction costs from the principal amount.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments (continued)

9.2 Classification of financial instruments

The breakdown of financial instruments is as follows:

	December 31, 2022 ¥m	December 31, 2021 ¥m
<i>Financial assets</i>		
Financial assets measured at fair value through profit or loss:		
Other financial assets	268	344
Financial assets measured at fair value through other comprehensive income:		
Other financial assets	1,411	2,248
Financial assets measured at amortized cost:		
Other financial assets	58	58
Trade and other receivables	2,462	2,138
<i>Financial liabilities</i>		
Financial liabilities measured at fair value through profit or loss:		
Contingent consideration in business combinations	-	4,095
Other financial liabilities	36	-
Financial liabilities measured at amortized cost:		
Corporate bonds	27,981	27,440
Lease liabilities	1,753	1,831
Trade and other payables	1,628	1,176

9.3 Risk management of financial instruments

The Group's activities are exposed to various risks due to changes in the economic and financial environment. Investments are limited to short-term instruments with minimal risk and the Group does not engage in speculative transactions. Financing is procured through regular review of funding options such as the issuance of new shares, issuance of corporate bonds, arranging commitment lines, refinancing term loans, and other refinancing measures.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments (continued)

9.4 Currency exchange rate risk

The Group operates globally and is exposed to currency exchange rate risk with regard to transactions denominated in currencies other than the functional currency of each group company. Other than Japanese Yen, the Group's transactions are principally denominated in the British pound, U.S. dollar, Euro and Swiss franc.

The Group's exposures to currency exchange rate risk are as follows:

December 31, 2022

	GBP	USD	EUR	CHF
Net exposure (¥m)	798	5,283	(28)	26
Net exposure (In thousands of local currency units)	5,026	40,247	(202)	185

December 31, 2021

	GBP	USD	EUR	CHF
Net exposure (¥m)	427	576	5	9
Net exposure (In thousands of local currency units)	2,751	5,009	39	75

Foreign currency sensitivity analysis

A sensitivity analysis of the Group's exposures to currency exchange rate risk is as follows. This analysis shows the impact on profit before income taxes in the consolidated statement of profit or loss and other comprehensive income of a 1% appreciation in Japanese yen against the relevant foreign currencies at the reporting date, assuming that all other variables remain constant. The analysis indicates the impact of foreign exchange translation and does not take into account the potential effect on expected revenue, purchases and other transactions.

	December 31, 2022	December 31, 2021
	¥m	¥m
GBP	(8)	(4)
USD	(53)	(6)
EUR	0	(0)
CHF	(0)	(0)

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments (continued)

9.5 *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest on the commitment line is chargeable at a variable rate based on the amount of the facility that has been drawn down. The Group is also charged a commitment fee, not classed as interest, on the unutilized portion of the facility. The Group did not borrow any funds under the commitment line during 2022. Whilst the commitment line remains unutilized, there is no associated interest rate risk. In July 2021 the Group issued five year Convertible Bonds with a nominal value of JPY 30,000 million. The Bonds pay a 0.25% fixed coupon per annum (paid semi-annually). As the interest on the Bonds is fixed, fluctuations in interest rates have a limited impact on profit or loss. With regard to all other financial instruments, the Group's exposure to interest rate risk is considered insignificant.

9.6 *Credit risk*

Credit risk is the risk that a customer or counterparty to a financial instrument will cause a financial loss to the Group by failing to meet its contractual obligations. "Trade and other receivables" are exposed to customer credit risk. The Group manages this risk in accordance with credit management policies. Since customers of the Group are companies with high credit standings, the Group's exposure to credit risk is limited. There are no significant over-due receivables or significant expected credit losses. Therefore, no impairment or allowance for doubtful accounts has been recorded.

9.7 *Liquidity risk*

Liquidity risk is the risk that the Group will encounter problems in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Although "Corporate bonds", "Lease liabilities" and "Trade and other payables" are exposed to liquidity risk, the Group manages the risk by developing and updating financial plans in a timely manner, maintaining sufficient liquidity in hand, and through other means. The breakdown of financial liabilities by due date is as follows:

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments (continued)

9.7 Liquidity risk (continued)

Non-derivative financial liabilities

December 31, 2022

	Book value	Contractual cash flow	Within 1 year	Greater than 1 year and less than 5 years	Greater than 5 years
	¥m	¥m	¥m	¥m	¥m
Corporate bonds	27,981	30,000	-	30,000	-
Lease liabilities	1,753	2,052	230	760	1,062
Trade and other payables	1,628	1,628	1,628	-	-
	31,362	33,680	1,858	30,760	1,062

December 31, 2021

	Book value	Contractual cash flow	Within 1 year	Greater than 1 year and less than 5 years	Greater than 5 years
	¥m	¥m	¥m	¥m	¥m
Contingent consideration in business combinations	4,095	4,101	4,048	32	21
Corporate bonds	27,440	30,000	-	30,000	-
Lease liabilities	1,831	2,170	244	716	1,210
Trade and other payables	1,176	1,176	1,176	-	-
	34,542	37,447	5,468	30,748	1,231

Derivative financial liabilities

December 31, 2022

	Book value	Contractual cash flow	Within 1 year	Greater than 1 year and less than 5 years	Greater than 5 years
	¥m	¥m	¥m	¥m	¥m
Other financial liabilities (Note 1)	36	36	36	-	-
	36	36	36	-	-

Notes:

1. Other financial liabilities relate to forward exchange contracts. They are presented net of any receivables arising from such derivative transactions.

December 31, 2021

Not applicable.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments (continued)

9.8 Fair value

Fair value of financial instruments

The classification of financial instruments within the fair value hierarchy from Level 1 to Level 3 is as follows:

Level 1: Quoted prices (unadjusted) in an active market for identical assets or liabilities

Level 2: Fair value determined using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value determined using valuation techniques including measurement based on unobservable inputs

Transfers between levels of the fair value hierarchy that occurred during the year ended December 31, 2022 and 2021 are deemed to have occurred at each quarter end.

9.8.1 Financial instruments that are measured at fair value on a recurring basis

The breakdown of financial instruments that are measured at fair value on a recurring basis as at each financial year end is as follows:

At December 31, 2022

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial assets:				
Financial assets measured at fair value through profit or loss				
Other financial assets	-	-	268	268
Financial assets measured at fair value through other comprehensive income				
Other financial assets	428	-	983	1,411
	428	-	1,251	1,679
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities	-	36	-	36
	-	36	-	36

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments (continued)

9.8 Fair value (continued)

9.8.1 Financial instruments that are measured at fair value on a recurring basis (continued)

At December 31, 2021

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial assets:				
Financial assets measured at fair value through profit or loss:				
Other financial assets	-	-	344	344
Financial assets measured at fair value through other comprehensive income:				
Other financial assets	2,071	-	177	2,248
	2,071	-	521	2,592
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Contingent consideration in business combinations	-	-	4,095	4,095
	-	-	4,095	4,095

The above fair values of financial instruments are calculated as follows:

Other financial assets

Other financial assets are revalued as at the reporting period end in line with changes in fair value. At December 31, 2022 other financial assets comprised listed securities of Centessa Pharmaceuticals plc. (“Centessa”) and Biohaven Ltd., and unlisted securities of Tempero Bio, Inc (“Tempero Bio”), Sosei RMF1 Limited Partnership for Investment (“RMF1”) and MiNA (Holdings) Limited (“MiNA”), as well as contingent consideration receivable relating to a business disposal.

The Group received shares in Biohaven Ltd., the spin-out company of Biohaven Pharmaceutical Holding Company Ltd. which was included in listed securities as at December 31, 2021, as partial consideration for selling its shares in Biohaven Pharmaceutical Holding Company Ltd. to Pfizer in response to its tender offer. For more information on these shares, please refer to Note 8 *Licensing transactions with equity components*.

MiNA was an associate accounted for using the equity method during the year ended December 31, 2021 and period up to October 2022. In October 2022, the Group excluded MiNA from an associate accounted for using the equity method as it no longer exercised significant influence over MiNA due to holding less than 20% of the voting rights and the resignation of the Group’s appointed director from MiNA board. Accordingly, the Group reclassified its investment in MiNA from investments accounted for using the equity method to other financial assets.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments (continued)

9.8 Fair value (continued)

9.8.1 Financial instruments that are measured at fair value on a recurring basis (continued)

Listed securities are classified as Level 1 of the fair value hierarchy. All other securities are classified as Level 3.

a. Listed securities

The fair values of listed shares are assessed using the market price at the end of the period, and changes in fair value are recorded in “Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income” in the consolidated statement of profit or loss and other comprehensive income.

b. Unlisted securities

The fair value of the Group’s investment in Tempero Bio is assessed using a discounted cashflow model. Significant unobservable inputs used in the model include the estimated probabilities of success of assets progressing through contractual milestone events such as regulatory approval, the discount rate (13.8%) (as at December 31, 2021, 12.5%) and discount for lack of control/marketability (32%) (as at December 31, 2021, 32%). Changes in fair value are recorded in “Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income” in the consolidated statement of profit or loss and other comprehensive income.

The fair value of the Group’s investment in RMF1 is assessed using an appropriate valuation model based on a number of variables including net assets, future cashflows and estimated profits, all of which represent significant unobservable inputs used in the valuation model. Changes in fair value are recorded in “Finance income” or “Finance costs” in the consolidated statement of profit or loss and other comprehensive income.

The fair value of the Group’s investment in MiNA is measured using a fair value assessment based on a third-party valuation. Changes in fair value are recorded in “Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income” in the consolidated statement of profit or loss and other comprehensive income.

c. Contingent consideration receivable relating to a business disposal

The fair value of contingent consideration receivable relating to a business disposal is assessed using a probability adjusted discounted cashflow model. Significant unobservable inputs used in the model include the estimated probabilities of success of assets progressing through contractual milestone events, such as regulatory approval, and discount rates (5.5%) (as at December 31, 2021, ranging from 1.0%-1.9%). Changes in fair value are recorded in “Finance income” or “Finance costs” in the consolidated statement of profit or loss and other comprehensive income.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments (continued)

9.8 Fair value (continued)

9.8.1 Financial instruments that are measured at fair value on a recurring basis (continued)

Other financial liabilities

Other financial liabilities relate to forward exchange contracts. They are classified as Level 2 of the fair value hierarchy as the fair value is assessed based on the amount presented by the correspondent financial institution.

Contingent consideration in business combinations

The fair value of contingent consideration in business combinations is assessed using a probability adjusted discounted cashflow model. Significant unobservable inputs used in the model include the estimated probabilities of success of assets progressing through contractual milestone events such as regulatory approval. As such, contingent consideration in business combinations is classified as Level 3 of the fair value hierarchy. Changes in fair value are recorded in "Finance income" or "Finance costs" in the consolidated statement of profit or loss and other comprehensive income. In the year ended December 31, 2022, JPY 4,680 million was paid to the former shareholders of Heptares Therapeutics Ltd. As at December 31, 2022 there was no outstanding balance. The maximum amount of contingent consideration payable to the former shareholders of Heptares Therapeutics Limited under the 2015 Share Purchase Agreement is USD 220 million, of which USD 118 million has been paid out to date. In respect of the remaining balance, it is possible that additional amounts of contingent consideration may become payable in the future.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments (continued)

9.8 Fair value (continued)

9.8.2 Financial instruments measured at fair value through other comprehensive income

The breakdown of financial assets measured at fair value through other comprehensive income is as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
	¥m	¥m
Centessa	378	1,205
Biohaven (Note 1)	-	866
Biohaven Ltd. (Note 1)	50	-
Tempero Bio	2	177
MiNA (Note 2)	981	-

Notes:

1. In October 2022, the Group accepted a tender offer and received shares in Biohaven Ltd., the spin-out company of Biohaven Pharmaceutical Holding Company Ltd., as partial consideration for selling its shares in Biohaven Pharmaceutical Holding Company Ltd.
2. In October 2022, the Group reclassified its investment in MiNA from an associate accounted for using the equity method to other financial assets due to the loss of significant influence over MiNA.

9.8.3 Derecognition of financial assets measured at fair value through other comprehensive income

	Year ended December 31, 2022	Year ended December 31, 2021
	¥m	¥m
Fair value of investment at the date of derecognition	1,174	-
Cumulative gain or loss on disposal	588	-

When a financial asset measured at fair value through other comprehensive income is derecognized, the cumulative gain or loss in other components of equity is transferred to retained earnings.

In the year ended December 31, 2022, the amount transferred to retained earnings from other components of equity (after tax) was JPY 475 million. This was due to derecognition of the Group's equity investment in Biohaven Pharmaceutical Holding Company Ltd., a financial asset designated as measured at fair value through other comprehensive income, as it sold its shares in response to a tender offer and received shares in Biohaven Ltd., a spin-out company, as partial consideration.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments (continued)

9.8 Fair value (continued)

9.8.4 Financial instruments measured at amortized cost

The breakdown of the carrying amount and fair value of financial instruments measured at amortized cost at the financial year end is as follows (financial instruments whose carrying value is a reasonable approximation of fair value are omitted).

	Year ended December 31, 2022		Year ended December 31, 2021	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Corporate bonds	27,981	28,580	27,440	28,198

The fair value of the debt element of the convertible bonds is calculated by discounting the total amount of principal and future interest payments at an interest rate that considers the remaining maturity of the bonds and credit risk. It is categorized as Level 2 of the fair value hierarchy.

9.8.5 Reconciliation of movements of Level 3 financial instruments

For Level 3 financial instruments management decides the appropriate valuation method and measures the fair value in accordance with that valuation policy, supported by external valuation experts when deemed appropriate. The movements in the fair values of financial assets and liabilities are summarized below.

