Annual Report

Year ended 31 December 2023

1 May 2024 | Nxera Pharma Co., Ltd.

About Nxera Pharma

(formerly Sosei Heptares)

Nxera Pharma is a technology-powered biopharma company, in pursuit of new specialty medicines to improve the lives of patients with unmet needs in Japan and globally.

In addition to several products being commercialized in Japan, we are advancing an extensive pipeline of over 30 active programs from discovery through to late clinical stage internally and in partnership with leading pharma and biotech companies. This pipeline is focused on addressing major unmet needs in some of the fastest-growing areas of medicine across neurology, GI and immunology, metabolic disorders and rare diseases, and leverages the power of our unique and industry leading GPCR-targeted structure-based drug discovery "NxWave™" platform to provide a sustainable source of best- or first-in-class candidates.

Nxera employs over 350 talented people at key locations in Tokyo and Osaka (Japan), London and Cambridge (UK), Basel (Switzerland) and Seoul (South Korea) and is listed on the Tokyo Stock Exchange (ticker: 4565)

Letter from the Chief Executive Officer

Mr. Chris Cargill

Representative Executive Officer, President & CEO

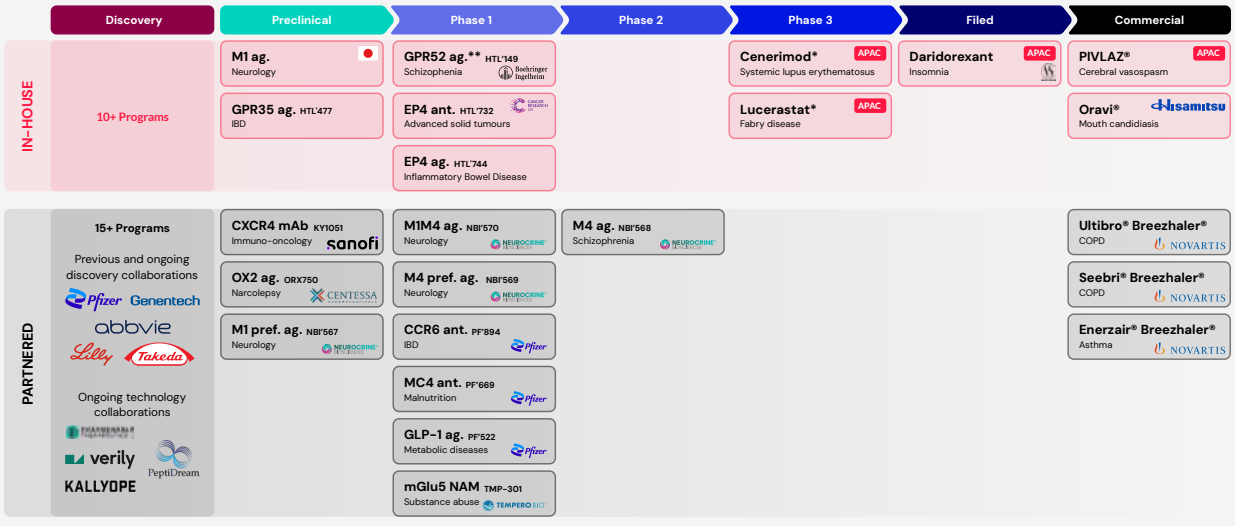
Nxera Pharma Co., Ltd.

Dear Stakeholders,

2023 was a transformational year for Nxera Pharma and the progress made by our teams across all areas of the business has been exceptional. This progress is enabling the Group to accelerate its development in 2024 as an integrated, technology powered, commercial-stage biopharmaceutical company focused on applying cutting-edge science to deliver life-changing medicines for patients in Japan and globally.

Our ambition over time is to become one of the leading pharmaceutical companies in Japan and we are confident that we have strong foundations on which to build our business towards this goal. We have established a powerful and unique drug discovery platform that can generate multiple, innovative programs by design for incorporation into our pipeline, supported by world-leading technology partners.

Our development pipeline is extensive, with over 30 active programs advancing from discovery through to late clinical stage and focused on some of the fastest-growing areas of medicine, which also represent some of the areas of greatest unmet patient need in Japan and globally. We are progressing these programs in-house, and also in partnership with our global pharma partners, who bring world-class therapeutic area and development expertise.



* Exclusive opt-in right
** Exclusive out-license option

Our late-stage development and commercialization capabilities in Japan – brought in through the acquisition of Idorsia's Japan and Korea organizations (IPJ and IPK, now NPJ and NPK, respectively) – add an exciting dimension to the business, including the potential for strategic development and commercial opportunities to further support our business in these important markets.

Already, our approved product, Pivlaz®, is having a positive impact on patients in Japan with cerebral vasospasm, and our late-stage development candidate, daridorexant, a potential new treatment for insomnia, is currently under regulatory review by the Japanese regulator (the PMDA). Through our local organization, we aim to advance our own and externally sourced candidates to patients in Japan and key APAC markets.

PIVLAZ®
for cerebral vasospasm

The progress we have made during 2023 and the potential for Nxera Pharma to become a champion of the growing pharma sector in Japan, was recognized through the Group receiving the first investment – of ~JPY8 billion (~USD54m) – by the new OPF1 fund operated by JIC Venture Growth Investments, an affiliate of the government-backed Japan Investment Corporation. Launched in September 2023, this new fund is part of a government initiative to support the growth and sustainable development of innovative companies listed on the Tokyo Stock Exchange.

Overall, we believe that the Group has reached a pivotal moment in its journey, and with the integration of NPJ and NPK well underway, the Board of Directors has decided that this is the optimal time to adopt a new, unified corporate brand and corporate name for the Group – Nxera Pharma. "Nxera" derives from the words "Next" and "Era" to express our determination to be a leader in the next era of science and healthcare, driving advancements in our core disease areas of neurology, GI and immunology, metabolic disorders and rare diseases in pursuit of new medicines for patients.

The new name was approved by shareholders at the 34th Ordinary General Meeting of Shareholders on 27 March 2024 and came into effect on 1 April 2024.

2024 is shaping up to be a strong year with several catalysts that should support value creation. We are expecting strong clinical progress, both by us and our partners, including the anticipated Phase 2 data for Neurocrine's muscarinic M4 agonist program by year end. On the commercial side, we will continue to seek further product approvals in Japan and extend into new APAC territories with partners where it makes sense.

We hope that you share our excitement and optimism about the future for the Group as we embark on this next phase of our journey, unified, well-financed and with a clear vision and purpose to deliver life-changing medicines to patients and in so doing create value for all our stakeholders.

Chris Cargill, Representative Executive Officer, President & CEO
Nxera Pharma Co., Ltd.

Strategy

We have a clear vision and commitment to build a successful next-generation, technology driven biopharma company making a difference for patients worldwide.

Our strategy to achieve our goals has been further refined following the acquisition of NPJ/NPK to focus on three key pillars.

Delivering Life-Changing Medicines to Patients in Japan

Progressing High-Value Programs by Design

Leveraging Cutting-Edge Science and Technology

Delivering Life-Changing Medicines to Patients in Japan

To leverage our extensive clinical development and commercialization business in Japan using a lean, agile and scalable model to deliver new medicines to patients in this large and growing market and provide a platform to expand into broader APAC markets.

One of the Group's driving ambitions is to become a leading biopharma company in Japan applying cutting-edge science to deliver life-changing medicines for patients. Japan is the third largest pharma market behind the US and China and has a large aging population and universal health care system. This presents a huge opportunity for the Group and one that we made great strides towards accessing in 2023 through the transformational acquisition of NPJ and NPK following a rigorous search and evaluation process.

Through this organization, we have a strong development, regulatory and commercialization platform to maximize success and provide multiple options to advance our own and externally sourced candidates to patients in Japan and globally:

In-house development and commercialization of select wholly owned programs for Japan/APAC

Late-stage clinical development and commercialization for in-licensed assets in Japan/APAC

Partnering assets with early clinical POC for global commercialization, retaining Japan/APAC rights

Delivering Life-Changing Medicines to Patients in Japan

Key progress

The transformational acquisition of Idorsia's pharmaceutical businesses in Japan and South Korea (IPJ and IPK, now NPJ and NPK, respectively) achieved a key strategic milestone for the Group to become a fully integrated biopharmaceutical company:

- Adds complementary late-stage clinical development capability with profitable and fast-growing commercial operations in Japan.
- Brings highly experienced team, with proven clinical development and commercial launch track record.
- Includes Japan and APAC (ex-China) rights to two medicines with significant growth potential (PIVLAZ® - launched in Japan and approved in South Korea for the prevention of cerebral vasospasm and related conditions after aneurysmal subarachnoid hemorrhage securing) and daridorexant (a novel dual orexin receptor antagonist; New Drug Application submitted in Japan for the treatment of adult patients with insomnia), as well as exclusive options and selected rights to up to seven other products from Idorsia's clinical development pipeline.
- Appointment of Mr. Toshihiro Maeda as Chief Operating Officer to lead the post-acquisition integration of NPJ and global operations for the enlarged business in Japan and the APAC region. Mr. Maeda joined from Bristol Myers Squibb where he was instrumental in the post-merger integration of Celgene's businesses and commercial strategies for the combined group in Japan.

Progressing High-Value Programs by Design

To advance and expand our extensive pipeline of novel and potentially life-changing medicines in-house and with partners, generating multiple opportunities for value-creation targeting fast-growing areas of unmet medical need in Japan and globally.

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. Many of these partnerships provide the Group with an economic interest in programs advancing in some of the most exciting and fastest growing areas of medicine, such as metabolic disease and neuropsychiatric disorders.

Our partnered pipeline currently includes one program being progressed in discovery stage, eight programs in preclinical and Phase 1 and one program in Phase 2.

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.

In parallel, a key objective of the Group has been to transform our own in-house R&D, applying a program-centric operational model to accelerate progress of high-quality candidates into and through clinical development. This is intended to provide both a pipeline of opportunities that we can develop through to market ourselves in select indications in Japan and APAC, as well as further and potentially more profitable out-licensing deals.

KEY PROGRESS IN 2023

Partner progress

Neurocrine made significant progress in 2023 advancing its licensed portfolio of selective muscarinic agonists – the largest portfolio of oral small molecule muscarinic agonists for the treatment of neurological and neuropsychiatric conditions in development globally.

During the year, Neurocrine continued to advance NBI-1117568 (an investigational, selective muscarinic M4 receptor agonist) through Phase 2 trials for the treatment of adults with schizophrenia, with topline data expected in 2H 2024.

Neurocrine also initiated Phase 1 clinical studies of NBI-1117570 (an M1/M4 selective dual agonist) and NBI-1117569 (a muscarinic M4-preferring agonist) in 2023 and confirmed that a study with NBI-1117567 (a muscarinic M1-preferring agonist) is expected to be initiated in 2024. All of these candidates have potential to address a range of neurological and neuropsychiatric conditions.

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

Pfizer entered PF-06954522, a new oral small molecule GLP-1 receptor agonist, into a Phase 1 trial targeting metabolic diseases in 2023. PF-06954522 was discovered by Pfizer scientists during the ongoing collaboration in which Pfizer had access to the Group's NxStar technology.

PF-06954522 is one of three clinical candidates generated through the collaboration with the Group that are being progressed in clinical trials: the others being PF-07054894, a CCR6 antagonist targeting Inflammatory Bowel Disease in Phase 1b trials, which are expected to read out data in 2024; and PF07258669, an MC4 antagonist targeting Anorexia, which is in Phase 1 studies and has been shown to be generally safe and well-tolerated.

Tempero Bio received FDA clearance to advance clinical development of TMP-301 for alcohol and substance use disorders – TMP-301 is a selective, orally available mGluR5 negative allosteric modulator (NAM) candidate discovered by and licensed from Nxera Pharma.

Internal pipeline progress

GPR52 agonist
NXE0048149

NXE0048149 is a first-in-class GPR52 agonist designed and developed by Nxera Pharma as a once-daily oral treatment to address positive and negative symptoms and cognitive impairment in people with schizophrenia avoiding the adverse effects typically associated with existing antipsychotic drugs. The first subject was dosed with NXE'149 in a Phase 1 trial in mid-2023.

In March 2024, the Group entered a global collaboration and exclusive option-to-license agreement with Boehringer Ingelheim to develop and commercialize NXE'149 and a portfolio of other GPR52 agonists discovered by Nxera Pharma, in an up to EUR 670m deal plus tiered royalties.

EP4 antagonist
NXE0039732

The first patient was dosed with cancer immunotherapy candidate NXE0039732 in a Phase 1/2a trial during 2023 – NXE'732 is an orally available small molecule EP4 antagonist for advanced solid tumors being evaluated under an agreement with Cancer Research UK.

GPR35 agonist
NXE0027477

In March 2024, Nxera Pharma regained full ownership from GSK of GSK43814061, a clinic-ready, first-in-class, oral GPR35 agonist targeting IBD – the Group expects to determine the optimal strategy for further clinical development of the program, which could include in-house development and re-partnering. GSK43814061 was renamed NXE0027477 upon reversion.

EP4 agonist
NXE0033744

The first subject was dosed in a Phase 1 trial of NXE0033744, an oral GI restricted EP4 agonist with potential to treat IBD. HTL'744 has been designed to bring clinical benefit by accelerating the healing of damaged epithelial mucosa and suppressing exaggerated gut inflammation, with minimal systemic exposure to avoid adverse events.

Leveraging Cutting-Edge Science and Technology

To extend and enhance the competitive advantages of our proprietary GPCR-focused, structure-based drug design (SBDD) and discovery platform through internal innovation and collaboration – accelerating the identification/selection of new programs for development inhouse and/or through partnerships.

Our capabilities and leadership in unlocking GPCRs to rational SBDD approaches 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 new targets and candidates to continuously feed our rich pipeline. We are focused on doing this through continual internal innovation, including the broad application of AI and machine learning technologies alongside collaboration with global technology leaders from industry and academia.

Key progress in 2023

KALLYOPE

Identification, validation and nomination of a first GPCR target to enter a therapeutic discovery program for gastrointestinal diseases.

verily

Launching a new discovery program based on the successful validation and nomination of a GPCR target for immune-mediated diseases with an initial indication focus on IBD

PHARMENABLE THERAPEUTICS

Expansion of a collaboration to drive discovery of novel small molecule drug candidates against a second neurological disease target.

Corporate and Financial Update for 2023

In March 2023, the Group changed the stock market segment on which its shares are listed from the Growth Market segment to the Prime Market segment of the Tokyo Stock Exchange ("TSE"). This move was made to 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. In April 2023, the Group's shares were included in the Tokyo Stock Price Index ("TOPIX"), an important stock market index for the TSE in Japan.

In November, the Group received a landmark investment of ~JPY8 billion (~USD54m) from new OPF1 fund operated by JIC Venture Growth Investments, an affiliate of the government-backed Japan Investment Corporation. This investment was completed in conjunction with a share offering and convertible bond restructuring to finance the Group's strategic growth initiatives; to extend the maturity profile of its debt; and further strengthen its financial base.

Our cash and cash equivalents as at 31 December 2023 amounted to JPY 49 billion (US$347.9 million). This is a strong financial position from which to execute on our strategy as we look to deliver on our long-term mission of using our delivering life-changing medicines based on world-leading science to patients worldwide.

As of 31 December 2023, the Group had 350 employees (an increase of 148 employees vs. the end of 2023 primarily due to the acquisition of IPJ and IPK). These employees are based in Tokyo and Osaka (Japan), London and Cambridge (UK), Basel (Switzerland) and Seoul (South Korea).

Acknowledgements

The progress reported above would not have been possible without the hard work and dedication of all our employees and partners, and the support of our shareholders. I would like to thank them for their important contributions to our business during 2023 and I am confident that together, as Nxera Pharma, we can look forward to another important year of progress in 2024.

www.nxera.life

TOKYO, JAPAN

Group Headquarters

Midtown East
9-7-2 Akasaka Minato-ku
Tokyo 107-0052
Japan

SEOUL, SOUTH KOREA

Corporate Office

F17, 410 Teheran-Ro
GangNam-Gu
Seoul 06192
South Korea

CAMBRIDGE, UNITED KINGDOM

R&D Facilities

Steinmetz & Cori Buildings
Granta Park, Great Abington
Cambridge CB21 6DG
United Kingdom

LONDON, UNITED KINGDOM

Corporate Office

First Floor, Burleigh on the Strand
355-359 Strand
London WC2R 0HS
United Kingdom

BASEL, SWITZERLAND

Corporate Office

Office 1901, Spaces Grosspeter Tower
Grosspeteranlage 29
4052 Basel
Switzerland

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Annual Securities Report

Issue date:	March 27, 2024
Accounting period:	The 34th Term (January 1, 2023 – December 31, 2023)
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 30th Term	The 31st Term	The 32nd Term	The 33rd Term	The 34th Term
Financial year-end		December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022	December 31, 2023
Revenue	¥m	9,726	8,842	17,712	15,569	**12,766**
Profit (loss) before income taxes	¥m	534	1,622	433	1,078	**(10,680)**
Net profit (loss) attributable to owners of the parent company	¥m	1,432	1,479	1,017	382	**(7,193)**
Total comprehensive income attributable to owners of the parent company	¥m	2,367	661	5,623	(255)	**(1,121)**
Equity attributable to owners of the parent company	¥m	45,075	52,381	57,468	57,936	**66,810**
Total assets	¥m	56,680	76,465	96,985	99,417	**157,198**
Equity attributable to owners of the parent company per share	¥	584.83	649.92	704.97	707.20	**746.92**
Basic earnings (loss) per share	¥	18.70	18.77	12.53	4.68	**(87.18)**
Diluted earnings (loss) per share	¥	18.50	18.59	12.40	4.63	**(87.18)**
Ratio of equity attributable to owners of the parent company to total assets	(%)	79.5	68.5	59.3	58.3	**42.5**
Ratio of profit to equity attributable to owners of the parent company	(%)	3.3	3.0	1.9	0.7	**(11.5)**
Price earnings ratio (PER)	(Times)	116.10	95.90	151.96	456.84	**-**
Cash flows from operating activities	¥m	3,441	4,672	7,095	9,952	**(5,273)**
Cash flows from investing activities	¥m	(246)	(150)	278	1,043	**(63,791)**
Cash flows from financing activities	¥m	(6,964)	20,278	11,123	(4,887)	**48,329**
Cash and cash equivalents at the end of the year	¥m	15,375	40,008	60,087	66,557	**49,065**
Number of employees [Separately, average number of other workers]	(Employees)	163 [11.2]	190 [12.1]	198 [10.8]	202 [18.1]	**350** **[69.9]**

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 34th 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 number of employees and the average number of other workers increased by 148 and 51.8, respectively, in the 34th Term. This is primarily due to the inclusion of Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd. in the scope of consolidation.

Sosei Group Corporation

Section 1. Company Overview

1 Changes in Key Management Indices (continued)

1.2 Filing Company's Management Indices

Period		The 30th Term	The 31st Term	The 32nd Term	The 33rd Term	The 34th Term
Financial year-end		December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022	December 31, 2023
Operating revenue	¥m	675	433	823	1,118	**5,015**
Ordinary loss	¥m	(764)	(1,430)	(4,720)	(1,586)	**(3,301)**
Net loss	¥m	(504)	(1,308)	(4,260)	(1,497)	**(3,285)**
Capital stock	¥m	37,479	40,220	41,036	41,335	**46,807**
Total number of issued shares	(Shares)	77,073,136	80,596,128	81,518,316	81,923,230	**89,446,777**
Net assets	¥m	58,089	61,504	58,470	57,544	**65,200**
Total assets	¥m	59,197	78,886	94,349	89,385	**142,011**
Net assets per share	¥	735.13	754.79	714.03	699.45	**726.29**
Cash dividends per share [Interim dividends per share]	¥	- [-]	- [-]	- [-]	- [-]	- **[-]**
Net loss per share	¥	(6.57)	(16.62)	(52.47)	(18.30)	**(39.81)**
Diluted net income per share	¥	-	-	-	-	-
Equity ratio	(%)	95.7	77.1	61.7	64.1	**45.7**
Return on equity (ROE)	(%)	-	-	-	-	-
Price earnings ratio (PER)	(Times)	-	-	-	-	-
Dividend payout ratio	(%)	-	-	-	-	-
Number of employees [Separately, average number of other workers]	(Employees)	19 [1.7]	23 [2.7]	30 [2.9]	32 [4.2]	**41** **[0.9]**
Total shareholder return [Comparative indicator: TSE Mothers Index]	(%)	271.7 [142.7]	225.3 [149.6]	238.3 [165.2]	267.6 [156.8]	**177.8** **[196.2]**
Highest share price	¥	2,794	2,217	2,418	2,294	**3,185**
Lowest share price	¥	780	1,051	1,491	991	**1,296**

Notes
1. The filing company's financial statements are prepared in accordance with Japanese Generally Accepted Accounting Standards (hereinafter, "JGAAP").
2. Diluted net income per share is not provided despite the existence of residual shares, because a net loss per share was recorded.
3. Return on equity (ROE) and price earnings ratio (PER) are not provided because a net loss was recorded.
4. 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 [ ].
5. Due to a review of market classification, the company moved from the Tokyo Stock Exchange Mothers Market to the Tokyo Stock Exchange Growth Market on April 4, 2022, and changed to the Tokyo Stock Exchange Prime Market on March 15, 2023. Therefore, the comparative index used to calculate total shareholder return has been changed from the TSE Mothers index to TOPIX (TSE Stock Price Index).
6. The highest and lowest share prices were those recorded on the Prime market of the Tokyo Stock Exchange on March 15, 2023 and thereafter, and on the Growth market of the Tokyo Stock Exchange before that date.

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 Reprofiling 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% of the shares of Heptares Therapeutics Ltd.
August 2015	Concluded collaboration agreement with AstraZeneca UK Ltd. for development of immuno-oncology 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	Enerzair® Breezhaler® received manufacturing approval and marketing approval for the treatment of asthma in Japan.
July 2020	Enerzair® 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	Issuance of euro-yen denominated convertible bonds due 2026 raised ¥30,000m and repurchase and cancellation of euro-yen denominated convertible bonds due 2025 which were issued in July 2020 and raised ¥16,000m.

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.
July 2023	Acquired 100% of the shares of Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd., and acquisition of rights including the sales rights to PIVLAZ™ and dalidrexant in Japan and APAC.
December 2023	Marketing Approval for PIVLAZ™ (clazosentan sodium) 150 mg in South Korea.
December 2023	Issuance of euro-yen denominated convertible bonds due 2028 raised ¥32,000m and repurchase and cancellation of euro-yen denominated convertible bonds due 2026 which were issued in July 2021 and raised ¥30,000m. Issuance of new shares through overseas offering raised ¥2,053m and third-party allotment ¥8,000m.

Sosei Group Corporation

Section 1. Company Overview

3 Business Description

The Group is a science and technology-led biopharmaceutical business whose core activities are drug discovery, drug development and the commercialization of pharmaceutical products. Within the Group, Heptares Therapeutics Ltd (a wholly owned subsidiary based in UK) mainly engages in drug discovery, translational medicine, preclinical and early clinical development; Idorsia Pharmaceuticals Japan Ltd. ("IPJ"; a wholly owned subsidiary based in Japan), and Idorsia Pharmaceuticals Korea Co., Ltd. ("IPK"; a wholly owned subsidiary based in South Korea), mainly engage in clinical development and product commercialization in Japan and South Korea, respectively, with potential to expand into other Asia-Pacific ("APAC") regions.

As at December 31, 2023 the Group comprised the Company (Sosei Group Corporation) and seven consolidated subsidiaries (one of which, Heptares Therapeutics Zurich AG, is in the process of being liquidated as at March 27, 2024). The Group operates in only one segment, the Pharmaceutical business segment. The Company and its significant consolidated subsidiaries as of December 31, 2023 are as follows:

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.
Pharmaceutical business	Sosei Co. Ltd.	Pharmaceutical R&D and sales.
	Idorsia Pharmaceuticals Japan Ltd.	Research & Development, importation, packaging and sale of pharmaceutical products
	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
Idorsia Pharmaceuticals Japan Ltd. Notes 1,2	Minato-ku, Tokyo	Million JPY 95	100.0	Parent company provides: -product sales -outsourcing of product-related operations - provision of officers
Heptares Therapeutics Ltd. Notes 1,2	Cambridge, U.K.	Thousand GBP 416	100.0	Parent company provides: - centralized administrative services - provision of officers
Four other companies				

Notes:

1. Over 10% of the revenue of the Company relates to the specified subsidiaries.
2. The revenue of Idorsia Pharmaceuticals Japan Ltd. and 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, 2023 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
Idorsia Pharmaceuticals Japan Ltd Note 3	8,624	2,835	1,842	1,195	24,023
Heptares Therapeutics Ltd.	5,093	(4,668)	(3,358)	31,767	41,492

3. Since Idorsia Pharmaceuticals Japan Ltd. was included in the scope of consolidation on July 20, 2023, major profit/loss information for the fiscal year ended December 31, 2023 after that date is presented.

5 Status of Employees

5.1 Consolidated Companies

At December 31, 2023

Segment	Number of employees
Pharmaceutical business	309 (69.0)
Group administration	41 (0.9)
	350 (69.9)

Notes:
1. The number of employees presented above represents the number of regular employees. The annual average number of other workers (including contract employees and employees engaged through temp agencies) is provided separately in parentheses.
2. Pharmaceutical business increased by 139 compared with the end of the previous year. This is primarily due to the acquisition of IPJ and IPK, and their inclusion in the scope of the consolidation for the year ended December 31, 2023.
3. Group administration increased by 9 compared with the end of the previous year, mainly due to the strengthening of the organization.

5.2 Filing Company (the Company)

At December 31, 2023

Number of employees (Employees)	Average age (Years old)	Average years of service (Year)	Average annual salary (¥)
41 (0.9)	43.5	3.2	15,417,265

Notes:
1. The number of employees presented above represents the number of regular employees. The annual average number of other workers (including contract 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.

