Consolidated Financial Results for the Six Month Period Ended June 30, 2021 (IFRS)

August 12, 2021

Company name: Sosei Group Corporation — Listing: Tokyo Stock Exchange
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Supplementary materials for financial results: Yes
Financial results briefing session: Yes

(Rounded million yen)

1. Consolidated Results for the 6 month period ended June 30, 2021 (from January 1, 2021 to June 30, 2021)

(1) Consolidated Operating Results (cumulative) (Percentages are shown as year-on-year changes)

	Revenue		Operating income		Net profit before income taxes		Net profit		Net profit attributable to owners of the parent company		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
6 month period ended June 30, 2021	3,123	24.1	(1,849)	—	(1,393)	—	(2,297)	—	(2,297)	—	2,442	—
6 month period ended June 30, 2020	2,516	(50.2)	(1,136)	—	(1,270)	—	(2,117)	—	(2,117)	—	(4,590)	—

	Earnings per share – basic	Earnings per share – diluted
	Yen	Yen
6 month period ended June 30, 2021	(28.38)	(28.38)
6 month period ended June 30, 2020	(27.45)	(27.45)

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets
	Million yen	Million yen	Million yen	%
At June 30, 2021	81,348	55,756	55,756	68.5
At December 31, 2020	76,465	52,381	52,381	68.5

2. Dividends

	Dividends per share				
	End Q1	End Q2	End Q3	End Q4	Total
	Yen	Yen	Yen	Yen	Yen
FY2020	-	0.00	-	0.00	0.00
FY2021	-	0.00			
FY2021 (E)			-	0.00	0.00

(Note) There is no change in the dividend forecast from the previous disclosure.

3. Forecast for the year from January 1, 2021 to December 31, 2021

We continue to focus on expanding our drug discovery business and remain well positioned to capitalize on growth opportunities. Our SBDD platform and highly productive drug discovery engine has generated multiple new exciting drug candidates, and we will continue to take steps to increase partnered and co-investment activity to ensure all programs are rapidly advanced in a capital efficient manner. At the same time, we will invest in new technologies, tools and

capabilities to maintain our competitive edge and bring forward an exciting pipeline of next-generation programs in areas of high unmet medical need.

The Group expects 2021 to be a year of increased investment in R&D and in strategic growth initiatives, including taking steps to secure an acquisition of a revenue-generating business to support our medium-term plan for corporate expansion. The Group is making increased R&D investments this year in the preclinical and clinical advancement of its portfolio of lead muscarinic agonist compounds for schizophrenia and other neurological disorders, following their reversion to in-house programs from AbbVie in January 2021. The Group's current intention is to partner the portfolio of muscarinic agonist programs in the near term, which if successful, will have the impact of shifting the clinical trial costs and risks associated with these neurology programs to a well-capitalized global partner. The Group expects any partner to be able to accelerate late-stage development of these programs and support the Group's vision to bring these novel medicines to patients sooner.

In line with recent years, our strategy remains the same, and in our underlying drug discovery business we will continue to target a sustainable balance of resources and capital in the pursuit of growth in corporate value:

- Forecast cash R&D expenses in the underlying drug discovery business in the range of JPY 4,000 to JPY 5,000 million[1] (unchanged).
- Forecast cash G&A expenses in the underlying drug discovery business in the range of JPY 1,800 to JPY 2,300 million[2] (unchanged).
- We expect to receive upfront payments related to new partnerships.
- We expect to receive milestone payments from existing drug discovery and development partnerships.
- We will continue to invest in technologies, tools and capabilities that complement and future-proof our drug discovery platform, as well as advance next-generation candidates; all while strongly managing our cost base.
- We will continue to explore a potentially transformative acquisition to secure long-term revenue growth.
- We will expand our drug candidate discovery and early development capabilities into new target classes.
- We will continue to explore late-stage clinical assets to in-license and develop for the Japanese market.

The Group has a strong cash runway into 2024 to fund its drug discovery and early-stage development activities.

[1] The assumed FX rate of USD:JPY 106
[2] The assumed FX rate of USD:JPY 106

* Notes

(1) Changes in the number of significant subsidiaries for the six-month period ended June 30, 2021 (changes of specified subsidiaries affecting the scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates

1) Changes in accounting policies required by IFRS: None

2) Changes due to changes in accounting policies other than those of item 1: None

3) Changes in accounting estimates: None

(3) Number of common shares issued

1) Number of shares issued at period end (including treasury shares)	At June 30, 2021	81,382,004 shares	At December 31, 2020	80,596,128 shares
2) Number of treasury shares at period end	At June 30, 2021	213 shares	At December 31, 2020	213 shares
3) Average number of shares in issue in period	6 month period ended June 30, 2021	80,906,526 shares	6 month period ended June 30, 2020	77,146,514 shares

* Quarterly consolidated financial results reports are not subject to audit.

** Explanation regarding the appropriate use of forecasts of business results and other points to be noted*

Note concerning forward-looking statements: The financial forecast is based on judgements and estimates that have been prepared on the basis of information available as of the time of disclosure of this material. The actual business results may differ materially from the forecasts due to various factors.