Year ended December 31, 2022

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the year	521	4,095
Settlement	(137)	(4,680)
Net gains or losses (realized) (Note 1)	52	585
Net gains or losses (unrealized) (Note 1)	9	-
Other comprehensive income (Note 2)	(185)	-
Transfer from other accounts (Note 3)	991	-
Balance at the end of the year	1,251	-

Notes:

1. Included in "Finance income" and "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.
2. Other comprehensive income is included in "Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income" and "Exchange differences on translating foreign operations" in the consolidated statement of profit or loss and other comprehensive income.
3. Transfer of equity investment in MiNA from investments accounted for using the equity method.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

9 Financial instruments (continued)

9.8 Fair value (continued)

9.8.5 Reconciliation of movements of Level 3 financial instruments (continued)

Year ended December 31, 2021

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the year	1,050	1,107
Settlement	(273)	(191)
Net gains or losses (realized) (Note 1)	41	11
Net gains or losses (unrealized) (Note 1)	96	2,988
Other comprehensive income (Note 2)	1,889	-
Transfer from Level 3 to Level 1 (Note 3)	(2,282)	-
Transfer from other accounts	-	180
Balance at the end of the year	521	4,095

Notes:

1. Included in "Finance income" and "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.
2. Other comprehensive income is included in "Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income" and "Exchange differences on translating foreign operations" in the consolidated statement of profit or loss and other comprehensive income.
3. The transfer from Level 3 to Level 1 was due to the investee (Centessa) being listed during the year.

9.8.6 Sensitivity analysis

The impact on the fair value of contingent consideration in business combinations if significant assumptions in its measurement are changed is as follows:

Item	(Increase) decrease in Fair value of contingent consideration in business combinations December 31, 2022 ¥m	(Increase) decrease in Fair value of contingent consideration in business combinations December 31, 2021 ¥m
Amount of milestones or royalties received increases by 5%	-	(2)
Amount of milestones or royalties received decreases by 5%	-	2
Interest rate increases by 0.5%	-	1
Interest rate decreases by 0.5%	-	(1)

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

10 Property, plant and equipment

Changes in acquisition cost, accumulated depreciation and accumulated impairment losses of property, plant and equipment

10.1 Acquisition cost

	Buildings & structures	Machinery & equipment	Furniture & fixtures	Constructi on in progress	Right-of- use assets (Buildings & structures)	Right-of-use assets (Furniture & fixtures)	Total
	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at January 1, 2021	1,760	1,084	273	-	1,902	42	5,061
Additions	1	115	27	-	-	-	143
Disposals or sales	-	(2)	(1)	-	-	-	(3)
Exchange differences on translation	191	130	27	-	190	-	538
Balance at December 31, 2021	1,952	1,327	326	-	2,092	42	5,739
Additions	48	107	38	171	102	-	466
Disposals or sales	-	(12)	(35)	-	-	(42)	(89)
Transfer	-	-	60	(60)	-	-	-
Exchange differences on translation	41	20	5	(2)	39	-	103
Balance at December 31, 2022	2,041	1,442	394	109	2,233	-	6,219

10.2 Depreciation and accumulated impairment losses

	Buildings & structures	Machinery & equipment	Furniture & fixtures	Constructi on in progress	Right-of- use assets (Buildings & structures)	Right-of-use assets (Furniture & fixtures)	Total
	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at January 1, 2021	(250)	(518)	(186)	-	(261)	(22)	(1,237)
Depreciation expense	(122)	(182)	(51)	-	(180)	(6)	(541)
Disposals or sales	-	2	1	-	-	-	3
Exchange differences on translation	(30)	(70)	(19)	-	(28)	-	(147)
Balance at December 31, 2021	(402)	(768)	(255)	-	(469)	(28)	(1,922)
Depreciation expense	(137)	(178)	(34)	-	(210)	(4)	(563)
Disposals or sales	-	12	35	-	-	32	79
Exchange differences on translation	(6)	(6)	(5)	-	(5)	-	(22)
Balance at December 31, 2022	(545)	(940)	(259)	-	(684)	-	(2,428)

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

10 Property, plant and equipment (continued)

10.3 Carrying amount

	Buildings & structures	Machinery & equipment	Furniture & fixtures	Construction in progress	Right-of-use assets (Buildings & structures)	Right-of-use assets (Furniture & fixtures)	Total
	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at January 1, 2021	1,510	566	87	-	1,641	20	3,824
Balance at December 31, 2021	1,550	559	71	-	1,623	14	3,817
Balance at December 31, 2022	1,496	502	135	109	1,549	-	3,791

Notes:

- 1: Depreciation expense is recorded in “Cost of sales”, “Research and development expenses” and “Selling, general and administrative expenses”.
- 2: There were no significant contractual commitments for the acquisition of property, plant and equipment as at December 31, 2022 and December 31, 2021.

11 Goodwill and intangible assets

Changes in acquisition cost, accumulated amortization and accumulated impairment losses of goodwill and intangible assets

11.1 Acquisition cost

	Goodwill	Intangible assets				Total
		Product-related assets	Core technology	Customer-related assets	Other	
	¥m	¥m	¥m	¥m	¥m	¥m
Balance at January 1, 2021	14,134	1,053	12,127	4,107	89	17,376
Additions	-	-	-	-	8	8
Disposals or sales	-	-	-	-	(10)	(10)
Exchange differences on translation	961	-	1,339	569	(2)	1,906
Balance at December 31, 2021	15,095	1,053	13,466	4,676	85	19,280
Additions	-	-	-	-	27	27
Disposals or sales	-	-	-	-	(19)	(19)
Exchange differences on translation	211	-	293	126	1	420
Balance at December 31, 2022	15,306	1,053	13,759	4,802	94	19,708

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

11 Goodwill and intangible assets (continued)

11.2 Accumulated amortization and accumulated impairment losses

	Goodwill	Intangible assets				Total ¥m
	¥m	Product- related assets ¥m	Core technology ¥m	Customer- related assets ¥m	Other ¥m	
Balance at January 1, 2021	-	(856)	(3,589)	(1,059)	(70)	(5,574)
Amortization expense	-	(11)	(702)	(17)	(7)	(737)
Impairment losses	-	(74)	-	(3,064)	-	(3,138)
Disposals or sales	-	-	-	-	10	10
Exchange differences on translation	-	-	(414)	(311)	4	(721)
Balance at December 31, 2021	-	(941)	(4,705)	(4,451)	(63)	(10,160)
Amortization expense	-	(11)	(749)	(12)	(10)	(782)
Disposals or sales	-	-	-	-	19	19
Exchange differences on translation	-	-	(88)	(120)	-	(208)
Balance at December 31, 2022	-	(952)	(5,542)	(4,583)	(54)	(11,131)

11.3 Carrying amount

	Goodwill	Intangible assets				Total ¥m
	¥m	Product- related assets ¥m	Core technology ¥m	Customer- related assets ¥m	Other ¥m	
Balance at January 1, 2021	14,134	197	8,538	3,048	19	11,802
Balance at December 31, 2021	15,095	112	8,761	225	22	9,120
Balance at December 31, 2022	15,306	101	8,217	219	40	8,577

Notes:

- Amortization expenses are all included in "Selling, general and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income, with the exception of some items in the "Other" category which are included in "Research and development expenses" in the consolidated statement of profit or loss and other comprehensive income.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

11 Goodwill and intangible assets (continued)

11.4 Goodwill

Goodwill arose from the separate acquisitions of Sosei R&D Ltd. (formerly Arakis Limited), Heptares Therapeutics Ltd. and Heptares Zurich AG (formerly G7 Therapeutics AG) by the Group. These acquisitions generate a stream of royalties on global sales of Novartis' respiratory disease products Seebri®Breezhaler®, Ultibro® Breezhaler® and Enerzair® Breezhaler® ("Respiratory business"), and revenues arising from the discovery of novel small molecules, peptides and antibody drugs targeting G-protein-coupled receptors ("GPCRs"). The latter business is based on proprietary Stabilized Receptor (StaR®) technology and structure-based drug discovery ("SBDD"), and involves the discovery of small molecule compounds and peptides and antigen creation for the discovery of monoclonal antibodies ("mAbs") ("Drug discovery business"). The Respiratory business and Drug discovery business have been identified as separate cash-generating units for the purpose of calculating the fair value less costs of disposal when testing for impairment. As at December 31, 2022, the goodwill allocated to each cash-generating unit was JPY 9,880 million for the Drug discovery business and JPY 5,426 million for the Respiratory business. As at December 31, 2021, the goodwill allocated to each cash-generating unit was JPY 9,669 million for the Drug discovery business and JPY 5,426 million for the Respiratory business.

The recoverable amounts of the cash generating units have been assessed using a fair value less costs of disposal model. Fair value less costs of disposal has been calculated based on estimated future cash flows that have been risk adjusted and discounted to take into account the time value of money. The valuation methodology uses significant inputs which are not based on observable market data, therefore this valuation technique is categorized as Level 3 in the fair value hierarchy. Assumptions in business plans used for future cash flows include the timings of milestone achievements such as product launches, the probabilities of success of R&D activities and projected revenue plan including expected future product sales and the weighted average cost of capital. In making these assumptions management uses its experience, external sources, knowledge of the activities of competitors and industry trends.

As a result of the impairment test performed based on the below assumptions, there were no events or circumstances that led to the recognition of impairment losses during the year ended December 31, 2022 and December 31, 2021.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

11 Goodwill and intangible assets (continued)

11.4 Goodwill (continued)

		Year ended December 31, 2022	Year ended December 31, 2021
	Post-tax discount rate	10.2%	7.8%
Respiratory business	Estimate of future cash flows	Future cash flows have been estimated based on past performance and its 13 year business plan of Respiratory business.	
	Post-tax discount rate	10.2%	7.8%
Drug discovery businesses	Estimate of future cash flows	Future cash flows have been estimated based on past performance and its 20 year business plan of Drug discovery business. For the period after the business plan a terminal value has been included with an expected growth rate of zero.	

Notes:

1. The discount rate is based on the weighted-average cost of capital with certain adjustments.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

11 Goodwill and intangible assets (continued)

11.5 Significant intangible assets

Product-related assets

Product-related assets relate to Oravi[®], an agent for the treatment of oropharyngeal candidiasis, for which Sosei Co., Ltd. has received marketing approval. The carrying amounts of product-related intangible assets at December 31, 2022 and 2021 include internally generated intangible assets of JPY 41 million and JPY 46 million, respectively, and other intangible assets of JPY 60 million and JPY 66 million, respectively. These assets are being amortized using the straight-line method. The expected useful life is 18 years and the remaining amortization period is 9 years.

Core technology

This represents the assessed value of core technology belonging to Heptares. These assets are being amortized using the straight-line method over their expected useful lives of 12-20 years. The remaining amortization periods are 6-13 years.

Customer-related assets

This represents the assessed value of intangible assets that existed at the time of the Heptares acquisition that have subsequently been partnered. These assets are being amortized using the straight-line method over their expected useful lives of 20 years. The remaining amortization period is 13 years.

11.6 Impairment

Intangible assets were grouped based on the smallest cash-generating unit that produces largely independent cash inflows. The recoverable amount of the assets was assessed using their fair value less costs of disposal. The approach is categorized as Level 3 within the fair value hierarchy.

At December 31, 2022

Not applicable.

At December 31, 2021

Product-related assets

An impairment loss was recorded in product-related assets relating to Oravi[®], a drug for the treatment of oropharyngeal candidiasis, for which Sosei Co., Ltd. has received marketing approval. The Group recorded an impairment loss of JPY 74 million in "Other expenses" within the consolidated statement of profit or loss and other comprehensive income during 2021 as a result of a decline in forecasted sales and profitability. The recoverable amount was assessed using a fair value less costs of disposal model utilizing future cash flows from the latest business plan that were discounted based on a weighted-average cost of capital of 10.8%. The latest business plan was calculated by estimating sales volumes and the selling price.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

11 Goodwill and intangible assets (continued)

11.6 Impairment (continued)

Customer-related assets

An intangible asset existed in the consolidated balance sheet as at January 1, 2021 relating to two clinical stage drug candidates. The rights to these two drug candidates were out-licensed to a partner during 2021 as part of a much broader collaboration. The recoverable amount was assessed using a fair value less costs of disposal model. As the collaboration partner decided in 2021 not to progress these two drug candidates further in clinical trials an impairment loss of JPY 3,064 million has been recorded within "Other expenses" within the consolidated statement of profit or loss and other comprehensive income to reduce the carrying amount of the intangible asset to zero.

11.7 Contractual commitments

There were no contractual commitments relating to the acquisition of intangible assets at December 31, 2022 and December 31, 2021. Milestone payments and royalty payments may become payable depending on the successful progression of R&D collaborations and future sales revenues.

12 Lease transactions

The Group has principally entered into lease agreements for facilities and buildings. These contracts do not impose any significant restrictions on decision-making by the Group, such as those concerning dividends, additional debt and further leasing.

There are no options to renew leases or purchase leased assets. There are no escalation clauses in the lease contracts other than inflationary increases in relation to the Group's UK R&D facility.

The breakdown of gains/losses (excluding depreciation) and cash outflows related to leases is as follows:

	December 31, 2022	December 31, 2021
	¥m	¥m
Gains / (losses) on leases:		
Interest expense on lease liabilities	(58)	(57)
Short term lease expenses	(4)	(4)
Small asset lease expenses	(1)	(1)
Payment for lease liabilities	(206)	(183)
Total cash outflows related to leases	(269)	(245)

Please refer to Note 10 *Property, plant and equipment* for details of additions, depreciation expense and the carrying amount of right-of-use assets.