5.4 Ratio of female workers in managerial positions, ratio of male workers taking childcare leave, and wage differentials between male and female workers

(i) The filing company

The filing company is not subject to the publication obligations under the provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015) and the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991), so this information is omitted.

(ii) Subsidiaries

Subsidiaries are not listed as items for publication or are not obligated to make such publications under the provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015) and the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991), so this information is omitted.

Sosei Group Corporation

Section 2. Business Review

Forward-looking statements in this text were determined by management as at December 31, 2023.

1 Management Policy, Management Environment and Issues to be Addressed

1.1 Management Policy

The Group is a science and technology-led biopharmaceutical business whose core activities are drug discovery, drug development and the commercialization of pharmaceutical products. Its mission is to invest in world-leading science to deliver life-changing medicines.

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

In drug discovery, the Group's core scientific focus is to discover new medicines for important unmet medical needs, 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") platform have enabled the Group to become a world leader in discovering new drugs to target GPCRs and to develop an extensive pipeline of over 30 active in-house and partnered discovery and development programs across important therapeutic areas, including neurology, gastroenterology, and immunology and inflammation.

In late-stage development and commercialization, the Group owns the Japan and APAC (ex-China) territory rights to PIVLAZ® (launched in Japan in 2022 to treat cerebral vasospasm) and daridorexant (filed in Japan in 2023 to treat insomnia), as well as exclusive options to license Japan and APAC (ex-China) rights from Idorsia Pharmaceuticals to its Phase 3 cenerimod (autoimmune diseases) and lucerastat (Fabry disease) programs.

In addition, the Group generates royalty revenues from the global sales of respiratory disease products Seebri® Breezhaler®, Ultibro® Breezhaler® and Enerzair® Breezhaler® from Novartis International AG ("Novartis"). These royalties provide the Group with a significant, stable source of capital to support the investment required to achieve its strategic objectives.

Section 2. Business Review

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

1.3 Management Strategy (continued)

During 2023, management has focused on implementing an evolved strategy to more effectively leverage the Group's proprietary platform, pipeline and capabilities to grow its business in Japan and internationally. This strategy, designed to apply cutting-edge science to create pipeline programs by design and deliver life-changing medicines to patients, has been 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 investment and internal innovation combined with external collaborations that provide access to advanced complementary technologies.

(ii) Transforming R&D to a program-centric operational model, entrenching target biology and enhancing translational medicine capabilities, to quickly achieve clinical proof of concept. This, in turn, is expected to enable the advancement of higher quality internal candidates more cost effectively, promote the signing of more profitable out-licensing deals, as well as the generation of a deeper in-house pipeline.

(iii) Diligently driving forward existing partnerships with global biopharma 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. The Group aims to retain rights to develop and commercialize candidates in Japan/APAC under these partnership agreements.

(iv) Building out an agile, scalable and effective clinical development and commercialization business in Japan and APAC. This strategic initiative aims to capitalize on significant underserved opportunities that the Group sees within this large attractive market. This strategy includes in-licensing externally sourced and de-risked clinical assets that are either approved or in late-stage clinical development, as well as expanding the pipeline with internally generated programs in the future.

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

As a science and technology-led biopharmaceutical business whose core activities are drug discovery, drug development and the commercialization of pharmaceutical products, the Group has outlined a strategy to grow the business in Japan and internationally.

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 de-risked approved or late-stage clinical assets and will expand the pipeline with internally generated programs in the future.

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 3 *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.

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.

2 Sustainability Approach and Initiatives

This section contains forward-looking statements, which are based on judgments made as of December 31, 2023 and may differ from actual results.

2.1 Governance

The Group established the ESG Committee with the support of our Board of Directors in 2022, with the mandate to manage, lead and oversee our ESG initiatives. The Chair of our ESG Committee is Miwa Seki, one of our independent external directors, who is renowned for her ESG expertise and experience in Japan. Other committee members include Rolf Soderstrom (independent external director), Noriaki Nagai (independent external director), Chris Cargill (CEO) and Hironoshin Nomura (CFO). The ESG Committee believes that improving our ESG performance is a vital component for the Groups' long-term growth and success. With this overarching objective, our ESG Committee will strive to instill our ESG initiatives across our organization so that environmental, social, and governance goals become foundations of our culture, value and business operations. Our ESG initiatives are priority topics for our Board of Directors and Executive Officers and, with the leadership of our ESG Committee, are championed and implemented across our organization by our Charity Committee, Social Committee, Environmental and Sustainability Group and Working Group.

2.2 Strategy

Strategy regarding climate change

The Group conducted a climate change scenario analysis based on TCFD recommendations to identify climate change risks and opportunities, assess financial impact, and consider measures to address such an impact. Our scenario analysis referred to RCP2.6 (below 2°C scenario) and RCP8.5 (4°C scenario)[1,2] adopted by the UN Intergovernmental Panel on Climate Change (IPCC) as well as the scenarios used by the International Energy Agency (IEA) and assessed the overall impact to our major global bases in Japan, UK, and South Korea. The results of the scenario analysis indicate that the impact of climate change on the Group's business appears to be limited at present, however, the Board of Directors and the ESG Committee will monitor the progress of the measures against risks of the entire Group, which have been assessed and identified by the analysis. The risks and opportunities related to climate change for the Group, their impact on the business, and the Group's response are described below.

[1] RCP: Representative Concentration Pathways

[2] The RCPs include a stringent mitigation scenario (RCP2.6), two intermediate scenarios (RCP4.5 and RCP6.0) and one scenario with very high GHG emissions (RCP8.5). Scenarios without additional efforts to constrain emissions ('baseline scenarios') lead to pathways ranging between RCP6.0 and RCP8.5. RCP2.6 is representative of a scenario that aims to keep global warming likely below 2°C above pre-industrial temperatures.

2 Sustainability Approach and Initiatives (continued)

2.2 Strategy (continued)

Scenario	Event			Impact	Measures
Physical scenario (4°C)	Risk	Acute	Increase in frequency and severity of extreme weather events such as typhoons, torrential rains, and floods	There appears to be no areas of high direct physical risks to the Group's locations. However, the risk of acute flooding or other damage could be significant and affect the operations of some of our drug discovery, research and development, clinical trial, and marketing operations.	Formulate business continuity plans for the head office and each site to minimize the damage of a disaster on operations.
		Chronic	Increase in average annual temperature	There is a risk of increased electricity costs due to increased power usage.	Thoroughly implement energy conservation measures at each site.
			Water scarcity	There is a risk that mid- to long-term water scarcity may result in interruption of operations due to water use restrictions.	Conduct water resource acquisition risk studies using the AQUEDUCT Water Risk Atlas provided by the World Resources Institute to determine the impact on the Group's operations.
	Opportunity	Products and services	Growing demand for medicines and drug discovery	Revenue may increase due to increased demand for existing drugs or the development and commercialization of new drugs because of changes in disease trends caused by global warming.	Continue to strengthen our development pipeline and seek opportunities for research and development of drugs in disease areas where our pipeline can make new contributions in relation to global warming.
Transition scenario (1.5°C)		Resilience	More efficient energy use	The promotion of a decarbonized society will lead to the development of new products and services that improve energy efficiency.	Reside in an office building with enhanced eco-friendly features to increase energy efficiency and reduce energy consumption and greenhouse gas ("GHG") emissions.

2 Sustainability Approach and Initiatives (continued)

2.2 Strategy (continued)

Scenario	Event			Impact	Measures
	Risk	Policy and legal	Carbon taxes and CO_2 emission regulations	The introduction of the carbon price mechanism in Japan, UK, South Korea, Ireland, US, Switzerland, and other countries where we have our bases may result in increased regulation of energy use, and energy costs are expected to increase, but the impact on company-wide operating costs is considered to be limited.	Calculated GHG emissions for the head office and each of our sites and analyzed the financial impact of the carbon price mechanism if it were introduced in each of our markets. Started to examine initiatives to reduce GHG emissions.

Strategy regarding human capital

The promotion of diversity and inclusion and the creation of a collaborative working environment are core pillars of the Groups' vision of delivering life-changing medicines with world-leading science.

Diversity and pay equity

We are committed to pay equality for all colleagues with our intention to continue to build a diverse and inclusive workforce. Commencing in 2021, a global review of staff salaries has been conducted on an annual basis against market benchmarks based on each employee's role and experience. In addition, by clarifying the role of each employee through a grading system throughout the organizations is to ensure consistency and fairness in evaluation and pay. The Group will continue our company-wide efforts to diversity and pay equity.

Share-based payments

We truly believe that employees should have a stake in the ownership of the organization, so they can benefit from their direct contribution to the company. Accordingly, since April 2022, all permanent employees are eligible to be considered for grants of Restricted Stock Units (RSUs) under Sosei Group's Long-Term Incentive Plan (LTIP) every year. The participation in and the actual grants of awards and/or payments to our employees are made in accordance with the rules of the relevant LTIP scheme. It is the Groups' intention to continue to award employees further grants on an annual basis as an additional process of recognizing their performance and contributions to the organization.

2 Sustainability Approach and Initiatives (continued)

2.2 Strategy (continued)

Benefits, work-life balance

The Group has a benefits package that revolves around the health and growth of our employees. We also support employees who have small children, with a return-to-work rate of 83% after maternity or child-care leave. Furthermore, we support flexible work styles that suit the work situation and lifestyle of employees by introducing remote work and flexible working hours.

Capacity development training

We provide employees with opportunities for growth and skills development and undertake a variety of initiatives to enable employees to realize their full potential. In addition to mandatory training such as insider training and compliance training, we also provide training for managers, non-managers, and women's empowerment training, etc., by dividing the target groups and by theme according to their abilities and needs. Furthermore, we have introduced an E-learning and qualification support system, supporting micro-learning and the acquisition of qualifications in specialized fields. By providing a variety of skill development opportunities, we encourage employee growth and improve individual abilities and organizational capabilities.

The Group utilizes an employee engagement survey annually. We aim to use the survey results to guide us with further developing ways to increase employee satisfaction and development strategies.

2.3 ESG Risk management

The Group has worked hard during 2022 to lay the foundations of our ESG commitment and to build a clear roadmap to achieving our ESG goals. This journey began with our inaugural ESG Committee meeting in October 2022, which was brought together to understand our organization's approach to ESG topics. Then, through conversations with our Board of Directors, employees and external stakeholders, the ESG Committee identified priority issues which potentially have a material impact (Materiality), initiatives that address our Materiality, and corresponding key performance indicators (KPIs) as a measure of our progress. The Materiality and KPIs identified by the ESG Committee (set out below) were approved by our Board of Directors in March 2023 and are the initial ESG priority issues and goals that our organization will strive to achieve in the coming years. The objective of our ESG Committee will be to implement these ESG goals across our organization and to collaborate with both internal and external stakeholders to ensure these priorities become the foundation of our culture, values and business operations.

2 Sustainability Approach and Initiatives (continued)

2.4 Indicators and targets

We recognize that our Materiality and KPIs are long-term objectives that we hope will shape our organization's values, and it is our intention to build on and expand these as an ongoing commitment.

With regard to climate change, the Group's Scope 1 and Scope 2 GHG emissions were 800.66 t-CO_2[3] in FY2023. The Group's GHG emission reduction targets will be discussed in the future.

As a global company, our Sosei Group Board of Directors comprise 33% non-Japanese nationals (including our CEO) and 54% of our global workforce are non-Japanese nationals (Japanese: 46%, British: 32%, Rest of the World: 22%). In addition, we employ a diverse workforce regardless of nationality or gender, with 46% of our employees being female. With the goal of attracting an even more diverse workforce, we will focus our efforts on promotion of diversity and inclusion, and the creation of a collaborative working environment.

	Materiality	Initiatives	KPIs
Environment	Promoting environmental management	Focus on environmental management systems and energy reduction goals and timelines at our UK R&D Facility to ensure our emissions and waste levels are appropriately managed	Obtain Green Lab Certification at our UK R&D Facility within 5 years
Social	Diversity, Equity and Inclusion (DEI)	Focus on reducing Gender Gap	Maintain female senior management roles (global) at 30% or more over the medium term
	Creating innovative pharmaceuticals for patients	Focus on creating R&D efficiencies that will enable the development of life-changing medicines for patients	Promote R&D efficiencies – deliver one preclinical compound and one clinical compound per year for the next three years on average from our in-house pipeline
Governance	Equity and transparency to all stakeholders	Enhance and increase dialogue with our shareholders	Provide a forum where all shareholders can join and discuss with company management in an open and frank manner

[3] In the 2023 GHG emissions, IPJ and IPK have been included from July 20, 2023.

3 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 identify and 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, 2023.

3.1 Research and Development of Pharmaceutical Products

Uncertainty of outcome from research and development activity

・Risk

A significant part of the Group's activity 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

Management has expanded the Group's 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 periodically review their business strategies in order to maintain their competitiveness in the industry, and outcome 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 the areas of research, development, manufacturing and sales, the Group's financial position and operating results may be significantly impacted.

・Countermeasure

Management 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, management aims to minimize the impact on business performance when individual partnerships end.

3 Business and Operational Risks (continued)

3.1 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 management 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. Management 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

Management 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 management 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

Group management, 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, management has established a governance structure across the Group that allows it to take rapid decisions to minimize risks.

3 Business and Operational Risks (continued)

3.1 Research and Development of Pharmaceutical Products (continued)

Product Liability

・Risk

Management 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

Management 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, management mitigates product liability risks by purchasing appropriate insurance.

3.2 Strategic Risks

Execution of business strategy

・Risk

Management continues to focus its in-house activities on leveraging the Group's drug discovery 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, as well as internal development and commercialization opportunities in Japan and select APAC market. Management is also focused on in-licensing de-risked approved or late-stage clinical assets to build out its business in Japan and select APAC markets. As is the case for any company pursuing new drug development, 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

Management combines internal and external expertise to comprehensively assess investment opportunities in R&D programs and technologies, including their commercial viability. Management's approach to investing is to balance risk and reward appropriately, ensuring excessive capital is not put at risk.

Risks from investment strategy

・Risk

In the past, management 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

An Investment Committee has been established with responsibility for conducting due diligence and making recommendations to the Group's Board of Directors, which is in turn responsible for approving strategic investments. Management's approach to investments is to balance risk and reward appropriately, ensuring excessive capital is not put at risk.

3 Business and Operational Risks (continued)

3.3 Business Activities of the Group

Partnerships

・Risk

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

・Countermeasure

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

Securing and training human resources

・Risk

The business activities of the Group are delivered through the current management team, as well as divisional leaders and their members. For that reason, management 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

Management 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 (including 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

Management 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 management may not be able to continue to use the intellectual property rights the Group 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.

3 Business and Operational Risks (continued)

3.3 Business Activities of the Group (continued)

・Countermeasure

Management protects its intellectual property rights through the employment of internal IP experts (supported by external patent attorneys) who are 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 regularly updating cash flow forecasts, and maintaining sufficient liquidity (Cash and cash equivalents as at December 31, 2023 totaled JPY 49,065 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. In 2023 the Company issued new shares through an international offering (JPY 2,053 million), new shares issued through a third−party allotment (JPY 8,000 million), refinanced its convertible bonds (JPY 32,000 million) and took out a term loan (JPY 38,550 million at December 31, 2023) in order to strengthen liquidity. In addition, The Company has a syndicated commitment line (unused JPY 5,000 million facility at December 31,2023) from its banks.

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 as well as 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 appropriately or entering forward exchange contracts.

3 Business and Operational Risks (continued)

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

Establishment of domestic and international 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 and overseas. 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 management cannot partner with an appropriate sales agent in Japan and overseas, or if the Company or its contractors' manufacturing or distribution facilities are damaged or business activities are stalled due to natural disasters, fire, or other causes, or if delays or stoppages in the procurement of raw materials, 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 the Group's products, management 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.

3 Business and Operational Risks (continued)

3.3 Business Activities of the Group (continued)

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 product under development as planned, it could have a significant impact on the Group's financial position and operating results.

・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, management strives to develop the capabilities and expertise of the Group's workforce to drive effective decision making.

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

・Risk

Management 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 24,623 million and intangible assets totaling JPY 52,291 million were carried in the consolidated balance sheet as at December 31, 2023.

・Countermeasure

Before 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.

Integration of acquired businesses

・Risk

The Group acquired Idorsia's subsidiaries in Japan and APAC (ex-China) from Idorsia in July 2023. Whilst the resulting expansion in the size and scope of the Group's business activities provides additional opportunity for value creation, the Group is aware of the possibility of risks arising from such new businesses. If there are issues with transitional arrangements or integration activities, or in the execution of a subsidiary's business plan, this could have a significant impact on the Group's financial position and operating results.

・Countermeasure

Management has appointed several executive officers of the Company to serve as directors of subsidiary companies to help oversee their activities. In addition, the Company's Board of Directors and Audit Committee regularly monitor subsidiary activity and provide guidance to management as necessary, thereby strengthening governance.

3 Business and Operational Risks (continued)

3.3 Business Activities of the Group (continued)

Significant contracts

・Risk

Important agreements are stated under "Part 1: *Company Information*, Section 2. *Business Review*, sub-section 5. *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

Management takes appropriate measures when drafting significant contracts, such as the inclusion of termination clauses drafted by external lawyers, where necessary. In addition, management deploys risk mitigation measures such as considering the timing of termination of key contracts when reviewing management strategies, as well as closely monitoring activities with key contract partners and implementing responses according to the situation.

Litigation

・Risk

The Group was not litigated against in the year ended December 31, 2023, 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

Management 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.

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

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

Section 2. Business Review

4 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, 2023.

4.1 Operating Results

In 2023, the Group continued to make progress in extending and enhancing its world-leading StaR®/SBDD discovery capabilities. The Group successfully validated and nominated a first GPCR target into early drug discovery for immune-mediated diseases with an initial indication focus of inflammatory bowel disease ("IBD") under a collaboration with Verily. The Group also expanded a collaboration with PharmEnable to apply their respective technologies to drive novel drug discovery for a second neurological disease target. Furthermore, the Group successfully identified, validated and nominated the first GPCR target to enter a therapeutic discovery program for gastrointestinal diseases under its collaboration with Kallyope.

In terms of transforming R&D and operations, the Group achieved its goal of advancing at least two in-house programs into Phase 1 clinical trials in 2023: the first being a novel GPR52 agonist for schizophrenia (HTL0048149); and the second, an EP4 antagonist (HTL0039732), which is in development as a cancer immunotherapy drug candidate with potential to treat advanced solid tumors. The latter program is in development under a collaboration with Cancer Research UK, the world's largest independent funder of cancer research.

Through its extensive array of partnerships with major biopharmaceutical companies, the Group is exposed to some of the most exciting and fastest growing therapeutic areas of interest within the global pharmaceutical market, particularly in metabolic and neuropsychiatric disorders. In metabolic diseases, such as diabetes and obesity, the Group is partnered with Pfizer on oral GLP-1 receptor ("GLP-1R") agonists and is looking at approaches beyond GLP-1R agonists in its collaboration with Eli Lilly, as well as advancing internal programs to identify next-generation candidates in these areas.

In November, Pfizer entered a new GLP-1 receptor agonist (PF-06954522), discovered under the collaboration with the Group, into a Phase 1 clinical trial. This followed the discontinuation of Pfizer's Phase 2 program with lotiglipron, a once-daily GLP-1R agonist candidate, in June.

In neuropsychiatric disorders, the Group has seen significant progress in its partnership with Neurocrine Biosciences, through which Neurocrine has developed one of the largest portfolios of muscarinic receptor agonist candidates in the industry. During 2023, Neurocrine confirmed its plan to evaluate multiple new oral drug candidates in Phase 1 clinical studies, alongside its ongoing Phase 2 trial of NBI-1117568 (a muscarinic M4 agonist) for schizophrenia. Phase 1 studies of NBI-1117569 (an M4-preferring agonist) and NBI-1117570 (an M1/M4 selective dual agonist) have started and a Phase 1 study of NBI-1117567 (an M1-preferring agonist) is expected to be initiated in 2024.

In the period after the financial year under review, the Group entered into a global collaboration and exclusive option-to-license agreement with Boehringer Ingelheim in March 2024. At the center is a joint mission to develop and commercialize the Groups' portfolio of first-in-class GPR52 agonists, a novel GPCR target, with the intent to improve patient outcomes by simultaneously addressing positive, negative, and cognitive symptoms of schizophrenia.

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

4.1 Operating Results (continued)

Finally, the Group has made significant progress during 2023 in advancing a strategy to build out a leading sales platform in Japan and APAC regions. The Group successfully acquired the pharmaceuticals business in Japan and South Korea from the Switzerland-based biopharmaceutical company Idorsia. This transformational acquisition brought a highly experienced development and commercialization team, a growing commercially available product in Japan, PIVLAZ®, and a late-stage development candidate, daridorexant, as well as options to in-license in Japan and APAC regions (ex-China) several other clinical-stage candidates from Idorsia's pipeline for these markets.

This acquisition has rapidly accelerated the Group's mission to build out an agile, scalable and effective clinical development and commercialization business in the important Japan and APAC markets, and sped up its transition to becoming a fully integrated, commercial-stage pharmaceutical company.

The Group is highly motivated and committed to growing and developing its business in Japan and internationally over the coming years. The Group retains a highly focused investment strategy across its business, remaining flexible to all value-creating opportunities, while continuing to rigorously manage costs.

As of December 31, 2023, the Group had a total of 350 employees (an increase of 148 employees vs. the end of the prior year). This is primarily due to the acquisition of IPJ and IPK, and their inclusion in the scope of consolidation in the year under review.

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

4.1 Operating Results (continued)

Financial results for the year ended December 31, 2023:
Revenue of JPY 12,766 million (a decrease of JPY 2,803 million vs. the prior year), an operating loss of JPY 9,526 million (a decrease of JPY 12,962 million vs. the prior year), a net loss before income taxes of JPY 10,680 million (a decrease of JPY 11,758 million vs. the prior year) and a net loss of JPY 7,193 million (a decrease of JPY 7,575 million vs. the prior year). The operating results below include the results of IPJ and IPK after the date of acquisition of their shares (July 20, 2023).

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m	Change
Revenue	**12,766**	15,569	(2,803)
Cost of sales	**(3,102)**	(926)	(2,176)
Research and development expenses	**(10,075)**	(7,454)	(2,621)
Selling, general and administrative expenses	**(9,965)**	(4,377)	(5,588)
Operating expenses	**(23,142)**	(12,757)	(10,385)
Net other income	**850**	624	226
Operating (loss) profit	**(9,526)**	3,436	(12,962)
Net finance costs	**(1,154)**	(93)	(1,061)
Share of loss of associates accounted for using the equity method	**-**	(429)	429
Impairment loss on investments accounted for using the equity method	**-**	(1,836)	1,836
(Loss) profit before income tax	**(10,680)**	1,078	(11,758)
Income tax benefit (expense)	**3,487**	(696)	4,183
Net (loss) profit	**(7,193)**	382	(7,575)
Alternative performance measure			
Core operating profit / loss (Note 1)			
Operating (loss) profit as stated above	**(9,526)**	3,436	(12,962)
Adjustments:			
Depreciation	**983**	563	420
Amortization	**1,495**	782	713
Share-based payments (Note 2)	**844**	542	302
Restructuring (Note 2)	**53**	533	(480)
M&A related costs	**1,263**	-	1,263
Cost of sales adjustment (Note 3)	**1,812**	-	1,812
Core operating (loss) profit	**(3,076)**	5,856	(8,932)
Average exchange rate during period			
USD:JPY	**140.53**	131.30	9.23
GBP:JPY	**174.81**	161.76	13.05

Notes 1. Core operating profit/loss is defined as IFRS Operating profit/loss + material non-cash costs + material non-recurring costs and highlights the underlying recurring cash generating capability of the business.

2. Accelerated share-based payment expenses are included in Restructuring.

3. Cost of sales adjustment includes the impact of an accounting adjustment for inventory acquired in a business combination in the year under review.

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

4.1 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, 2023 ¥m	Year ended December 31, 2022 ¥m	Change
Pharmaceutical product sales	**6,173**	80	6,093
Upfront fees and milestone income	**3,839**	12,063	(8,224)
Upfront fee revenue recognised at deal inception	-	4,666	(4,666)
Milestone revenue recognised at milestone event	2,108	6,429	(4,321)
Deferred revenue releases (Note 1)	1,731	968	763
Royalty income	**2,504**	2,564	(60)
Other	**250**	862	(612)
Total	**12,766**	15,569	(2,803)

Notes 1. Reflects amounts released from deferred revenue in the balance sheet as explained in "Section 5. Financial Statements, note 22. Revenue, 22.2 Contract balances, Contract liabilities (deferred revenue)".

Revenue in the year under review totaled JPY 12,766 million (a decrease of JPY 2,803 million vs. the prior year).

Revenue relating to pharmaceutical product sales in the year under review totaled JPY 6,173 million (an increase of JPY 6,093 million vs. the prior year). This was primarily due to the inclusion of IPJ in the scope of consolidation from July, which resulted in the addition of PIVLAZ® sales.

Revenue relating to upfront fees and milestone income in the year under review totaled JPY 3,839 million (a decrease of JPY 8,224 million vs. the prior year). Upfront fees and milestone income comprises upfront fee revenue, milestone revenue 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. In some contracts, income relating to research and development services is included within upfront fee revenue or milestone revenue, and recorded initially as deferred revenue. Such income is transferred from deferred revenue to revenue as a result of the performance of research and development activity in the period under review. The decrease in upfront fees and milestone income in the year under review was primarily due to signing no new partnership agreements and the occurrence of four milestone events in the current year vs. two upfront fees and five milestone events in the prior year.

Revenue relating to royalties in the year under review totaled JPY 2,504 million (a decrease of JPY 60 million vs. the prior year). The Group's royalty revenue relates to sales of Ultibro® Breezhaler®, Seebri® Breezhaler® and Enerzair® Breezhaler® by Novartis[4].