The Company is scheduled to hold a webinar presentation for all existing and potential investors as well as sell-/buy-side analysts which will consist of a presentation followed by a Q&A session on August 12, 2021. Presentation slides will be made available on August 12, 2021 through the investor section of the Company's Home Page.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of operating results

The Group is a science and technology-led company, specializing in drug discovery and early-stage drug development. Our mission is to make a significant contribution to improving the quality of life and health of people around the world. Our vision is to become one of Japan's global biotechnology and drug discovery champions.

During the six months ended June 30, 2021, the Group continued to advance its drug discovery and early-stage development pipeline, as well as enhance its proprietary StaR® ("stabilized receptor") and aligned technologies, and Structure-based Drug Design ("SBDD") platform.

Our business model is focused across three core areas to create value; (i) supporting our existing partnerships with major global pharmaceutical companies, (ii) advancing R&D with innovative technology companies and venture funds, and (iii) signing new high-value partnerships based on successful in-house drug discovery and early-stage development of new candidates.

As of June 30, 2021, the Group had over 20 programs in total ongoing in discovery, with 11 in preclinical development, and multiple in-house and partnered programs currently in clinical trials[3,4].

Due to the Group's renewed focus on small molecules and therapeutic antibodies, peptide discovery programs, which include HTL0030310 (an SSTR agonist), GLP-1 antagonist and Dual GLP-2/GLP-1 agonist, have been set aside for academic or industrial partnerships and will not be progressed any further by the Group in-house on a fully funded basis.

Supporting new and existing partnerships with major global pharmaceutical companies

The Group continued to make good progress with its partners and has decided to retain COVID-19 safety measures to ensure R&D continuity and productivity, regardless of the recent relaxing of Government guidelines in the UK. All research and development activity continues to move forward productively.

On May 19, 2021, the Group announced it had been notified by Pfizer that the first subject in a clinical trial had been dosed with PF-07258669, a new drug candidate nominated from the multi-target drug discovery collaboration between the two companies. Achievement of this milestone triggered a payment of US$5 million to Sosei Heptares. PF-07258669 was nominated for advancement by Pfizer in December 2019 generating a US$3 million milestone payment at that time. Pfizer nominated three distinct clinical candidates from the collaboration with the Group during 2019, all of which are now progressing in Phase I clinical trials. These candidates have also now been disclosed by Pfizer as:

- PF-07081532 (an oral GLP1 receptor agonist for Type 2 Diabetes Mellitus and Obesity)
- PF-07054894 (a CCR6 antagonist targeting Inflammatory Bowel Disease) and
- PF-07258669 (an MC4 receptor antagonist for Anorexia)

[3] Includes AZD4635 for multiple solid malignancies, HTL0016878 for neurological diseases, HTL0018318 for neurological diseases (voluntarily suspended), HTL009936 for neurological diseases, PF-07081532 for T2DM/Obesity, PF-07054894 for Inflammatory Bowel Disease, PF-07258669 for Anorexia, BHV3100 for neurological diseases, TMP301 for neurological disorders, and HTL0030310 for endocrine disorders.

[4] Phase 2 trial of HTL0018318 for DLB in Japan remains under voluntary suspension and has been withdrawn. The Group may resubmit a new clinical trial notification for HTL0018318 (or another novel M1 agonist) to the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) in the future, pending the outcome of an ongoing analysis and studies into toxicology findings.

On June 23, 2021, the Group announced that the first healthy subject had been dosed with HTL0022562 in a Phase 1 clinical study. HTL0022562 (also known as BHV3100) is a novel, small molecule calcitonin gene-related peptide (CGRP) receptor antagonist discovered by the Group and the lead compound in a portfolio of CGRP antagonists licensed to Biohaven in December 2020 for development as new therapies for CGRP-mediated disorders. The trial is a Phase 1, randomized, double-blind, placebo-controlled, first-in-human study to evaluate the safety, tolerability, and pharmacokinetics of a single ascending dose and multiple ascending doses of subcutaneous HTL0022562 in healthy adult subjects. The trial aims to enroll 88 subjects at a single center in the UK and is expected to complete in 2022. The Group has advanced HTL0022562 successfully though a preclinical development program demonstrating its promising and differentiated properties for further investigation in human trials. Under the global collaboration and license agreement with Biohaven, the Group will conduct the Phase 1 clinical trial itself, receiving a milestone payment for its initiation, and is also eligible for development costs for conducting the trial. Biohaven will lead all future studies and development activities and the Group will be eligible for further milestone payments and royalties. HTL0022562 is the tenth drug candidate overall generated from the Group's SBDD platform to enter clinical development.

Advancing R&D through co-investments with innovative technology and venture funds

The Group continued to make significant progress with its technology and venture partners.