Please refer to Note 9.7 *Liquidity risk* for details of the balance of lease liabilities by due date.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

13 Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

	December 31, 2022	December 31, 2021
	¥m	¥m
Cash and bank deposits	66,557	60,087

14 Trade and other receivables

The breakdown of trade and other receivables is as follows:

	December 31, 2022	December 31, 2021
	¥m	¥m
Trade receivables	1,383	1,250
Accrued income	1,079	888
	2,462	2,138

15 Other assets

The breakdown of other non-current assets and other current assets is as follows:

	December 31, 2022	December 31, 2021
	¥m	¥m
Other non-current assets		
Long-term prepaid expenses	64	102
	64	102
Other current assets		
Prepaid expenses	638	388
Accounts receivable	13	-
Consumption taxes receivable	69	33
Other	145	6
	865	427

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

16 Corporate bonds and borrowings

16.1 Corporate bonds

A summary of the terms & conditions relating to convertible bonds issued by the Company is as follows:

Issuer	Bond Name	Issue Date	Carrying amount		Interest Rate (%)	Collateral	Maturity Date
			At December 31, 2022 ¥m	At December 31, 2021 ¥m			
Sosei Group Corporation	Euro-yen Denominated Convertible Bonds due 2026	July 27, 2021	27,981	27,440	0.25	None	July 27, 2026

Notes:

1. Description of the convertible bonds:

Euro-yen Denominated Convertible Bonds due 2026

Shares to be issued:	Common shares
Issue price of Stock Acquisition Rights:	Free of charge
Conversion price of Shares:	JPY 2,235
Aggregate principal amount:	JPY 30,000 million
Total issue price of shares issued on exercise of Stock Acquisition Rights:	-
Percentage of Stock Acquisition Rights granted:	100%
Exercise period of Stock Acquisition Rights:	From August 10, 2021 to July 13, 2026

Note: Upon the exercise of each Stock Acquisition Right, the Bonds relating to such Stock Acquisition Right shall be converted, and the value of such Bonds shall be equal to the nominal value thereof.

Please refer to Note 9 *Financial instruments* for the management of liquidity and interest-rate risks on Convertible bonds.

16.2 Borrowings

As at the end of the current financial year, there is no outstanding loan balance including borrowing based on commitment line agreement.

On December 30, 2022, the Company entered into a commitment line agreement for one year (maximum loan amount: JPY 5,000 million) with Mizuho Bank and three other banks. Under the commitment line agreement, the Company is subject to a financial covenant requiring it to maintain its consolidated net assets at 75% or more of that at the end of the second quarter of the financial year ending December 31, 2022, as at the end of each second quarter and financial year. The Company was in compliance with this financial covenant as at December 31, 2022. In addition, the Company has the following rights under the commitment line agreement:

1. Extend the maturity of the commitment line for a period of one year on the anniversary of the contract date and for another one year on the anniversary of the second year, a total of two extension options.
2. At either the original or the extended maturity date, convert the commitment line into an installment term loan of the same value with a repayment period of four years.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

17 Trade and other payables

The breakdown of trade and other payables is as follows:

	December 31, 2022	December 31, 2021
	¥m	¥m
Accounts payable	751	323
Accrued expenses	877	853
	1,628	1,176

18 Other liabilities

The breakdown of other non-current liabilities and other current liabilities is as follows:

	December 31, 2022	December 31, 2021
	¥m	¥m
Other non-current liabilities		
Long-term deferred revenue	4,791	384
Other	118	111
	4,909	495
Other current liabilities		
Deferred revenue	1,450	785
Deposits	105	79
Accrued bonuses	400	570
Other	37	61
	1,992	1,495

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

19 Equity and other components of equity

19.1 Capital stock

	Number of shares authorized	Number of shares issued	Treasury stock
Balance at January 1, 2021	149,376,000	80,596,128	213
Increase in the number of shares through exercise of subscription rights to shares	-	584,000	-
Increase in the number of shares through issuance of shares due to allotment of Restricted Stock Units	-	201,876	-
Increase in the number of shares through Conversion of convertible bonds	-	136,312	-
Balance at December 31, 2021	149,376,000	81,518,316	213
Increase in the number of shares through exercise of subscription rights to shares	-	5,200	-
Increase in the number of shares through issuance of shares due to allotment of Restricted Stock Units	-	380,071	-
Increase in the number of shares through issuance of shares due to allotment of Performance Share Units	-	19,643	-
Increase in the number of shares through requests for purchase of odd-lot shares	-	-	41
Balance at December 31, 2022	149,376,000	81,923,230	254

Notes: Issued shares are all common shares with no par value

19.2 Capital surplus

Legal capital surplus

Based on the Companies Act in Japan, the Group incorporates more than half of the amount related to payments or benefits at the time of issuance of shares into capital stock, and the amount that is not recorded as capital stock is recorded in capital surplus.

Stock acquisition rights

The Group issued stock acquisition rights based on the Companies Act in Japan. Please refer to Note 22 *Share-based payments* for details of the stock options. In addition, the Group has issued convertible bonds and recorded the fair value of stock acquisition rights at the time of issuance of the bonds in capital surplus.

Restricted Stock Units (RSUs) and Performance Share Units (PSUs)

Of the fair value of the shares allotted and to be allotted under the RSU and PSU plans, the amount corresponding to the elapsed service period is recorded in capital surplus. Please refer to Note 22 *Share-based payments* for details of RSUs and PSUs.

Other capital surplus

The directly attributable transaction cost of equity financial assets issued by the Group is deducted from the capital surplus.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

19 Equity and other components of equity (continued)

19.3 Retained earnings

Retained earnings comprise unappropriated retained earnings or losses. Retained earnings include accumulated exchange differences on translating foreign operations at the IFRS transition date.

19.4 Other components of equity

Financial assets at fair value through other comprehensive income

Comprises the cumulative amount of changes in the fair value of financial assets measured at fair value through other comprehensive income up to the date of derecognition.

Exchange differences on translating foreign operations

These adjustments reflect exchange differences resulting from the translation of foreign operations' financial statements maintained in foreign currencies for the preparation of the Group's consolidated financial statements.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

19 Equity and other components of equity (continued)

19.4 Other components of equity (continued)

Other components of equity

	Items that will <u>not</u> be reclassified subsequently to profit or loss ¥m	Items that may be reclassified subsequently to profit or loss ¥m	Total ¥m
	Financial assets measured at fair value through other comprehensive income ¥m	Exchange differences on translating foreign operations ¥m	¥m
Balance at January 1, 2021	59	(7,565)	(7,506)
Amount arising during the year			
Before tax effect	1,047	3,871	4,918
Amount of tax effect	(287)	-	(287)
Net of tax effect	760	3,871	4,631
Transfer to profit or loss			
Before tax effect	-	(25)	(25)
Amount of tax effect	-	-	-
Net of tax effect	-	(25)	(25)
Other comprehensive income – net of tax effect	760	3,846	4,606
Balance at December 31, 2021	819	(3,719)	(2,900)
Amount arising during the year			
Before tax effect	(721)	629	(92)
Amount of tax effect	(207)	-	(207)
Net of tax effect	(928)	629	(299)
Transfer to profit or loss			
Before tax effect	-	(338)	(338)
Amount of tax effect	-	-	-
Net of tax effect	-	(338)	(338)
Other comprehensive Income – net of tax effect	(928)	291	(637)
Transfer to retained earnings (see Note 9.8.3)	(475)	-	(475)
Balance at December 31, 2022	(584)	(3,428)	(4,012)

19.5 Dividends

Not applicable

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

20 Revenue

The Group earns revenue through granting licenses that provide the rights to develop and market pharmaceutical products and through the provision of research and development services to customers. These activities are classified into the following types of revenue based on their purpose and performance obligations:

Types of revenue classified by purpose:

- Upfront fees and milestone income: Upfront fees, Development milestone income, Sales milestone income
- Royalty income: Sales royalty income
- Pharmaceutical product sales: Revenue from product sales
- Other: Revenue from contracted research and development services

Types of revenue classified by performance obligation are as follows:

Grant of Licenses

When a license is distinct from other goods or services and evaluated as a right to use license

- Upfront fees are recognized at the time of the grant of the license if the performance obligation is satisfied at a point in time.
- Development milestone income is only recognized when it is determined that the achievement of milestones agreed between the parties, such as regulatory filings, are assured, taking into consideration the probability of a subsequent significant reversal of revenue.
- Sales royalty income and sales milestone income are measured based on the sales recorded by the counterparty when (or as) the later of (i) a sales transaction has occurred or a contractually agreed target is achieved, and (ii) the performance obligation is satisfied.

When a license is distinct from other goods or services and evaluated as a right to access license:

Not applicable.

Research and Development services

Revenue from Research and Development services is recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

20 Revenue (continued)

(a) Research and Development services – compensated through upfront fees and development milestones

When performance obligation is not satisfied at a point in time and consideration is received prior to the satisfaction of the performance obligation, the consideration is recorded as a contract liability (deferred revenue). Revenue is measured, and the same amount is derecognized from the contract liability (deferred revenue), based on the ratio of actual time incurred on each R&D program at the reporting period end to the total time estimated to be incurred from the commencement of the R&D plan until its scheduled completion date. However, development milestone income, which includes variable consideration, is recognized only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(b) Research and Development services – compensated through FTE charges

Full Time Equivalent (“FTE”) revenue earned from providing research and development services to customers is recognized over time by multiplying the amount of time worked by the contracted charge-out rate.

(c) Pharmaceutical product sales

Pharmaceutical product sales are recognized upon the customer’s acceptance.

The transaction price for granting licenses is allocated to each performance obligation based on the stand-alone selling price calculated using the residual approach. The consideration is the amount receivable within one year from satisfaction of the performance obligations or fulfillment of contractual terms and conditions.

Variable consideration is allocated to a specific performance obligation only if both of the following conditions apply:

- Variable payment terms relate specifically to the entity's effort to satisfy the performance obligation or transfer the distinct good or service.
- Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service, is consistent with the following allocation objective when considering all of the performance obligations and payment terms in the contract: an entity should allocate the transaction price to each performance obligation or distinct good or service in an amount that depicts the amount of consideration to which the entity expects to be entitled to in exchange for transferring the promised goods or services to the customer.

There are no significant financing components included in any license contracts or any research and development contracts.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

20 Revenue (continued)

20.1 Breakdown of revenue

Relationship between types of revenue and performance obligations:

Year ended December 31, 2022

Types of Revenue	Grant of Licenses ¥m	Performance obligations		Total ¥m
		Research and Development services ¥m	Product supply revenue ¥m	
Upfront fees and milestone income	11,095	968	-	12,063
Royalty income	2,564	-	-	2,564
Pharmaceutical product sales	-	-	80	80
Other	-	862	-	862
	13,659	1,830	80	15,569

Notes:

1. Includes revenue of JPY 8,993 million recognized from performance obligations satisfied in prior periods.

Year ended December 31, 2021

Types of Revenue	Grant of Licenses ¥m	Performance obligations		Total ¥m
		Research and Development services ¥m	Product supply revenue ¥m	
Upfront fees and milestone income	13,370	1,297	-	14,667
Royalty income	2,311	-	-	2,311
Pharmaceutical product sales	-	-	28	28
Other	-	706	-	706
	15,681	2,003	28	17,712

Notes:

1. Includes revenue of JPY 4,323 million recognized from performance obligations satisfied in prior periods.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

20 Revenue (continued)

20.2 Contract balances

Receivables from contracts with customers

Included in the balance sheet as “*Trade and other receivables*”.

Contract liabilities (deferred revenue)

Included in the balance sheet as “*Other non-current liabilities*” and “*Other current liabilities*”.

<i>Opening and closing balances of contract liabilities from contracts with customers</i>	At December 31, 2022 ¥m	At December 31, 2021 ¥m
Beginning balance	1,141	1,767
Of the beginning balance, the amount recognized as revenue in the year	(473)	(932)
Exchange differences on translation	(72)	175
Amount newly recognized as contract liability and carried forward to the next period	5,625	131
Ending Balance	6,221	1,141
Other non-current liabilities	4,791	384
Other current liabilities	1,430	757

Notes:

1. All of the contract liabilities (deferred revenue) that existed at December 31, 2022 are expected to be recognized as revenue by the year ended December 31, 2030.

20.3 Transaction price allocated to the remaining performance obligations

Research and development services related performance obligations arising under contracts may be unsatisfied or partially satisfied at the reporting date. Milestone income allocated to research and development services is not included in the transaction price allocated to the remaining performance obligation because the uncertainty of reaching the agreed milestone, such as a regulatory filing, will not be resolved until the actual achievement of the milestone.

Since the Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Group’s performance of services completed to date, the transaction price allocated to the remaining performance obligations relating to research and development services is omitted as a practical expedient in accordance with paragraphs 121(b) and B16 of IFRS 15 *Revenue from Contracts with Customers*.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

21 Employee benefits

21.1 Employment benefits

	Year ended December 31, 2022	Year ended December 31, 2021
	¥m	¥m
Remuneration and bonuses	3,798	3,450
Share-based payments	700	713
Retirement benefit	380	11
Note 1	4,878	4,174

Notes:

1. Employment benefits are recorded in “Cost of sales”, “Research and development expenses” and “Selling, general and administrative expenses”.

22 Share-based payments

The Company introduced a Stock Option Plan, Restricted Stock Unit (“RSU”) Plan, and Performance Share Unit (“PSU”) Plan to increase the motivation and drive of the Directors, the Executive Officers and the eligible employees of the Company and its wholly owned subsidiaries (“Executives and Employees”) to energetically realize the Company’s vision and strategy. These Plans will also promote the sharing of benefits and risks of share price fluctuations with shareholders, and further encourage the Executives and Employees to actively contribute to an increase in share price and enhance the Company’s corporate value. Stock Options, RSUs and PSUs are granted by resolution at a meeting of the Company’s Board of Directors.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

22 Share-based payments (continued)

22.1 Stock Options

Details of stock options

The Company has granted stock options to Directors, Executive Officers and eligible employees of the Company and its wholly owned subsidiaries. Shares granted through the execution of stock options are shares issued by Sosei Group Corporation.