[4] 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 AG.

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

4.1 Operating Results (continued)
Operating expenses

Cost of sales
Cost of sales in the year under review totaled JPY 3,102 million (an increase of JPY 2,176 million vs. the prior year). Cost of sales excluding the effect of incorporating IPJ/IPK in the scope of consolidation in the year under review totaled JPY 458 million (a decrease of JPY 468 million vs. the prior year). This was due to a decrease in the internal costs of delivering research and development services to customers, as a result of lower revenues from contract research and development contracts. JPY 2,644 million has been recorded for the cost of sales of PIVLAZ® due to the inclusion of IPJ in the scope of consolidation from July 2023.

Research & development expenses
Research and development ("R&D") expenses in the year under review totaled JPY 10,075 million (an increase of JPY 2,621 million vs. the prior year). R&D expenses excluding those incurred by IPJ/IPK after July 2023 totaled JPY 9,194 million (an increase of JPY 1,740 million vs. the prior year). This increase primarily reflects an increased investment in discovery activities, but also reflects the impact of the weaker Yen. JPY 881 million has been included in 2023 for R&D expenses relating to IPJ/IPK. In the period under review, 90% of R&D spend related to our UK operations.

Selling, general & administrative expenses
Selling, general and administrative ("SG&A") expenses in the year under review totaled JPY 9,965 million (an increase of JPY 5,588 million vs. the prior year). SG&A expenses excluding those incurred by IPJ/IPK after July 2023 totaled JPY 6,210 million (an increase of JPY 1,833 million vs. the prior year). This increase was primarily due to the inclusion of non-recurring M&A related costs totaling JPY 1,263 million. JPY 3,755 million has been included in 2023 for SG&A expenses relating to IPJ/IPK, which includes an amortization charge on Idorsia related intangible assets.

Net other income
Net other income in the year under review totaled JPY 850 million (an increase of JPY 226 million vs. the prior year). This was primarily due to a higher R&D expenditure-related UK tax credit.

Operating loss
Operating loss in the year under review totaled JPY 9,526 million (vs. an operating profit of JPY 3,436 million in the prior year). This increase reflects the combined effect of all of the movements explained above.

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

4.1 Operating Results (continued)

Net finance costs

Net finance costs in the year under review totaled JPY 1,154 million (an increase of JPY 1,061 million vs. the prior year). This was primarily due to recording an accounting charge relating to the purchase and cancellation of existing corporate bonds, and an increase in foreign exchange losses. This was partially offset by an increase in interest income as a result of higher UK interest rates.

Share of profit / loss of associates accounted for using the equity method

The Group ceased to equity account for MiNA (Holdings) Limited ("MiNA") from October 2022, accordingly, there was no share of profit / loss of associates accounted for using the equity method in the year under review.

Impairment loss on investments accounted for using the equity method

Impairment loss on investments accounted for using the equity method for the year ended 31 December 2022 was due to a decrease in the estimated value of MiNA, which was an associate accounted for under the equity method.

Loss before income tax

Loss before income taxes in the year under review totaled JPY 10,680 million (vs. a profit before income taxes of JPY 1,078 million in the prior year). This decrease reflects the combined effect of all of the movements explained above.

Income tax benefit

Income tax benefit in the year under review totaled JPY 3,487 million (vs. an income tax expense of JPY 696 million in the prior year). This was primarily due to recording the following deferred tax assets in 2023: (i) JPY 1,289 million relating to Heptares Therapeutics Ltd. tax losses, (ii) JPY 948 million relating Sosei Co. Ltd. tax losses, and (iii) JPY 612 million relating to the IPJ acquisition.

Net loss

Net loss in the year under review totaled JPY 7,193 million (vs. a net profit of JPY 382 million in the prior year). This reduction in profit reflects the combined effect of all of the movements explained above.

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

4.1 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 generation capability of the core business.

Core operating loss in the year under review totaled JPY 3,076 million (vs. a core operating profit of JPY 5,856 million in the prior year). In calculating core operating loss, the following adjustments to the IFRS operating loss have been made:

- Depreciation totaled JPY 983 million (an increase of JPY 420 million vs. the prior year), JPY 357 million of which relates to the inclusion of IPJ/IPK in the scope of consolidation in 2023.
- Amortization totaled JPY 1,495 million (an increase of JPY 713 million vs. the prior year), JPY 637 million of which relates to the inclusion of IPJ/IPK in the scope of consolidation in 2023.
- Share-based payments totaled JPY 844 million (an increase of JPY 302 million vs. the prior year).
- Restructuring costs totaled JPY 53 million (a decrease of JPY 480 million vs. the prior year). These costs related to a management restructuring program at a subsidiary company (including JPY 26 million of accelerated share-based payment expenses vs. JPY 158 million in the prior year).
- M&A related costs, including professional advisory fees, totaled JPY 1,263 million (including acquisition-related costs relating to the transaction with Idorsia totaling JPY 1,149 million). There were no M&A related costs in the prior year.
- Cost of sales adjustment totaled JPY 1,812 million. This relates to an accounting adjustment for inventory acquired in a business combination which feeds through to cost of sales, and which will cease when all the opening inventory has been sold (there was no cost of sales adjustment in the prior year).

Analysis of financial position: *Assets, liabilities and equity*

Assets

Total assets as at December 31, 2023 were JPY 157,198 million (an increase of JPY 57,781 million vs. the end of the prior year). This was primarily due to an increase in intangible assets of JPY 43,714 million resulting from the inclusion of IPJ/IPK in the scope of consolidation.

Liabilities

Total liabilities as at December 31, 2023 were JPY 90,388 million (an increase of JPY 48,907 million vs. the end of the prior year). This was primarily due to bank borrowings totaling JPY 40,000 million taken out to partly finance the acquisition of IPJ/IPK shares and related assets.

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

4.1 Operating Results (continued)

Equity

Total equity as at December 31, 2023 was JPY 66,810 million (an increase of JPY 8,874 million vs. the end of the prior year). This was mainly due to (i) an increase of JPY 5,472 million in capital stock and JPY 4,511 million in capital surplus as a result of the issue of new shares by way of an overseas subscription and third-party allotment (ii) an increase in other components of equity of JPY 6,072 million primarily relating to an increase in exchange gains on translation, and (iii) the net loss for the year of JPY 7,193 million.

The ratios of Cash and cash equivalents, Interest-bearing debt and Equity attributable to owners of the parent company to total assets were 31.2%, 47.1% and 42.5%, respectively.

4.2 Analysis of cash flows

Cash and cash equivalents as at December 31, 2023 decreased by JPY 17,492 million from the beginning of the year and amounted to JPY 49,065 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 used in operating activities in the year under review totaled JPY 5,273 million. This was primarily due to cash operating costs exceeding cash revenues.

Cash flows from investing activities

Net cash used in investing activities in the year under review totaled JPY 63,791 million. This was primarily due to the acquisition of IPJ/IPK shares and related assets.

Cash flows from financing activities

Net cash provided by financing activities in the year under review totaled JPY 48,329 million. This was primarily due to long-term bank borrowings to finance the acquisition of IPJ/IPK shares and related assets, and the issue of new shares by way of an overseas subscription and third-party allotment.

4.3 Capital resources and liquidity of funds

Working capital to advance business is generated through pharmaceutical product sales, 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 sales of introduced products and the cost of the developing candidate drugs and developing the Group's drug discovery platform. 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*".

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

4.4 Status of production, orders received and sales

The Group reported only one pharmaceutical segment in the year under review and prior year.

Purchases of inventory

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m	Change %
Purchases of inventory	**111**	62	77.8

Notes:
1. The purchase of inventory is based on the purchase price.
2. The increase in purchase of inventory from the previous financial year was due to the purchase of PIVLAZ® as a result of the inclusion of IPJ in the scope of consolidation.

Status of Product Sales Orders Received

There were no applicable, as the Group's production were based on sales plans.

Sales Result

Sales for the year ended December 31, 2023 were as follows:

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m	Change %
Pharmaceutical product sales	**6,173**	80	7,616.3
Upfront fees and milestone income	**3,839**	12,063	(68.2)
Royalty income	**2,504**	2,564	(2.3)
Other	**250**	862	(71.0)
	12,766	15,569	(18.0)

Sales to major business partners and their percentage of Total Sales for the year ended December 31, 2023 and the year ended December 31, 2022 were as follows.

Business partner	Year ended December 31, 2023		Year ended December 31, 2022	
	Amount ¥m	Percentage %	Amount ¥m	Percentage %
Medipal Holdings corporation	**4,070**	**31.9**	-	-
Novartis International AG	**2,504**	**19.6**	2,564	16.5
Idorsia Pharmaceuticals Ltd.[2]	**1,500**	**11.8**	-	-
AbbVie Inc.	**1,212**	**9.5**	2,849	18.3
Eli Lilly and Company	**237**	**1.9**	3,429	22.0
Neurocrine Biosciences, Inc.	**21**	**0.2**	4,138	26.6

Notes:
1. Sales in the table above include sales to subsidiaries of the customer groups listed.
2. Relates to milestones receivable from Idorsia Pharmaceuticals Ltd. which originated from Mochida Pharmaceutical Co. Ltd.

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

4.5 Significant accounting estimates and associated assumptions

The Group's material accounting policies and significant estimates are described in "Section 5 *Financial Statements*, Note 3 *Material accounting policies* and Note 4 S*ignificant accounting estimates and associated judgments*."

5 Significant Contracts in Business Operation

The significant contracts that existed during the year ended December 31, 2023 were as follows:

5.1 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

Contract to acquire all outstanding shares of Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co.,Ltd.

Name of Contract	Purchase Agreement
Counter Party	Idorsia Ltd. and Idorsia Pharmaceuticals Ltd.
Date of Contract	July 20th, 2023
Duration	NA
Main contents of contract	Acquisition of all outstanding shares of Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co.,Ltd. and related intellectual property rights for a consideration of CHF 400 million.

5 Significant Contracts in Business Operation (continued)

5.1 Contracts Involving Sosei Group Corporation (continued)

Financial Loan Agreement

Name of Contract	Financial Loan Agreement
Counter Party	Mizuho Bank, Ltd.
Date of Contract	July 20th, 2023
Last Date of Repayment	July 11th, 2030
Main contents of contract	The Company will borrow 40 billion yen to fund the acquisition of all outstanding shares of Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co. and related intellectual property rights.

5.2 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 licenser 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.

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.

5 Significant Contracts in Business Operation (continued)

5.2 Contracts Involving Heptares (continued)

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.

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.

5 Significant Contracts in Business Operation (continued)

5.2 Contracts Involving Heptares (continued)

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.

Contract name	Global Collaboration and License Agreement
Counterparty	Biohaven Pharmaceutical Holding Company Ltd. (currently acquired by Pfizer)
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.

5 Significant Contracts in Business Operation (continued)

5.2 Contracts Involving Heptares (continued)

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.

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.

5 Significant Contracts in Business Operation (continued)

5.2 Contracts Involving Heptares (continued)

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.

6 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, 2023 were JPY 10,075 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

In terms of enhancing the Group's world-leading StaR®/SBDD, the Group will focus on progressing existing strategic collaborations with companies that have complementary technologies and look to collaborate with new partners. By leveraging this enhanced technology advantage in the GPCR space, the Group aims to generate and advance multiple programs into its own development pipeline while continuing to be a discovery and development partner-of-choice for leading biopharmaceutical companies.

On October 5, 2023, the Group and Verily announced the successful validation and nomination of a first GPCR target into early drug discovery for immune-mediated diseases with an initial indication focus of inflammatory bowel disease (IBD). This scientific breakthrough between the companies is the first research milestone stemming from the strategic collaboration announced in 2022 that brings together the complementary capabilities of Verily's immune profiling technology and the Group's GPCR SBDD platform. The companies select drug targets by leveraging sophisticated computational analysis of genetic and functional genomic data and focused laboratory validation, resulting in increased confidence that identified targets have the highest relevance to human disease and significantly improved chances of clinical success.

On October 10, 2023, the Group and PharmEnable Therapeutics ("PharmEnable") announced the expansion of their collaboration to apply their respective technologies to drive novel drug discovery for a second neurological disease target. The Group is known for its expertise in receptor protein structure determination, SBDD and translational development. PharmEnable will apply its proprietary artificial intelligence (AI)-enabled medicinal chemistry platform (chemUNIVERSE) to design highly specific drug leads for further development. Expanding their 2021 agreement, the companies will jointly conduct and share the costs of the discovery and the development program and will co-own any resulting products equally. The companies are already exploiting their complementary capabilities in an ongoing collaboration focused on an initial target receptor, where they have identified promising small molecules with a new binding mode and novel chemotype.

6 Research and Development Activities (continued)

On November 10, 2023, the Group and Kallyope Inc. ("Kallyope") announced the successful identification, validation and nomination of a first GPCR target to enter a therapeutic discovery program for gastrointestinal diseases. This is the first scientific milestone stemming from the strategic drug discovery collaboration between the two companies announced in 2022. The collaboration aims to leverage the Group's GPCR Diversified Compound Library and GPCR expertise and the innovative Kallyope Klarity™ platform, which combines single-cell sequencing, circuit mapping, computational biology and enteroid phenotypic screening. The collaborating teams at the Group and Kallyope intend to progress the nominated target into a fully supported SBDD program as well as continuing to identify additional gastrointestinal targets for future programs.

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

The Group is focused on strengthening its in-house R&D and has achieved its goal of advancing at least two in-house programs into clinical trials in 2023.

On July 3, 2023, the Group announced that it has dosed the first subject in a Phase 1 trial evaluating HTL0048149 (HTL'149), a first-in-class GPR52 agonist, which represents a novel mechanism of action for the treatment of schizophrenia and related neurological diseases. HTL'149 was developed to be a once-daily, orally available small molecule drug with an antipsychotic and pro-cognitive profile and to avoid the adverse effects typically associated with existing antipsychotic drugs. HTL'149 achieves this profile through selectively targeting the orphan GPR52 receptor in the brain to address positive symptoms (e.g. psychosis, delusions, hallucinations), negative symptoms (e.g. social withdrawal) and cognitive impairment (e.g. attention, working memory and executive function) associated with schizophrenia. Through this novel mechanism of action, HTL'149 aims to address the significant proportion of schizophrenia patients who do not respond to or suffer side effects leading to compliance issues from using existing antipsychotics. Furthermore, current antipsychotic drugs do not effectively treat the negative or cognitive symptoms of disease. The Phase 1 trial is a two-part, randomized, double-blind, placebo-controlled, single- and multiple-ascending dose study to assess the safety, pharmacokinetics, and pharmacodynamics of oral HTL'149 in healthy volunteers aged 18-55 years. The trial is being conducted in the UK and is expected to read-out initial data in 12-18 months from initiation.

6 Research and Development Activities (continued)

On August 10, 2023, the Group announced that the first patient had been dosed in a Phase 1/2a clinical trial evaluating its orally available small molecule cancer immunotherapy drug HTL0039732 for advanced solid tumors under an agreement with Cancer Research UK. HTL0039732 works by blocking signalling through a specific type of prostaglandin receptor, the prostaglandin E2 (PGE2)-type prostanoid receptor 4 (EP4). In cancer, PGE2 acts in the tumor microenvironment to trigger cancer cells to evade the immune system. Targeting EP4 to block the effects of PGE2 increases the ability of the immune system to detect and control cancer cells and makes HTL0039732 a potential candidate to treat patients with cancers that generally do not respond well to current immunotherapies, such as microsatellite stable colorectal, gastroesophageal, head and neck, and castrate-resistant prostate cancer. Cancer Research UK's Centre for Drug Development (CDD) is sponsoring, designing and conducting the Phase 1/2a trial with three main objectives: to define the toxicity, tolerability and pharmacokinetics of HTL0039732, to identify the recommended dose for Phase 2 studies, and to assess its antitumor activity as a monotherapy and in combination with the PD-L1 inhibitor atezolizumab. Phase 2a of the trial will expand the optimal combination dose in up to four cohorts in specified cancer indications. The Group holds a license to the results generated under the trial to continue the clinical development and commercialization of HTL0039732.

(iii) Supporting our existing partnerships with major global biopharmaceutical companies to drive continued revenue flow

Through its extensive array of partnerships with major biopharmaceutical companies, the Group has an economic interest to programs advancing in some of the most exciting and fastest growing therapeutic areas of interest to the global pharmaceutical market, particularly in metabolic and neuropsychiatric disorders.

On January 5, 2023, the Group noted its partner Tempero Bio Inc. ("Tempero Bio") had announced US FDA clearance of its Investigational New Drug (IND) application for TMP-301 for the treatment of alcohol and substance use disorders. TMP-301 (formerly HTL0014242) is a novel mGluR5 negative allosteric modulator (NAM) candidate discovered by the Group and licensed to Tempero Bio. Tempero Bio had initiated a Phase 1 study with TMP-301 in healthy volunteers in 2023 with support from a USD 5.3 million grant from the US National Institute on Drug Abuse (NIDA).

On March 30, 2023, Centessa Pharmaceuticals ("Centessa") announced, in its Full Year 2022 Financial Results and Business Update, that it had nominated ORX750, an orally administered, selective orexin receptor-2 (OX2R) agonist developed using the Group's SBDD platform, as its product candidate with the potential to be a best-in-class therapy for narcolepsy and other sleep disorders. Centessa also presented ORX750 increased wakefulness in NT1 model and wild type mice. ORX750 is currently in preclinical development and undergoing IND-enabling activities.

6 Research and Development Activities (continued)

On June 27, 2023, the Group noted the decision by its partner Pfizer Inc. ("Pfizer") to prioritize the development of clinical-stage GLP-1 receptor agonist candidate danuglipron for the treatment of diabetes and obesity and as a result has discontinued the development of lotiglipron. Both novel and orally available candidates were being advanced by Pfizer in Phase 2 clinical trials. Lotiglipron was discovered and developed by Pfizer during a multi-target research collaboration in which Pfizer had access to the Group's proprietary StaR® technology. The Group will explore next steps with Pfizer for the future development of lotiglipron, as the Group has done previously with other partners in similar situations.

On September 12, 2023, the Group announced that Neurocrine Biosciences Inc. ("Neurocrine") had initiated a Phase 1 first-in-human clinical study of NBI-1117570 in healthy adult participants. NBI-1117570 is an investigational, oral, muscarinic M1/M4 selective dual agonist that may have the potential to treat neurological and neuropsychiatric conditions and was developed utilizing the Group's SBDD platform.

On October 31, 2023, the Group announced that it would receive a USD3.75 million milestone payment under the 2019 multi-target Research Collaboration and License Agreement with Genentech Inc. ("Genentech"). The discovery-based payment is related to progression of a potential first-in-class project targeting an undisclosed GPCR. Genentech will now be responsible for further development and commercialization of this potential new medicine. This milestone is the latest arising from an ongoing collaboration that utilizes the Group's GPCR-focused SBDD capabilities combined with Genentech's discovery, development and therapeutic area expertise directed towards multiple GPCR targets nominated by Genentech.

On November 6, 2023, the Group announced that it had been notified by Pfizer that it had entered a new oral small molecule GLP-1 receptor agonist into a Phase 1 clinical trial. PF-06954522 was discovered by Pfizer scientists during the ongoing collaboration in which Pfizer had access to the Group's StaR® technology.

On November 24, 2023, the Group announced it had initiated discussions with GSK to regain full ownership of GSK4381406, a selective, first-in-class, oral GPR35 agonist in development under a Global Collaboration and License Agreement with GSK as a potential new treatment for Inflammatory Bowel Diseases ("IBD"). GPR35 is an important orphan GPCR with an established genetic association to IBD.

GSK4381406 was designed by the Group and licensed to GSK in 2020. Since then, the Group and GSK had advanced GSK4381406 through a joint development program, generating promising mechanistic, preclinical and safety data suggesting that it may have the potential to improve barrier function and reduce visceral pain in gastrointestinal indications such as ulcerative colitis and irritable bowel syndrome. These data enabled the Group and GSK to gain approval from the UK Medicines and Healthcare products Regulatory Agency ("MHRA") in mid-2023 to enter GSK4381406 into first-in-human studies (NCT05999708).

6 Research and Development Activities (continued)

GSK's decision to deprioritize and discontinue the development of GSK4381406 was due to changes to both its immunology research strategy and immunology research leadership. The decision was not based on any scientific, preclinical or safety data related to GSK4381406. Under the terms of the 2020 agreement between the companies, the Group has the right – for no upfront payment – to regain full ownership of the GSK4381406 program. GSK becomes eligible for a low single digit royalty from the Group on net sales of GSK4381406 should it become commercially available.

Upon regaining ownership, the Group expects to proceed with the planned Phase 1 trial in the UK itself while determining the optimal strategy for the further clinical development and/or re-partnering of the program.

On December 6, 2023, the Group noted Neurocrine had confirmed its plans to evaluate two new muscarinic agonist candidates in Phase 1 studies: NBI-1117569, a muscarinic M4-preferring agonist, and NBI-1117567, a muscarinic M1-preferring agonist. Both investigational, oral compounds may have the potential to treat neurological and neuropsychiatric conditions and were designed by the Group. Neurocrine confirmed a Phase 1 study of NBI-1117569 has started and a Phase 1 study of NBI-1117567 will be initiated in 2024.

(iv) Building out a leading commercialization business in Japan

On April 1, 2023, the Group appointed Christopher Cargill, President and CEO, to the position of Representative Director and President of Sosei Co. Ltd., effective the same date. This appointment has enabled Mr. Cargill to directly manage the subsidiary's business and to focus on strengthening the Japan business to achieve its strategic goals.

A key element of this strategy was to build an agile, scalable and effective clinical development and commercialization business capability that would enable the Company to deliver life-changing medicines to patients in Japan and capitalize on the significant underserved opportunities that it sees within this large attractive market.

On July 20, 2023, the Group acquired Idorsia Limited's pharmaceuticals business in Japan and South Korea, accelerating its transformation into a fully integrated biopharmaceutical Group. This included the acquisition of 100% of IPJ and IPK.

This acquisition fulfils the Group's objective to build out a leading sales platform in Japan and was the conclusion of a rigorous global search. The transaction, which was fully funded by existing cash and a new long-term, low-rate corporate loan, provides the Group with multiple strategic benefits by:

- Accelerating the Company's mission by adding experienced clinical development capability and profitable commercial operations in Japan, with a lean model for sales and marketing, and the ability to scale and create further value.
- Securing and expanding the Company's future pipeline with two major products PIVLAZ® and daridorexant; exclusive opt-ins for Phase 3 assets (cenerimod and lucerastat); and selected rights to up to five additional clinical-stage programs from Idorsia's global pipeline.

6 Research and Development Activities (continued)

- Bringing a highly skilled team with a proven track record of excellence and delivery, led by Dr. Satoshi Tanaka, who has directed several approvals and successful commercial launches over the past two decades in Japan and South Korea.
- Leveraging Japan's quality clinical environment to target underserved, specialty disease areas; and providing a platform to expand across broader APAC regions and extend product launches.

The transaction also brings together complementary capabilities to develop and commercialize novel medicines across Japan and APAC (ex-China) from three sources of innovation: (i) The Group's wholly owned discovery and early development pipeline, (ii) selected clinical candidates from Idorsia's pipeline, and (iii) in-licensing of Japan/APAC (ex-China) rights to clinical product candidates from third parties.

In addition, the Company will continue to seek partners for novel candidates or programs discovered by the Group for development and commercialization outside of Japan/APAC territories where significant unmet needs exist, while seeking to retain Japan and APAC rights.

On October 31, 2023, the Group announced that IPJ had submitted a New Drug Application ("NDA") to the Japanese Pharmaceuticals and Medical Devices Agency ("PMDA") for the approval of daridorexant (ACT541468), a dual orexin receptor antagonist, which has been co-developed by Idorsia and Mochida Pharmaceutical Co., Ltd. ("Mochida"), for the treatment of adult patients with insomnia. In relation to the filing of this NDA and the sub-licensing of rights by Mochida to Shionogi & Co.,Ltd., the Group received milestone fees of JPY 1,500 million.

The NDA is supported by positive results of a randomized, double-blind, placebo-controlled Phase 3 study in Japan to investigate the efficacy and safety of daridorexant. Daridorexant was approved in the US and Europe in January and April 2022, respectively, and is marketed by Idorsia in these and other approved territories as QUVIVIQ™.

On December 7, 2023, the Group announced that PIVLAZ® (clazosentan sodium) 150 mg had received marketing approval from the Ministry of Food and Drug Safety (MFDS) in South Korea for the prevention of cerebral vasospasm, vasospasm-related cerebral infarction, and cerebral ischemic symptoms after aneurysmal subarachnoid hemorrhage ("aSAH").

The approval was based on scientific and clinical data from an extensive Japanese Phase 3 program submitted by IPK. In South Korea, PIVLAZ® is expected to become commercially available to patients in early 2025. PIVLAZ® received marketing approval in Japan in January 2022 and was launched in April 2022 by IPJ. PIVLAZ® had been used in approximately 8,900 patients in Japan as of November 2023.

Sosei Group Corporation

Section 3. Facilities

1 Overview of Capital Expenditures

The total amount of capital expenditures made by the Group in the year under review was JPY 1,222 million, which was mainly for the expansion of the R&D base in Cambridge, U.K. 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, 2023 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	29	10	-	39	30 (0.7)

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 Domestic Subsidiaries

Subsidiary (Location)	Description	Book value						Number of employees
		Buildings and structures ¥m	Machinery and equipment ¥m	Furniture and fixtures ¥m	Construction in progress ¥m	Right-of-use Assets ¥m	Total ¥m	
Idorsia Pharmaceuticals Japan Ltd. Head office (Minato-ku, Tokyo)	Company administration & Sales Office	357	-	54	-	2,216	2,627	89 (18.4)

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

2.3 Overseas Subsidiaries

Subsidiary (Location)	Description	Book value						Number of employees
		Buildings and structures ¥m	Machinery and equipment ¥m	Furniture and fixtures ¥m	Construction in progress ¥m	Right-of-use Assets ¥m	Total ¥m	
Heptares Therapeutics Ltd. Head office (Cambridge, U.K.)	Research facility	1,736	833	186	20	1,830	4,605	173 (12.7)

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.