On January 12, 2021, the Group and PharmEnable, a UK drug discovery company, announced they had entered a collaboration to apply their respective technologies to drive novel drug discovery against a challenging G protein-coupled receptor ("GPCR") target associated with neurological diseases. The collaboration will combine the Group's world-leading GPCR-focused SBDD platform, which has fully structurally enabled the GPCR target, providing detailed structural insights and an assessment of tractability, with PharmEnable's proprietary advanced artificial intelligence (AI)-enabled and medicinal chemistry technologies (ChemUniverse and ChemSeek) to identify novel, highly specific drug leads for further development. PharmEnable's approach identifies three-dimensional (3D) drug candidate hits with improved specificity compared with traditional screening methods and allows the company to take on particularly challenging biological targets, such as "peptidergic" GPCRs, which have proved difficult to drug using existing approaches. The natural agonist ligand of a peptidergic GPCR is a large, complex peptide and is often very difficult to block with a small molecule, particularly one that has properties suitable for development as a therapeutic agent for neurological disease. Under the agreement, the companies will jointly conduct and share the costs of the discovery and development program and will co-own any resulting products.

On February 1, 2021, the Group and Metrion Biosciences, a specialist UK-based ion channel CRO and drug discovery company, announced they had entered into a strategic technology collaboration where for the first time the Group will apply its world-leading SBDD expertise and platform to ion channels. The collaboration aims to demonstrate the potential of the Group's SBDD technologies to address disease-associated ion channels and work towards establishing a leadership position in this area, in a similar way that it has done for GPCRs. As a first step, the Group and Metrion will combine their respective capabilities in a drug discovery program to identify novel, highly specific drug leads for further development against a single ion channel associated with neurological diseases. Metrion will contribute intellectual property, know-how and use of screening models for the nominated ion channel target. The Group will have exclusive, full global rights to all molecules identified and directed to the targets for development.

On February 16, 2021, the Group noted the announcement from Centessa Pharmaceuticals ("Centessa") about its launch as a novel asset-centric pharmaceutical company designed and built to advance a portfolio of highly validated programs. In conjunction with its launch, Centessa completed the merger of 10 private biotech companies ("Centessa Subsidiaries") that would each continue to develop its assets with oversight from the Centessa management team. Centessa was founded by specialist life science venture capital firm Medicxi and raised $250 million in an oversubscribed Series A financing from a group of blue-chip investors. Centessa's asset-centric R&D model applied at scale has assembled best-in-class or first-in-class assets, each of which is led by specialized teams committed to accelerate development and reshape the traditional drug development process. With its unique operational framework, Centessa aims to reduce some of the key R&D inefficiencies that classical pharmaceutical companies face because of structural constraints. Each Centessa Subsidiary team is asset-focused, in that it prosecutes a single program or biological pathway, with leadership provided by subject matter experts who are given a high degree of autonomy to advance each program. With a singular focus on advancing exceptional science, combined with proprietary capabilities, including structure-based drug discovery and design, the subsidiary teams enable Centessa to potentially develop and deliver impactful medicines to patients. Orexia Therapeutics ("Orexia"), a new entity comprising Orexia Limited and Inexia Limited, which were created in February 2019 by the Group and Medicxi, was merged into Centessa. Orexia is developing oral and intranasal orexin receptor agonists using structure-based drug design approaches. These agonists target the treatment of narcolepsy type 1, where they have the potential to directly address the underlying pathology of orexin neuron loss, as well as other neurological disorders characterized by excessive daytime sleepiness. The Group continues to provide research services to Orexia and its equity holding in Orexia was converted into a proportional shareholding in Centessa.

On April 21, 2021, Centessa management filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission ("SEC") for a proposed initial public offering ("IPO") of the American Depositary Shares ("ADSs") of Centessa Pharmaceuticals plc. Centessa subsequently re-registered Centessa Pharmaceuticals Limited as a public limited company and changed its name to Centessa Pharmaceuticals plc. On June 4th, 2021 Centessa Pharmaceuticals plc. successfully completed its IPO achieving a market capitalization of US$1.7 billion and raising US$379.5 million, and its ADSs started trading on the Nasdaq Global Market under the symbol "CNTA." As at June 30, 2021, the Group owned 929,353 shares of Centessa Pharmaceuticals plc., representing 1.03% of its issued share capital.

Investing in our in-house discovery and early development programs to generate new candidates for partnering

The Group continued to make significant investments in its pipeline, as it advanced multiple discovery candidates and early development programs.

On January 5, 2021, the Group announced it regained the worldwide rights to its muscarinic agonist programs including all assets in development under the program, together with all associated intellectual property licensed by the Group to Allergan, and all clinical and preclinical data generated under the partnership. The program was licensed to Allergan in April 2016, and Allergan was acquired by AbbVie in May 2020. This decision to return worldwide rights was based on business decisions regarding AbbVie's pipeline strategy and not on any efficacy, safety or other data related to the collaboration programs. We have since conducted a full internal review and have determined a strategy to re-partner the program in 2021.

Activities related to former wholly-owned subsidiaries

The Group received a milestone related to a program previously created by Activus Pharma Inc. ("Activus"). On March 11, 2021, the Group announced that Formosa Pharmaceuticals, Inc. ("Formosa") had dosed the first patient in a 370-patient randomized Phase 3 clinical trial of APP13007 in the United States (ClinicalTrials.gov Identifier: NCT04739709). APP13007 is a nanoparticle formulation of a steroid in development for the treatment of inflammation and pain after cataract surgery. The milestone triggered a US$2.5 million payment to the Group from Formosa. APP13007 was originally designed and developed at Activus, formerly a wholly owned subsidiary of the Company. Activus was divested in August 2017 to Formosa, a wholly owned subsidiary of Formosa Laboratories, Inc., a leading manufacturer of Active Pharmaceutical Ingredients ("APIs") listed on the Taiwan Stock Exchange. The divestment was part of Sosei Heptares' redirected growth strategy towards the design and development of new medicines originating from its proprietary GPCR-targeted StaR® technology and structure-based drug design platform capabilities.