Resolution date	31st Stock Acquisition Rights May 15, 2017		32nd Stock Acquisition Rights May 15, 2017		33rd Stock Acquisition Rights May 15, 2017	
Classification and number of people granted stock options at the time of grant	Directors	5	Directors	0	Directors	0
	Executive officers	3	Executive officers	0	Executive officers	0
	Employees	0	Employees	7	Employees	1
	Directors of subsidiaries	0	Directors of subsidiaries	2	Directors of subsidiaries	0
	Employees of subsidiaries	4	Employees of subsidiaries	7	Employees of subsidiaries	102
Number of stock acquisition rights outstanding at December 31, 2022 (units)	173		12		23 [18]	
Class and number of shares underlying stock acquisition rights at December 31, 2022 (shares)	Common shares 69,200 (Note 4)		Common shares 4,800 (Note 4)		Common shares 9,200 (Note 4) [7,200]	
Amount to be paid to exercise stock acquisition rights (yen)	1 (Note 5)		3,069 (Note 5)		3,069 (Note 5)	
Period for exercising stock acquisition rights	From July 1, 2020 to April 30, 2027		From July 1, 2020 to April 30, 2027		From July 1, 2020 to April 30, 2027	
Share issue price and contribution to capital stock per share in the event of issuance of shares upon exercise of stock acquisition rights (yen)	Issue price: 3,088 Contribution to capital stock per share: 1,544		Issue price: 5,015 Contribution to capital stock per share: 2,508		Issue price: 5,015 Contribution to capital stock per share: 2,508	
Conditions for exercising stock acquisition rights	Note 6		Note 6		Note 6	
Matters relating to transfer of stock acquisition rights	Approval by resolution of the Company's Board of Directors		Approval by resolution of the Company's Board of Directors		Approval by resolution of the Company's Board of Directors	
Matters relating to granting of stock acquisition rights in association with acts of organizational restructuring	Note 3		Note 3		Note 3	

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

22 Share-based payments (continued)

22.1 Stock Options (continued)

Resolution date	<i>34th Stock Acquisition Rights</i> November 21, 2017		<i>35th Stock Acquisition Rights</i> November 21, 2017	
	Classification and number of people granted options at the time of grant	Directors	0	Directors
	Executive officers	0	Executive officers	0
	Employees	3	Employees	0
	Directors of subsidiaries	0	Directors of subsidiaries	0
	Employees of subsidiaries	0	Employees of subsidiaries	9
Number of stock acquisition rights outstanding at December 31, 2022 (units)	2		1	
Class and number of shares underlying stock acquisition rights at December 31, 2022 (shares)	Common shares 800 (Note 4)		Common shares 400 (Note 4)	
Amount to be paid to exercise stock acquisition rights (yen)	2,673 (Note 5)		2,673 (Note 5)	
Period for exercising stock acquisition rights	From December 1, 2020 to October 29, 2027		From December 1, 2020 to October 29, 2027	
Share issue price and contribution to capital stock per share in the event of issuance of shares upon exercise of stock acquisition rights (yen)	Issue price: 4,227 Contribution to capital stock per share: 2,114		Issue price: 4,227 Contribution to capital stock per share: 2,114	
Conditions for exercising stock acquisition rights	Note 6		Note 6	
Matters relating to transfer of stock acquisition rights	Approval by resolution of the Company's Board of Directors		Approval by resolution of the Company's Board of Directors	
Matters relating to granting of stock acquisition rights in association with acts of organizational restructuring	Note 3		Note 3	

* The status as at December 31, 2022 is described above. The status as at February 28, 2023, the end of the month preceding the filing date of the annual securities report, is described in brackets [] for the items that have changed between December 31, 2022 and the end of the month preceding the month in which the annual securities report is submitted (February 28, 2023). Other items remain unchanged from those as at December 31, 2022.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

22 Share-based payments (continued)

22.1 Stock Options (continued)

1. If the Company issues new shares with a paid-in amount lower than the market value, the exercise amount in the case of issuance of shares upon exercise of stock acquisition rights shall be adjusted using the following formula, with any fraction less than one yen resulting from the adjustment being rounded up.

$$\begin{array}{rcccl} \text{Exercise amount} & & & & \\ \text{after adjustment} & = & \text{Exercise amount} & \times & \frac{\text{Number of outstanding shares} + \frac{\text{Number of shares newly issued} \times \text{Amount paid per share}}{\text{Market value per share}}}{\text{Number of outstanding shares} + \text{Number of shares newly issued}} \\ & & \text{before adjustment} & & \end{array}$$

2. In addition to the above, details are stipulated in an “Agreement on Allotment of Stock Option” concluded between the Company and eligible recipients in accordance with a resolution of the Board of Directors.

3. In the event that the Company conducts a merger (limited to cases where the Company is dissolved in the merger), an absorption-type company split (limited to cases where the Company is the splitting company), an incorporation-type company split, a share exchange or a stock transfer (each limited to cases where the Company becomes a wholly owned subsidiary) (collectively, “Reorganization”), stock acquisition rights of one of the stock corporations listed in Article 236, Paragraph 1, item 8 (a) through (e) of the Companies Act (the “Reorganized Company”) shall be granted to the holders of the Stock Acquisition Rights remaining at the time the Reorganization takes effect, in accordance with the following conditions. In this case, the remaining Stock Acquisition Rights will be forfeit and the Reorganized Company shall issue new stock acquisition rights. Provided, however, that the foregoing applies only to cases where the grant of the stock acquisition rights of the Reorganized Company, in accordance with the following conditions, is provided for in the relevant absorption-type merger agreement, incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split agreement, share exchange agreement or stock transfer agreement.

(1) Number of Stock Acquisition Rights of the Reorganized Company to be granted:

Stock acquisition rights will be granted to the respective holders of the remaining Stock Acquisition Rights in the same number as the Rights they held.

(2) Class of shares of the Reorganized Company to be delivered upon exercise of the Stock Acquisition Rights:

Common stock of the Reorganized Company

(3) Number of shares of the Reorganized Company to be delivered upon exercise of the Stock Acquisition Rights:

To be determined in accordance with Note 4 after considering the terms and conditions of the Reorganization.

(4) Value of assets to be contributed upon exercise of the Stock Acquisition Rights:

To be determined in accordance with Note 5 after considering the terms and conditions of the Reorganization.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

22 Share-based payments (continued)

22.1 Stock Options (continued)

(5) Period for exercising stock acquisition rights:

A period commencing on either the beginning date of the Exercise Period or the effective date of the Reorganization, whichever is later, and ending on the ending date of the Exercise Period.

(6) Matters concerning increases in capital and capital reserve in the event of issuance of shares due to exercise of Stock Acquisition Rights:

i) The amount of capital to be increased in the event that new shares are issued upon the exercise of the Rights shall be one half of the maximum amount of increase in capital, calculated in accordance with Article 17, Paragraph 1 of the Ordinance for Companies Accounting. Any amount less than one yen arising from such calculation shall be rounded up to the nearest yen.

ii) The amount of increase in the capital reserve in the event that new shares are issued upon the exercise of the Rights shall be the maximum amount of increase in capital stated in item i) above less the amount of capital to be increased as specified in item i) above.

(7) Restrictions on acquiring Stock Acquisition Rights through transfer:

Acquisition of stock acquisition rights through transfer shall require approval by resolution of the Board of Directors of the Reorganized Company.

(8) Other conditions for the exercise of Stock Acquisition Rights:

To be determined according to “Conditions for exercising stock acquisition rights” in the table above.

(9) Acquisition of Stock Acquisition Rights:

i) In the event that a merger agreement by which the Company would be the dissolving company, an agreement or plan to divest by which the Company would be divested, or a share exchange agreement or stock transfer plan by which the Company would become a wholly owned subsidiary is approved by the General Meeting of Shareholders (or by resolution of the Board of Directors if approval by the General Meeting of Shareholders is not required), the Company may acquire without contribution all of the Rights on a date that would be determined separately by the Board of Directors of the Company.

ii) In the event that the provisions in clause “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 term of office or reaching the mandatory retirement age, or when there are other legitimate reasons” prevent a Rights Holder from exercising the Rights, the Company may acquire the Rights without contribution.

4. If, after the allotment date of the Rights, the Company conducts a stock split (including any allotment of shares without contribution; the same shall apply hereinafter) or a stock consolidation, the Number of Shares Granted shall be adjusted according to the following formula. Such adjustment shall only be made with respect to the number of shares subject to unexercised Stock Acquisition Rights, with any fractional shares resulting from such adjustment rounded down to the nearest whole share.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

22 Share-based payments (continued)

22.1 Stock Options (continued)

$$\begin{array}{l} \text{Number of shares} \\ \text{granted after} \\ \text{adjustment} \end{array} = \begin{array}{l} \text{Number of shares granted before} \\ \text{adjustment} \end{array} \times \text{Stock split (or consolidation) ratio}$$

The Number of Shares Granted after adjustment shall apply on and after the next day of the record date (if no record date is fixed, the effective date) of the stock split or on and after the effective date of stock consolidation.

Furthermore, if, after the allotment date, the Company conducts a merger, company split or capital reduction, or in any other case similar thereto where an adjustment in the Number of Shares Granted is required, the Company shall adjust the Number of Shares Granted as appropriate.

5. The value of the assets to be contributed upon exercise of the Rights shall be the amount obtained by multiplying the amount to be paid for each share of common stock to be delivered upon the exercise of the Rights (the "Exercise Price") by the Number of Shares Granted.

i) In case of a stock split or consolidation the Exercise Price shall be adjusted according to the following formula, with any amount less than one yen resulting from the adjustment rounded up to the nearest yen.

$$\begin{array}{l} \text{Exercise amount} \\ \text{after adjustment} \end{array} = \begin{array}{l} \text{Exercise amount} \\ \text{before adjustment} \end{array} \times \frac{1}{\text{Stock split or} \\ \text{consolidation ratio}}$$

ii) In case the Company issues new shares of common stock or disposes of treasury stock at a price below the market price of its common stock (except in the cases of the issue of new shares and disposal of treasury shares based on the exercise of the Rights, and the transfer of treasury shares due to a share exchange), the Exercise Price shall be adjusted according to the following formula, with any amount less than one yen resulting from the adjustment rounded up to the nearest yen.

$$\begin{array}{l} \text{Exercise} \\ \text{price after} \\ \text{adjustment} \end{array} = \begin{array}{l} \text{Exercise} \\ \text{price} \\ \text{before} \\ \text{adjustment} \end{array} \times \begin{array}{l} \text{Number of} \\ \text{outstanding} \\ \text{shares} \end{array} + \frac{\begin{array}{l} \text{Number} \\ \text{of newly} \\ \text{issued} \\ \text{shares} \end{array} \times \begin{array}{l} \text{Amount} \\ \text{to be} \\ \text{paid per} \\ \text{share} \\ \text{granted} \end{array}}{\begin{array}{l} \text{Market price per share before} \\ \text{issue of new shares} \end{array}}$$

$$\frac{\begin{array}{l} \text{Number of} \\ \text{outstanding shares} \end{array} + \begin{array}{l} \text{Number of newly} \\ \text{issued shares} \end{array}}$$

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

22 Share-based payments (continued)

22.1 Stock Options (continued)

In the formula above, the “Market price per share” shall be the average of the closing prices of the shares of common stock of the Company in regular trading on the TSE for the thirty (30) consecutive trading days (excluding days on which there is no such closing price) commencing forty-five (45) trading days immediately before the date on which the Exercise Price after adjustment shall be applied (any fraction less than one (1) yen arising as a result of such calculation shall be rounded off to one decimal place), and the “Number of outstanding shares” is the total number of shares of the Company’s common stock minus the number of treasury shares of common stock. If the treasury shares are disposed of, the “Number of newly issued shares” shall be replaced with the “Number of treasury shares to be disposed of,” and “Amount to be paid per share granted” shall be replaced with “Selling price per share” in the above formula.

iii) In cases where the Company is a surviving company in an absorption-type merger or a succeeding company in an absorption-type company split or a parent company in a share exchange or in other similar cases where the adjustment of the Exercise Price is necessary, the Exercise Price shall be adjusted as appropriate and to the extent reasonable.

6.(1) A Rights Holder must be a director, an executive officer and/or an employee of the Company or its subsidiary at the time the Rights are exercised. Provided, however, this provision shall not apply to directors or executive officers who have retired due to expiration of their terms of office, or employees who have retired upon reaching the Company’s mandatory retirement age or for other legitimate reasons that the Board of Directors may deem appropriate.

(2) Exercise of the Rights by heirs of Rights Holder shall not be permitted.

(3) Rights may not be exercised when doing so would cause the total number of shares of the Company outstanding after exercise of such Rights to exceed the total number of shares authorized to be issued by the Company at the time of the exercise.

(4) The Rights may not be exercised in less than one unit.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

22 Share-based payments (continued)

22.1 Stock Options (continued)

Additional Information

The information required to be presented in Section 4 *Information about the Filing Company 1 Stock Information 1.2 Stock Acquisition Rights, Details of Stock Acquisition Rights* is consolidated in Note 22 *Share-based payments*.

Total number of exercisable shares and average exercise price of stock options in Sosei Group Corporation

The number of shares and weighted-average exercise prices are as follows:

	Year ended December 31, 2022			Year ended December 31, 2021		
	Number of shares (Shares)	Weighted-average exercise price (¥)	Weighted-average remaining contractual life (Years)	Number of shares (Shares)	Weighted-average exercise price (¥)	Weighted-average remaining contractual life (Years)
Balance at the beginning of the year	92,400	594	5.3	677,200	976	1.3
Granted during the year	-	-	-	-	-	-
Forfeited during the year	(2,800)	3,069	-	(800)	3,069	-
Exercised during the year	(5,200)	1	-	(584,000)	1,028	-
Balance at the end of the year	84,400	548	4.3	92,400	594	5.3
Exercise price range (¥)						
Up to 2,000	69,200	1	4.3	74,400	1	5.3
2,001 to 3,069	15,200	3,038	4.4	18,000	3,043	5.4
Exercisable balance at end of year	84,400	548	-	92,400	594	-

Notes:

1. The weighted-average share price on the exercise date of the stock options exercised during the year ended December 31, 2022 was JPY 1,429 (in the year ended December 31, 2021, it was JPY 1,732).