Sosei Group Corporation

Section 3. Facilities

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, 2023 (shares)	Number of issued shares at the date of submission- March 27, 2024 (shares)	Name of listed financial instruments exchange or name of registered authorized financial instruments firms' associations	Details
Common shares	89,446,777	89,446,777	Tokyo Stock Exchange Prime	Number of shares constituting one unit: 100 shares
Total	89,446,777	89,446,777	-	-

Notes:
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, 2024 and the submission date of this securities report is not included.

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 24 *Share-based payments".*

Contents of Rights Plan

Not applicable.

1 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

Contents of Exercise of others

a. 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) *(*)*	15
Number of treasury stock acquisition rights among stock acquisition rights *(*)*	-
Class and number of shares underlying stock acquisition rights (shares) *(Note 1) (*)*	Common Shares 67,114
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) *(Note4) (*)*	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)	150

(*) The position as at the end of the current year (December 31, 2023) is described above. As at the end of the month prior to the submission date (February 29, 2024) 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. As the Redemption and Cancellation of Convertible Bonds due 2026 was implemented on March 18, 2024, there are no residuals of stock acquisition rights at the date of submission (March 27, 2024).

1 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

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.

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 outstanding shares" refers to the total number of the Company's issued common shares (excluding those held by the Company).

$$\text{Conversion Price after adjustment} = \text{Conversion Price before adjustment} \times \frac{\text{Number of outstanding shares} + \dfrac{\text{Net balance of newly issued and disposed shares} \times \text{Amount paid per share}}{\text{Market value}}}{\text{Number of outstanding shares} + \text{Net balance of newly issued and disposed shares}}$$

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.

1 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

Note 3 Provided, however, that (i) in the event of early redemption by the Company, 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 (iv)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, the Stock Acquisition Rights may not be exercised in the cases specified in the Stock Acquisition Rights Issuance Guidelines.

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. As the Redemption and Cancellation of Convertible Bonds due 2026 was implemented on March 18, 2024, there is no increase in the amount of stated capital and the amount of capital reserve.

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.

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.

1 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

(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
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 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

Contents of Exercise of others

b. Sosei Group Corporation Euro-Yen Convertible Bonds due 2028 (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	Nov 28, 2023
Number of stock acquisition rights (units) *(*)*	3,200
Number of treasury stock acquisition rights among stock acquisition rights *(*)*	-
Class and number of shares underlying stock acquisition rights (shares) *(Note 1) (*)*	Common Shares 17,957,351
Amount to be paid into exercise stock acquisition rights (yen) *(Note 2) (*)*	1,782
Period for exercising stock acquisition rights *(Note 3) (*)*	From Dec 28, 2023 to Nov 30, 2028
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of stock acquisition rights (yen) *(Note4) (*)*	Issue price: 1,782 Additional paid-in capital per share:891
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)	32,000

(*) The position as at the end of the current year (December 31, 2023) is described above. As at the end of the month prior to the submission date (February 29, 2024) 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.

1 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

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.

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 1,782.

(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 outstanding shares" refers to the total number of the Company's issued common shares (excluding those held by the Company).

$$\text{Conversion Price after adjustment} = \text{Conversion Price before adjustment} \times \frac{\text{Number of outstanding shares} + \dfrac{\text{Net balance of newly issued and disposed shares} \times \text{Amount paid per share}}{\text{Market value}}}{\text{Number of outstanding shares} + \text{Net balance of newly issued and disposed shares}}$$

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.

1 Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

Note 3 Provided, however, that (i) in the event of early redemption by the Company, 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 (iv) 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 Nov 30, 2028 (local time at the place where the Bonds are deposited for the exercise of the Stock Acquisition Rights). Notwithstanding the foregoing, the Stock Acquisition Rights may not be exercised in the cases specified in the Stock Acquisition Rights Issuance Guidelines

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.

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

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
January 1, 2019 – December 31, 2019 Note 1	771,200	77,073,136	625	37,479	625	25,596
January 1, 2020 – December 31, 2020 Notes 2,3,4	3,522,992	80,596,128	2,741	40,220	2,741	28,337
January 1, 2021 – December 31, 2021 Notes 5,6,7	922,188	81,518,316	816	41,036	816	29,153
January 1, 2022 – December 31, 2022 Notes 8,9,10	404,914	81,923,230	299	41,335	299	29,452
January 1, 2023 – December 31, 2023 Notes 11,12,13	7,523,547	89,446,777	5,472	46,807	5,472	34,924

Notes:

1. 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.
2. The total number of issued shares increased by 3,301,400 due to the issuance of new shares by way of an international 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
3. 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.
4. 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.
5. 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.
6. 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.
7. 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.

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 (continued)

8. 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.
9. 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.
10. 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.
11. The total number of issued shares increased by 413,547 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 445 million each.
12. The total number of issued shares increased by 1,500,000 due to the issuance of new shares by way of global offering with a payment date of December 14, 2023 based on the resolution at the meeting of the Board of Directors held on November 28, 2023, and the resulting increases in capital stock and legal capital reserve were JPY 1,027 million each:
    Issue price JPY 1,426
    Payment amount JPY 1,368.96
    Additional paid-in capital per share JPY684.48
13. The total number of issued shares increased by 5,610,000 due to the issuance of new shares by way of third-party allotment with a payment date of December 15, 2023 based on the resolution at the meeting of the Board of Directors held on November 28, 2023, and the resulting increases in capital stock and legal capital reserve were JPY 4,000 million each:
    Payment amount JPY 1,426
    Additional paid-in capital per share JPY713

1.5 Shareholding by Shareholder Category as at December 31, 2023

Category	Shareholding status (Number of shares per share unit: 100 shares)								Fractional shares (shares)
	Public sector	Financial institutions	Financial instruments business operators	Other corpor-ations	Foreign investors, etc.		Individuals, etc.	Total	
					Companies, etc.	Individuals			
Number of shareholders (persons)	-	12	42	260	185	123	26,984	**27,606**	-
Number of shares held (units)	-	121,267	34,591	35,337	219,955	1,929	480,902	**893,981**	48,677
Shareholding ratio (%)	-	13.564	3.869	3.952	24.603	0.215	53.793	**100. 000**	-

Notes:
1. Common shares in the “Individuals, etc.” column include 3 units and the “Fractional shares” column includes 35 treasury shares (totaling 335 shares) owned by the Company.

Section 4. Information about the Filing Company

1 Stock Information (continued)

1.6 Major Shareholders as at December 31, 2023

Name	Address	Number of shares held (shares)	Ratio of shares held to total number of shares issued (Excluding treasury stock) (%)
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo, JPN	8,137,800	9.10
Daisuke Gomi	Matsumoto-shi, Nagano	6,630,000	7.41
JICVGI Opportunity Fund No.1 Investment Limited Partnership	1-3-1, Toranomon, Minato-ku, Tokyo, JPN	5,610,000	6.27
Custody Bank of Japan, Ltd. (trust account)	1-8-12, Harumi, Chuo-ku, Tokyo, JPN	2,787,500	3.12
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)	2,521,600	2.82
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: HSBC Tokyo Branch, Custody Business Department)	ONE CONGRESS STREET, SUITE 1, BOSTON, MASSACHUSETTS (Standing proxy: 3-11-1, Nihonbashi, Chuo-ku, Tokyo, JPN)	1,952,340	2.18
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)	1,902,500	2.13
Pfizer Pharmaceuticals K.K.	3-22-7, Yoyogi, Shibuya-ku, Tokyo, JPN	1,885,136	2.11
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)	1,602,700	1.79
JP MORGAN CHASE BANK 385781 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (Standing proxy: Shinagawa Intercity Tower A, 2-15-1, Konan, Minato-ku, Tokyo, JPN)	1,009,600	1.13
		34,039,176	**38.06**

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) 8,137,800 shares
   Custody Bank of Japan, Ltd. (trust account) 2,787,500 shares

1 Stock Information (continued)

1.6 Major Shareholders as at December 31, 2023 (continued)

2. In the amended report of possession of large volumes provided for public inspection on May 15, 2023, the following shareholdings are respectively attributed to Barclays Capital Securities Ltd. and its four joint holders at May 8, 2023. However, since the Company is unable to confirm the actual number of shares held at December 31, 2023, they are not included in the major shareholders table above. The contents of the amended report of possession of large volumes is as follows:

Details included in the report are as follows:

Name	Address	Number of shares held (shares)	Percentage of shares held to total number of shares issued (%)
Barclays Capital Securities Ltd.	1 Churchill Place, LONDON, E14 5HP, UK	1,493,083	1.82
Barclays Bank plc	1 Churchill Place, LONDON, E14 5HP, UK	2,100	0
Barclays Securities Japan Ltd.	6-10-1, Roppongi, Minato-ku, 106-6131, Tokyo, JPN	18,900	0.02
Palomino Ltd.	1 Churchill Place, LONDON, E14 5HP, UK	0	0
Barclays Capital Inc.	CT Corporation System, Corporate Center1 11th, Hartford State of Connecticut, 06103-3220, US	0	0
		1,514,083	**1.85**

3. In the amended report of possession of large volumes provided for public inspection on June 20, 2023, the following shareholdings are respectively attributed to JPMorgan Asset Management Ltd. and its four joint holders at June 15, 2023. However, since the Company is unable to confirm the actual number of shares held at December 31, 2023, they are not included in the major shareholders table above. The contents of the amended report of possession of large volumes is as follows:

Details included in the report are as follows:

Name	Address	Number of shares held (shares)	Percentage of shares held to total number of shares issued (%)
JPMorgan Asset Management Ltd.	Tokyo Building, 2-7-3 Marunouchi, Chiyoda-ku, 100-6432, Tokyo, JPN	1,303,300	1.58
JPMorgan Securities Japan Co., Ltd.	Tokyo Building, 2-7-3 Marunouchi, Chiyoda-ku, 100-6432, Tokyo, JPN	-26,702	-0.03
J.P. Morgan Securities plc	25 Bank Street, Canary Wharf, London, E14 5JP, UK	628,899	0.76
J.P. Morgan Securities LLC	383 Madison Avenue, New York City, State of New York, 10179, US	1,793,406	2.15
J.P. Morgan Prime Inc.	383 Madison Avenue, New York City, State of New York, 10179, US	218,972	0.27
		3,917,875	**4.69**

4. In the amended report of possession of large volumes provided for public inspection on September 25, 2023, the following shareholdings are respectively attributed to Capital Research and Management Company and its four joint holders at September 15, 2023. However, since the Company is unable to confirm the actual number of shares held at December 31, 2023, they are not included in the major shareholders table above. The contents of the amended report of possession of large volumes is as follows:

1 Stock Information (continued)

1.6 Major Shareholders as at December 31, 2023 (continued)

Details included in the report are as follows:

Name	Address	Number of shares held (shares)	Percentage of shares held to total number of shares issued (%)
Capital Research and Management Company	333 South Hope Street, Los Angeles, CA 90071, U.S.A.	1,841,200	2.24
Capital International Inc.	11100 Santa Monica Boulevard, 15th FL., Los Angeles, CA 90025, U.S.A.	295,400	0.36
Capital International Sarl	3 Place des Bergues, 1201 Geneva, Switzerland	283,422	0.34
Capital International K.K.	Marunouchi Nijubashi Building, 3-2-3 Marunouchi, Chiyoda-ku Tokyo	1,888,000	2.29
Capital Group Investment Management Pte. Ltd.	One Raffles Quay 43rd floor North Tower Singapore 048583	129,480	0.16
		4,437,502	**5.39**

5. In the amended report of possession of large volumes provided for public inspection on December 22, 2023, the following shareholdings are respectively attributed to GOLDMAN SACHS JAPAN CO., LTD. and its two joint holders at December 15, 2023. However, since the Company is unable to confirm the actual number of shares held at December 31, 2023, they are not included in the major shareholders table above. The contents of the amended report of possession of large volumes is as follows:

Details included in the report are as follows:

Name	Address	Number of shares held (shares)	Percentage of shares held to total number of shares issued (%)
GOLDMAN SACHS JAPAN CO., LTD.	Roppongi Hills Mori Tower, 10-1, Roppongi 6-chome, Minato ku, Tokyo	2,100	0.00
Goldman Sachs International	Plumtree Court, 25 Shoe Lane, London EC4A 4AU, United Kingdom	2,291,412	2.56
Goldman Sachs & Co. LLC	200 West Street, New York 10282, U.S.A.	97,681	0.11
		2,391,193	**2.67**

6. In the amended report of possession of large volumes provided for public inspection on December 22, 2023, the following shareholdings are respectively attributed to Mizuho Securities Co., Ltd. and its two joint holders at December 15, 2023. However, since the Company is unable to confirm the actual number of shares held at December 31, 2023, they are not included in the major shareholders table above. The contents of the amended report of possession of large volumes is as follows:

1 Stock Information (continued)

1.6 Major Shareholders as at December 31, 2023 (continued)

Details included in the report are as follows:

Name	Address	Number of shares held (shares)	Percentage of shares held to total number of shares issued (%)
Mizuho Securities Co., Ltd.	5-1, Ootemachi 1-chome, Chiyoda-ku, Tokyo	3,376,292	3.57
Asset Management One Co., Ltd.	8-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo	1,717,600	1.81
Mizuho International plc	30 Old Bailey, London, EC4M 7AU, United Kingdom	0	0.00
		5,093,892	**5.38**

7. In the amended report of possession of large volumes provided for public inspection on January 9, 2024, the following shareholdings are respectively attributed to Nomura Securities Co.,Ltd. and its two joint holders at December 29, 2023. However, since the Company is unable to confirm the actual number of shares held at December 31, 2023, they are not included in the major shareholders table above. The contents of the amended report of possession of large volumes is as follows:

Details included in the report are as follows:

Name	Address	Number of shares held (shares)	Percentage of shares held to total number of shares issued (%)
Nomura Securities Co.,Ltd.	13-1, Nihonbashi 1-chome, Chuo-ku, Tokyo	6,150	0.01
NOMURA INTERNATIONAL PLC	1 Angel Lane, London EC4R 3AB, United Kingdom	3,199,198	3.49
Nomura Asset Management Co., Ltd.	2-1, Toyosu 2-chome, Koto-ku, Tokyo	2,212,300	2.47
		5,417,648	**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, 2023

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 300	-	-
Shares with full voting rights (other)	Common shares 89,397,800	893,978	Note1
Shares less than one unit	Common shares 48,677	-	Note2
Total number of issued shares	89,446,777	-	-
Voting rights held by all the shareholders	-	893,978	-

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 35 treasury shares owned by the Company.

Treasury Shares, Etc. as at December 31, 2023

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	300	-	300	0.00

Section 4. Information about the Filing Company

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.

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, 2023	81	223,878
Acquired treasury shares during the period from the end of the financial year to the filling date of annual securities report	258	383,364

Notes:
1. " Acquired treasury shares during the period from the end of the financial year to the filling date of annual securities report" do not include fractional shares purchased from March 1, 2024 to the filling date of this annual securities report.

2.4 Status of Disposals or Holdings of Acquired Treasury Shares

	During the financial year ended December 31, 2023		The period from the end of the financial year to the filling date of annual securities report	
Item	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	335	-	593	-

Notes:
1. Treasury shares disposed of in the period from the end of the financial year to the filling date of annual securities report do not include fractional shares sold from March 1, 2024 to the filling date of this annual securities report.
2. Treasury shares held in the period from the end of the financial year to the filling date of annual securities report do not include fractional shares purchased from March 1, 2024 to the filling date of this annual securities report.

Section 4. Information about the Filing Company

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

・*Composition and purpose*

The Board of Directors comprises 9 directors, including 7 independent external directors. 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.

4 Corporate Governance (continued)

4.1 Corporate Governance (continued)

・Activities

During the current financial year, the Company held 17 Board of Directors meetings, and the attendance status of individual directors is as follows.

Name	Number of times held	Number of times attendance
Shinichi Tamura	17	15
Christopher Cargill	17	17
Tomohiro Tohyama	17	15
Kuniaki Kaga	17	16
David Roblin	17	16
Noriaki Nagai	17	17
Rolf Soderstrom	17	17
Miwa Seki	17	15
Eiko Tomita	12	11

Ms. Eiko Tomita was elected as Directors at the 33rd Ordinary General Meeting of Shareholders held on March 23, 2023 and was appointed as director on 1 April 2023, and accordingly, the numbers of times she attended the Board of Directors meetings held since assuming office are stated above.

The Board of Directors deliberates on individual proposals and basic management policies and strategies through multifaceted and frank questions and advice from directors and executive officers who are diverse in terms of gender, generation, nationality, and expertise. In recent years, the Company has promoted the flexible holding and management of Board of Directors meetings online in consideration of the convenience of attendees and prevention of the spread of COVID-19 infection.

On the other hand, in consideration of the significance of face-to-face discussions, the Company is striving to operate highly effective meetings, including holding one Board of Directors meeting in Japan and one in the UK during the the current financial year. During the current financial year, the Board of Directors discussed and considered a wide range of matters, including finance, R&D, development, acquisition of Idorsia's Pharmaceuticals Business in Japan and APAC (ex-China) , issuance of Convertible Bonds and buyback of existing Convertible Bonds, issuance of new shares by global offering, issuance of new shares by third party allotment issuance of new shares by a post-hoc granted stock-based compensation (RSU) plan and appointment of executive officers.

b. Nomination Committee

・Composition and purpose

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.

4 Corporate Governance (continued)

4.1 Corporate Governance (continued)

・Activities

During the current financial year, the Company held 2 Nomination Committee meetings, and the attendance status of individual directors is as follows.

Name	Number of times held	Number of times attendance
Shinichi Tamura	2	2
David Roblin	2	0
Noriaki Nagai	2	2
Miwa Seki	2	2

In selecting director candidates, the Nomination Committee held multifaceted discussions, including consideration based on the company's vision and interviews with the Nomination committee members.

In addition, the Nomination Committee discusses and investigates future policies for the Board of Directors and succession planning. As a result, based on this policy, the Nomination Committee have decided to nominate the current directors as candidates for reappointment.

c. Compensation Committee

・*Composition and purpose*

The Compensation Committee comprises 3 independent external directors, the Chairman of the Board and 1 director serving concurrently as a representative executive officer. The Compensation 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.

・Activities

The activities of the Compensation Committee are as described in "4 Remuneration paid to Officers ⅵ. Overview and activities of the Compensation Committee’s process of determining the amount of remuneration for Officers in the current financial year".

d. Audit Committee

・*Composition and purpose*

The Audit Committee comprises 5 independent external directors. The Audit 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 Audit Committee does not have full-time members, but it works closely with the Internal Audit Department.

・Activities

The activities of the Compensation Committee are as described in "3 Status of Audits Status of Audit Committee’s Audits".

4 Corporate Governance (continued)

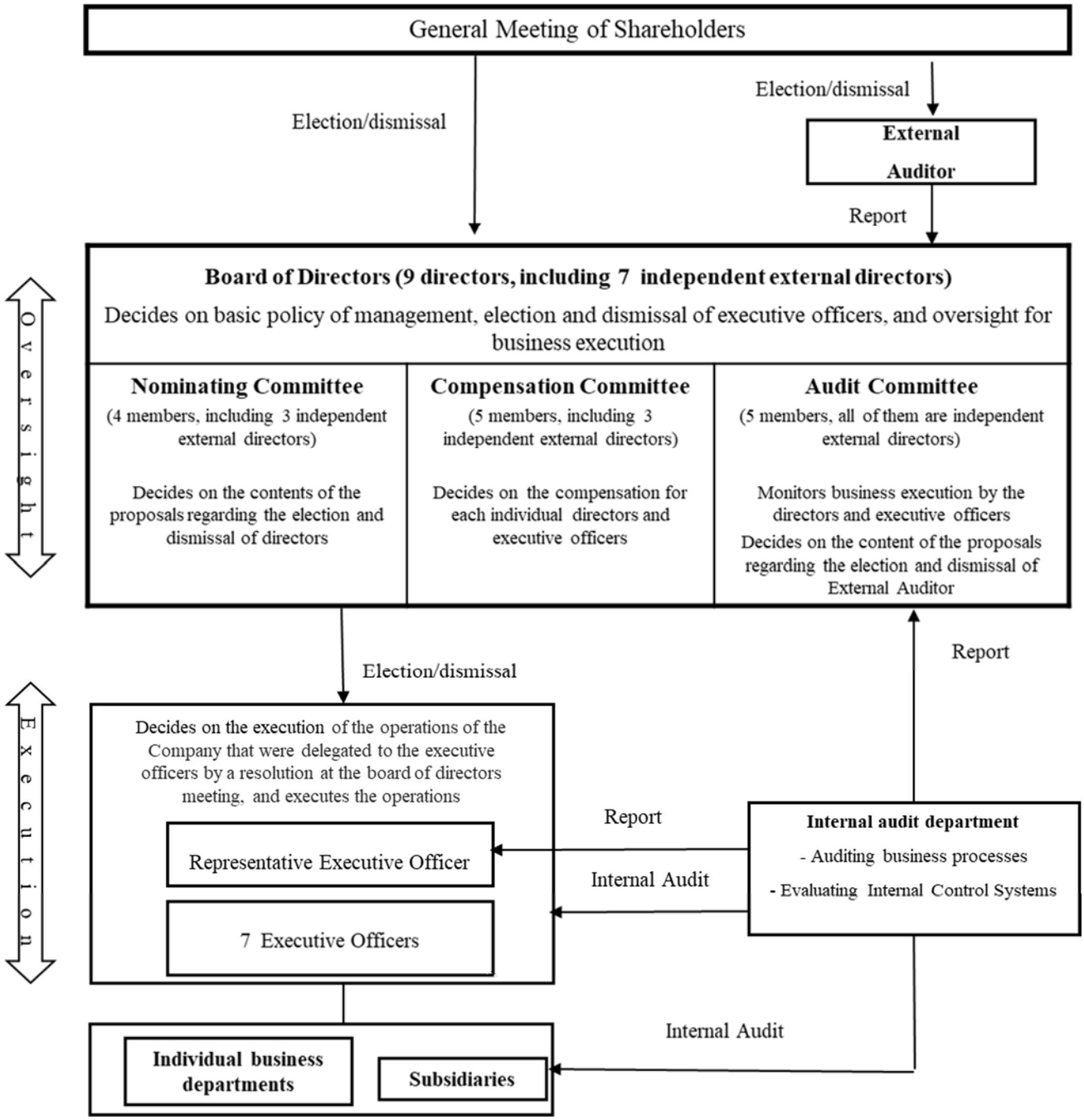
4.1 Corporate Governance (continued)

e. Executive officers

As described in "4.2 *Status of Officers as at March 27, 2024*", 8 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.

Schematic Depiction of the Group's Corporate Governance System



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 relating to the directors and employees who assist in the duties of the Audit Committee, and system to ensure those directors and employees act independently from executive officers:
   - Management assigns employees to assist in the duties of the Audit Committee who shall perform its duties at the instruction and direction of a chair of the Audit Committee in cooperation with Internal Audit Department. The Audit committee conducts evaluation of the performance of the duties of such employees and his or her reassignment requires an approval of the Audit Committee.

ii. System of reporting to the Audit Committee by directors, executive officers and employees and others matters relating to the report to the Audit Committee:
   - Directors, executive officers, audit and supervisory board members (Kansa-yaku) and employees of the Company and its subsidiaries shall report to the Audit Committee in a timely and appropriate manner if the Audit Committee or its designated Committee member requests a report on the execution of business. Also, when they become aware of any matter that may have a material effect on the business or financial conditions of the Company or its subsidiaries, they shall report immediately to the Audit Committee. The Company shall not give any disadvantageous treatment to a person who made reports to the Audit Committee because of the reporting.
   - Internal Audit Department shall report to audit committee timely and adequately the status of internal audits.
   - Office of Japan Compliance and Governance Department shall report to the Audit Committee timely and adequately the status of whistleblowing system.

iii. Other system to ensure the effective audit by the Audit Committee:
   - Internal Audit Department shall consult with the Audit Committee on, among other things, the policy and plan of internal audits, exchange the information on audits and otherwise cooperate closely with the Audit Committee.
   - In the event an Audit Committee member requests for advance payment or reimbursement of the expenses necessary for the performance of the duties of the Audit Committee, the Company shall dispose of such expenses or liabilities without delay.

iv. System to ensure that executive officers and employees of the Company as well as directors and employees of subsidiaries perform their duties in compliance with laws and regulations and the Articles of Incorporation of the Company:

4 Corporate Governance (continued)

4.1 Corporate Governance (continued)

- The code of conduct of the Group companies sets forth the principles of acting in compliance with applicable laws and regulations and in accordance with high standards of corporate ethics, and the management shall act to improve awareness of all directors, executive officers and employees of the Company and its subsidiaries of compliance and the corporate principle. An independent compliance helpline system shall be established and properly operated so that employees of Group companies and business partners may timely report on unlawful or dishonest acts occurred at Group companies.
- Internal Audit Department conducts internal audits on the performance of the duties by executive officers, directors of subsidiaries and employees of the Company and subsidiaries.

v. System to retain and manage information relating to the performance of duties by executive officers:

Minutes of the meetings at which executive officers and subsidiaries' directors are present and other important meetings, written documents recording required approval and other information relating to the performance of the duties by executive officers shall be prepared, retained and managed in accordance with the Regulations of Document Management and other internal regulations.

vi. Rules and systems for the risk management:

- The Company shall identify risks associated with the conduct of business of the Group companies, select the risks of the high priority, and decide specific policies and measures to deal with those risks and ensure adequate implementation by the Company and its subsidiaries.
- In making business judgment and decisions on business strategies and other important matters, the discussions shall be conducted comprehensively at the Board of Directors and other meetings and the relevant risks shall be dealt with by taking such actions as obtaining opinions of outside experts as necessary before making decisions.

vii. System to ensure that the executive officers and directors and employees of subsidiaries perform their duties efficiently:

- The Board of Directors shall decide the responsibilities of each executive officer, and the respective decision-making authorities in the performance of the duties shall be specified for executive officers, directors and employees of the Company and subsidiaries.
- The Company shall provide the charters and rules of the meetings of the Company and subsidiaries and ensure that report is made on the status of the performance of the duties and efficient discussions are made on the important matters in accordance with the rules.
- The Company shall improve the efficiency of the performance of the duties by designing and building IT systems.