Operational highlights after the period under review (period ended June 30, 2021)

On July 27, 2021, the Group issued euro-yen denominated convertible bonds due 2026 in the principal amount of JPY 30 billion in an international offering, a portion of which was used to repurchase the Group's existing convertible bonds due 2025, as well as to obtain new additional funds for accelerating the Group's strategic growth initiatives, including acquisitions and investments, and to lower funding costs, extend the maturity profile of its debt, and further strengthen the Group's financial base.

On July 28, 2021, the Group repurchased JPY 15.75 billion in principal amount of the existing convertible bonds due 2025 (which had an aggregate principal amount of JPY 16 billion).

As of June 30, 2021, the Group had a total of 188 employees (a decrease of 2 employees vs. the end of the previous financial year, 2020).

As a result of the above activities, the Group reported the following financial results for the six month period ended June 30, 2021. Revenue of JPY 3,123 million (an increase of JPY 607 million vs. the prior corresponding period), an operating loss of JPY 1,849 million (vs. an operating loss of JPY 1,136 million in the prior corresponding period), a net loss before taxes of JPY 1,393 million (vs. a net loss before income taxes of JPY 1,270 million in the prior corresponding period), and a net loss of JPY 2,297 million (vs. a net loss of JPY 2,117 million in the prior corresponding period).

	6 month period ended June 30, 2021 ¥m	6 month period ended June 30, 2020 ¥m	Change ¥m
Revenue	**3,123**	2,516	607
Cash cost of sales	**(336)**	(304)	(62)
Cash research and development expenses	**(2,382)**	(1,500)	(882)
Cash selling, general and administrative expenses	**(1,256)**	(925)	(331)
Other cash income	**81**	32	49
Cash earnings	**(800)**	(181)	(619)
Non-cash costs	**(1,049)**	(955)	(94)
Operating loss	**(1,849)**	(1,136)	(713)
Net finance (costs) income	**(32)**	46	(78)
Share of gain (loss) of associates	**282**	(180)	462
Gain on reversal of impairment loss for investments accounted for using the equity method	**206**	-	206
Loss before income taxes	**(1,393)**	(1,270)	(123)
Loss for the period	**(2,297)**	(2,117)	(180)
YTD average exchange rate			
USD: JPY	**108.11**	108.25	(0.14)
GBP: JPY	**150.33**	136.43	13.90

Notes:

1. Cash earnings describes operating profit/(loss) before deducting depreciation, amortization, stock-based compensation expenses and impairment losses.

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

	6 month period ended June 30, 2021 ¥m	6 month period ended June 30, 2020 ¥m	Change ¥m
Milestone income and upfront fees	**1,546**	753	793
Royalty income	**1,167**	1,219	(52)
Other	**410**	544	(134)
	3,123	2,516	607

Revenue in the six month period under review totaled JPY 3,123 million (an increase of JPY 607 million vs. the prior corresponding period).

Revenue related to milestone income and upfront fees in the six month period under review totaled JPY 1,546 million (an increase of JPY 793 million vs. the prior corresponding period). Milestone income and upfront fees can vary considerably quarter on quarter and depend on the achievement of defined milestone events and the commencement of new partnership agreements within a quarter. The increase in revenues related to milestones and upfront fees in the six month period under review was due to (i) the achievement of five milestone events in the current period generating JPY 881 million of revenue vs. 1 upfront fee and 2 milestone events in the prior corresponding period generating JPY 576 million of revenue, and (ii) an increase of JPY 488 million in the amount released from deferred revenue.

Revenue related to royalties in the six month period under review totaled JPY 1,167 million (a decrease of JPY 52 million vs. the prior corresponding period). The majority of the Group's royalty revenue relates to sales of Ultibro® Breezhaler®, Seebri® Breezhaler® and Enerzair® Breezhaler® by Novartis[5].

5 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.

Operating expenses

	6 month period ended June 30, 2021 ¥m	6 month period ended June 30, 2020 ¥m	Change ¥m
Cash cost of sales	**366**	304	62
Cash research and development expenses	**2,382**	1,500	882
Cash general and administrative expenses	**1,256**	925	331
Non-cash expenses:	**1,049**	955	94
Cost of sales	**81**	29	52
Research and development expenses	**216**	190	26
General and administrative expenses	**678**	736	(58)
Other expenses	**74**	-	74

Cash cost of sales

Cash cost of sales in the six month period under review totaled JPY 366 million (an increase of JPY 62 million vs. the prior corresponding period). Cash cost of sales comprises the fully loaded cost of those employees providing research and development services to specific customers under contracts (including other costs directly associated with these activities such as lab consumables).