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

22 Share-based payments (continued)

22.2 Restricted Stock Units (RSUs) and Performance Share Units (PSUs)

Details of the RSU and PSU Plans (“the Plans”)

At the Board of Directors meeting held on April 17, 2019, the Company resolved to introduce a Restricted Stock Unit (RSU) Plan for the Directors, the Executive Officers and the eligible employees of the Company and its wholly owned subsidiaries (“Executives and Employees”) and Performance Share Unit (PSU) Plan for certain Executives and Employees (except for External Directors).

a. Conditions of Allotment

The Company will allot shares of the Company to Executives and employees according to the predefined manner on the condition that they hold the position of Executive or eligible employee during the specified performance period (the period for PSUs is three years).

b. Maximum number of Shares to be issued under the Plans

The number of shares to be issued under the plans, together with the number of shares to be issued under other share-based payments schemes, shall not exceed 10% of the total number of outstanding shares of the Company.

c. Relevant Performance Period and Number of Allotted Shares

(i) RSUs for Directors (Excluding directors serving concurrently as Executive Officer):

The Performance Period is one year, and after the end of the Performance Period, the number of shares calculated by dividing the base salary amount by the share price at the time of granting the unit will be allocated.

However, Performance Periods for newly appointed directors shall be one, two and three years from the first day of the Performance Period, and after the end of each Performance Period, one-third each of the number of the shares calculated by dividing twice the amount of the base salary by the stock price at the start of the Performance Period shall be allocated.

(ii) RSUs for Directors serving concurrently as Executive Officers, Executive Officers and eligible employees:

Performance Periods shall be two and three years from the first day of the Performance Period, and after the end of each Performance Period, one half of the number of shares calculated by dividing the amount obtained by multiplying the base salary by certain percentages determined for each individual by the stock price from the start of the Performance Period shall be allocated.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

22 Share-based payments (continued)

22.2 Restricted Stock Units (RSUs) and Performance Share Units (PSUs) (continued)

(iii) PSUs for Directors serving concurrently as Executive Officers, Executive Officers and eligible employees:

The number of the Company's shares allotted to each person (Allotted Shares) will be calculated for each person by setting the base number of shares at the start of the Performance Period and multiplying the base number of shares by certain coefficients after the Performance Period has elapsed.

Base number of shares

The base number of shares shall be determined by dividing the amount obtained from multiplying the base salary by a certain percentage (determined for each individual), by the stock price at the start of the Performance Period.

The number of shares to be allocated will be determined by multiplying the sum of the following figures by the base number of shares.

- 50% of the number between 25% to 100 % to be determined based on the coefficients according to the Relative Total Shareholder Return ("TSR") Achievement level measured against an agreed peer group at the end of the Performance Period where such TSR is above the median.
- 50% of the number between 50% to 200% to be determined based on the coefficients according to the Absolute TSR of the Company Achievement Level where the Absolute TSR at the end of the Performance Period increases by 25% or more.

For Relative TSR the Company has selected multiple domestic competitors based on their market capitalization and R&D expense ratio. The above coefficients are subject to change in the future.

As described above, the TSR ratio is selected as an indicator for Performance Share Units (PSUs). To increase awareness of the performance of competitors, to share the benefits and risks of stock price fluctuations with shareholders, and to actively contribute to a rise in the stock price and corporate value, figures based on the Company's TSR growth rate at the end of the Relevant Calculation Period (Absolute TSR), and the average of figures based on percentiles (Relative TSR) compared to TSRs of multiple domestic peers have been adopted. The achievement of the performance target for relevant PSUs amounted to 12.5% in the year ended December 31, 2022 (the provisional value of the coefficient was 50% at December 31, 2021).

d. Board of Directors meeting concerning Issuance or Disposition

The Board of Directors meeting for issuance or disposition of shares to be allotted shall in principle, be held within one month after the date of the Ordinary General Meeting of Shareholders for the most recent financial year during which the Performance Period ends; provided however, that if there are exceptional circumstances, the date of the Board of Directors meeting for issuance or disposition may be changed.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

22 Share-based payments (continued)

22.2 Restricted Stock Units (RSUs) and Performance Share Units (PSUs) (continued)

e. Method of delivering the Company's shares

The Shares will be allotted to Executives and employees on the condition that Executives and employees have been continuously employed by or held office with the Company throughout the Performance period. Shares will be allotted in exchange for in-kind contribution of monetary compensation claims, calculated by multiplying a predetermined number of allotted shares by the issue price per share.

f. Grounds for Forfeiture

If during the Performance Period an Executive or employee falls under certain specified circumstances, such as being subject to criminal punishment equivalent to or more severe than imprisonment, being subject to a filing for the commencement of insolvency proceedings or civil rehabilitation proceedings, etc., the Executive or employee will not obtain any right to be allotted the shares of the Company under the Plans and the rights to receive the Company's shares shall lapse at the time such circumstances occur.

g. Treatment in Cases of Reorganization or Change of Control Transactions

If during the Performance Period, a transaction involving a reorganization or a change of control, such as a merger agreement in which the Company becomes a dissolved entity, or a share exchange/transfer agreement under which the Company becomes a wholly owned subsidiary, is approved by a general meeting of shareholders, etc. of the Company and that transaction becomes effective before the completion of the Performance Period, the Company will, by resolution of the Board of Directors, allot the maximum number of shares to be allotted under the Plans prior to the reorganization transaction coming into effect.

Number of RSUs granted and fair values at the date of grant

The number of units granted during the year and the weighted-average fair value are as follows.

	Year ended December 31, 2022	Year ended December 31, 2021
<i>RSUs</i>		
Number of units granted (unit)	702,616	351,528
Weighted-average fair value at the date of grant (¥)	1,283	1,826

Notes:

1. Fair value at the date of grant of RSUs is the closing price of the Company's shares at the grant date.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

22 Share-based payments (continued)

22.3 Expenses related to share-based payments transactions

	Year ended December 31, 2022	Year ended December 31, 2021
	¥m	¥m
RSU	703	629
PSU	(3)	84
	700	713

Notes:

- Share-based payment expenses are accounted for as equity-settled share-based payment expenses and are included in “Cost of sales” “Research and development expenses” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss and other comprehensive income.

23 Selling, general & administrative expenses

The breakdown of selling, general & administrative expenses is as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
	¥m	¥m
Personnel expenses	2,293	2,105
Depreciation and amortization	842	802
Outsourcing expenses	658	664
Other	584	369
	4,377	3,940

24 Other income

The breakdown of other income is as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
	¥m	¥m
Government grants (Note 1)	567	3
Other grants	57	4
Other	2	1
	626	8

Notes

- Government grants mainly consist of R&D expenditure related UK tax credits.

25 Other expenses

The breakdown of other expenses is as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
	¥m	¥m
Impairment losses (Note 1)	-	3,138
Other	2	3
	2	3,141

Notes

- Please refer to Note 11 *Goodwill and intangible assets* for details of impairment losses.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

26 Finance income and finance costs

The breakdown of finance income is as follows:

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Changes in the fair value of contingent consideration receivable relating to business disposals	64	104
Changes in fair value of contingent consideration in business combinations	50	-
Interest income	236	4
Foreign exchange gains	313	89
Gains on revaluation of investments in capital	-	2
	663	199

The breakdown of finance costs is as follows:

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Changes in the fair value of contingent consideration in business combinations	-	2,891
Interest expenses		
Financial liabilities measured at amortized cost	615	461
Lease liabilities	58	57
Loss on repurchase of corporate bonds	-	378
Loss on revaluation of investments in capital	41	-
Cost of borrowing funds	42	10
	756	3,797

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

27 Investments accounted for using the equity method

The carrying amount of associates that are not individually significant is as follows:

	As at December 31, 2022 ¥m	As at December 31, 2021 ¥m
Total carrying amount	-	3,479

The impact on comprehensive income of associates that are not individually significant is as follows:

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Share of (loss) gain of associates accounted for using the equity method	(429)	50
(Loss) profit from continuing operations	(429)	50
Total comprehensive income	(429)	50

In addition to the above, an impairment loss of JPY 1,836 million was recognized on investments accounted for using the equity method during the current financial year. In the prior financial year, a gain of JPY 206 million was recognized on reversal of impairment loss on investments accounted for using the equity method.

An impairment loss of JPY 1,836 million in the current financial year is for the investment in MiNA (Holdings) Limited ("MiNA") and due to a decrease in the recoverable amount which is measured using a fair value assessment based on a third-party valuation.

For additional information on MiNA please refer to Note 9 *Financial Instruments 9.8 Fair value 9.8.1 Financial instruments that are measured at fair value on a recurring basis*.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

28 Income taxes

28.1 Income tax (benefit) / expense

The breakdown of income tax (benefit) / expense is as follows:

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
<i>Current tax expense</i>		
Current year	387	183
Prior year adjustment	(43)	332
Total current tax expense	344	515
<i>Deferred tax expense (benefit)</i>		
Tax losses carried forward or temporary differences	352	(1,099)
Total deferred tax expense (benefit)	352	(1,099)
Total income tax expense (benefit)	696	(584)
Income tax expense related to other comprehensive income	207	287

Notes:

- The deferred tax benefit includes a tax benefit generated from tax losses carried forward, tax credits and temporary differences related to prior periods that were not previously recognized. This had the impact of decreasing the deferred tax expense by JPY 546 million for the year ended December 31, 2021, but it had no material impact for the year ended December 2022.

A reconciliation of the statutory effective tax rate and actual tax rate is as follows:

	Year ended December 31, 2022 (%)	Year ended December 31, 2021 (%)
Statutory effective tax rate (Note 1)	30.6	30.6
Items not deductible permanently	14.4	35.6
Items not included permanently	(0.5)	(29.7)
Effect of differences in tax rates of foreign subsidiaries	(43.8)	(143.1)
Effect of differences in tax rates of Japanese subsidiaries	(1.4)	(5.5)
Effect of tax rate change (Note 2)	10.1	103.9
Effect of unrecognized tax losses carried forward or temporary differences	28.0	437.4
Share of gain (loss) of associates accounted for using the equity method	39.9	(2.2)
Tax benefit on net profit or loss in the prior year	(7.4)	(71.1)
Tax deduction on research and development expenditure	-	(254.6)
Undistributed profits of overseas subsidiaries	0.6	30.2
Convertible bonds	-	(279.1)
Other	(6.0)	12.6
Actual tax rate	64.5	(135.0)

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

28 Income taxes (continued)

28.1 Income tax (benefit) / expense (continued)

Notes:

1. The Company is mainly subject to corporate income tax, residential tax and enterprise tax. The effective statutory tax rate based on those taxes was 30.6% for the years ended December 31, 2022 and December 31, 2021. However, foreign subsidiaries are subject to corporate tax and other taxes in their jurisdictions.
2. On March 3, 2021, the UK government announced that the corporate tax rate would increase from the current rate of 19% to 25% on April 1, 2023. As a result of this announcement the nominal corporate tax rates applicable to Heptares Therapeutics Ltd. will increase to 23.5% in the financial year of 2023, and 25% thereafter. This change increased deferred tax liabilities (after deferred tax asset deduction) and decreased income tax benefit by JPY 450 million for the year ended December 31, 2021, and increased income tax expense by JPY 109 million for the year ended December 2022.

28.2 Deferred tax assets and liabilities

The amounts of recognized deferred tax assets and liabilities, and details of their increases or decreases, are as follows:

Year ended December 31, 2022

	At January 1, 2022 ¥m	Amounts recognized in profit or loss ¥m	Amounts recognized in other comprehensive income ¥m	Amounts directly recognized in capital ¥m	Other ¥m	At December 31, 2022 ¥m
<i>Deferred tax assets</i>						
Tax losses carried forward	1,066	(729)	-	-	18	355
Other	364	61	-	22	4	451
Total deferred tax assets	1,430	(668)	-	22	22	806
<i>Deferred tax liabilities</i>						
Intangible assets	(2,056)	131	-	-	(50)	(1,975)
Corporate bonds	(994)	212	-	-	-	(782)
Other (Note)	(1,086)	(27)	152	-	(10)	(971)
Total deferred tax liabilities	(4,136)	316	152	-	(60)	(3,728)
Net deferred tax liabilities	(2,706)	(352)	152	22	(38)	(2,922)

Notes:

1. Other comprises exchange differences on translating deferred tax liabilities of foreign entities.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

28 Income taxes (continued)

28.2 Deferred tax assets and liabilities (continued)

Year ended December 31, 2021

	At January 1, 2021 ¥m	Amounts recognized in profit or loss ¥m	Amounts recognized in other comprehensive income ¥m	Amounts directly recognized in capital ¥m	Other ¥m	At December 31, 2021 ¥m
<i>Deferred tax assets</i>						
Tax losses carried forward	347	681	-	-	38	1,066
Other	367	5	-	16	(24)	364
Total deferred tax assets	714	686	-	16	14	1,430
<i>Deferred tax liabilities</i>						
Intangible assets	(2,091)	248	-	-	(213)	(2,056)
Corporate bonds	(482)	321	-	(833)	-	(994)
Other (Note)	(598)	(156)	(287)	-	(45)	(1,086)
Total deferred tax liabilities	(3,171)	413	(287)	(833)	(258)	(4,136)
Net deferred tax liabilities	(2,457)	1,099	(287)	(817)	(244)	(2,706)

Notes:

1. Other comprises exchange differences on translating deferred tax liabilities of foreign entities.

The amounts of deductible temporary differences and tax losses carried forward for which no deferred tax asset is recognized are as follows:

	At December 31, 2022 ¥m	At December 31, 2021 ¥m
Deductible temporary differences	22,635	14,815
Tax losses carried forward	10,080	9,096
	32,715	23,911

The expiration of tax losses carried forward for which no deferred tax asset has been recognized is as follows:

	At December 31, 2022 ¥m	At December 31, 2021 ¥m
Year 1	462	-
Year 2	229	462
Year 3	94	229
Year 4	228	94
Year 5 to Year 10	9,067	8,311
	10,080	9,096

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

29 Earnings per share

29.1 Basic earnings per share

The following table shows basic earnings per share and explains the basis for the calculation.