4 Corporate Governance (continued)

4.1 Corporate Governance (continued)

viii. System to ensure the proper operation of the business group consisting of the Company and its subsidiaries:

- The Company shall manage the business of the subsidiaries by appointing executive officers of the Company as directors of subsidiaries, receiving monthly report on the status of operation and implementing other measures in accordance with the Regulation of Management of Group Companies. Further, relevant divisions of the Company shall provide guidance and support to enable subsidiaries to establish compliance and other systems to ensure the proper operation of business of subsidiaries.
- Internal Audit Department shall give instructions and recommendations to subsidiaries depending on the results of internal audit.
- The Company shall take various measures including separation of duties and responsibilities and ongoing monitoring at the Company and subsidiaries in order to ensure the effective internal control over financial reporting of the Group companies, and shall evaluate, maintain and improve the system of internal control.

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.

d. Number of Directors and election of Directors

The Company's Articles of Incorporation stipulate that there may be no more than 12 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.

4 Corporate Governance (continued)

4.1 Corporate Governance (continued)

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.

4.2 Status of Officers as at March 27, 2024

Men: 13, Women: 3 (percentage of female officers: 18.8 %)

4 Corporate Governance (continued)

4.2 Status of Officers as at March 27, 2024

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	594,270
			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	41,687
			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.(to the present)		
			Jul. 2023	Director, Idorsia Pharmaceuticals Japan Ltd. (to the present)		
Director	Tomohiro Tohyama	Feb. 21, 1950	Apr. 1978	Entered Legal Training and Research Institute, Supreme Court of Japan	Note 3	51,258
			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.		

4 Corporate Governance (continued)

4.2 Status of Officers as at March 27, 2024 (continued)

Status of Directors

Job title	Name	Date of birth	Summary of career		Term of office	No. of shares owned
Director	Kuniaki Kaga	Sep. 1, 1951	Apr. 1975	Joined Mitsubishi Kasei Kogyo Kabushiki Kaisha (current Mitsubishi Chemical Corporation)	Note 3	35,598
			Jun. 2004	Deputy Director, Head of Healthcare Planning Department, Mitsubishi Chemical Corporation		
			Oct. 2005	Deputy Director, Mitsubishi Chemical Holdings Corporation (current Mitsubishi Chemical Group Corporation) Head of Healthcare Strategy Office		
			Jun. 2006	Executive Officer and Head of Healthcare Strategy Office, Mitsubishi Chemical Holdings Corporation (current Mitsubishi Chemical Group Corporation) Executive Officer, Head of Healthcare Business Domain, and General Manager of Healthcare Planning Office, Healthcare Business Domain, Mitsubishi Chemical Corporation		
			Jun. 2009	Board Director, Mitsubishi Tanabe Pharma Corporation		
			Jun. 2010	Representative Director, Managing Executive Officer, General Manager of International Business Department, Mitsubishi Tanabe Pharma Corporation		
			Apr. 2012	Representative Director, Senior Managing Executive Officer, General Manager of Research Division and International Business Department, Mitsubishi Tanabe Pharma Corporation		
			Apr. 2014	President and Representative Director, Life Science Institute, Inc. Board Director, Mitsubishi Tanabe Pharma Corporation Board Director, The KAITEKI Institute, Inc.		
			Feb. 2015	President and Representative Director, The KAITEKI Institute, Inc.		
			Jun. 2018	Independent External Director of the Company (to the present)		
			Jan. 2021	External Director, SUSMED, Inc (to the present)		
Director	David Roblin	Sep. 25, 1966	Apr. 1991	Medical practice at St George's and St Bartholomew's Hospital, London	Note 3	6,532
			Jun. 1997	Head of Therapy Area for Anti-Infectives, Bayer Pharma AG		
			Jun. 2008	Senior Vice President, Head of Research, Site Head, Chief Medical Officer (CMO) Europe R&D, Pfizer Inc.		
			Apr. 2011	CMO, Creabilis		
			Sep. 2013	Honorary Professor, Swansea University, School of Medicine (to the present)		
			Feb 2014	COO, The Francis Crick Institute		
			Jun. 2015	Honorary Professor of Translational Medicine, St George's Hospital Medical School (to the present)		
			Feb. 2017	Chairman of Scientific Translation, The Francis Crick Institute (to the present)		
			Feb. 2017	President of R&D, Summit Therapeutics		
			Jun. 2018	Independent External Director of the Company (to the present)		
			Mar. 2020	COO and CEO JuvRX, Juvenescence Ltd		
			Apr. 2022	CEO, Relation Therapeutics Limited (to the present) Chairman of the Board, Centauri Therapeutics Limited (to the present)		

4 Corporate Governance (continued)

4.2 Status of Officers as at March 27, 2024 (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	Joined Nomura Securities, Co., Ltd. (NSC)	Note 3	34,164
			Sep. 1998	Managing Director, Head of European Administration Division of Nomura International plc		
			Jun. 2000	General Manager, Legal Dept., NSC		
			Apr. 2006	Executive Officers in charge of Corporate, Nomura Holdings, Inc. (NHI) Executive Officer in charge of Legal, NSC		
			Apr. 2010	Executive Managing Director in charge of corporate planning, legal and secretary, NSC		
			Apr. 2011	Executive Officer and Chief Legal Officer, NHI Executive Managing Director in charge of legal and secretary, NSC		
			Jun. 2013	External Director, Japan Securities Depository Center, Inc.		
			Jun. 2013	External Director, Japan Securities Clearing Corporation		
			Apr. 2014	Executive Officer in charge of Corporate and Chief Legal Officer, NHI Executive Managing Director in charge of planning management, NSC		
			Apr. 2015	Professor of Business Law, Doshisha University		
			Mar. 2019	Independent External Director of the Company (to the present)		
Director	Rolf Soderstrom	Jul. 29, 1965	Jan. 1988	Joined PricewaterhouseCoopers	Note 3	14,313
			Dec. 2000	Corporate Finance Director, Cable & Wireless plc		
			Jun. 2002	External Director, MobileOne Ltd. (current M1 Ltd.)		
			Jan. 2004	Divisional Finance Director, Cobham plc		
			Aug. 2007	Chief Financial Officer, Protherics plc (current BTG plc)		
			Dec. 2008	Chief Financial Officer, BTG plc		
			Jul. 2019	Senior Independent Director, Ergomed plc		
			Mar. 2020	Independent External Director of the Company (to the present)		
			Sep. 2020	Non Executive Director, BioPharma Credit plc (to the present)		
			Jul. 2021	Chief Financial Officer, Syncona Investment Management Limited (to the present)		
Director	Miwa Seki	Feb. 25, 1965	Apr. 1988	Joined DENTSU INC.	Note 3	11,276
			Apr. 1989	Joined Smith Barney		
			Sep. 1993	Joined Morgan Stanley		
			Feb. 1997	Joined Clay Finlay Limited		
			Jan. 2003	General Manager, Tokyo Branch, Clay Finlay Limited		
			Apr. 2015	Associate Professor, Faculty of Foreign Studies, Kyorin University		
			Jun. 2018	External Director, World Co., Ltd. (to the present)		
			Jun. 2020	External Director, DAIWA HOUSE INDUSTRY CO., LTD. (to the present)		
			Apr. 2021	Specially Appointed Associate Professor, Faculty of Foreign Studies, Kyorin University		
			May. 2021	General Partner MPOWER PARTNERS FUND (to the present)		
			Mar. 2022	Independent External Director of the Company (to the present)		

4 Corporate Governance (continued)

4.2 Status of Officers as at March 27, 2024 (continued)

Job title	Name	Date of birth	Summary of career		Term of office	No. of shares owned
Director	Eiko Tomita	Apr. 20, 1961	Apr. 1984	Joined Eisai Co., Ltd.	Note 3	-
			Sep. 1994	Joined IBRD Japan Corporation		
			Sep. 1999	Joined Monsanto Japan Ltd. (current Pfizer Inc.)		
			Nov. 2000	Joined AstraZeneca K.K.		
			Sep. 2006	Joined Pfizer Japan Inc.		
			Apr. 2007	Joined Bristol-Myers Squibb K.K.		
			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.)		
			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.)		
			Apr. 2023	Independent External Director of the Company (to the present)		
Total						789,098

Notes:

1. Directors Tomohiro Tohyama, Kuniaki Kaga, David Roblin, Noriaki Nagai, Rolf Soderstrom, Miwa Seki and Eiko Tomita are Independent External Directors.
2. The Company's committee structure is as follows:
   - Nomination Committee: Chairman: Miwa Seki , Member: Shinichi Tamura, Member: David Roblin, Member: Noriaki Nagai
   - Compensation Committee: Chairman: David Roblin, Member: Shinichi Tamura, Member: Christopher Cargill, Member: Tomohiro Tohyama, Member: Rolf Soderstrom
   - Audit Committee: Chairman: Rolf Soderstrom, Member: Tomohiro Tohyama, Member: Kuniaki Kaga, Member: Noriaki Nagai,: Member: Miwa Seki
3. From appointment at the Ordinary General Meeting of Shareholders held on March 27, 2024, to the conclusion of the Ordinary General Meeting of Shareholders relating to the period ending December 31, 2024.

4 Corporate Governance (continued)

4.2 Status of Officers as at March 27, 2024 (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	41,687
Executive Officer and Executive Vice President, Chief Financial Officer	Hironoshin Nomura	Nov. 26, 1983	Apr. 2009	Joined Mitsubishi Research Institute	Note	2,983
			Jan. 2015	Joined Mizuho Securities		
			Sep. 2020	Senior Vice President, IR & Corporate Strategy, the Company		
			Mar. 2022	Executive Officer and Executive Vice President, Chief Financial Officer, the Company (to the present)		
			Apr. 2023	Director, Sosei Co. Ltd. (to the present)		
			Jul. 2023	Managing Director, Idorsia Pharmaceuticals Japan Ltd. (to the present)		
			Jul. 2023	Director, Idorsia Pharmaceuticals Korea Co., Ltd. (to the present)		
Executive Officer and Executive Vice President, Chief Accounting Officer	Kieran Johnson	May 13, 1969	Jan. 1992	Joined KPMG (UK)	Note	10,994
			Oct. 2002	Founded Amberley Consulting Ltd.		
			Apr. 2004	Joined GSK (UK)		
			Sep. 2017	Senior Vice President, Group Financial Controller, the Company		
			Jan. 2019	Director, Heptares Therapeutics Ltd. (to the present)		
			May 2019	Director, MiNA (Holdings) Ltd. (to October 13, 2022)		
			Mar. 2022	Executive Officer and Executive Vice President, Chief Accounting Officer, the Company (to the present)		
			Aug. 2022	Director, Sosei Group USA Inc. (to the present)		
Executive Officer and Executive Vice President, Chief Compliance Officer	Kazuhiko Yoshizumi	Feb. 19, 1954	Apr. 1977	Joined NEC Corporation	Note	12,843
			Jan. 2003	General manager of legal department, NEC Corporation		
			Dec. 2007	General Manager of NEC Fielding Co., Ltd.		
			Apr. 2010	Associate Senior Vice President and General Manager of NEC Fielding Co., Ltd.		
			Apr. 2015	General manager of legal department, the Company		
			Jul. 2016	General manager of legal department and general manager of group compliance, the Company		
			Apr. 2018	Executive Officer and Executive Vice President, Group Chief Compliance Officer, the Company		
			Sep. 2021	Executive Officer and Group Chief Compliance Officer, the Company		
			Mar. 2022	Executive Officer and Executive Vice President, Chief Compliance Officer, the Company (to the present)		
			Jul. 2023	Managing Director, Idorsia Pharmaceuticals Japan Ltd. (to the present)		
			Jul. 2023	Director, Idorsia Pharmaceuticals Korea Co., Ltd. (to the present)		

4 Corporate Governance (continued)

4.2 Status of Officers as at March 27, 2024 (continued)

Job title	Name	Date of birth	Summary of career		Term of office	No. of shares owned
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
Executive Officer and Executive Vice President, Chief of Staff	Candelle Chong	Oct. 16, 1989	Feb. 2013 Apr. 2018 Apr. 2022 Mar. 2023 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) Director, Heptares Therapeutics Ltd. (to the present)	Note	9,418
Executive Officer and Executive Vice President	Satoshi Tanaka	Jan. 27, 1957	Nov. 1990 Apr. 1994 Apr. 2000 Oct. 2001 Mar. 2018 Jul. 2023	Joined Knoll AG, Germany Representative Director and President, Knoll Japan (current BASF Pharma Japan) Haarmann, Hemmelrath & Partner (Japan) Representative Director and President, Haarmann, Hemmelrath & management consulting Representative Director and President, Actelion Pharmaceuticals Japan Representative Director and Chairman, Actelion Pharmaceuticals Korea Ltd. Representative Director and President, Idorsia Pharmaceuticals Japan Ltd. (to the present) Representative Director and Chairman, Idorsia Pharmaceuticals Korea Co., Ltd. (to the present) Executive Officer and Executive Vice President, the Company (to the present)	Note	-
Executive Officer and Executive Vice President, Chief Operating Officer	Toshihiro Maeda	May. 24 1979	Apr. 2002 Jun. 2010 Oct. 2014 Jul. 2019 Dec. 2021 Dec. 2023	Joined Ministry of Economy, Trade and Industry Joined McKinsey and Company Joined Merck & Co Joined Bristol-Myers Squibb K.K. Bristol-Myers Squibb K.K. Cell Therapy Business Unit Director, Bristol-Myers Squibb K.K. Executive Officer and Executive Vice President, the Company (to the present)	Note	-
Total						**80,711**

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 27, 2024 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, 2024.

4 Corporate Governance (continued)

4.2 Status of Officers as at March 27, 2024 (continued)

External Officers

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

The Company has 7 external directors. 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.
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.

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.

4 Corporate Governance (continued)

4.2 Status of Officers as at March 27, 2024 (continued)

Ms. Eiko Tomita 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 as independent directors in accordance with the provisions of Tokyo Stock Exchange, Inc.

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.

4 Corporate Governance (continued)

4.2 Status of Officers as at March 27, 2024 (continued)

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.

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 16 times during the year ended December 31, 2023. 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.

4 Corporate Governance (continued)

4.3 Status of Audits (continued)

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	16	15
Kuniaki Kaga	16	16
Noriaki Nagai	16	16
Rolf Soderstrom	16	15
Miwa Seki	16	13

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 three 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 as well as the Board of Directors to ensure the effectiveness of internal audits.

Status of External Audits

Name of the audit firm:
Ernst & Young ShinNihon LLC

Number of consecutive periods of audits:
6 periods

The certified public accountants that performed the external audit:
Kiyoto Tanaka (number of consecutive years of audits: 1)
Hiroyuki Nakada (number of consecutive years of audits: 1)

Number of audit team members:
10 certified public accountants and 15 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.

4 Corporate Governance (continued)

4.3 Status of Audits (continued)

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.

Compensation for Audits paid to the External Auditor

Classification	Year ended December 31, 2023		Year ended December 31, 2022	
	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	78	25	60	-
Consolidated subsidiaries	13	-	-	-
Total	91	25	60	-

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, 2023 are the total of these two components.
2. Compensation for non-audit services in the previous year relates to providing a comfort letter.

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

Classification	Year ended December 31, 2023		Year ended December 31, 2022	
	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	-	3	-	8
Consolidated subsidiaries	55	-	47	-
Total	55	3	47	8

Notes:
1. Non-audit services to the filing company include support services such as consists of support on tax and related services for an expatriate.

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, 2023

Not applicable

Year ended December 31, 2022

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.

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).

4 Corporate Governance (continued)

4.4 Remuneration paid to Officers (continued)

- 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.

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.

4 Corporate Governance (continued)

4.4 Remuneration paid to Officers (continued)

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.
- 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 (125% to 250%), 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 are 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.

4 Corporate Governance (continued)

4.4 Remuneration paid to Officers (continued)

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	-	1.3	-
Representative Executive Officer & CEO	1	0.75	2.5	1.75
Executive Officer	1	0.4～0.6	1.25～1.75	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.

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.

4 Corporate Governance (continued)

4.4 Remuneration paid to Officers (continued)

The Compensation Committee was held seven times during the current financial year, and the attendance was as follows:

Name	Number of times held	Number of times attendance
Shinichi Tamura	7	5
Christopher Cargill	7	7
Tomohiro Tohyama	7	7
David Roblin	7	6
Rolf Soderstrom	7	7

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.

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	
Directors (External directors)	304 (215)	128 (95)	- (-)	176 (120)	8 (7)
Executive Officers	656	257	237	162	7

Notes:

1. Renumeration of Christopher Cargill, Director and Executive Officer is excluded from Directors remuneration.
2. Renumeration of Christopher Cargill, Director and Executive Officer is included in Executive Officers remuneration.
3. The table above does not include the following:
   - Retirement allowance of ¥28 million, which were paid by the Company subsidiaries to one Executive Officer who retired in March 2023 in accordance with the result of the Remuneration Committee held in April 2023.
   - Salaries totaling ¥90 million were paid by Company subsidiaries to three Executive Officers, including one Executive Officer who retired in March 2023.
   - Bonuses totaling ¥30 million were paid by Company subsidiaries to two Executive Officers in February 2024 in accordance with the resolution of the Remuneration Committee held in January 2024.
   - Non-monetary remuneration totaling ¥46 million was paid by Company subsidiaries to two Executive Officers, including one Executive Officer who retired in March 2023.
4. Remuneration of one Executive Officer who was appointed in March 2023 and one Executive Officers who was appointed in July 2023 is included from the date of appointment.
5. Share-based payments represent 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*".
6. The amount of share-based payments in the table above shows the amount recorded as an expense in the current financial year in accordance with JGAAP.

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 (¥m)			Total amount of consolidated remuneration (¥m)
			Base salary	Bonuses	Share-based payments	
Christopher Cargill (Representative Executive Officer, President & Chief Executive Officer)	Filing company	Executive Officer	101	121	90	312
Kieran Johnson (Executive Officer)	Filing company	Executive Officer	53	26	25	104
Matthew Barnes (Executive Officer)	Heptares Therapeutics Ltd.	Executive Officer	57	19	29	105

Notes:

The amount of share-based payments in the table above represents the amount recorded as an expense in the current financial year in accordance with JGAAP.

4 Corporate Governance (continued)

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. The purpose of holding stocks is regularly verified by the Board of Directors and a policy is followed of reducing non-core investments when there is no strategic or financial rationale to continue to hold such investments.

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	1,110
Listed shares	2	1,208

Notes:

1. Amounts accounted for under IFRS.

Description of shareholdings that increased during the year:

Not applicable

Description of shareholdings that decreased during the year:

Not applicable

4 Corporate Governance (continued)

4.5 Status of Holdings in Investment Shares (continue)

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.

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

Specific Investment Shares

Description	December 31, 2023 Number of shares Carrying value ¥m	December 31, 2022 Number of shares Carrying value ¥m	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?
Centessa Pharmaceuticals PLC	929,353 1,043	929,353 378	Centessa Pharmaceuticals PLC has the rights to access know-how provided by Heptares Therapeutics Ltd. for orexin positive modulators and analogues. The Company holds the shares with the objective of maximizing the value of the consideration acquired to reflect the results of such development progress.	No
Biohaven Ltd.	27,308 165	27,308 50	To benefit from value created through the exploitation of IP rights	No

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.

4 Corporate Governance (continued)

4.5 Status of Holdings in Investment Shares (continue)

Investment shares held for net investment purposes

a. Status of shareholdings of the Company

	December 31, 2023		December 31, 2022	
Class	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	95	1	117

	Year ended December 31, 2023		
Class	Dividend income ¥m	Gain or loss on disposal ¥m	Unrealized gain or loss on revaluation ¥m
Unlisted shares	-	-	(22)

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, 2023 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, 2023

	Note	December 31, 2023 ¥m	December 31, 2022 ¥m
Assets			
Non-current assets			
Property, plant and equipment	10,12	7,900	3,791
Goodwill	4,11	24,623	15,306
Intangible assets	4,11	52,291	8,577
Deferred tax assets	30	3,964	-
Other financial assets	8,9	3,266	1,737
Other non-current assets	6,16	42	64
Total non-current assets		92,086	29,475
Current assets			
Trade and other receivables	9,14,22	5,064	2,462
Inventories	15	2,903	32
Income taxes receivable		2,099	58
Other financial assets	9	316	-
Other current assets	16	5,665	833
Cash and cash equivalents	9,13	49,065	66,557
Total current assets		65,112	69,942
Total assets	9	157,198	99,417
Liabilities and Equity			
Liabilities			
Non-current liabilities			
Deferred tax liabilities	30	1,490	2,922
Corporate bonds	9,17,32	30,551	27,981
Bank borrowings	9,17,32	32,664	-
Lease liabilities	9,12,32	3,985	1,577
Provisions	19	484	118
Other non-current liabilities	4,20,22	4,029	4,791
Total non-current liabilities		73,203	37,389
Current liabilities			
Trade and other payables	9,18	4,244	1,628
Income taxes payable		378	260
Corporate bonds	9,17,32	143	-
Current portion of long-term bank borrowings	9,17,32	5,798	-
Lease liabilities	9,12,32	832	176
Other financial liabilities	9	-	36
Other current liabilities	20,22	5,790	1,992
Total current liabilities		17,185	4,092
Total liabilities		90,388	41,481
Equity			
Capital stock	21	46,807	41,335
Capital surplus	21	34,048	29,525
Treasury stock	21	(1)	(1)
Retained earnings	9,21	(16,104)	(8,911)
Other components of equity	9,21	2,060	(4,012)
Equity attributable to owners of the parent		66,810	57,936
Total equity	9	66,810	57,936
Total liabilities and equity		157,198	99,417

Sosei Group Corporation

Section 5. Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2023

	Note	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Revenue	4,6,22	**12,766**	15,569
Cost of sales	10,23,24	**(3,102)**	(926)
Gross profit		**9,664**	14,643
Research and development expenses	10,11,23,24	**(10,075)**	(7,454)
Selling, general and administrative expenses	10,11,23,24, 25	**(9,965)**	(4,377)
Other income	26	**944**	626
Other expenses	27	**(94)**	(2)
Operating (loss) profit		**(9,526)**	3,436
Finance income	9,28	**1,341**	663
Finance costs	9,12,28	**(2,495)**	(756)
Share of loss of associates accounted for using the equity method	29	**-**	(429)
Impairment loss on investments accounted for using the equity method	29	**-**	(1,836)
(Loss) profit before income taxes		**(10,680)**	1,078
Income tax benefit (expense)	30	**3,487**	(696)
Net (loss) profit		**(7,193)**	382
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	8,9,21	**668**	(928)
Total items that will not be reclassified subsequently to profit or loss	21	**668**	(928)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	9,10,11,21, 30	**5,404**	291
Total items that may be reclassified subsequently to profit or loss	21	**5,404**	291
Total other comprehensive income	21	**6,072**	(637)
Total comprehensive income for the year		**(1,121)**	(255)
Net (loss) profit attributable to:			
Owners of the parent		**(7,193)**	382
		(7,193)	382
Total comprehensive income for the year attributable to:			
Owners of the parent		**(1,121)**	(255)
		(1,121)	(255)
Earnings per share (yen)			
Basic (loss) earnings per share	31	**(87.18)**	4.68
Diluted (loss) earnings per share	31	**(87.18)**	4.63

Sosei Group Corporation

Section 5. Financial Statements

Consolidated Statement of Changes in Equity
Year ended December 31, 2023

	Note	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity ¥m	Equity attributable to owners of the parent ¥m	Total equity ¥m
Balance at January 1, 2022		**41,036**	**29,100**	**(0)**	**(9,768)**	**(2,900)**	**57,468**	**57,468**
Net profit		-	-	-	382	-	**382**	**382**
Other comprehensive income	21	-	-	-	-	(637)	**(637)**	**(637)**
Total comprehensive income for the year		-	-	-	382	(637)	**(255)**	**(255)**
Issuance of new shares	21	299	(299)	-	-	-	**0**	**0**
Share-based payments	21,24	-	724	-	-	-	**724**	**724**
Purchase of treasury stock	21	-	-	(1)	-	-	**(1)**	**(1)**
Transfer from other components of equity to retained earnings	9,21	-	-	-	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**
Net loss		-	-	-	(7,193)	-	(7,193)	(7,193)
Other comprehensive income	21	-	-	-	-	6,072	**6,072**	**6,072**
Total comprehensive income for the year		-	-	-	(7,193)	6,072	**(1,121)**	**(1,121)**
Issuance of new shares	21	5,472	4,511	-	-	-	**9,983**	**9,983**
Share-based payments	21,24	-	832	-	-	-	**832**	**832**
Purchase of treasury stock	21	-	-	(0)	-	-	**(0)**	**(0)**
Issuance of corporate bonds	21	-	800	-	-	-	**800**	**800**
Repurchase and cancellation of corporate bonds	21	-	(1,620)	-	-	-	**(1,620)**	**(1,620)**
Total transactions with owners		5,472	4,523	(0)	-	-	**9,995**	**9,995**
Balance at December 31, 2023		**46,807**	**34,048**	**(1)**	**(16,104)**	**2,060**	**66,810**	**66,810**

Sosei Group Corporation

Section 5: Financial Statements
Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Cash flows from operating activities			
(Loss) profit before income taxes		**(10,680)**	1,078
Adjustments for:			
Depreciation and amortization	10,11	**2,478**	1,345
Share-based payments	23,24	**870**	700
Loss on investment in securities	28	**46**	41
Change in fair value of contingent consideration	28	**(116)**	(114)
Charge for repurchase and cancellation of corporate bonds	28	**1,317**	-
Net foreign exchange loss	28	**145**	195
Interest income	28	**(1,225)**	(236)
Interest expenses	28	**804**	714
Share of loss of associates accounted for using the equity method	29	**-**	429
Impairment loss on investments accounted for using the equity method	29	**-**	1,836
Decrease (increase) in trade and other receivables		**1,315**	(210)
Decrease (increase) in inventories		**1,908**	(32)
Increase in trade and other payables		**1,552**	315
(Decrease) increase in deferred revenue		**(1,732)**	5,153
Other		**(1,434)**	(1,122)
Subtotal		**(4,752)**	10,092
Grants received		**29**	57
Interest and dividends received		**1,085**	236
Interest paid		**(241)**	(171)
Income taxes paid		**(1,394)**	(262)
Income tax refunded		**0**	0
Net cash (used in) provided by operating activities		**(5,273)**	9,952
Cash flows from investing activities			
Purchase of property, plant and equipment	10	**(804)**	(277)
Purchase of intangible assets	11	**(47)**	(26)
Payment for acquisition of business	7	**(62,941)**	-
Proceeds from sales of investment in securities	8	**-**	1,209
Proceeds from settlement of contingent consideration receivable	9	**-**	137
Other		**1**	-
Net cash (used in) provided by investing activities		**(63,791)**	1,043
Cash flows from financing activities			
Proceeds from long-term bank borrowings	32	**39,900**	-
Repayments of long-term bank borrowings	32	**(1,450)**	-
Repayments of lease liabilities	12,32	**(485)**	(206)
Proceeds from issuance of corporate bonds	17,32	**31,708**	-
Payments for repurchase and cancellation of corporate bonds	17,32	**(31,300)**	-
Payment for settlement of contingent consideration	9,32	**-**	(4,680)
Proceeds from issuance of common stock	21	**9,983**	0
Other		**(27)**	(1)
Net cash provided by (used in) financing activities		**48,329**	(4,887)
Effects of exchange rate changes on cash and cash equivalents		**3,243**	362
Net (decrease) increase in cash and cash equivalents		**(17,492)**	6,470
Cash and cash equivalents at the beginning of the year		**66,557**	60,087
Cash and cash equivalents at the end of the year		**49,065**	66,557

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”) as at the end of December 31, 2023 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 and English language consolidated financial statements were approved by the Board of Directors on March 27, 2024.