Cash research and development expenses

Cash research and development ("R&D") expenses in the six month period under review totaled JPY 2,382 million (an increase of JPY 882 million vs. the prior corresponding period). The increase in R&D spend reflects higher activity levels on in-house programs (including the recently reverted muscarinic portfolio), participation in new co-development collaborations and the impact of a stronger GBP vs. JPY. In particular, the Group made increased R&D investments year to date in the preclinical and clinical advancement of its portfolio of lead muscarinic agonist compounds for schizophrenia and other neurological disorders, following their reversion to in-house programs from AbbVie in January 2021. The Group's current intention is to partner the portfolio of muscarinic agonist programs in the near term, which if successful, will have the impact of shifting the clinical trial costs and risks associated with these neurology programs to a well-capitalized global partner. The Group expects any partner to be able to accelerate late-stage development of these programs and support the Group's vision to bring these novel medicines to patients sooner. In addition, costs in the prior corresponding period were lower than normal due to the slowdown in expenditure experienced when on March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic. Furthermore, the prior corresponding period also included a one off credit relating to the successful resolution of disputed costs charged by one supplier. Despite the relative increase in R&D spend vs. the prior corresponding period, the current period spend is in line with our budgeted plans, and therefore our full year forecast cash R&D expenses remain unchanged, in the range of JPY 4,000 to JPY 5,000 million.

Cash general and administrative expenses

Cash general and administrative ("G&A") expenses in the six month period under review totaled JPY 1,256 million (an increase of JPY 331 million vs. the prior corresponding period). The increase in G&A spend is primarily due to an increase in personnel related expenses and professional advisory fees as the Group continued to evaluate strategic growth opportunities. In addition, personnel related expenses in the prior corresponding period were lower than normal as a result of a reduction in the UK share based payment related National Insurance liability which was driven by share price movements in that particular period. Despite the relative increase in G&A spend vs. the prior corresponding period, the current period spend is in-line with our budgeted plans, and

therefore our full year forecast cash G&A expenses remain unchanged, in the range of JPY 1,800 to 2,300 million.

Non-cash expenses
Non-cash expenses primarily consist of depreciation on property, plant and equipment, amortization of intangible assets, stock-based compensation expenses and impairment losses. Non-cash expenses in the six month period under review were JPY 1,049 million (an increase of JPY 94 million vs. the prior corresponding period). In total, depreciation amounted to JPY 275 million (an increase of JPY 20 million vs. the prior corresponding period). Amortization for the six month period under review totaled JPY 368 million (a decrease of JPY 45 million vs. the prior corresponding period). Stock-based compensation expense for the period was JPY 332 million (an increase of JPY 45 million vs. the prior corresponding period). Impairment loss in the six month period was JPY 74 million. This was due to an intangible asset impairment charge associated with a reduction in Oravi® sales and profitability forecasts.

Operating loss
Operating loss in the six month period under review totaled JPY 1,849 million (vs. an operating loss of JPY 1,136 million in the prior corresponding period). The main reason for the increase in the operating loss is that the increase in operating expenses exceeded the increase in revenue.

Net finance costs
Net finance costs in the six month period under review totaled JPY 32 million (an increase of JPY 78 million vs. the prior corresponding period). This increase is primarily due to higher interest costs, including the costs of convertible bonds issued in July 2020, which are partially offset by higher contingent consideration gains relating to the 2017 Activus divestment.

Share of gain (loss) of associates accounted for using the equity method
Share of gain (loss) of associates accounted for using the equity method in the period under review totaled JPY 282 million (an increase of JPY 462 million vs. the prior corresponding period). This was due to MiNA (Holdings) Limited, an affiliated company of the Group, recording a net profit for the six month period under review vs. a net loss in the prior corresponding period.

Gain on reversal of impairment loss for investments accounted for using the equity method
Gain on reversal of impairment loss for investments accounted for using the equity method in the six month period under review totaled JPY 206 million. This was due to an increase in the fair value of shares in JITSUBO, an affiliated company of the Group, which was disposed of in April 2021.

Income tax expense
Income tax expense in the six month period under review totaled JPY 904 million (an increase of JPY 57 million vs. the prior corresponding period).

Loss for the period
The loss for the six month period under review totaled JPY 2,297 million (a net loss of JPY 2,117 million in the prior corresponding period). The main reason for the increase in loss is the rise in operating costs (for the reasons stated above).

(2) Analysis of financial position

1) Assets, liabilities and equity

Assets

Total assets as at June 30, 2021 were JPY 81,348 million (an increase of JPY 4,883 million vs. the end of the previous financial year, 2020). The main reason for the increase was the effect of the strong GBP on the translation of GBP-denominated assets into JPY and the positive revaluation of Centessa shares which were listed on Nasdaq during the period.

Liabilities

Total liabilities as at June 30, 2021 were JPY 25,592 million (an increase of JPY 1,508 million vs. the end of the previous financial year, 2020). This was primarily due to an increase in deferred tax liabilities driven by a change in the UK corporation tax rate.

Equity

Total equity as at June 30, 2021 was JPY 55,756 million (an increase of JPY 3,375 million vs. the end of the previous financial year, 2020). This was primarily due to exchange differences of translation of JPY 3,296 million.