	Year ended December 31, 2022	Year ended December 31, 2021
Net profit attributable to owners of the parent (¥m)	382	1,017
Weighted-average number of common shares outstanding (Shares)	81,785,008	81,187,311
Basic earnings per share (¥)	4.68	12.53

29.2 Diluted earnings per share

The following table shows diluted earnings per share and the basis for the calculation:

	Year ended December 31, 2022	Year ended December 31, 2021
Net profit attributable to owners of the parent (¥m)	382	1,017
Adjustment to net profit used in the calculation of diluted earnings per share (¥m)	-	-
Net profit used in the calculation of diluted earnings per share (¥m)	382	1,017
Weighted-average number of common shares outstanding (Shares)	81,785,008	81,187,311
Increase in number of common shares used in the calculation of diluted earnings per share (Shares):		
Increase in number of common shares due to the exercise of stock options (Shares)	70,387	151,334
Increase in number of common shares due to the allotment of Restricted Stock Units (Shares)	727,124	587,147
Increase in number of common shares due to the allotment of Performance Share Units (Shares)	7,922	80,114
Increase in number of common shares due to the conversion of convertible bonds (Shares)	-	-
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	82,590,441	82,005,906
Diluted earnings per share (¥)	4.63	12.40
Summary of potential shares not included in the calculation of diluted earnings per share because they do not have a dilutive effect	The 32nd-35th series of stock options (Totaling common shares 15,200) Euro-yen Denominated Convertible Bonds due 2026 (Common shares 13,422,818)	The 32nd-35th series of stock options (Totaling common shares 18,000) Euro-yen Denominated Convertible Bonds due 2026 (Common shares 13,422,818)

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

30 Cash flow information

Changes in liabilities arising from financing

Year ended December 31, 2022

	January 1, 2022	Cash flows	Non-cash changes			December 31, 2022
			Disposal of subsidiary	Fair value change	Other	
Contingent consideration in business combinations	4,095	(4,680)	-	(50)	635	-
Corporate bonds	27,440	-	-	-	541	27,981
Lease liabilities	1,831	(206)	-	-	128	1,753
	33,366	(4,886)	-	(50)	1,304	29,734

Year ended December 31, 2021

	January 1, 2021	Cash flows	Non-cash changes			December 31, 2021
			Disposal of subsidiary	Fair value change	Other	
Contingent consideration in business combinations	1,107	(191)	-	2,891	288	4,095
Corporate bonds (Note 1)	14,789	12,132	-	-	519	27,440
Lease liabilities	1,834	(183)	-	-	180	1,831
	17,730	11,758	-	2,891	987	33,366

Notes:

- The Corporate bonds cash flow excludes JPY 2,642 million, equivalent to the value of stock acquisition rights, which is part of the JPY 29,855 million balance shown as "Proceeds from issuance of corporate bonds" in the consolidated statement of cash flows, and JPY (3,877) million, equivalent to the value of stock acquisition rights, which is part of the JPY (18,958) million balance shown as "Payments for repurchase and cancellation of corporate bonds" in the consolidated cash flow statement.

Non-cash transactions

Year ended December 31, 2022

Acquisition of right of use assets totaled JPY 102 million for the year ended December 31, 2022.

Year ended December 31, 2021

Not applicable.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

31 Related parties

31.1 Transactions with related parties

Year ended December 31, 2022:

Transactions with Officers and major individual shareholders

Type	Name	Description of transaction	Transaction amount (¥m)	Outstanding balance (¥m)
		Exercise of stock options (Note 2)	0	-
Officer	Shinichi Tamura	In-kind contribution of monetary compensation claim (Note 3)	91	-
Officer	Christopher Cargill	In-kind contribution of monetary compensation claim (Note 3)	56	-
Officer	Tomohiro Tohyama	In-kind contribution of monetary compensation claim (Note 3)	11	-
Officer	Kuniaki Kaga	In-kind contribution of monetary compensation claim (Note 3)	11	-
Officer	David Roblin	In-kind contribution of monetary compensation claim (Note 3)	11	-
Officer	Noriaki Nagai	In-kind contribution of monetary compensation claim (Note 3)	19	-
Officer	Rolf Soderstrom	In-kind contribution of monetary compensation claim (Note 3)	19	-
Officer	Kieran Johnson	In-kind contribution of monetary compensation claim (Note 3)	16	-
Officer	Kazuhiko Yoshizumi	In-kind contribution of monetary compensation claim (Note 3)	18	-
Officer	Matthew Barnes	In-kind contribution of monetary compensation claim (Note 3)	9	-
Officer	Tadayoshi Yasui	In-kind contribution of monetary compensation claim (Note 3)	19	-

Notes:

1. Transaction prices and other conditions are determined by reference to similar third party contracts.
2. The exercise of stock options by Mr. Tamura in the current financial year relates to the 31st stock acquisition rights granted by the Board of Directors on May 15, 2017.
3. In-kind contribution of monetary compensation claim relates to the Restricted Stock Unit plan and Performance Share Unit plan.

Transactions with Associates

Not applicable.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

31 Related parties (continued)

31.1 Transactions with related parties (continued)

Year ended December 31, 2021:

Transactions with Officers and major individual shareholders

Type	Name	Description of transaction	Transaction amount (¥m)	Outstanding balance (¥m)
Officer	Shinichi Tamura	Exercise of stock options (Note 2)	164	-
		In-kind contribution of monetary compensation claim (Note 3)	35	-
Officer	Tomohiro Tohyama	In-kind contribution of monetary compensation claim (Note 3)	12	-
Officer	Kuniaki Kaga	In-kind contribution of monetary compensation claim (Note 3)	20	-
Officer	David Roblin	In-kind contribution of monetary compensation claim (Note 3)	20	-
Officer	Noriaki Nagai	In-kind contribution of monetary compensation claim (Note 3)	22	-
Officer	Rolf Soderstrom	In-kind contribution of monetary compensation claim (Note 3)	8	-
Officer	Malcolm Weir	Exercise of stock options (Note 2)	60	-
		In-kind contribution of monetary compensation claim (Note 3)	21	-
		Payment of contingent consideration (Note 4)	371	387
Office	Christopher Cargill	In-kind contribution of monetary compensation claim (Note 3)	20	-
Officer	Tim Tasker	Exercise of stock options (Note 2)	19	-
		In-kind contribution of monetary compensation claim (Note 3)	18	-
		Payment of contingent consideration (Note 4)	84	88
Officer	Kazuhiko Yoshizumi	In-kind contribution of monetary compensation claim (Note 3)	10	-
Officer	Tadayoshi Yasui	In-kind contribution of monetary compensation claim (Note 3)	11	-

Notes:

1. Transaction prices and other conditions are determined by reference to similar third party contracts.
2. The exercise of stock options by Mr. Tamura, Mr. Weir and Mr. Tasker in the current financial year relates to the 30th stock acquisition rights granted by the Board of Directors on November 13, 2015.
3. In-kind contribution of monetary compensation claim relates to the Restricted Stock Unit plan.
4. The payments for the contingent consideration are made in foreign currency. Transaction amounts are converted into Japanese yen at the average exchange rate for the period. Outstanding balances are converted into Japanese yen using the exchange rate at the end of the year.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

31 Related parties (continued)

31.1 Transactions with related parties (continued)

Transactions with Associates

Not applicable.

31.2 Remuneration of key management personnel

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Remuneration and bonuses	727	661
Share-based payments	468	358
Retirement benefit	340	-
	1,535	1,019

Notes:

1. Please refer to Section 4. *Information about the Filing Company*, 4 *Corporate Governance*, 4.4 *Remuneration paid to directors* for details such as the basic policy regarding the compensation of senior management.

32 Significant subsidiaries

Please refer to Section 1 *Company Overview*, 4 *Status of Subsidiaries and Associates*.

33 Additional information: COVID-19

The Group has developed measures to mitigate the potential impact of COVID-19, and the situation in the countries in which the Group currently operates has largely normalized. As a result, COVID-19 had no material impact on the Group during the current financial year.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

34 Significant subsequent events

Issuance of new shares under RSU

In the year ended December 31, 2019, the Company introduced a RSU Plan with the intention of increasing the motivation and drive of the Directors, the Executive Officers and the eligible employees of the Company and its wholly owned subsidiaries (“Executives and Employees”) to realize the Company’s vision and strategy. The Plan has also been designed to share the benefits and risks of share price fluctuations with shareholders, and further encourage the Executives and Employees to actively contribute to the increase of the share price and enhance the Company’s corporate value.

On April 7, 2023 the Board of Directors approved a resolution to issue new shares under the RSU Plan as described below.

Details of Issuance

	16th RSU	17th RSU	18th RSU
1 Payment date	May 16, 2024	May 15, 2025	May 18, 2026
2 Type and number of shares to be issued	Common shares 71,018 shares	Common shares 262,639 shares (planned)	Common shares 262,639 shares (planned)
3 Payment amount (Note)	2,401 yen per share	Representative Executive Officer will decide the payment amount hereafter	Representative Executive Officer will decide the payment amount hereafter
4 Total issue value	170,514,218 yen	Representative Executive Officer will decide the total issue value hereafter	Representative Executive Officer will decide the total issue value hereafter
5 Planned allottees	8 Directors of the Company (excluding Directors who serve as Executive Officers concurrently) 71,018 shares will be allotted	6 Executive Officers of the Company 207 Directors of subsidiaries of the Company and Employees of the Company and its subsidiaries 262,639 shares to be allotted (planned)	6 Executive Officers of the Company 207 Directors of subsidiaries of the Company and Employees of the Company and its subsidiaries 262,639 shares to be allotted (planned)

(Note) Delivered in return for the contribution in kind of monetary compensation claims that is provided to the Executives and Employees to whom the allocation of shares is scheduled.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Consolidated Financial Statements

35 Quarterly results

Quarterly information for the year ended December 31, 2022

Cumulative period	First quarter	Second quarter	Third quarter	Fourth quarter
Revenue (¥m)	1,119	2,457	8,641	15,569
(Loss) profit before income taxes (¥m)	(2,497)	(4,282)	(3,108)	1,078
Net (loss) profit attributable to owners of the parent (¥m)	(2,070)	(3,538)	(3,225)	382
Basic (loss) earnings per share (Yen)	(25.39)	(43.33)	(39.46)	4.68

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic (loss) earnings per share (Yen)	(25.39)	(17.96)	3.82	44.04

Sosei Group Corporation

Section 5. Financial Statements

Non-consolidated Balance Sheet As at December 31, 2022

	Note	December 31, 2022 ¥m	December 31, 2021 ¥m
Assets			
Current assets			
Cash and deposits		39,103	44,064
Prepaid expenses		57	30
Other		35	44
Total current assets		39,195	44,138
Non-current assets			
Property, plant and equipment			
Buildings		27	31
Tools, furniture and fixtures		11	8
Leased assets		-	14
Total property, plant and equipment		38	53
Intangible assets			
Software		4	2
Other		0	0
Total intangible assets		4	2
Investments and other assets			
Shares of subsidiaries and associates		49,973	49,973
Long-term loans receivable from subsidiaries and associates		2,918	2,418
Investments in capital		117	125
Other		58	58
Allowance for doubtful accounts		(2,918)	(2,418)
Total investments and other assets		50,148	50,156
Total non-current assets		50,190	50,211
Total assets		89,385	94,349

Sosei Group Corporation

Section 5. Financial Statements

Non-consolidated Balance Sheet As at December 31, 2022

	Note	December 31, 2022 ¥m	December 31, 2021 ¥m
Liabilities			
Current liabilities			
Lease obligations		-	15
Accounts payable- other	1	218	4,133
Accrued expenses		132	89
Income taxes payable		113	63
Deposits received		22	19
Provision for bonuses payable to employees		69	53
Provision for bonuses payable to executive officers		-	165
Provision for share-based payments		447	455
Other current liabilities		18	11
Total current liabilities		1,019	5,003
Non-current liabilities			
Convertible bonds		30,535	30,685
Asset retirement obligations		13	13
Provision for share-based payments		274	178
Total non-current liabilities		30,822	30,876
Total liabilities		31,841	35,879
Net assets			
Shareholders' equity:			
Capital stock		41,335	41,036
Capital surplus:		29,452	29,153
Legal capital surplus		29,452	29,153
Retained earnings		(13,480)	(11,983)
Other retained earnings			
Retained earnings brought forward		(13,480)	(11,983)
Treasury stock		(1)	(0)
Total shareholders' equity		57,306	58,206
Valuation/translation difference		(5)	-
Unrealized holding gains or losses on securities		(5)	-
Stock acquisition rights		243	264
Total net assets		57,544	58,470
Total liabilities and net assets		89,385	94,349

Sosei Group Corporation

Section 5. Financial Statements

Non-consolidated Statement of Profit or Loss For the year ended December 31, 2022