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 *Material 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.

2.4 Change in presentation

Consolidated Balance Sheet

The “Inventories" balance which was included in "Other current assets" in the previous financial year, is presented separately in the current financial year due to the increased materiality. To reflect this change in presentation, JPY 865 million presented as "Other current assets" in the consolidated balance sheet as at December 31, 2022 has been reclassified as "Inventories" (JPY 32 million) and "Other current assets" (JPY 833 million).

2 Basis of preparation (continued)

2.4 Change in presentation (continued)

The “Provisions" balance which was included in "Other non-current liabilities" in the previous financial year, is presented separately in the current financial year due to the increased materiality. To reflect this change in presentation, JPY 4,909 million presented as "Other non-current liabilities" in the consolidated balance sheet as at December 31, 2022 has been reclassified as "Provisions" (JPY 118 million) and "Other non-current liabilities" (JPY 4,791 million).

3 Material 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.

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.

3 Material accounting policies (continued)

3.1 Basis of consolidation (continued)

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.

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.

3 Material accounting policies (continued)

3.2 Business combinations (continued)

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.

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.

3 Material accounting policies (continued)

3.3 Foreign currency translations (continued)

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.

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: 2 - 18 years
- Right-of-use assets: 2- 16 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 acquired and liabilities assumed 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 Material accounting policies (continued)

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 - 28 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.

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.

3 Material 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 2 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". 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.

3 Material 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 for goodwill 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.

3 Material 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 any change in fair value recognized in profit or loss.
(b) a financial asset measured at fair value through other comprehensive income is recognized at an amount that reflects 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.

3 Material 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.

3 Material 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 any 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.

3 Material 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 Inventories

Inventories are measured at the lower of cost (including purchasing and processing costs) and net realizable value. Net realizable value is the estimated selling price in the course of business less estimated costs of completion and estimated selling expenses. Cost is determined on a first-in, first-out basis.

3.15 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.

3.16 Provisions

The Group recognizes a provision when it has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions are measured as the present value of the expenditure expected to be required to settle the obligation, using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. Increases in provisions over time are recognised as finance costs.

3 Material accounting policies (continued)

3.16 Provisions (continued)

Asset retirement obligations are estimated based on the past restoration experience and the estimated period of use determined by taking into account the useful life of the internal structures of the offices. The Group estimates, recognises and measures the cost of restoration obligations for leased offices and buildings, taking into account the specific conditions of each property.

3.17 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.

3.18 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".

3.19 Revenue recognition

The Group recognizes revenue from contracts with customers based on the following five-step approach:

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Pharmaceutical product sales

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

Grant of Licenses

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.

3 Material accounting policies (continued)

3.19 Revenue recognition (continued)

The promise to grant a license under a contract is a promise to provide a right to access intellectual property if all the following criteria are met and in other cases, revenue is recognized at a point in time as a right to use license is determined to exist:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property to which the customer has rights.
- the rights granted by the license directly expose the customer to any positive or negative effects of the Group's activities identified in the above criterion; an
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

(a) 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 and recognized 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.

(b) 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.

3 Material accounting policies (continued)

3.19 Revenue recognition (continued)

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

When a 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.

The transaction price for granting licenses is allocated to the grant of license 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 Group'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.

3 Material accounting policies (continued)

3.20 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.

3.21 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.

3.22 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.

3 Material accounting policies (continued)

3.22 Income taxes (continued)

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.

3.23 Earnings per share

Basic earnings per share is 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 is 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

- Cash-generating unit relating to Pharmaceutical Drug Discovery:
  The carrying amounts of Pharmaceutical Drug Discovery related Goodwill and Intangible Assets (core technology) were JPY 11,179 million and JPY 8,466 million, respectively, as at December 31, 2023.
- Cash-generating unit relating to Pharmaceutical Product Sales:
  The carrying amounts of Pharmaceutical Product Sales related Goodwill and Intangible Assets (product-related assets and in-progress research and development) were JPY 8,018 million and JPY 43,352 million, respectively, as at December 31, 2023.

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

4 Significant accounting estimates and associated judgments (continued)

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.

(a) Recoverable amount of Goodwill and Intangible Assets of Cash-Generating Units relating to Pharmaceutical Drug Discovery

The recoverable amount of the Pharmaceutical Drug Discovery cash generating unit has been assessed using a fair value less costs of disposal method by estimating future cash flows based on business plans. Assumptions used in business plans and fair value less costs of disposal calculation 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.

(b) Recoverable amount of Goodwill and Intangible Assets of Cash-Generating Units relating to Pharmaceutical Product Sales

The recoverable amount of the Pharmaceutical Product Sales cash generating unit has been assessed using the value in use method by estimating the future cash flows based on business plans. Assumptions used in business plans and the value in use calculation include the market size of related pharmaceutical products and market shares, selling, general & administrative expense and research & development (R&D) expenses, growth rate 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, 2024*
  If there are material adverse differences between management's projected cash flows and the actual cash flows due to the uncertainties including the timing of milestone achievement and market shares of pharmaceutical products, impairment losses may be recognized.

4 Significant accounting estimates and associated judgments (continued)

Revenue recognition
The balance of contract liabilities was JPY 5,260 million as at December 31, 2023. JPY 1,731 million of former contract liabilities was recognized as revenue during the financial year ended December 31, 2023.

- *Method of calculation of the carrying amounts in the consolidated financial statements and significant assumptions used in the calculation*
  When a 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, 2024*
  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, 2024.

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, 2023 ¥m	Year ended December 31, 2022 ¥m
Pharmaceutical product sales	**6,173**	80
Upfront fees and milestone income	**3,839**	12,063
Royalty income	**2,504**	2,564
Other	**250**	862
	12,766	15,569

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, 2023 ¥m	Year ended December 31, 2022 ¥m
Japan	**6,173**	80
Switzerland	**4,004**	2,564
USA	**1,373**	9,934
Bermuda	**1,212**	2,849
UK	**4**	142
	12,766	15,569

Notes:

1. Revenues in the table are based on the address of customers.

Non-current assets

	At December 31, 2023 ¥m	At December 31, 2022 ¥m
Japan	**54,690**	167
UK	**30,003**	27,571
Other	**163**	-
	84,856	27,738

Notes:

1. Non-current assets do not include deferred tax assets and other financial assets.

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, 2023 ¥m	Year ended December 31, 2022 ¥m
Medipal Holdings Corporation	4,070	-
Novartis International AG	2,504	2,564
Idorsia Pharmaceuticals Ltd. (Note 2)	1,500	-
AbbVie Inc.	1,212	2,849
Eli Lilly and Company	237	3,429
Neurocrine Biosciences, Inc.	21	4,138

Notes:

1. Revenues in the table above include revenues from subsidiaries of the customer groups listed.
2. Relates to milestones receivable from Idorsia Pharmaceuticals Ltd. which originated from Mochida Pharmaceutical Co. Ltd.

7 Business combinations

7.1 Overview of Business Combination

Acquisition of shares in Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd. and related assets

The Company announced that it had resolved at a meeting of the Board of Directors held on July 20, 2023, to acquire from Idorsia Ltd. and Idorsia Pharmaceutical Ltd. (together "Idorsia") the entire share capital of Idorsia Pharmaceuticals Japan Ltd. ("IPJ") and Idorsia Pharmaceuticals Korea Co., Ltd. ("IPK") together with related intercompany receivable balances and intellectual property rights (the "Transaction"). The Company acquired all shares on the same day.

Name of the acquiree and Description of business

Name of the acquiree:	Idorsia Pharmaceuticals Japan Ltd. Idorsia Pharmaceuticals Korea Co., Ltd.
Description of business:	Research & Development, importation, packaging and sale of pharmaceutical products

7 Business combinations (continued)

7.1 Overview of Business Combination (continued)

Primary reason for the business combination
In 2022, the new leadership team at the Group began executing an evolved corporate strategy designed to leverage its proprietary platform, pipeline and capabilities and build a balanced and integrated business with a commercial capability in Japan/APAC and partnering opportunities globally. A key element of this strategy was to build an agile, scalable and effective clinical development and commercialization business capability to enable the Group to deliver life-changing medicines to patients in Japan and capitalize on the significant underserved opportunities that it sees within this large attractive market.

The acquisition of IPJ and IPK addressed this objective and was the conclusion of a rigorous global search by the Group team. The cash-flow positive Transaction, which was fully funded by existing cash and a new long-term, low-rate corporate loan, provides the Group with multiple strategic benefits by:

- Accelerating the Group's mission by adding experienced clinical development capability and a profitable commercial operation in Japan, with a lean model for sales and marketing, and the ability to scale and create further value.
- Securing and expanding the Group's future pipeline with two major products PIVLAZ® and Daridorexant; exclusive opt-ins for Cenerimod and Lucerastat; and selected rights for up to five additional clinical-stage programs from Idorsia's global pipeline.
- Bringing a highly skilled team with a proven track record of excellence and delivery, led by Dr. Satoshi Tanaka, who has directed several New Drug Application (Japan) and Ministry of Food and Drug Safety (South Korea) approvals and successful commercial launches over the past two decades.
- Leveraging Japan's quality clinical environment to target underserved, specialty disease areas; and providing the platform to expand across broader APAC regions and extend product launches.

The Transaction also brings together complementary capabilities to develop and commercialize novel medicines across Japan and APAC (ex-China) from three sources of innovation: (i) the Group's wholly owned discovery and early development pipeline, (ii) selected clinical candidates from Idorsia's pipeline, and (iii) in-licensing of Japan/APAC (ex-China) rights to clinical product candidates from third parties.

In addition, the Group will continue to seek partners for novel candidates or programs discovered by the Group for development and commercialization outside of Japan/APAC territories where significant unmet needs exist, as well as the requirements for substantial expertise and resources.

Date of acquisition
July 20, 2023

7 Business combinations (continued)

7.1 Overview of Business Combination (continued)

Percentage of voting equity interests acquired

Idorsia Pharmaceuticals Japan Ltd.	100%
Idorsia Pharmaceuticals Korea Co., Ltd.	100%

Method of acquisition

Acquisition of shares for cash

Consideration for the Transaction

JPY 64,440 million.

Acquisition related costs of JPY 1,149 million relating to the Transaction were included in Selling, general and administrative expenses.

7.2 Fair value of assets acquired and liabilities assumed as of the acquisition date, and goodwill

	Amount ¥m
Fair value of assets acquired and liabilities assumed:	
Property, plant and equipment	3,431
Intangible assets	44,071
Deferred tax assets	2,279
Trade and other receivables	3,505
Inventories	4,779
Other assets	2,735
Lease liabilities	(2,837)
Trade and other payables	(880)
Other liabilities	(661)
Net fair value of assets acquired and liabilities assumed	56,422
Goodwill	8,018
	64,440

The fair value of product-related assets and in-progress research and development included in Intangible assets is measured using a discounted cashflow model. The assumptions used include projections of the market size and market shares of related pharmaceutical products and the discount rate.

Goodwill reflects the future excess earning power expected from future business development and synergies with existing businesses. None of the recognized goodwill is expected to be deductible for tax purposes.

7.3 Cash flows relating to the acquisition of Idorsia

	Amount ¥m
Cash and cash equivalents paid for acquisition	64,440
Cash and cash equivalents of assets acquired	(1,499)
Net cash payment for the acquisition of IPJ/IPK	62,941

7 Business combinations (continued)

7.4 Impact on Business Performance

The consolidated statement of profit or loss and other comprehensive income includes revenue and net profit of JPY 7,609 million and JPY 623 million, respectively, arising from IPJ/IPK after the acquisition date. Assuming that the business combination had taken place at the beginning of the financial year, the Group's revenue and net loss for the twelve-month period ended December 31, 2023 would have been JPY 17,783 million and JPY 10,710 million, respectively. Such information has not been audited or reviewed by our independent auditors.

8 Licensing transactions with equity components

Year ended December 31, 2023
Not applicable.

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.

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). Although the Group had net debt as at 31 December 2023, it has sufficient liquidity to continue regular operations for a number of years due to the maturity profile of its liabilities. In December 2023, the company secured funds by issuing new shares through overseas offering raised and third-party allotment, repurchased convertible bonds maturing in 2026, and issued new convertible bonds maturing in 2028, which enhanced the Group's liquidity for the next five years.

Please refer to Note 17 *Corporate bonds and borrowings* for details of the commitment line.

9 Financial instruments (continued)

9.1 Capital management (continued)

The capital structure of the Group is as follows:

	December 31, 2023		December 31, 2022	
	Amount (¥m)	Ratio to total asset (%)	Amount (¥m)	Ratio to total asset (%)
Cash and cash equivalents	**49,065**	**31.2**	66,557	66.9
Corporate bonds (Note 1)	**(30,694)**	**(19.5)**	(27,981)	(28.1)
Bank borrowings (Note 2)	**(38,462)**	**(24.5)**	-	-
Drawn commitment line	**-**	**-**	-	-
Lease liabilities	**(4,817)**	**(3.1)**	(1,753)	(1.8)
Net cash	**(24,908)**	**(15.8)**	36,823	37.0
Total equity	**66,810**	**42.5**	57,936	58.3
Total assets	**157,198**	**100.0**	99,417	100.0
Ratio of cash and cash equivalents to interest-bearing debt (%)		**66.3**		223.8

Notes:

1. The total amount of corporate bonds issued is JPY 32,000 million. The aggregate principal amount of the convertible bonds is 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.
2. The total amount of bank borrowings issued is JPY 30,000 million. The aggregate principal amount of the bank borrowings is carried at amortized cost using the effective interest method after deducting an amount of the borrowing costs from the principal amount.

9 Financial instruments (continued)

9.2 Classification of financial instruments

The breakdown of financial instruments is as follows:

	December 31, 2023 ¥m	December 31, 2022 ¥m
Financial assets		
Financial assets measured at fair value through profit or loss:		
Other financial assets	**598**	268
Financial assets measured at fair value through other comprehensive income:		
Other financial assets	**2,318**	1,411
Financial assets measured at amortized cost:		
Other financial assets	**666**	58
Trade and other receivables	**5,064**	2,462
Financial liabilities		
Financial liabilities measured at fair value through profit or loss:		
Other financial liabilities	**-**	36
Financial liabilities measured at amortized cost:		
Corporate bonds	**30,694**	27,981
Bank borrowings	**38,462**	-
Lease liabilities	**4,817**	1,753
Trade and other payables	**4,244**	1,628

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.

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, 2023

	GBP	USD	EUR	CHF
Net exposure (¥m)	790	3,325	10	63
Net exposure (In thousands of local currency units)	4,399	23,575	66	376

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

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, 2023 ¥m	December 31, 2022 ¥m
GBP	(8)	(8)
USD	(33)	(53)
EUR	0	0
CHF	(1)	(0)

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. A portion of the Group's bank borrowings have floating interest rates and are exposed to interest rate risk. 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 2023. Whilst the commitment line remains unutilized, there is no associated interest rate risk. The Group has issued convertible bonds. As the interest rate on these bonds is fixed, fluctuations in interest rates have a limited impact on profit or loss.

Interest rate sensitivity analysis
The impact of a 1% increase in interest rates in each reporting period on the Group's income before income taxes is as follows.

	December 31, 2023 ¥m	December 31, 2022 ¥m
Impact on income before income taxes	**(176)**	-

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", "Bank borrowings", "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:

9 Financial instruments (continued)

9.7 Liquidity risk (continued)

Non-derivative financial liabilities

December 31, 2023

	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	30,694	32,150	150	32,000	-
Bank borrowings	38,462	38,550	5,800	23,200	9,550
Lease liabilities	4,817	5,510	962	3,192	1,356
Trade and other payables	4,244	4,244	4,244	-	-
	78,217	**80,454**	**11,156**	**58,392**	**10,906**

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**

Derivative financial liabilities

December 31, 2023

Not applicable.

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.

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, 2023 and 2022 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, 2023

	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	-	21	577	598
Financial assets measured at fair value through other comprehensive income				
Other financial assets	1,208	-	1,110	2,318
	1,208	**21**	**1,687**	**2,916**
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities	-	-	-	-
	-	**-**	**-**	**-**

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, 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

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, 2023 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, insurance reserves and memberships.
Listed securities are classified as Level 1 of the fair value hierarchy and membership is classified as Level 2 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.

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)

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, 2022, 13.8%) and discount for lack of control/marketability (32.0%) (as at December 31, 2022, 32.0%). 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 (6.6%) (as at December 31, 2022, 5.5%). Changes in fair value are recorded in "Finance income" or "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.

d. Insurance reserves

The fair value of insurance reserves is assessed based on the surrender values provided by the insurance companies with which the Company transacts business.

e. Memberships

The fair value of memberships is assessed based on publicly available prices for identical assets in markets that are not active.

9 Financial instruments (continued)

9.8 Fair value (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 the contingent consideration in business combination 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. As at December 31, 2023 and 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.

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, 2023 ¥m	Year ended December 31, 2022 ¥m
Centessa	**1,043**	378
Biohaven Ltd.	**165**	50
Tempero Bio	**-**	2
MiNA	**1,110**	981

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

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥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.

9 Financial instruments (continued)

9.8 Fair value (continued)

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

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 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 a spin-out company, as partial consideration.

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, 2023 ¥m		Year ended December 31, 2022 ¥m	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial liabilities:				
Corporate bonds	**30,694**	**31,751**	27,981	28,580
Bank borrowings	**38,462**	**38,585**	-	-

The fair value of the corporate bonds is calculated as the present value of the total principal and interest discounted at a rate that takes into account the remaining term of the bonds and credit risk. It is categorized as Level 2 of the fair value hierarchy.

The fair value of the bank borrowings is calculated as the present value of the total principal and interest discounted at the interest rate that would be applicable to a new similar borrowing. 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.

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, 2023

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the year	1,251	-
Net gains or losses (unrealized) (Note 1)	84	-
Other comprehensive income (Note 2)	126	-
Increase due to business combination	199	-
Other	27	
Balance at the end of the year	**1,687**	-

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.

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.

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	Construction in progress	Right-of-use assets (Buildings & structures)	Right-of-use assets (Furniture & fixtures)	Right-of-use assets (Vehicles)	Total
	¥m	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at January 1, 2022	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**
Additions	14	74	97	548	460	-	29	1,222
Acquisition due to business combination	521	13	87	-	2,656	-	154	3,431
Disposals or sales	(91)	(16)	(3)	-	(174)	-	-	(284)
Transfer	274	371	3	(648)	-	-	-	-
Exchange differences on translation	269	201	50	11	277	-	-	808
Balance at December 31, 2023	**3,028**	**2,085**	**628**	**20**	**5,452**	**-**	**183**	**11,396**

10.2 Depreciation and accumulated impairment losses

	Buildings & structures	Machinery & equipment	Furniture & fixtures	Construction in progress	Right-of-use assets (Buildings & structures)	Right-of-use assets (Furniture & fixtures)	Right-of-use assets (Vehicles)	Total
	¥m	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at January 1, 2022	(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)**
Depreciation expense	(223)	(181)	(65)	-	(493)	-	(21)	(983)
Disposals or sales	30	15	3	-	174	-	-	222
Exchange differences on translation	(73)	(128)	(33)	-	(73)	-	-	(307)
Balance at December 31, 2023	**(811)**	**(1,234)**	**(354)**	**-**	**(1,076)**	**-**	**(21)**	**(3,496)**

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)	Right-of-use assets (Vehicles)	Total
	¥m	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at January 1, 2022	**1,550**	**559**	**71**	**-**	**1,623**	**14**	**-**	**3,817**
Balance at December 31, 2022	**1,496**	**502**	**135**	**109**	**1,549**	**-**	**-**	**3,791**
Balance at December 31, 2023	**2,217**	**851**	**274**	**20**	**4,376**	**-**	**162**	**7,900**

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, 2023 and December 31, 2022.

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					
		Product-related assets	In‐process research and development	Core technology	Customer-related assets	Other	Total
	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at January 1, 2022	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**
Additions	-	-	-	-	-	47	47
Acquisition due to business combination	8,018	38,138	5,825	-	-	108	44,071
Exchange differences on translation	1,299	-	-	1,809	723	10	2,542
Balance at December 31, 2023	**24,623**	**39,191**	**5,825**	**15,568**	**5,525**	**259**	**66,368**

11 Goodwill and intangible assets (continued)

11.2 Accumulated amortization and accumulated impairment losses

	Goodwill	Intangible assets					
	¥m	Product-related assets ¥m	In-process research and development ¥m	Core technology ¥m	Customer-related assets ¥m	Other ¥m	Total ¥m
Balance at January 1, 2022	-	(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)
Amortization expense	-	(623)	-	(810)	(20)	(42)	(1,495)
Exchange differences on translation	-	-	-	(750)	(695)	(6)	(1,451)
Balance at December 31, 2023	-	(1,575)	-	(7,102)	(5,298)	(102)	(14,077)

11.3 Carrying amount

	Goodwill	Intangible assets					
	¥m	Product-related assets ¥m	In-process research and development ¥m	Core technology ¥m	Customer-related assets ¥m	Other ¥m	Total ¥m
Balance at January 1, 2022	15,095	112	-	8,761	225	22	9,120
Balance at December 31, 2022	15,306	101	-	8,217	219	40	8,577
Balance at December 31, 2023	24,623	37,616	5,825	8,466	227	157	52,291

Notes:

1. 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.

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., Heptares Zurich AG (formerly G7 Therapeutics AG), Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd. by the Group. These acquisitions generate (i) a stream of royalties on global sales of Novartis' respiratory disease pharmaceutical products Seebri®Breezhaler®, Ultibro® Breezhaler® and Enerzair® Breezhaler® ("Respiratory") (ii) revenues arising from the discovery of novel small molecules, peptides and antibody drugs targeting G-protein-coupled receptors ("GPCRs"), which 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") ("Pharmaceutical Drug Discovery"), and (iii) revenues arising from sales of PIVLAZ® and daridorexant ("Pharmaceutical Product Sales"). The Respiratory, Pharmaceutical Drug Discovery and Pharmaceutical Product Sales activities have been identified as separate Cash-Generating Units (CGUs) when testing for impairment. As at December 31, 2023, the goodwill allocated to each CGU was JPY 5,426 million for the Respiratory CGU, JPY 11,179 million for the Pharmaceutical Drug Discovery CGU and JPY 8,018 million for the Pharmaceutical Product Sales CGU. As at December 31, 2022, the goodwill allocated to each CGU was JPY 5,426 million for the Respiratory CGU, JPY 9,880 million for the Pharmaceutical Drug Discovery CGU and nil for the Pharmaceutical Product Sales CGU.

The recoverable amounts of the Respiratory CGU and Pharmaceutical Drug Discovery CGU have been assessed using the fair value less costs of disposal method and the Pharmaceutical Product Sales CGU have been assessed using the value in use method. Fair value less costs of disposal and value in use have 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 used in fair value less costs of disposal calculation 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. Assumptions used in the value in use calculation include the market size and market shares of related pharmaceutical products, selling, general & administrative expense and research & development (R&D) expenses, growth rate 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. 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.

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, 2023 and December 31, 2022.