The ratios of Cash and cash equivalents, Interest-bearing debt and Equity attributable to owners of the parent company to total assets were 49.9%, 20.7% and 68.5%, respectively.

2) Cash flows

Cash and cash equivalents as at June 30, 2021 increased by JPY 621 million from the beginning of the year and amounted to JPY 40,629 million.

Cash flows from operating activities

Net cash used in operating activities during the period under review totaled JPY 1,475 million. This was primarily due to operating expenses exceeding revenues.

Cash flows from investing activities

Net cash provided by investing activities during the period under review totaled JPY 410 million. This was primarily due to (i) the receipt of contingent consideration income totaling JPY 273 million, and (ii) the sale of the Group's investment in an associated undertaking for JPY 206 million.

Cash flows from financing activities

Net cash provided by financing activities for the period under review totaled JPY 451 million. This was primarily due to the issuance of new shares of JPY 601 million.

Effects of exchange rate changes on cash and cash equivalents

Effects of exchange rate changes on cash and cash equivalents for the period under review totaled JPY 1,235 million. This increase in cash and cash equivalents was primarily due to a stronger GBP vs. JPY.

(3) Earnings Forecast

We continue to focus on expanding our drug discovery business and remain well positioned to capitalize on growth opportunities. Our SBDD platform and highly productive drug discovery engine has generated multiple new exciting drug candidates, and we will continue to take steps to increase partnered and co-investment activity to ensure all programs are rapidly advanced in a capital efficient manner. At the same time, we will invest in new technologies, tools and capabilities to maintain our competitive edge and bring forward an exciting pipeline of next-generation programs in areas of high unmet medical need.

The Group expects 2021 to be a year of increased investment in R&D and in strategic growth initiatives, including seeking an acquisition of a revenue-generating business to support our medium-term plan for corporate expansion. The Group is making increased R&D investments this year in the preclinical and clinical advancement of its portfolio of lead muscarinic agonist compounds for schizophrenia and other neurological disorders, following their reversion to in-house programs from AbbVie in January 2021. The Group's current intention is to partner the portfolio of muscarinic agonist programs in the near term, which if successful, will have the impact of shifting the clinical trial costs and risks associated with these neurology programs to a well-capitalized global partner. The Group expects any partner to be able to accelerate late-stage development of these programs and support the Group's vision to bring these novel medicines to patients sooner.

In line with recent years, our strategy remains the same, and in our underlying drug discovery business we will continue to target a sustainable balance of resources and capital in the pursuit of growth in corporate value:

- Forecast cash R&D expenses in the underlying drug discovery business in the range of JPY 4,000 to JPY 5,000 million[6] (unchanged).
- Forecast cash G&A expenses in the underlying drug discovery business in the range of JPY 1,800 to JPY 2,300 million[7] (unchanged).
- We expect to receive upfront payments related to new partnerships.
- We expect to receive milestone payments from existing drug discovery and development partnerships.
- We will continue to invest in technologies, tools and capabilities that complement and future-proof our drug discovery platform, as well as advance next-generation candidates; all while strongly managing our cost base.
- We will continue to explore a potentially transformative acquisition to secure long-term revenue growth.
- We will expand our drug candidate discovery and early development capabilities into new target classes.
- We will continue to explore late-stage clinical assets to in-license and develop for the Japanese market.

The Group has a strong cash runway into 2024 to fund its drug discovery and early-stage development activities.

[6] The assumed FX rate of USD:JPY 106
[7] The assumed FX rate of USD:JPY 106

2. Interim Condensed Consolidated Financial Statements and Primary Notes (IFRS)

1) Interim Condensed Consolidated Balance Sheet

	June 30, 2021 (Unaudited) ¥m	December 31, 2020 (Audited) ¥m
Assets		
Non-current assets		
Property, plant and equipment	3,915	3,824
Goodwill	14,958	14,134
Intangible assets	12,454	11,802
Investments accounted for using the equity method	3,666	3,087
Other financial assets	3,437	1,593
Other non-current assets	10	7
Total non-current assets	38,440	34,447
Current assets		
Trade and other receivables	1,496	939
Income taxes receivable	102	420
Other financial assets	82	-
Other current assets	599	651
Cash and cash equivalents	40,629	40,008
Total current assets	42,908	42,018
Total assets	81,348	76,465
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred tax liabilities	3,591	2,457
Contingent consideration in business combinations	500	1,107
Corporate bonds	14,918	14,789
Lease liabilities	1,720	1,664
Other non-current liabilities	687	1,082
Total non-current liabilities	21,416	21,099
Current liabilities		
Trade and other payables	1,366	1,508
Contingent consideration in business combinations	816	-
Income taxes payable	396	29
Lease liabilities	182	170
Other current liabilities	1,416	1,278
Total current liabilities	4,176	2,985
Total liabilities	25,592	24,084
Equity		
Capital stock	40,909	40,220
Capital surplus	30,696	30,452
Treasury stock	(0)	(0)
Retained earnings	(13,082)	(10,785)
Other components of equity	(2,767)	(7,506)
Equity attributable to owners of the parent company	55,756	52,381
Total equity	55,756	52,381
Total liabilities and equity	81,348	76,465

2) Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Six month period ended June 30, 2021 (Unaudited) ¥m	Six month period ended June 30, 2020 (Unaudited) ¥m
Revenue	**3,123**	2,516
Cost of sales	**(447)**	(333)
Gross profit	**2,676**	2,183
Research & development expenses	**(2,598)**	(1,690)
Selling, general & administrative expenses	**(1,934)**	(1,661)
Other income	**81**	35
Other expenses	**(74)**	(3)
Operating loss	**(1,849)**	(1,136)
Finance income	**173**	369
Finance costs	**(205)**	(323)
Share of gain (loss) of associates accounted for using the equity method	**282**	(180)
Gain on reversal of impairment loss for investments accounted for using the equity method	**206**	-
Loss before income taxes	**(1,393)**	(1,270)
Income tax expense	**(904)**	(847)
Loss for the period	**(2,297)**	(2,117)
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	**1,443**	35
Total items that will not be reclassified subsequently to profit or loss	**1,443**	35
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**3,296**	(2,508)
Total items that may be reclassified subsequently to profit or loss	**3,296**	(2,508)
Total other comprehensive income (loss)	**4,739**	(2,473)
Total comprehensive income (loss) for the period	**2,442**	(4,590)
Loss for the period attributable to:		
Owners of the parent company	**(2,297)**	(2,117)
Non-controlling interests	**-**	(0)
	(2,297)	(2,117)
Total comprehensive income (loss) for the period attributable to:		
Owners of the parent company	**2,442**	(4,590)
Non-controlling interests	**-**	(0)
	2,442	(4,590)
Earnings per share (yen)		
Basic loss per share	**(28.38)**	(27.45)
Diluted loss per share	**(28.38)**	(27.45)

3) Interim Condensed Consolidated Statement of Changes in Equity

	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity ¥m	Equity attributable to owners of the parent company ¥m	Non-controlling interests ¥m	Total equity ¥m
Balance at January 1, 2021	**40,220**	**30,452**	**(0)**	**(10,785)**	**(7,506)**	**52,381**	**-**	**52,381**
Loss for the period	-	-	-	(2,297)	**-**	**(2,297)**	**-**	**(2,297)**
Other comprehensive income	-	-	-	-	**4,739**	**4,739**	-	**4,739**
Total comprehensive (loss) income for the period	-	-	-	(2,297)	**4,739**	**2,442**	**-**	**2,442**
Issuance of new shares	689	(88)	-	-	**-**	**601**	-	**601**
Share-based payments	-	332	-	-	**-**	**332**	-	**332**
Total transactions with owners	689	244	-	-	**-**	**933**	-	**933**
Balance at June 30, 2021 (Unaudited)	**40,909**	**30,696**	**(0)**	**(13,082)**	**(2,767)**	**55,756**	**-**	**55,756**
					,			
Balance at January 1, 2020	37,479	26,548	(0)	(12,264)	(6,688)	45,075	3	45,078
Loss for the period	-	-	-	(2,117)	-	(2,117)	(0)	(2,117)
Other comprehensive loss	-	-	-	-	(2,473)	(2,473)	-	(2,473)
Total comprehensive loss for the period	-	-	-	(2,117)	(2,473)	(4,590)	(0)	(4,590)
Issuance of new shares	183	(58)	-	-	-	125	-	125
Share-based payments	-	329	-	-	-	329	-	329
Change on loss of control of subsidiary	-	-	-	-	-	-	(3)	(3)
Total transactions with owners	183	271	-	-	-	454	(3)	451
Balance at June 30, 2020 (Unaudited)	37,662	26,819	(0)	(14,381)	(9,161)	40,939	-	40,939

4) Interim Condensed Consolidated Statement of Cash Flows

	Six month period ended June 30, 2021 (Unaudited) ¥m	Six month period ended June 30, 2020 (Unaudited) ¥m
Cash flows from operating activities		
Loss before income taxes	**(1,393)**	(1,270)
Adjustments for:		
Depreciation and amortization	**643**	668
Share-based payments	**332**	287
Impairment loss	**74**	-
Gain on investments in securities	**(8)**	(244)
Loss on sale of investments in securities	**-**	73
Loss on investment in capital	**-**	75
Change in fair value of contingent consideration	**(98)**	136
Net foreign exchange (gain) loss	**(99)**	28
Interest income	**(3)**	(32)
Interest expenses	**201**	30
Share of (gain) loss of associates accounted for using the equity method	**(282)**	180
Gain on reversal of impairment loss for investments accounted for using the equity method	**(206)**	-
Increase in trade receivables	**(180)**	(293)
Decrease in trade and other payables	**(10)**	(227)
(Decrease) increase in deferred revenues	**(272)**	652
Other	**(483)**	(104)
Subtotal	**(1,784)**	(41)
Interest and dividends received	**3**	32
Interest paid	**(72)**	(4)
Income tax refunded	**380**	1,126
Income taxes paid	**(2)**	(56)
Net cash (used in) provided by operating activities	**(1,475)**	1,057
Cash flows from investing activities		
Purchase of property, plant and equipment	**(67)**	(41)
Purchase of intangible assets	**(2)**	(6)
Change in cash and cash equivalents due to disposal of subsidiaries	**-**	(577)
Proceeds from sale of investment in associate	**206**	-
Proceeds from sales on investment securities	**-**	238
Proceeds from settlement of contingent consideration	**273**	-
Other	**-**	(1)
Net cash provided by (used in) investing activities	**410**	(387)
Cash flows from financing activities		
Repayments of lease liabilities	**(88)**	(114)
Payment for settlement of contingent consideration	**(62)**	(159)
Proceeds from issuance of common stock	**601**	125
Net cash provided by (used in) financing activities	**451**	(148)
Effects of exchange rate changes on cash and cash equivalents	**1,235**	(535)
Net increase (decrease) in cash and cash equivalents	**621**	(13)
Cash and cash equivalents at the beginning of the period	**40,008**	15,375
Cash and cash equivalents at the end of the period	**40,629**	15,362