	Note	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Operating revenue	1	1,118	823
Operating expenses	2	(2,213)	(1,981)
Operating loss		(1,095)	(1,158)
Non-operating income			
Interest income	1	79	66
Foreign exchange gains		-	555
Miscellaneous income		0	0
Total non-operating income		79	621
Non-operating expenses			
Interest expenses		(1)	(1)
Commission expenses		(41)	(22)
Loss on redemption of bonds		-	(2,895)
Bond issuance costs		-	(895)
Foreign exchange loss		(25)	-
Provision of allowance for doubtful accounts for subsidiaries and associates		(500)	(350)
Miscellaneous loss		(3)	(20)
Total non-operating expenses		(570)	(4,183)
Ordinary loss		(1,586)	(4,720)
Extraordinary income			
Gain on sale of shares of subsidiaries and associates		-	194
Gain realized on contingent consideration receivable relating to business disposals		136	266
Gain on reversal of stock acquisition rights		5	1
Total extraordinary income		141	461
Loss before income taxes		(1,445)	(4,259)
Corporate tax, residential tax and enterprise tax		(52)	(1)
Net loss		(1,497)	(4,260)

Sosei Group Corporation

Section 5. Financial Statements

Non-consolidated Statement of Changes in Net Assets For the year ended December 31, 2022

	Shareholders' equity					Valuation/ translation difference Unrealized holdings gains or loss on securities ¥m	Stock acquisition rights ¥m	Total net assets ¥m
	Capital stock ¥m	Capital surplus Legal capital surplus ¥m	Retained earnings Other retained earnings: Retained earnings ¥m	Treasury shares ¥m	Total shareholders' equity ¥m			
Balance at December 31, 2020	40,220	28,337	(7,723)	(0)	60,834	-	670	61,504
Changes during the period:								
Issuance of new shares	689	689			1,378			1,378
Conversion of convertible bonds	127	127			254			254
Net loss			(4,260)		(4,260)			(4,260)
Net changes in items other than shareholders' equity					-		(406)	(406)
Total changes during the period	816	816	(4,260)	-	(2,628)	-	(406)	(3,034)
Balance at December 31, 2021	41,036	29,153	(11,983)	(0)	58,206		264	58,470
Changes during the period:								
Issuance of new shares	299	299			598			598
Net loss			(1,497)		(1,497)			(1,497)
Purchase of treasury stock				(1)	(1)			(1)
Net changes in items other than shareholders' equity					-	(5)	(21)	(26)
Total changes during the period	299	299	(1,497)	(1)	(900)	(5)	(21)	(926)
Balance at December 31, 2022	41,335	29,452	(13,480)	(1)	57,306	(5)	243	57,544

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Non-consolidated Financial Statements

1 Significant Accounting Policies

1.1 *Asset Valuation Standards and Methods*

Securities

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

1.2 *Depreciation Methods for non-current Assets*

Property, Plant and Equipment (except leased assets)

The declining balance method is used. However, the straight-line method is used for facilities attached to buildings 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: 5-18 years

Intangible Assets (except leased 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.

Leased 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.

1.3 *Recognition Standards for Provisions*

Allowance for doubtful accounts

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

Provision for bonuses payable to employees

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

Provision for bonuses payable to executive officers

Provision is made during the financial year for the estimated payment of bonuses to executive officers.

Provision for share-based payments

Provision is made for an estimation of the in-kind contribution of monetary compensation claim incurred from RSU/PSUs for directors and employees.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Non-consolidated Financial Statements

1 Significant Accounting Policies (continued)

1.4. Revenue Recognition

The Company's revenue consists of management fees charged to its subsidiaries. Since the Company's performance obligation is to provide contracted services to its subsidiaries and the Company's performance obligation is satisfied when those services are performed, revenue is recognized at that point in time.

1.5. Other Significant Matters relating to the Basis of Preparation of the Financial Statements

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.

Standards for Conversion of Foreign-denominated Assets and Liabilities to Japanese Currency

Foreign-denominated monetary receivables and payables are converted to Japanese yen based on the closing spot rate of each reporting period, and exchange differences are accounted for within profit or loss for the period.

2 Changes in accounting policy

Application of "Accounting Standard for Revenue Recognition" and relevant implementation guidance

The Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 revised on March 31, 2020; hereinafter the "Revenue Recognition Standard") and relevant Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Statement No. 30 revised on March 26, 2021) from the beginning of the current financial year. Accordingly, the Company recognizes revenue as the amount expected to be entitled to in exchange for the promised goods or services when the control of those goods or services is transferred to the customer. In accordance with the transitional treatment stipulated in the proviso of paragraph 84 of the Revenue Recognition Standard, the cumulative effects of retrospective application of the new accounting policy, assuming it has been applied to periods prior to the beginning of the current financial year, has been added to or subtracted from retained earnings at the beginning of the current financial year, and the new accounting policy is applied from the said balance. However, there has been no effect on the beginning balance of Retained earnings brought forward for the current financial year. Moreover, the application of the Revenue Recognition Standard and relevant implementation guidance had no impact on the non-consolidated financial statements.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Non-consolidated Financial Statements

2 Change in accounting policy (continued)

Application of "Accounting Standard for Fair Value Measurement" and relevant implementation guidance

The Company has applied "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30 issued on July 4, 2019) and relevant implementation guidance from the beginning of the current financial year. In accordance with the transitional treatment stipulated in paragraph 19 of the "Accounting Standard for Fair Value Measurement" and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10 revised on July 4, 2019), the new accounting policy set forth by the "Accounting Standard for Fair Value Measurement" and relevant implementation guidance is applied into the future. The application of the "Accounting Standard for Fair Value Measurement and relevant implementation guidance" had no impact on the non-consolidated financial statements.

3 Significant Accounting Estimates

Valuation of Shares of subsidiaries and associates

The closing balances were as follows:

	December 31, 2022	December 31, 2021
	¥m	¥m
Shares of subsidiaries and associates	49,973	49,973

Method of calculation of the carrying amounts in the non-consolidated financial statements and significant assumptions used in the calculation

A valuation loss is recorded on non-marketable securities, such as unlisted subsidiaries and associates, when their net asset value decrease significantly due to deterioration of the financial position of the security issuer, unless there is sufficient evidence to support their recoverability. The net asset value used in the impairment assessment is calculated based on the net assets of the latest available financial statements prepared in accordance with the Generally Accepted Accounting Standards and obtained from subsidiaries and associates before the period end. For subsidiaries and associates whose net asset value has decreased significantly due to deterioration of its financial position, if there is sufficient evidence to support their recoverability considering factors such as their financial outlook and cash-flow situations, a valuation loss on shares of subsidiaries and associates is not recorded. As a result of the above valuation, no valuation loss has been recorded in the current financial year.

Effects on the non-consolidated financial statements for the year ending December 31, 2023

Although valuation of investment in subsidiaries and associates has been performed appropriately based on the latest available information, there is possibility that valuation loss would be recognized due to uncertain events in the future.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Non-consolidated Financial Statements

4 Non-consolidated Balance Sheet

4.1 Monetary claims and obligations to subsidiaries and associates (excluding presented items) are as follows:

	December 31, 2022	December 31, 2021
	¥m	¥m
Monetary amounts payable to subsidiaries and associates	-	0

4.2 Guarantee obligations

As at December 31, 2022 debt guarantees totaling JPY 1,938 million existed (JPY 2,067 million in the previous year) in relation to a land and building lease agreement signed by the Company's subsidiary, Heptares Therapeutics Ltd.

5 Non-consolidated Statement of Profit or Loss

5.1 Transactions with subsidiaries and associates are as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
	¥m	¥m
Operating transactions	1,129	833
Non-operating transactions	-	29

5.2 The ratio of selling expenses to total expenses is 0% and the ratio of general & administrative expenses to total operating expenses is 100% for both the current and previous years

The primary expense items and amounts for operating expenses are as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
	¥m	¥m
Personnel expenses	1,608	1,343
Outsourcing expenses	253	368

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Non-consolidated Financial Statements

6 Note on Securities

At December 31, 2022, the carrying amount of shares in subsidiaries in the balance sheet was JPY 49,973 million.

At December 31, 2021, the carrying amount of shares in subsidiaries in the balance sheet was JPY 49,973 million.

Since market prices are not available, further notes are omitted.

7 Note on Revenue Recognition

Basic information to understand revenue recognition is shown in Notes to the Non-consolidated Financial Statements under Note 1 *Significant Accounting Policies*, Section 1.4. *Revenue Recognition*.

8 Note on Tax Effect Accounting

8.1 *Main reasons for the occurrence of deferred tax assets and deferred tax liabilities*

	December 31, 2022	December 31, 2021
	¥m	¥m
Deferred tax assets:		
Tax losses carried forward	2,499	2,526
Shares in subsidiaries and associates	3,135	3,135
Allowance for doubtful debts	893	740
Other	354	263
Deferred tax assets subtotal	6,881	6,664
Valuation allowance for tax losses carried forward	(2,499)	(2,526)
Valuation allowance for deductible temporary differences	(4,382)	(4,138)
Valuation allowance subtotal	(6,881)	(6,664)
Total deferred tax assets	-	-

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Non-consolidated Financial Statements

8 Note on Tax Effect Accounting (continued)

8.2 Main reasons for the difference between the statutory effective tax rate and actual effective tax rate after the application of tax effect accounting

	Year Ended December 31, 2022 ¥m	Year Ended December 31, 2021 ¥m
Statutory effective tax rate	30.6%	30.6%
Items not deductible permanently such as entertainment expenses	(4.8)	(1.7)
Japanese Controlled Foreign Company	(18.3)	-
Share-based payment expenses	0.9	(1.0)
Valuation allowances	(14.9)	(26.7)
Other	2.7	(1.2)
Actual effective tax rate after the application of tax effect accounting	(3.8)	(0.0)

9 Significant Subsequent Events

Significant Subsequent Events is shown in Notes to the Consolidated Financial Statements under Note 34 Significant subsequent events.

10 Supplementary Schedules

10.1 Supplementary Schedule of Property, Plant and Equipment

Classification	Type of assets	Balance at beginning of current year Note 1 ¥m	Increase during current year ¥m	Decrease during current year ¥m	Balance at end of current year Note 1 ¥m	Accumulated depreciation ¥m	Depreciation & amortization charge during current year ¥m	Net balance at end of current year ¥m
Property, plant and equipment	Buildings	45	0	0	45	18	4	27
	Tools, furniture & fixtures	36	5	9	32	21	3	11
	Leased assets	42	-	42	-	-	4	-
	Total	123	5	51	77	39	11	38
Intangible assets	Software	27	2	15	14	10	0	4
	Other	0	-	-	0	-	-	0
	Total	27	2	15	14	10	0	4

Notes:

1. The balances at the beginning and end of the current period are based on acquisition costs.

Sosei Group Corporation

Section 5. Financial Statements

Notes to the Non-consolidated Financial Statements

10 Supplementary Schedules (continued)

10.2 Supplementary Schedule of Provisions

Account title	Balance at beginning of current year ¥m	Increase during current year ¥m	Decrease during current year ¥m	Balance at end of current year ¥m
Allowance for doubtful accounts	2,418	500	-	2,918
Provision for bonuses payable to executive officers	165	-	165	-
Provision for bonuses payable to employees	53	69	53	69
Provision for share-based payments	633	379	291	721

10.3 Components of Major Assets and Liabilities

This information is omitted as consolidated financial statements have been prepared.

10.4 Others

Not applicable.

Sosei Group Corporation

Section 6. Stock-Related Information relating to the Parent Company

Accounting period	From January 1 to December 31
General shareholders meeting	Held in March
Record date	December 31
Record date for distribution of surplus	June 30 (Interim dividends) December 31 (Year-end dividends)
Number of shares constituting one unit	100 shares
Purchase of shares less than one unit	
Handling office	(Special accounts) 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo Stock Transfer Agency Business Planning Department Sumitomo Mitsui Trust Bank, Limited
Transfer agent	(Special accounts) 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Purchasing fee	Free
Method of public notice	Electronic public notice. However, if the Company is unable to make electronic public notice due to an accident or any other compelling reason, it will make an alternative public notice in "The Nikkei" newspaper. Public notices will be posted on the Company's website: https://www.oseiheptares.com/
Special benefit for Shareholders	Not applicable.

Notes:

The Company's shareholders may not exercise any rights for shares less than one unit except for the following:

- (1) Rights set forth in items of Article 189, paragraph 2 of the Companies Act.
- (2) Right to receive an allocation of shares for subscription or stock acquisition rights for subscription.
- (3) Right to request sale of shares less than one unit as provided in the previous article.

Sosei Group Corporation

Section 7. Reference Information Relating to the Filing Company

1 Information on Filing Company's Parent Company

The Company does not have a parent company.

2 Other Reference Information

From the beginning of this financial year until the filing date of this Annual Securities Report, the Company has filed the following documents.