11 Goodwill and intangible assets (continued)

11.4 Goodwill (continued)

		Year ended December 31, 2023	Year ended December 31, 2022
Respiratory	Post-tax discount rate	10.6%	10.2%
	Estimate of future cash flows	Future cash flows have been estimated based on past performance and a 12 year business plan.	
Pharmaceutical Drug Discovery	Post-tax discount rate	9.9%	10.2%
	Estimate of future cash flows	Future cash flows have been estimated based on past performance and a 20 year business plan. For the period after the business plan a terminal value has been included with an expected growth rate of zero.	
Pharmaceutical Product Sales	Post-tax discount rate	7.3%	-
	Estimate of future cash flows	Future cash flows have been estimated based on past performance and a 5 year business plan. The growth rate of future cash flows for periods beyond the period for which the business plan is prepared is assumed to be zero.	

Notes:

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

11.5 Significant intangible assets

Product-related assets

Acquisition due to business combination in the year represent the assessed value of PIVLAZ® that existed at the time of the Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd. acquisition at December 31, 2023 was JPY 37,527 million. This was not applicable in 2022. These assets are being amortized using the straight-line method. The expected useful life is 28 years and the remaining amortization period is 27 years. Product-related assets also include amounts relating to Oravi®, an agent for the treatment of oropharyngeal candidiasis, for which Sosei Co., Ltd. has received marketing approval. The carrying amounts of these product-related intangible assets at December 31, 2023 and 2022 include internally generated intangible assets of JPY 37 million and JPY 41 million, respectively, and other intangible assets of JPY 52 million and JPY 60 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 8 years.

In-process research and development

This represents the assessed value of intangible assets that existed at the time of the Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd. acquisition related to daridorexant. Amortization of such assets has not commenced.

11 Goodwill and intangible assets (continued)

11.5 Significant intangible assets (continued)

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 5-12 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 12 years.

11.6 Contractual commitments

There were no contractual commitments relating to the acquisition of intangible assets at December 31, 2023 and December 31, 2022. 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, 2023 ¥m	December 31, 2022 ¥m
Gains / (losses) on leases:		
Interest expense on lease liabilities	**(114)**	(58)
Short term lease expenses	**(18)**	(4)
Small asset lease expenses	**(13)**	(1)
Payment for lease liabilities	**(485)**	(206)
Total cash outflows related to leases	**(630)**	(269)

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.

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, 2023 ¥m	December 31, 2022 ¥m
Cash and bank deposits	**49,065**	66,557

14 Trade and other receivables

The breakdown of trade and other receivables is as follows:

	December 31, 2023 ¥m	December 31, 2022 ¥m
Trade receivables	**4,141**	1,383
Accrued income	**923**	1,079
	5,064	2,462

15 Inventories

The breakdown of inventories is as follows:

	December 31, 2023 ¥m	December 31, 2022 ¥m
Finished Products	**2,686**	-
Semi-finished goods	**217**	-
Goods in process	**-**	32
	2,903	32

The amount of inventories recognized within expenses was JPY 2,138 million in the current financial year and JPY 30 million in the previous financial year.

16 Other assets

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

	December 31, 2023 ¥m	December 31, 2022 ¥m
Other non-current assets		
Long-term prepaid expenses	**42**	64
	42	64
Other current assets		
Prepaid expenses	**790**	638
Accounts receivable	**-**	13
Consumption taxes receivable	**4,724**	69
Other	**151**	113
	5,665	833

Section 5: Financial Statements
Notes to the Consolidated Financial Statements

17 Corporate bonds and borrowings

17.1 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, 2023 ¥m	At December 31, 2022 ¥m			
Sosei Group Corporation	Euro-yen Denominated Convertible Bonds due 2026 Notes 1,2,3	July 27, 2021	**143 (143)**	27,981	0.25	None	July 27, 2026
Sosei Group Corporation	Euro-yen Denominated Convertible Bonds due 2028 Notes 4	December 14, 2023	**30,551**	-	0.25	None	December 14, 2028

Notes:

1. Figures in brackets ( ) represent amounts due to be redeemed within one year.

2. 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

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.

3. During the current financial year, the Company repurchased and cancelled JPY 29,850 million (nominal value) of Euro Yen Convertible bonds. The balance of 150 million yen was redeemed early on March 18, 2024.

4. Description of the convertible bonds:

Euro-yen Denominated Convertible Bonds due 2028

Shares to be issued:	Common shares
Issue price of Stock Acquisition Rights:	Free of charge
Conversion price of Shares:	JPY 1,782
Aggregate principal amount:	JPY 32,000 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 December 28, 2023 to November 30, 2028

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.

17 Corporate bonds and borrowings (continued)

17.2 Borrowings

	At December 31, 2023 ¥m	At December 31, 2022 ¥m	Average interest rate %	Repayment term
Long term bank borrowings (non-current portion)	32,664	-	0.42	From 2025 to 2030
Current portion of long-term bank borrowings	5,798	-	0.42	-
	38,462	-	-	-

As at the end of the current financial year, there were no borrowings under the 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 the level at the second quarter of the financial year ending December 31, 2022 at every second quarter after the financial year end and at every financial year end. 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, for a total of two extensions.
2. Convert the commitment line at each anniversary date up to December 30, 2025 into an installment term loan of the same value with a repayment period of four years.

The contract was extended in December 2023, with a contract term ending December 30, 2024.

18 Trade and other payables

The breakdown of trade and other payables is as follows:

	December 31, 2023 ¥m	December 31, 2022 ¥m
Trade payables	112	-
Other payables	3,048	751
Accrued expenses	1,084	877
	4,244	1,628

19 Provisions

	Asset retirement obligations ¥m	Other ¥m	Total ¥m
Balance at January 1, 2023	118	-	118
Increase during the year	10	9	19
Increase from business combination	333	-	333
Exchange differences on translation	13	1	14
Balance at December 31, 2023	474	10	484

The breakdown of provisions in the consolidated balance sheet is as follows:

	December 31, 2023 ¥m	December 31, 2022 ¥m
Non-current liabilities	484	118
	484	118

Asset retirement obligations are estimated based on the past restoration experience and the estimated period of use determined by taking into account the useful life of the internal structures of the offices, etc., and taking into account the specific conditions of each property. The Group estimates, recognises and measures the cost of restoration obligations for leased offices and buildings, taking into account the specific conditions of each property. These costs are expected to be paid after the estimated period of use but are affected by future business plans and other factors.

20 Other liabilities

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

	December 31, 2023 ¥m	December 31, 2022 ¥m
Other non-current liabilities		
Long-term deferred revenue	3,882	4,791
Other	147	-
	4,029	4,791
Other current liabilities		
Deferred revenue	1,388	1,450
Accrued consumption tax	4,262	-
Deposits	134	105
Accrued bonuses	-	400
Other	6	37
	5,790	1,992

21 Equity and other components of equity

21.1 Capital stock

	Number of shares authorized	Number of shares issued	Treasury stock
Balance at January 1, 2022	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**
Increase in the number of shares through overseas subscription	-	1,500,000	-
Increase in the number of shares through third-party allotment	-	5,610,000	-
Increase in the number of shares through issuance of shares due to allotment of Restricted Stock Units	-	413,547	-
Increase in the number of shares through requests for purchase of odd-lot shares	-	-	81
Balance at December 31, 2023	**149,376,000**	**89,446,777**	**335**

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

21.2 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 24 *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 24 *Share-based payments* for details of RSUs and PSUs.

21 Equity and other components of equity (continued)

21.2 Capital surplus (continued)

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

21.3 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.

21.4 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.

21 Equity and other components of equity (continued)

21.4 Other components of equity (continued)

Other components of equity

	Items that will not be reclassified subsequently to profit or loss ¥m	Items that may be reclassified subsequently to profit or loss ¥m	
	Financial assets measured at fair value through other comprehensive income ¥m	Exchange differences on translating foreign operations ¥m	Total ¥m
Balance at January 1, 2022	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)**
Amount arising during the year			
Before tax effect	**702**	**5,404**	**6,106**
Amount of tax effect	**(34)**	**-**	**(34)**
Net of tax effect	**668**	**5,404**	**6,072**
Transfer to profit or loss			
Before tax effect	**-**	**-**	**-**
Amount of tax effect	**-**	**-**	**-**
Net of tax effect	**-**	**-**	**-**
Other comprehensive Income – net of tax effect	**668**	**5,404**	**6,072**
Balance at December 31, 2023	**84**	**1,976**	**2,060**

Note: For transfer to retained earnings, please refer to "9. Financial instruments 8. Fair value 3. Derecognition of financial assets measured at fair value through other comprehensive income".

21.5 Dividends

Not applicable

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22 Revenue

The Group earns revenue through selling a fully developed pharmaceutical product, 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:

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

Types of revenue classified by performance obligation are shown in the Notes to the Consolidated Financial Statements under "3 Material accounting policies 3.19 Revenue recognition":

22.1 Breakdown of revenue

Relationship between types of revenue and performance obligations:

Year ended December 31, 2023

	Performance obligations			
Types of Revenue	Product supply revenue ¥m	Grant of Licenses ¥m	Research and Development services ¥m	**Total ¥m**
Pharmaceutical product sales	6,173	-	-	**6,173**
Upfront fees and milestone income	-	2,108	1,731	**3,839**
Royalty income	-	2,504	-	**2,504**
Other	-	-	250	**250**
	6,173	4,612	1,981	**12,766**

Notes:
1. Includes revenue of JPY 4,612 million recognized from performance obligations satisfied in prior periods.

Year ended December 31, 2022

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

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

22 Revenue (continued)

22.2 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"*.

Opening and closing balances of contract liabilities from contracts with customers	At December 31, 2023 ¥m	At December 31, 2022 ¥m
Beginning balance (Note1)	6,221	1,141
Of the beginning balance, the amount recognized as revenue in the year	(1,731)	(473)
Exchange differences on translation	770	(72)
Amount newly recognized as contract liability and carried forward to the next period	-	5,625
Ending Balance (Note2)	5,260	6,221
Other non-current liabilities	3,882	4,791
Other current liabilities	1,378	1,430

Notes:

1. The significant change in the contract liability in the current financial year was a decrease due to changes in the measure of progress.
2. All of the contract liabilities (deferred revenue) that existed at December 31, 2023 are expected to be recognized as revenue by the year ended December 31, 2029.

22.3 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*.

23 Employee benefits

The breakdown of employee benefits is as follows:

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Remuneration and bonuses	5,294	3,798
Share-based payments	870	700
Retirement benefits	51	380
Note 1	6,215	4,878

Notes:

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

24 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.

24 Share-based payments (continued)

24.1 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, 2023 (units) (*)	173		10		16	
Class and number of shares underlying stock acquisition rights at December 31, 2023 (shares) (*)	Common shares 69,200 (Note 4)		Common shares 4,000 (Note 4)		Common shares 6,400 (Note 4)	
Amount to be paid to exercise stock acquisition rights (yen) (*)	1 (Note 5)		3,067 (Note 5)		3,067 (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	

24 Share-based payments (continued)

24.1 Stock Options (continued)

Resolution date	*34th Stock Acquisition Rights* November 21, 2017		*35th Stock Acquisition Rights* November 21, 2017	
Classification and number of people granted options at the time of grant	Directors	0	Directors	0
	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, 2023 (units) (*)	2		1	
Class and number of shares underlying stock acquisition rights at December 31, 2023 (shares) (*)	Common shares 800 (Note 4)		Common shares 400 (Note 4)	
Amount to be paid to exercise stock acquisition rights (yen) (*)	2,672 (Note 5)		2,672 (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, 2023 is described above. As at the end of the month prior to the submission date (February 29, 2024) there had been no changes.

24 Share-based payments (continued)

24.1 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.

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

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.

24 Share-based payments (continued)

24.1 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.

24 Share-based payments (continued)

24.1 Stock Options (continued)

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

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.

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

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.

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

24 Share-based payments (continued)

24.1 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.

24 Share-based payments (continued)

24.1 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 24 *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, 2023			Year ended December 31, 2022		
	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	84,400	548	4.3	92,400	594	5.3
Forfeited during the year	(3,600)	3,069	-	(2,800)	3,069	-
Exercised during the year	-	-	-	(5,200)	1	-
Balance at the end of the year	80,800	436	3.3	84,400	548	4.3
Exercise price range (¥)						
Up to 2,000	69,200	1	3.3	69,200	1	4.3
2,001 to 3,069	11,600	3,028	3.4	15,200	3,038	4.4
Exercisable balance at end of year	80,800	436	-	84,400	548	-

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.

24 Share-based payments (continued)

24.2 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.

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.

24 Share-based payments (continued)

24.2 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. There were no applicable PSUs in the current financial year. (The achievement of the performance target for relevant PSUs amounted to 12.5% in the year ended December 31, 2022.)

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.

24 Share-based payments (continued)

24.2 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, 2023	Year ended December 31, 2022
RSUs		
Number of units granted (unit)	**588,630**	702,616
Weighted-average fair value at the date of grant (¥)	**2,422**	1,283

Notes:

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

24 Share-based payments (continued)

24.3 Expenses related to share-based payments transactions

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Share-based payments	**870**	700

Notes:

1. 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.

25 Selling, general & administrative expenses

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

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Personnel expenses	**3,214**	2,293
Depreciation and amortization	**1,798**	842
Outsourcing expenses	**2,474**	658
Other	**2,479**	584
	9,965	4,377

26 Other income

The breakdown of other income is as follows:

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Government grants (Note 1)	**920**	567
Other grants	**15**	57
Other	**9**	2
	944	626

Notes

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

27 Other expenses

The breakdown of other expenses is as follows:

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Loss on retirement of non-current assets	**62**	2
Other	**32**	0
	94	2

28 Finance income and finance costs

The breakdown of finance income is as follows:

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Changes in the fair value of contingent consideration receivable relating to business disposals	116	64
Changes in fair value of contingent consideration in business combinations	-	50
Interest income	1,225	236
Foreign exchange gains	-	313
	1,341	663

The breakdown of finance costs is as follows:

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Interest expenses		
Financial liabilities measured at amortized cost	673	615
Lease liabilities	114	58
Foreign exchange loss	329	-
Charge for repurchase and cancellation of corporate bonds	1,317	-
Loss on revaluation of investments in capital	46	41
Cost of borrowing funds	16	42
	2,495	756

29 Investments accounted for using the equity method

The Group did not account for any investments as associates during the year ended December 31, 2023. One investment, which was not individually significant, was accounted for as an associate during the previous financial year.

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

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Share of (loss) gain of associates accounted for using the equity method	-	(429)
(Loss) profit from continuing operations	-	(429)
Total comprehensive income	-	(429)

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 previous financial year

30 Income taxes

30.1 Income tax (benefit) / expense

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

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Current tax expense		
Current year	**254**	387
Prior year adjustment	(94)	(43)
Total current tax expense	**160**	344
Deferred tax expense (benefit) (Note 1)		
Tax losses carried forward or temporary differences	(3,647)	352
Total deferred tax expense (benefit)	(3,647)	352
Total income tax expense (benefit)	(3,487)	696
Income tax expense related to other comprehensive income	**34**	207

Notes:

1. The deferred tax expense includes the amount of benefits arising from previously unrecognized tax losses, tax credits or temporary differences in prior periods. The resulting decrease in deferred tax expense was JPY 882 million for the year ended December 31, 2023. The amount was not material for the year ended December 31, 2022.

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

	Year ended December 31, 2023 (%)	Year ended December 31, 2022 (%)
Statutory effective tax rate (Note 1)	**30.6**	30.6
Items not deductible permanently	**(0.9)**	14.4
Items not included permanently	**0.0**	(0.5)
Effect of differences in tax rates of foreign subsidiaries	**(3.6)**	(43.8)
Effect of differences in tax rates of Japanese subsidiaries	**0.6**	(1.4)
Effect of tax rate change	**0.6**	10.1
Effect of unrecognized tax losses carried forward or temporary differences	**1.9**	28.0
Share of gain (loss) of associates accounted for using the equity method	**-**	39.9
Tax benefit on net profit or loss in the prior year	**1.4**	(7.4)
Undistributed profits of overseas subsidiaries	**0.3**	0.6
Convertible bonds	**4.8**	-
Acquisition related costs	**(3.2)**	-
Other	**0.1**	(6.0)
Actual tax rate	**32.6**	64.5

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, 2023 and December 31, 2022. However, foreign subsidiaries are subject to corporate tax and other taxes in their jurisdictions.

30 Income taxes (continued)

30.2 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, 2023

	At January 1, 2023 ¥m	Amounts recognized in profit or loss ¥m	Amounts recognized in other comprehensive income ¥m	Amounts directly recognized in capital ¥m	Amount recognized in business combination ¥m	(Note) Other ¥m	At December 31, 2023 ¥m
Deferred tax assets							
Inventories	-	520	-	-	1,925	-	**2,445**
Lease liabilities	-	(21)	-	-	949	(1)	**927**
Tax losses carried forward	355	2,088	-	-	-	34	**2,477**
Other	451	432	(0)	(40)	491	23	**(1,357)**
Total deferred tax assets	806	3,019	(0)	(40)	3,365	56	**7,206**
Deferred tax liabilities							
Property, plant and equipment	(534)	(65)	-	-	(111)	(73)	**(783)**
Intangible assets	(1,975)	230	-	-	-	(253)	**(1,998)**
Right-of-use assets	-	33	-	-	(949)	1	**(915)**
Corporate bonds	(782)	464	-	(371)	-	-	**(689)**
Other	(437)	(34)	150	-	(26)	-	**(347)**
Total deferred tax liabilities	(3,728)	628	150	(371)	(1,086)	(325)	**(4,732)**
Net deferred tax assets / (liabilities)	(2,922)	3,647	150	(411)	2,279	(269)	**2,474**

Notes:

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

30 Income taxes (continued)

30.2 Deferred tax assets and liabilities (continued)

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	(Note) Other ¥m	At December 31, 2022 ¥m
Deferred tax assets						
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**
Deferred tax liabilities						
Intangible assets	(2,056)	131	-	-	(50)	**(1,975)**
Corporate bonds	(994)	212	-	-	-	**(782)**
Other	(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.

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, 2023 ¥m	At December 31, 2022 ¥m
Deductible temporary differences	**17,982**	22,635
Tax losses carried forward	**9,564**	10,080
	27,546	32,715

30 Income taxes (continued)

30.2 Deferred tax assets and liabilities (continued)

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

	At December 31, 2023 ¥m	At December 31, 2022 ¥m
Year 1	**44**	462
Year 2	**-**	229
Year 3	**1,128**	94
Year 4	**-**	228
Year 5 to Year 10	**8,392**	9,067
	9,564	10,080

Notes

1. Deferred tax assets of JPY 1,069 million were recognized at the end of the current financial year for subsidiaries that incurred losses in the current or previous financial year and for which the recoverability of deferred tax assets is dependent on the availability of future taxable income. The deferred tax assets were recognized as a result of a careful assessment of the likelihood of generating taxable income from which the net operating loss carryforwards and deductible temporary differences can be deducted, based on past operating results, approved future business plans, and tax planning opportunities.

31 Earnings per share

31.1 Basic earnings per share

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

	Year ended December 31, 2023	Year ended December 31, 2022
Net (loss) profit attributable to owners of the parent (¥m)	**(7,193)**	382
Weighted-average number of common shares outstanding (Shares)	**82,516,507**	81,785,008
Basic earnings per share (¥)	**(87.18)**	4.68

31 Earnings per share (continued)

31.2 Diluted earnings per share

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

	Year ended December 31, 2023	Year ended December 31, 2022
Net (loss) profit attributable to owners of the parent (¥m)	**(7,193)**	382
Adjustment to net (loss) profit used in the calculation of diluted earnings per share (¥m)	-	-
Net (loss) profit used in the calculation of diluted earnings per share (¥m)	**(7,193)**	382
Weighted-average number of common shares outstanding (Shares)	**82,516,507**	81,785,008
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
Increase in number of common shares due to the allotment of Restricted Stock Units (Shares)	-	727,124
Increase in number of common shares due to the allotment of Performance Share Units (Shares)	-	7,922
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)	**82,516,507**	82,590,441
Diluted earnings per share (¥)	**(87.18)**	4.63
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)

Notes:
1 In the current financial year, there was no dilutive effect from potential common shares as the conversion of stock options and RSU, reduced the loss per share.

32 Cash flow information

Changes in liabilities arising from financing

Year ended December 31, 2023

	January 1, 2023	Cash flows	Non-cash changes			December 31, 2023
			Acquisition of subsidiary	Fair value change	Other	
Corporate bonds (Note 1)	27,981	857	-	-	1,856	**30,694**
Bank borrowing	-	38,450	-	-	12	**38,462**
Lease liabilities	1,753	(485)	2,837	-	712	**4,817**
	29,734	38,822	2,837	-	2,580	**73,973**

Notes:

1. The Corporate bonds cash flow excludes JPY 1,171 million, equivalent to the value of stock acquisition rights, which is part of the JPY 31,708 million balance shown as "Proceeds from issuance of corporate bonds" in the consolidated statement of cash flows , and JPY (1,620) million, equivalent to the value of stock acquisition rights, which is part of the JPY (31,300) million balance shown as "Payments for repurchase and cancellation of corporate bonds" in the consolidated statement of cash flows.

Year ended December 31, 2022

	January 1, 2022	Cash flows	Non-cash changes			December 31, 2022
			Acquisition 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**

Non-cash transactions

Year ended December 31, 2023

Acquisition of right of use assets totaled JPY 489 million for the year ended December 31, 2023.

Year ended December 31, 2022

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

33 Related parties

33.1 Transactions with related parties

Year ended December 31, 2023:

Transactions with Officers and major individual shareholders

Type	Name	Description of transaction	Transaction amount (¥m)	Outstanding balance (¥m)
Officer	Shinichi Tamura	In-kind contribution of monetary compensation claim (Note 1)	209	-
Officer	Christopher Cargill	In-kind contribution of monetary compensation claim (Note 1)	117	-
Officer	Tomohiro Tohyama	In-kind contribution of monetary compensation claim (Note 1)	15	-
Officer	Kuniaki Kaga	In-kind contribution of monetary compensation claim (Note 1)	15	-
Officer	David Roblin	In-kind contribution of monetary compensation claim (Note 1)	15	-
Officer	Noriaki Nagai	In-kind contribution of monetary compensation claim (Note 1)	15	-
Officer	Rolf Soderstrom	In-kind contribution of monetary compensation claim (Note 1)	28	-
Officer	Miwa Seki	In-kind contribution of monetary compensation claim (Note 1)	15	-
Officer	Hironoshin Nomura	In-kind contribution of monetary compensation claim (Note 1)	5	-
Officer	Kieran Johnson	In-kind contribution of monetary compensation claim (Note 1)	23	-
Officer	Kazuhiko Yoshizumi	In-kind contribution of monetary compensation claim (Note 1)	24	-
Officer	Matthew Barnes	In-kind contribution of monetary compensation claim (Note 1)	13	-
Officer	Candelle Chong	In-kind contribution of monetary compensation claim (Note 1)	21	-

Notes:

1. The in-kind contribution of monetary compensation claim relates to the Restricted Stock Units (RSUs).

Transactions with Associates

Not applicable.

33 Related parties (continued)

33.1 Transactions with related parties (continued)

Year ended December 31, 2022:

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 1)	0	-
		In-kind contribution of monetary compensation claim (Note 2)	91	-
Office	Christopher Cargill	In-kind contribution of monetary compensation claim (Note 2)	56	
Officer	Tomohiro Tohyama	In-kind contribution of monetary compensation claim (Note 2)	11	-
Officer	Kuniaki Kaga	In-kind contribution of monetary compensation claim (Note 2)	11	-
Officer	David Roblin	In-kind contribution of monetary compensation claim (Note 2)	11	-
Officer	Noriaki Nagai	In-kind contribution of monetary compensation claim (Note 2)	19	-
Officer	Rolf Soderstrom	In-kind contribution of monetary compensation claim (Note 2)	19	-
Officer	Kieran Johnson	In-kind contribution of monetary compensation claim (Note 2)	16	
Officer	Kazuhiko Yoshizumi	In-kind contribution of monetary compensation claim (Note 2)	18	-
Officer	Matthew Barnes	In-kind contribution of monetary compensation claim (Note 2)	9	-
Officer	Tadayoshi Yasui	In-kind contribution of monetary compensation claim (Note 2)	19	-

Notes:

1. The exercise of stock options by Mr. Tamura, Mr. Weir and Mr. Tasker in the previous financial year relates to the 31st stock acquisition rights granted by the Board of Directors on May 15, 2017.
2. In-kind contribution of monetary compensation claim relates to the Restricted Stock Unit plan.

Transactions with Associates

Not applicable.

33 Related parties (continued)

33.2 Remuneration of key management personnel

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Remuneration and bonuses	**830**	727
Share-based payments	**476**	468
Retirement benefit	**28**	340
	1,334	1,535

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.

34 Significant subsidiaries

Please refer to Section 1 *Company Overview*, 4 *Status of Subsidiaries and Associates.*

35 Subsequent Events

On March 8, 2024, the Group entered into a global collaboration and exclusive option-to-license agreement with Boehringer Ingelheim.

Purpose of the partnership

At the center is a joint mission to develop and commercialize the Groups' portfolio of first-in-class GPR52 agonists, a novel GPCR target, with the intent to improve patient outcomes by simultaneously addressing positive, negative, and cognitive symptoms of schizophrenia.

Impact on Business Performance

The Group became eligible to receive an upfront payment of EUR 25 million from Boehringer Ingelheim upon signing. In accordance with IFRS 15 Revenue from Contracts with Customers, revenue is recognized as performance obligations are satisfied. Accordingly, a portion of the upfront fee will be deferred and recognized as R&D services are performed.