5) Notes of Interim Condensed Consolidated Financial Statements

5.1 Notes related to going concern assumptions

Not applicable.

5.2 Change in accounting policy

Not applicable.

5.3 Changes in accounting estimates

Not applicable.

5.4 Operating segments

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

5.5 Significant subsequent events

Issuance of New Convertible Bonds

At a board meeting held on July 7, 2021, the directors resolved to issue new Euro-yen Denominated Convertible Bonds due 2026 through an International Offering, and the proceeds were received on July 27, 2021. A summary of the issuance is as follows

Issuance of Euro-yen Denominated Convertible Bonds due 2026

(1) Bonds Offered: Sosei Group Corporation Euro-yen Denominated Convertible Bonds due 2026
(2) Aggregate Principal Amount: ¥30,000,000,000
(3) Issue Price: 100.0% of par value (each Bond shall have a denomination of ¥10,000,000).
(4) Offer Price: 102.5% of par value
(5) Closing Date and Issue Date: 27 July 2021 (London time)
(6) Maturity: The Bonds will be redeemed at 100% of their principal amount on 27 July 2026. The Bonds may be redeemed prior to maturity upon, among other things, increased share prices and investor put.
(7) Interest Rate: 0.25% per annum on the outstanding principal amount of the Bonds
(8) Interest payment date: Payable semi-annually in arrears on 27 January and 27 July in each year.
(9) Particulars of the Stock Acquisition Rights:
(i) Type and number of shares subjects to the Stock Acquisition Rights:
Type: Common stock of the Company
Number: The number of shares newly issued by the Company by the exercise of the Stock Acquisition Rights is the number produced by dividing the total issue price of the Corporate Bonds related to the request for exercise by the conversion price described in (iii) below.
(ii) Total number of Stock Acquisition Rights: 3,000
(iii) Amount to be paid to exercise Stock Acquisition Rights: When exercising Stock Acquisition Rights, the bonds attached to the Stock Acquisition Rights shall be contributed, and the price of such bonds shall be the same as the par value. The conversion price shall be ¥2,235.
(iv) Exercise period: August 10, 2021 to July 13, 2026 (local time at the place where the exercise is requested). However, certain terms and conditions apply as stated in the issuance requirements.
(10) Collateral or guarantee of the bonds: The bonds do not have collateral or guarantee.
(11) Conditions for exercising Stock Acquisition Rights: The Stock Acquisition Rights may not be exercised in part.
(12) Listed exchange: Bonds with stock acquisition rights are listed on the Singapore Stock Exchange.

Use of Proceeds

The net proceeds of approximately ¥29.8 billion from the Offering are intended to be used as follows:

- approximately ¥18.9 billion to be allocated by the end of July 2021 toward the repurchase of Existing Convertible Bonds (see below).
- approximately ¥10.0 billion, together with the approximately ¥20.9 billion raised from the offerings announced on 30 June 2020 of shares of common stock and of the Existing Convertible Bonds, to be allocated by the end of June 2024 towards strategic growth initiatives including: funding acquisitions of or investments in companies or technologies that complement Sosei's business, including in the areas of neurology, gastroenterology, immunology and rare diseases, in order to strengthen Sosei's existing business foundation for drug candidate discovery and early development; and funding potential introduction of drug products in the Japanese domestic market.
- approximately ¥0.9 billion to be allocated by the end of June 2024 toward research and development of new pipelines and working capital.

Concurrent Repurchase and Cancellation of Existing Convertible Bond

At a board meeting held on July 7, 2021, the directors resolved, concurrently with the Offering, to repurchase the Sosei Group Corporation Euro-yen Denominated Convertible Bonds due 2025, and the repurchase was completed on July 28, 2021. A summary of the repurchase and cancellation is as follows:

(1) Concurrent Repurchase and Cancellation Bonds: Sosei Group Corporation Euro-yen Denominated Convertible Bonds due 2025
(2) Repurchase and Cancellation date: July 28, 2021
(3) Total purchase price: ¥18,950,000,000 (Aggregate Principal Amount: ¥15,750,000,000)
(4) Total residual amount after cancellation: Aggregate Principal Amount: ¥250,000,000