2.1 Annual Securities Report and Appendices, and Written Confirmation

Filed with Director General of Kanto Local Finance Bureau on March 24, 2022
Accounting period: 32nd Term (January 1, 2021 – December 31, 2021)

2.2 Internal Control Report and Appendices

Filed with Director General of Kanto Local Finance Bureau on March 24, 2022
Accounting period: 32nd Term (January 1, 2021 – December 31, 2021)

2.3 Quarterly Report and Written Confirmations

Filed with Director General of Kanto Local Finance Bureau on May 13, 2022
The 33rd Term First Quarter (January 1, 2022 – March 31, 2022)

Filed with Director General of Kanto Local Finance Bureau on August 10, 2022
The 33rd Term Second Quarter (April 1, 2022 – June 30, 2022)

Filed with Director General of Kanto Local Finance Bureau on November 11, 2022
The 33rd Term Third Quarter (July 1, 2022 – September 30, 2022)

2.4 Extraordinary Reports

Filed with Director General of Kanto Local Finance Bureau on March 24, 2022
Extraordinary Report based on Article 19, paragraph 2, item (ix-2) (Results of Exercise of Voting Rights at the Annual General Meeting of Shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

2.5 Securities Registration Statement (Reference Method)

Filed with Director General of Kanto Local Finance Bureau on April 20, 2022
(Securities Registration Statement (Reference Method) related to allotment to other eligible persons)

2.6 Amendment to Securities Registration Statement (Reference Method)

Filed with Director General of Kanto Local Finance Bureau on May 13, 2022
Amendment related to the Securities Registration Statement (Reference Method) filed on April 20, 2022

Filed with Director General of Kanto Local Finance Bureau on August 10, 2022
Amendment related to the Securities Registration Statement (Reference Method) filed on April 20, 2022

Filed with Director General of Kanto Local Finance Bureau on November 11, 2022
Amendment related to the Securities Registration Statement (Reference Method) filed on April 20, 2022

Sosei Group Corporation

Section 7. Reference Information Relating to the Filing Company

2 Other Reference Information (continued)

2.6 Amendment to Securities Registration Statement (Reference Method) (continued)

Filed with Director General of Kanto Local Finance Bureau on February 14, 2023

Amendment related to the Securities Registration Statement (Reference Method) filed on April 20, 2022

Sosei Group Corporation

Part 2: Information about a Company which Provides a Guarantee to the Filing Company

Not applicable.

Independent Auditor's Report

The Board of Directors
Sosei Group Corporation

Opinion

We have audited the accompanying consolidated financial statements of Sosei Group Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2022, and the consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of goodwill and core technology relating to the Drug discovery business

Description of Key Audit Matter

As described in Note 11 “Goodwill and intangible assets” to the consolidated financial statements, the Group has identified the discovery of drugs targeting G-protein-coupled receptors (“GPCRs”) (“Drug discovery business”) as a cash-generating unit (“CGU”) and recognized goodwill in the amount of JPY 9,880 million in the consolidated balance sheet as at December 31, 2022. In addition, core technology has been recognized in the amount of JPY 8,217 million. Together they represent 18% of the total assets in the consolidated balance sheet.

The CGU of the Drug discovery business is tested for impairment annually or whenever there is an indication of impairment. In the impairment test, when the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss.

The Group determined the recoverable amount of the CGU in the annual impairment test performed for the year ended December 31, 2022 by calculating the fair value less costs of disposal. The future cash flows used for measuring the fair value less costs of disposal were estimated based on the business plan of the Drug discovery business prepared by management and reflects assumptions that market participants would use when pricing the asset. Significant assumptions underlying the future cash flows include timings of milestone achievements such as product launches of products being developed in the Drug discovery business performing drug discovery activity, probabilities of success of Research and Development (“R&D”) activities and projected revenue plan including expected future product sales. Since such significant assumptions involve high estimation uncertainty and management subjectivity, management judgements have significant effects on the estimated future cash flows.

Moreover, selecting the appropriate calculation method and input data for the discount rate, which is an assumption used to measure the fair value less costs of disposal, requires a high degree of expertise and experience in valuations.

Therefore, since the measurement of fair value less costs of disposal of the Drug discovery business involves estimation uncertainty and management subjectivity, and requires a high degree of expertise and experience, we determined the valuation of goodwill and core technology relating to the Drug discovery business as a key audit matter.

Auditor's Response

We performed the following procedures, among others, to assess the valuation of goodwill and core technology relating to the Drug discovery business.

- considered the consistency of the business plan used for estimating future cash flows with the business plan approved by management.
- compared the business plan used for estimating future cash flows in the prior fiscal year with the actual results of the current fiscal year to evaluate the accuracy of the Group's business plan.
- considered timings of milestone achievements including product launches as well as probabilities of success of R&D activities through inquiry of project managers responsible for R&D activities and inspection of relevant meeting minutes as well as comparison with information obtained from external professional research organizations.
- compared projected revenue plan including expected future product sales which are the basis for calculating sales milestone revenues and royalty income, with relevant contracts and information obtained from external professional research organizations and performed recalculations.
- involved valuation specialists from our network firm as specialists used by auditors to assess the discount rate used by management. The valuation specialists independently estimated the discount rate using external information and compared it with the discount rate selected by management.
- performed stress testing using our independent assumptions for the significant assumptions underlying the future cash flows.

Revenue recognition relating to license contracts of development and commercialization rights for pharmaceutical products

Description of Key Audit Matter

As described in Note 20 “Revenue” to the consolidated financial statements, the Group earns revenue primarily through license contracts with third parties that provide the rights to develop and market pharmaceutical products. While license contracts are highly individual and contain various contract terms and conditions, basic model is to receive upfront fees when a license is granted and receive milestone income thereafter when the milestones agreed in the contract are achieved as the development progresses. The Group recognized upfront fees and milestone income in the amount of JPY 12,063 million in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2022, representing 77% of the total revenue in the consolidated statement of profit or loss and other comprehensive income.

In addition, as described in Note 4 “Significant accounting estimates and associated judgments, *Revenue Recognition*” to the consolidated financial statements, contract liability is recorded when consideration is received prior to the satisfaction of the performance obligation related to R&D services. The Group recognized contract liability in the amount of JPY 6,221 million in the consolidated balance sheet as at December 31, 2022, representing 15% of the total liabilities in the consolidated balance sheet.

As mentioned above, license contracts with partner companies are highly individual and may contain other performance obligations to provide services such as research and development services in addition to the grant of licenses, depending on the contract terms and conditions. Since revenue is recognized for each performance obligation, when multiple performance obligations are identified from a contract, revenue recognition may become complicated and subjective management judgements in identifying performance obligations, among others, may be required in applying IFRS 15 “Revenue from Contracts with Customers”.

Moreover, while revenue is recorded from contract liability based on the ratio of actual time incurred on each R&D program at the reporting period end to the total estimated time of the R&D plan, since the measurement of total estimated time involves estimation uncertainty and management subjectivity, management judgements have significant effects on revenue recognition.

Therefore, since revenue recognition relating to license contracts involves subjective management judgements for each contract and derecognition from contract liability involves estimation uncertainty and management subjectivity, we determined this item as a key audit matter.

Auditor's Response

We performed the following procedures, among others, to verify revenue recognition relating to license contracts.

- inspected relevant contracts and considered appropriateness of the performance obligations identified by the Group in accordance with the contract terms and conditions that affect revenue recognition, when significant contracts were newly signed or subsequently modified.
- considered the economic substance of license contracts through inquiry of managements when needed.
- evaluated the existence of upfront fees and milestone income through vouching to relevant evidence and confirming cash receipts.
- inspected documents that summarize the result of the Group's revenue recognition consideration and evaluated whether the identification of performance obligations and revenue recognition timing, among others, have been determined in accordance with the related accounting standards based on contractual terms and conditions as well as the economic substance of the license contract.
- evaluated the accuracy of the total estimated time of the R&D plan through inspection of relevant contract, inquiry of project managers responsible for R&D activities and comparison with actual time incurred.
- evaluated the appropriateness of revenue recognized from contract liability through considering consistency with actual time incurred and recalculation.

Other Information

The other information comprises the information included in the Annual Securities Report that contains audited consolidated and non-consolidated financial statements but does not include the consolidated and non-consolidated financial statements and our auditor's reports thereon.

Management is responsible for preparation and disclosure of the other information. The Audit Committee is responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 20, 2023

Hironao Yazaki

Hironao Yazaki
Designated Engagement Partner
Certified Public Accountant

Yutaka Mishima

Yutaka Mishima
Designated Engagement Partner
Certified Public Accountant

Independent Auditor's Report

The Board of Directors
Sosei Group Corporation

Opinion

We have audited the accompanying non-consolidated financial statements of Sosei Group Corporation (the Company), which comprise the non-consolidated balance sheet as at December 31, 2022, and the non-consolidated statements of profit or loss and changes in net assets for the year then ended, significant accounting policies, other notes to the non-consolidated financial statements and supplementary schedules.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of the Company as at December 31, 2022, and its non-consolidated financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the non-consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the non-consolidated financial statements of the current period. These matters were addressed in the context of the audit of the non-consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of shares of Heptares Therapeutics Ltd.
Description of Key Audit Matter
<p>As described in Note 3 “Significant Accounting Estimates” to the non-consolidated financial statements, shares of subsidiaries and associates recognized in the amount of JPY 49,973 million in the non-consolidated balance sheet as at December 31, 2022 represents the Company’s investment in Heptares Therapeutics Ltd. (“Heptares”), a wholly owned unlisted subsidiary, and represents 56% of the total assets in the non-consolidated financial statements.</p> <p>A valuation loss is recorded on non-marketable securities, such as investment in unlisted subsidiaries, when the net asset value decreases significantly due to deterioration of the financial position of the security issuer, unless there is sufficient evidence to support its recoverability.</p> <p>When calculating the net asset value excluding goodwill of the investment in Heptares, the Company includes valuation difference based on the fair value assessment of the intangible assets such as core technology recognized at the time of acquisition in addition to the net assets of the financial statements of Heptares.</p> <p>As described in Note 11 “Goodwill and intangible assets” to the consolidated financial statements, core technology has been recognized in the amount of JPY 8,217 million in the consolidated balance sheet as at December 31, 2022.</p> <p>Hence, management judgements relating to the impairment of intangible assets described in “Valuation of goodwill and core technology relating to the Drug discovery business” of the key audit matter for the audit report of the consolidated financial statements, significantly affects the calculation of the net asset value.</p> <p>Therefore, since the calculation of the net asset value involves estimation uncertainty and management judgements, we determined this item as a key audit matter.</p>
Auditor’s Response
<p>We performed the following procedures, among others, to assess the valuation of shares of subsidiaries and associates.</p> <ul style="list-style-type: none"> • evaluated through recalculation that the net asset value excluding goodwill was calculated based on the net assets of the financial statements of Heptares and included the valuation difference of intangible assets. • considered the consistency of the net assets of the financial statements of Heptares and the valuation difference of intangible assets which comprise the net asset value excluding goodwill of Heptares, with the amounts evaluated during the audit of the consolidated financial statements. • compared the carrying amount of shares of subsidiaries and associates with the net asset excluding goodwill. • performed procedures described in the auditor’s response of “Valuation of goodwill and core technology relating to the Drug discovery business” within the audit report of the consolidated financial statements, that relates to management judgements on the impairment of intangible assets and thus significantly affect the net asset value calculation.

Other Information

The other information comprises the information included in the Annual Securities Report that contains audited consolidated and non-consolidated financial statements but does not include the consolidated and non-consolidated financial statements and our auditor's reports thereon. Management is responsible for preparation and disclosure of the other information. The Audit Committee is responsible for overseeing the Company's reporting process of the other information.

Our opinion on the non-consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the non-consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the non-consolidated financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the non-consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the non-consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



Ernst & Young ShinNihon LLC
Tokyo, Japan

June 20, 2023

Hironao Yazaki

Hironao Yazaki
Designated Engagement Partner
Certified Public Accountant

Yutaka Mishima

Yutaka Mishima
Designated Engagement Partner
Certified Public Accountant

Sosei Group Corporation

Internal Control Report of Management

1. Matters related to the basic framework of internal control over financial reporting

Representative Executive Officer, CEO Christopher Cargill and Executive Officer, CAO Kieran Johnson are responsible for the development and operation of the Company's internal control over financial reporting, and have developed and implemented internal control over financial reporting based on the basic framework of internal control presented in the “On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” issued by the Business Accounting Council. Since internal control can only provide reasonable assurance that each basic element of internal control is functioning effectively in a combined and unified manner, there is a possibility that internal control over financial reporting cannot completely prevent or detect misstatements in financial reporting.

2. Matters related to the scope of assessment, reference date and assessment procedures

The reference date for the assessment of internal control over financial reporting for the current financial year was December 31, 2022, the end of the current financial year, and the assessment was performed using the standard for evaluation of internal control over financial reporting which is generally accepted as fair and appropriate.

In this evaluation, we evaluated those internal controls which could significantly impact overall consolidated financial reporting [“Company Level Controls”]. Based on that, business processes were selected for evaluation, and through analysis of those processes we identified key controls which could significantly impact the reliability of financial reporting. We then evaluated the effectiveness of those key controls by evaluating the design and operation of such controls.

The scope of our evaluation of internal control over financial reporting was determined for the Company and its consolidated subsidiaries from the viewpoint of their impact on the reliability of financial reporting after considering the significance of both monetary and qualitative effects. Based on the results of our evaluation of Company Level Controls, we determined the required scope for our evaluation of internal controls relating to business processes. In addition, the scope of Company Level Controls covered all business locations except those which we determined to be minor from both monetary and qualitative materiality perspectives.

With regard to the scope of our evaluation of internal control related to business processes, we designated two business locations as “significant business locations” whose aggregate sales and total assets, respectively, in the previous financial year (before the elimination of inter-company transactions) exceeded two-thirds of consolidated sales and total assets.

For the locations designated as significant, we evaluated the business processes relating to the accounts most significant to their underlying business activities such as sales, accounts receivable and R&D expenses. Notwithstanding this, we evaluated the business processes relating to important accounts requiring estimates and forecasts which are likely to cause significant misstatements if not performed properly, for locations designated as significant as well as other locations, since the possible impact of those processes on financial reporting could be material.

1: This document has been translated from the Japanese original for reference purposes only. Accordingly, this document is described as ‘unaudited’ whereas the Internal Control Report of Management in the Japanese original have Note been audited.

Sosei Group Corporation

Internal Control Report of Management

3. Matters related to assessment results

As a result of the assessment described above, we determined that the internal control over financial reporting was functioning effectively as at the closing date of the current financial year.

4. Supplementary information

Nothing reportable.

5. Special notes

Nothing reportable.

1: This document has been translated from the Japanese original for reference purposes only. Accordingly, this document is described as 'unaudited' whereas the Internal Control Report of Management in the Japanese original have Note been audited.

Sosei Group Corporation

Blank Page