Section 5: Financial Statements
Notes to the Consolidated Financial Statements

36 Quarterly results

Quarterly information for the year ended December 31, 2023

Cumulative period	First quarter	Second quarter	Third quarter	Fourth quarter
Revenue (¥m)	943	2,146	5,474	12,766
Loss before income taxes (¥m)	(1,863)	(3,760)	(7,865)	(10,680)
Net loss attributable to owners of the parent (¥m)	(1,402)	(2,060)	(6,985)	(7,193)
Basic loss per share (Yen)	(17.11)	(25.13)	(85.05)	(87.18)

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic loss per share (Yen)	(17.11)	(8.03)	(59.81)	(2.49)

Sosei Group Corporation

Section 5. Financial Statements

Non-consolidated Balance Sheet
As at December 31, 2023

	Note	December 31, 2023 ¥m	December 31, 2022 ¥m
Assets			
Current assets			
Cash and deposits		21,989	39,103
Accounts receivable from subsidiaries and associates-trade		4,094	-
Accounts receivable from subsidiaries and associates-other		8,891	-
Prepaid expenses		150	57
Consumption taxes refund receivable		4,714	31
Other		61	4
Total current assets		39,899	39,195
Non-current assets			
Property, plant and equipment			
Buildings		29	27
Tools, furniture and fixtures		10	11
Total property, plant and equipment		39	38
Intangible assets			
Sales rights		43,352	-
Software		16	4
Other		0	0
Total intangible assets		43,368	4
Investments and other assets			
Shares of subsidiaries and associates		58,480	49,973
Long-term loans receivable from subsidiaries and associates		3,390	2,918
Investments in capital		95	117
Other		58	58
Allowance for doubtful accounts		(3,318)	(2,918)
Total investments and other assets		58,705	50,148
Total non-current assets		102,112	50,190
Total assets		142,011	89,385

Sosei Group Corporation

Section 5. Financial Statements

Non-consolidated Balance Sheet
As at December 31, 2023

	Note	December 31, 2023 ¥m	December 31, 2022 ¥m
Liabilities			
Current liabilities			
Accounts payable- trade		112	-
Accounts payable- other	1	1,302	218
Accounts payable to subsidiaries and associates- other		3,000	-
Accrued expenses		183	132
Income taxes payable		79	113
Current portion of long-term bank borrowings		5,800	-
Current portion of corporate bonds		152	-
Deposits received		41	22
Provision for bonuses payable to employees		-	69
Provision for share-based payments		380	447
Other		13	18
Total current liabilities		11,062	1,019
Non-current liabilities			
Long-term bank borrowings		32,750	-
Convertible bonds		32,793	30,535
Asset retirement obligations		18	13
Provision for share-based payments		188	274
Total non-current liabilities		65,749	30,822
Total liabilities		76,811	31,841
Net assets			
Shareholders' equity:			
Capital stock		46,807	41,335
Capital surplus:		34,924	29,452
Legal capital surplus		34,924	29,452
Retained earnings		(16,765)	(13,480)
Other retained earnings			
Retained earnings brought forward		(16,765)	(13,480)
Treasury stock		(1)	(1)
Total shareholders' equity		64,965	57,306
Valuation/translation difference		(0)	(5)
Unrealized holding gains or losses on securities		(0)	(5)
Stock acquisition rights		235	243
Total net assets		65,200	57,544
Total liabilities and net assets		142,011	89,385

Sosei Group Corporation

Section 5. Financial Statements

Non-consolidated Statement of Profit or Loss
For the year ended December 31, 2023

	Note	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Revenue	1	5,015	1,118
Cost of sales		(646)	-
Gross profit		4,369	1,118
General and administrative expenses	2	(4,704)	(2,213)
Operating loss		(335)	(1,095)
Non-operating income			
Interest income	1	132	79
Miscellaneous income		0	0
Total non-operating income		132	79
Non-operating expenses			
Interest expenses		(74)	(1)
Commission expenses		(116)	(41)
Charge for repurchase and cancellation of corporate bonds		(1,056)	-
Bond issuance costs		(1,092)	-
Share issuance costs		(71)	-
Provision of allowance for doubtful accounts for subsidiaries and associates		(400)	(500)
Foreign exchange loss		(263)	(25)
Miscellaneous loss		(26)	(3)
Total non-operating expenses		(3,098)	(570)
Ordinary loss		(3,301)	(1,586)
Extraordinary income			
Gain realized on contingent consideration receivable relating to business disposals		-	136
Gain on reversal of stock acquisition rights		7	5
Total extraordinary income		7	141
Loss before income taxes		(3,294)	(1,445)
Corporate tax, residential tax and enterprise tax		9	(52)
Net loss		(3,285)	(1,497)

Sosei Group Corporation

Section 5. Financial Statements

Non-consolidated Cost of Sales Statement
For the year ended December 31, 2023

	Note	Year ended December 31, 2023 ¥m		Year ended December 31, 2022 ¥m	
		Amount	Ratio (%)	Amount	Ratio (%)
I. Cost of finished goods sold					
Beginning finished goods inventory		-		-	
Purchase of finished goods		111		-	
Total		111		-	
Ending finished goods inventory		-		-	
Total cost of finished goods sold		111	17.2	-	-
II. Expenses					
Royalty		524		-	
Packing costs		9		-	
Storage charge		2		-	
Total expenses		535	82.8	-	-
Total cost of sales		646	100.0	-	-

Cost accounting method
The Company calculates costs using a specific order costing based on actual costs.

Sosei Group Corporation

Section 5. Financial Statements

Non-consolidated Statement of Changes in Net Assets
For the year ended December 31, 2023

	Shareholders' equity							
	Capital stock ¥m	Capital surplus Legal capital surplus ¥m	Retained earnings Other retained earnings: Retained earnings ¥m	Treasury shares ¥m	Total shareholders' equity ¥m	Valuation/ translation difference Unrealized holdings gains or loss on securities ¥m	Stock acquisition rights ¥m	Total net assets ¥m
Balance at December 31, 2021	41,036	29,153	(11,983)	(0)	58,206	-	264	58,470
Changes during the year:								
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 year	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**
Changes during the year:								
Issuance of new shares	5,472	5,472			10,944			10,944
Net loss			(3,285)		(3,285)			(3,285)
Purchase of treasury stock				(0)	(0)			(0)
Net changes in items other than shareholders' equity						5	(8)	(3)
Total changes during the	5,472	5,472	(3,285)	(0)	7,659	5	(8)	7,656
Balance at December 31, 2023	**46,807**	**34,924**	**(16,765)**	**(1)**	**64,965**	**(0)**	**235**	**65,200**

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: 3-18 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.

1 Significant Accounting Policies (continued)

1.4. Revenue Recognition

Pharmaceutical product sales

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

Management fees

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 presentation

Balance sheet

The "Consumption taxes refund receivable" balance which was included in "Others" in the previous financial year, is separately stated in the current financial year due to the increased materiality. To reflect this change in presentation, JPY 35 million presented as "Others" in the non-consolidated balance sheet as at December 31, 2022 has been reclassified as "Consumption taxes refund receivable" (JPY 31 million) and "Others" (JPY 4 million).

Statement of Profit or Loss

As a result of a review of the method of presentation following the commencement of product sales, the company has decided to present "Operating revenue" as "Revenue" and "Operating expenses" as "General and administrative expenses".

3 Significant Accounting Estimates

Valuation of Shares of subsidiaries and associates

The closing balances were as follows:

	December 31, 2023 ¥m	December 31, 2022 ¥m
Shares of subsidiaries and associates	**58,480**	49,973

The closing balance as at December 31, 2023 mainly relates to Idorsia Pharmaceuticals Japan Ltd. and Heptares Therapeutics Ltd.

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 investments in 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, and includes goodwill. Hence, significant assumptions related to significant accounting estimates described in "Valuation and impairment of Goodwill and Intangible Assets" within "4. Significant accounting estimates and associated judgments" of the consolidated financial statements significantly affects the calculation of the net asset value.

Effects on the non-consolidated financial statements for the year ending December 31, 2024

There is a possibility that a significant decline in the real value of an asset could result in a valuation loss due to uncertain events in the future.

Valuation of sales rights

The closing balances were as follows:

	December 31, 2023 ¥m	December 31, 2022 ¥m
Sales rights	**43,352**	-

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

The Company's sales rights are grouped according to the smallest unit that independently generates cash flows. When an indication of impairment exists of an asset group, the total undiscounted future cash flows generated from the asset group is compared to the book value to determine the necessity of impairment. Once an impairment loss is determined to be recognized, the book value is reduced to the asset's recoverable amount and the decreased amount is recorded as an impairment loss. Indications of impairment include cases where operating losses or net cash outflows from operating activities continue, or will continue in the near future, and significant changes with an adverse effect on the business environment have taken place, or will take place in the near future.

3 Significant Accounting Estimates (continued)

Effects on the non-consolidated financial statements for the year ending December 31, 2024
Since the purchase price of sales rights is calculated based on business plans of related pharmaceutical products, there is a possibility that an impairment loss may be recorded when the actual result is significantly worse than the projected result, which leads to the indication of impairment.

4 Non-consolidated Balance Sheet

4.1 Guarantee liabilities

As at December 31, 2023 debt guarantees totaling JPY 2,011 million existed (JPY 1,938 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, 2023 ¥m	Year ended December 31, 2022 ¥m
Operating transactions	**7,705**	1,129
Non-operating transactions	**0**	-

5.2 The ratio of general and administrative expenses is 100% for both the current and previous years. The main general and administrative expenses are as follows:

	Year ended December 31, 2023 ¥m	Year ended December 31, 2022 ¥m
Outsourcing expenses	**1,913**	1,608
Personnel expenses	**1,633**	253

6 Note on Securities

	December 31, 2023 ¥m	December 31, 2022 ¥m
Shares of subsidiaries and associates	**58,480**	49,973

Since market prices are not available, further disclosures are omitted.

7 Note on Revenue Recognition

The Company's revenue recognition policy 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, 2023 ¥m	December 31, 2022 ¥m
Deferred tax assets:		
Tax losses carried forward	**3,018**	2,499
Shares in subsidiaries and associates	**3,135**	3,135
Allowance for doubtful debts	**1,016**	893
Other	**455**	354
Deferred tax assets subtotal	**7,624**	6,881
Valuation allowance for tax losses carried forward	**(3,018)**	(2,499)
Valuation allowance for deductible temporary differences	**(4,606)**	(4,382)
Valuation allowance subtotal	**(7,624)**	(6,881)
Total deferred tax assets	**-**	-

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, 2023 ¥m	Year Ended December 31, 2022 ¥m
Statutory effective tax rate	**30.6%**	30.6%
Items not deductible permanently such as entertainment expenses	**(2.2)**	(4.8)
Japanese Controlled Foreign Company	**(5.6)**	(18.3)
Share-based payment expenses	**0.7**	0.9
Valuation allowances	**(22.9)**	(14.9)
Other	**(0.3)**	2.7
Actual effective tax rate after the application of tax effect accounting	**0.3**	(3.8)

9 Supplementary Schedules

9.1 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	5	-	**50**	21	5	**29**
	Tools, furniture and fixtures	32	5	-	**37**	27	4	**10**
	Total	**77**	**10**	**-**	**87**	**48**	**9**	**39**
Intangible assets	Sales rights	-	43,963	-	**43,963**	611	611	**43,352**
	Software	14	13	-	**27**	11	2	**16**
	Other	0	-	-	**0**	-	-	**0**
	Total	**14**	**43,976**	**-**	**43,990**	**622**	**613**	**43,368**

Notes:
1. The balances at the beginning and end of the current period are based on acquisition costs.
2. The increase in sales rights in the current period is due to the purchase from Idorsia Pharmaceuticals Japan Ltd.

9.2 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	2,918	400	-	**3,318**
Provision for bonuses payable to employees	69	-	69	**-**
Provision for share-based payments	721	382	535	**568**

9.3 Components of Major Assets and Liabilities

This information is omitted as consolidated financial statements have been prepared.

9.4 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.soseiheptares.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 23, 2023
Accounting period: 33rd Term (January 1, 2022 – December 31, 2022)

2.2 Internal Control Report and Appendices

Filed with Director General of Kanto Local Finance Bureau on March 23, 2023
Accounting period: 33rd Term (January 1, 2022 – December 31, 2022)

2.3 Quarterly Report and Written Confirmations

Filed with Director General of Kanto Local Finance Bureau on May 12, 2023
The 34th Term First Quarter (January 1, 2023 – March 31, 2023)

Filed with Director General of Kanto Local Finance Bureau on August 8, 2023
The 34th Term Second Quarter (April 1, 2023 – June 30, 2023)

Filed with Director General of Kanto Local Finance Bureau on November 10, 2023
The 34th Term Third Quarter (July 1, 2023 – September 30, 2023)

2.4 Extraordinary Reports

Filed with Director General of Kanto Local Finance Bureau on July 27, 2023
Extraordinary Report based on Article 19, paragraph 2, item (viii-2) (Decision to acquire a subsidiary) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with Director General of Kanto Local Finance Bureau on November 28, 2023
Extraordinary Report based on Article 19, paragraph 1 and Article 19, paragraph 2, item (i) (Overseas Recruitment and Issuance of Euro-yen Denominated Convertible Bonds due 2028 through an International Offering) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

2.5 Amendment to Extraordinary Reports

Filed with Director General of Kanto Local Finance Bureau on November 29, 2023
Amendment related to the Extraordinary Reports filed on November 28, 2023

2 Other Reference Information (continued)

2.6 Securities Registration Statement (Reference Method)

Filed with Director General of Kanto Local Finance Bureau on April 7, 2023
(Securities Registration Statement (Reference Method) related to allotment to other eligible persons)
Filed with Director General of Kanto Local Finance Bureau on November 28, 2023
(Securities Registration Statement (Reference Method) related to allotment to other eligible persons)

2.7 Amendment to Securities Registration Statement (Reference Method)

Filed with Director General of Kanto Local Finance Bureau on May 12, 2023
Amendment related to the Securities Registration Statement (Reference Method) filed on April 7, 2023
Filed with Director General of Kanto Local Finance Bureau on July 27, 2023
Amendment related to the Securities Registration Statement (Reference Method) filed on April 7, 2023
Filed with Director General of Kanto Local Finance Bureau on August 4, 2023
Amendment related to the Securities Registration Statement (Reference Method) filed on April 7, 2023
Filed with Director General of Kanto Local Finance Bureau on August 8, 2023
Amendment related to the Securities Registration Statement (Reference Method) filed on April 7, 2023
Filed with Director General of Kanto Local Finance Bureau on November 10, 2023
Amendment related to the Securities Registration Statement (Reference Method) filed on April 7, 2023
Filed with Director General of Kanto Local Finance Bureau on November 28, 2023
Amendment related to the Securities Registration Statement (Reference Method) filed on April 7, 2023
Filed with Director General of Kanto Local Finance Bureau on November 29, 2023
Amendment related to the Securities Registration Statement (Reference Method) filed on April 7, 2023
Filed with Director General of Kanto Local Finance Bureau on November 29, 2023
Amendment related to the Securities Registration Statement (Reference Method) filed on November 28, 2023
Filed with Director General of Kanto Local Finance Bureau on February 13, 2024
Amendment related to the Securities Registration Statement (Reference Method) filed on April 7, 2023

Sosei Group Corporation

Part 2: Information about a Company which Provides a Guarantee to the Filing Company

Not applicable.

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Independent Auditor's Report

The Board of Directors
Sosei Group Corporation

The Audit of the Consolidated Financial Statements

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, 2023, 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, 2023, 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.

Fair value measurement of the licenses recognized in the business combination
Description of Key Audit Matter
As described in Note 7 "Business Combinations" and Note 11 "Goodwill and intangible assets" to the consolidated financial statements, the Group acquired the entire share capital of Idorsia Pharmaceuticals Japan Ltd. ("IPJ") and Idorsia Pharmaceuticals Korea Co., Ltd. ("IPK") as well as licenses for PIVLAZ and daridorexant in Japan and APAC (excluding China), among others, on July 20, 2023 for a consideration of JPY 64,440 million and included IPJ and IPK as consolidated subsidiaries from that date. The Group accounted for the business combination in accordance with IFRS 3 "Business Combinations", and recognized and measured the identifiable assets acquired and liabilities assumed

at their fair values as of the acquisition date. The acquisition date fair values of product-related intangible assets and in-process research and development related to the aforementioned licenses are JPY 38,138 million and JPY 5,825 million, respectively.

Since projections of the market size and market share of related pharmaceutical products as well as the discount rate used in the fair value measurement of intangible assets relating to the licenses involve high estimation uncertainty and management subjectivity, management judgements significantly affect fair value measurement amounts.

Since fair value measurement of the identifiable assets, which forms the basis for purchase price allocation, involves high estimation uncertainty and management subjectivity, and requires a high degree of expertise and experience, we have determined that the fair value measurement of the licenses recognized in the business combination to be a key audit matter.

Auditor's Response

We performed the following procedures, among others, regarding fair value measurement of the licenses recognized in the business combination.

- considered the purpose and reasonableness of the business combination transactions through inquiries of management and inspected related contracts.
- performed the following procedures relating to the valuation of intangible assets associated with the licenses.
- made inquiries to management and business managers regarding the projected market size of related pharmaceutical products and compared such projections with available external data.
- considered the consistency of the market share projections used in the model with the Group's view on the competitive advantage of related pharmaceutical products, and the Group's sales strategy. Such views were obtained through inquiries of management and business managers. In addition, we compared the market share projections with available external data.
- involved valuation specialists from our network firm as specialists used by auditors to assess the valuation model and discount rate used by management.

Valuation of goodwill and intangible assets relating to the Pharmaceutical Product Sales CGU

Description of Key Audit Matter

As described in Note 7 "Business Combinations" and Note 11 "Goodwill and intangible assets" to the consolidated financial statements, the Group identified sales of PIVLAZ and daridorexant ("Pharmaceutical Product Sales") as a cash-generating unit ("CGU") and recognized goodwill in the amount of JPY 8,018 million in the consolidated balance sheet as at December 31, 2023 as a result of the acquisition of IPJ and IPK on July 20, 2023. Moreover, the Group recognized product-related intangible assets and in-process research and development of JPY 43,352 million relating to the licenses recognized in the business combination and, combined with goodwill, they amount to JPY 51,370 million and represent 33% of total consolidated assets.

The Pharmaceutical Product Sales CGU 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, 2023 by calculating its value in use. The future cash flows used for measuring value in use are estimated based on a pharmaceutical product sales business plan approved by management. Significant assumptions used in estimating value in use are projections of the market size and market share of related pharmaceutical products, projections of related selling expenses and

research and development expenses, the growth rate for the periods after the business plan as well as the discount rate. Since the business plan and growth rate for the periods after the business plan involve high estimation uncertainty and management subjectivity, management judgements significantly affect estimated future cash flows. Moreover, selecting the appropriate calculation method and input data for the discount rate, which is an assumption used to measure value in use, requires a high degree of expertise and experience in valuations.

Considering the monetary materiality of goodwill and intangible assets relating to the Pharmaceutical Product Sales CGU to the consolidated financial statements as well as the high estimation uncertainty and management subjectivity, and the high degree of expertise and experience involved in the measurement of value in use, we determined the valuation of the goodwill and intangible assets to be a key audit matter.

Auditor's Response

We performed the following procedures, among others, to assess the valuation of goodwill and intangible assets relating to the Pharmaceutical Product Sales CGU.

- considered the consistency between the business plan used in estimating future cash flows and the business plan approved by management.
- compared the business plan prepared in the prior fiscal year with the actual results for the current fiscal year to evaluate the accuracy of the Group's business plan.
- considered the following significant assumptions which form the basis for the business plan.
  - made inquiries to management and business managers regarding the projected market size of related pharmaceutical products and compared such projections with available external data.
  - considered the consistency of the market share projections used in the model with the Group's view on the competitive advantage of related pharmaceutical products and the Group's sales strategy. Such views were obtained through inquiries of management and business managers. In addition, we compared the market share projections with available external data.
  - considered the consistency of projections of related selling expenses and research and development expenses with the Group's projected sales plan and growth rate for the periods after the business plan.
- involved valuation specialists from our network firm as specialists used by auditors to assess the valuation model, discount rate and growth rate for the periods after the business plan used by management.
- performed stress testing using our own independent assumptions for the significant assumptions underlying the future cash flows.

Valuation of goodwill and core technology related to the Pharmaceutical Drug Discovery CGU

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 ("Pharmaceutical Drug Discovery") as a cash-generating unit ("CGU") and recognized goodwill in the amount of JPY 11,179 million in the consolidated balance sheet as at December 31, 2023. Moreover, the Group recognized core technology in the amount of JPY 8,465 million, and combined with goodwill, they amount to JPY 19,644 million and represent 12% of total consolidated assets.

The Pharmaceutical Drug Discovery CGU 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, 2023 by calculating its fair value less costs of disposal. The future cash flows used for measuring fair value less costs of disposal were estimated based on a Pharmaceutical Drug Discovery business plan approved by management and reflects assumptions that market participants would use when pricing the asset. Significant assumptions underlying the future cash flows include the timing of milestone achievements such as product launches, the probability of success of Research and Development ("R&D") activities, the projected revenue plan including expected future product sales, and the discount rate. Since the business plan and probability of success involve high estimation uncertainty and management subjectivity, management judgements significantly affect estimated future cash flows.

Moreover, selecting the appropriate calculation method and input data for the discount rate, which is an assumption used in measuring 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 involves high 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 Pharmaceutical Drug Discovery CGU to be 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 Pharmaceutical Drug Discovery CGU.

- considered the consistency between the business plan used in estimating future cash flows and the business plan approved by management.
- compared the business plan used in estimating future cash flows in the prior fiscal year with the actual results for the current fiscal year to evaluate the accuracy of the Group's business plan.
- considered the timing of milestone achievements including product launches as well as the probability of success of R&D activities by comparing such assumptions with progress in R&D activities, which we evaluated through inquiries of project managers responsible for R&D activities and inspection of relevant meeting minutes, as well as available external data.
- compared the projected revenue plan including expected future product sales, which forms the basis for calculating sales milestone revenues and royalty income, with relevant contracts and available external data, 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 available external data and compared it with the discount rate selected by management.
- performed stress testing using our own independent assumptions for the significant assumptions underlying the future cash flows.

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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.

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- 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, actions taken to eliminate threats or safeguards applied to reduce threats to an acceptable level.

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.

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Fee-related Information

The fees for the audits of the financial statements of Sosei Group Corporation and its subsidiaries and other services provided by us and other EY member firms for the year ended December 31, 2023 are presented in paragraph (4.3) titled “Status of Audits” in Section 4 “Corporate Governance” included in Item 4 “Information about the Filing Company” in Part 1 of the annual securities report for the year ended December 31, 2023 of the Group.

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

March 27, 2024

Kiyoto Tanaka
Kiyoto Tanaka
Designated Engagement Partner
Certified Public Accountant

Hiroyuki Nakada
Hiroyuki Nakada
Designated Engagement Partner
Certified Public Accountant

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Independent Auditor's Report

The Board of Directors
Sosei Group Corporation

The Audit of the Non-Consolidated Financial Statements

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, 2023, 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, 2023, 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 subsidiaries and associates
Description of Key Audit Matter
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 58,480 million in the non-consolidated balance sheet as at December 31, 2023 mainly represents the Company’s investment in Heptares Therapeutics Ltd. (“Heptares”) and Idorsia Pharmaceuticals Japan Ltd. (“IPJ”), which are wholly owned unlisted subsidiaries, and represents 41% of total non-consolidated assets. A valuation loss is recorded on non-marketable securities, such as investments 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. The net asset value of the investment in Heptares and IPJ, is calculated based on the net assets of the financial statements of Heptares and IPJ and includes the valuation differences of intangible assets (core technology) held by subsidiaries as well as goodwill recognized upon acquisition. As described in Note 11 “Goodwill and intangible assets” to the consolidated financial statements, the Company recognized intangible assets (core technology) and goodwill in the amount of JPY 8,466 million and JPY 24,623 million, respectively, in the consolidated balance sheet as at December 31, 2023. Accordingly, high estimation uncertainty and management judgements relating to the impairment of intangible assets described in key audit matters “Valuation of goodwill and core technology related to the Pharmaceutical Drug Discovery CGU” and “Valuation of goodwill and intangible assets in cash-generating unit related to Pharmaceutical Product Sales CGU” in the audit report for the consolidated financial statements significantly affect the calculation of the net asset value. Therefore, since the calculation of the net asset value involves high estimation uncertainty and management judgements, we determined the valuation of shares of subsidiaries and associates to be a key audit matter.
Auditor’s Response
We performed the following procedures, among others, to assess the valuation of shares of subsidiaries and associates. ・evaluated through recalculation whether the net asset value was calculated based on the net assets of the financial statements of Heptares and IPJ and included the valuation difference of intangible assets (core technology) as well as goodwill recognized upon acquisition. ・considered the consistency of the net assets of the financial statements of Heptares and IPJ and the valuation difference of intangible assets (core technology), which comprise the net asset value of Heptares and IPJ, 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 value. ・performed procedures described in the Auditor’s Response section of key audit matters “Valuation of goodwill and core technology related to the Pharmaceutical Drug Discovery CGU” and “Valuation of goodwill and intangible assets related to the Pharmaceutical Product Sales CGU” in the audit report for the consolidated financial statements for management judgements relating to the impairment of intangible assets (core technology) and goodwill which significantly affect the net asset value calculation.

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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.

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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 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, actions taken to eliminate threats or safeguards applied to reduce threats to an acceptable level.

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.

Fee-related Information

Please refer to the Independent Auditor's Report of the Consolidated Financial Statements.

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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

March 27, 2024

Kiyoto Tanaka
Kiyoto Tanaka
Designated Engagement Partner
Certified Public Accountant

Hiroyuki Nakada
Hiroyuki Nakada
Designated Engagement Partner
Certified Public Accountant

Unaudited [1]

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 period was December 31, 2023, 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 monetary and qualitative materiality perspectives.

With regard to the scope of our evaluation of internal control related to business processes, we designated three business locations as "significant business locations" whose aggregate sales and total assets, respectively, in the current financial period (before the elimination of inter-company transactions) exceed 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, inventory 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 has been audited.

Sosei Group Corporation

Unaudited [1]

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 has been audited.

Sosei Group Corporation

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