



Consolidated Financial Results for the FY2021 (IFRS)

February 10, 2022

Listing: Tokyo Stock Exchange

Company name: Sosei Group Corporation

Security code: 4565

URL: <https://www.seseiheptares.com/>

Representative: Shinichi Tamura

Representative Executive Officer, CEO

Contact person: Christopher Cargill

Executive Officer, CFO

Tel: +81-3-5210-3290

Scheduled date of annual general meeting

March 24, 2022

Scheduled date of dividend payments: -

Scheduled date of security report filing

March 24, 2022

Supplementary materials for financial results:

Yes

Financial results briefing session:

Yes

(Rounded million yen)

1. Consolidated results for the year ended December 31, 2021

(1) Consolidated operating results

(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	%
Year ended December 31, 2021	17,712	100.3	3,775	306.8	433	(73.3)	1,017	(31.2)	1,017	(31.2)	5,623	750.7
Year ended December 31, 2020	8,842	(9.1)	928	141.7	1,622	203.7	1,479	3.3	1,479	3.3	661	(72.1)

	Earnings per share – basic	Earnings per share – diluted	Ratio of net income to equity attributable to owners of the parent	Ratio of net income before income taxes to total assets	Ratio of operating income to revenue
	Yen	Yen	%	%	%
Year ended December 31, 2021	12.53	12.40	1.9	0.5	21.3
Year ended December 31, 2020	18.77	18.59	3.0	2.4	10.5

(Note) Share of gain (loss) of associates accounted for under equity method: 50 million yen for the year ended December 31, 2021; and (356) million yen for the year ended December 31, 2020.

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent company to total assets	Equity per share – attributable to owners of the parent
	Million yen	Million yen	Million yen	%	Yen
At December 31, 2021	96,985	57,468	57,468	59.3	704.97
At December 31, 2020	76,465	52,381	52,381	68.5	649.92

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	Million yen	Million yen	Million yen	Million yen
Year ended December 31, 2021	7,095	278	11,123	60,087
Year ended December 31, 2020	4,672	(150)	20,278	40,008

2. Dividends

	Dividends per share					Total amount of dividends	Dividend payout ratio (consolidated)	Ratio of dividend to equity attributable to owners of the parent company (consolidated)
	End Q1	End Q2	End Q3	End Q4	Total			
FY2020	Yen —	Yen 0.00	Yen —	Yen 0.00	Yen 0.00	Million yen —	% —	% —
FY2021	—	0.00	—	0.00	0.00	—	—	—
FY2022 (E)	—	0.00	—	0.00	0.00		—	

3. Forecast for the twelve month period from January 1, 2022 to December 31, 2022

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 for in-house progression into early clinical development, and we will continue to take steps to maintain partnered and co-investment activity to ensure programs are 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 2022 to be a year of continued incremental investment in strategic growth initiatives, including seeking an acquisition of a revenue-generating business to support our medium-term plan for corporate expansion. Like that of 2021, 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 R&D expenses in the underlying drug discovery business in the range of JPY 5,750 to JPY 6,750 million¹ (2021 actual: JPY 5,931 million).
- Forecast G&A expenses in the underlying drug discovery business in the range of JPY 3,750 to JPY 4,250 million² (2021 actual: JPY 3,940 million).
- 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 seek out 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 seek out 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.

* Notes

(1) Changes in the number of significant subsidiaries in the twelve months ended December 31, 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

¹ Previous Guidance was calculated on a cash cost basis. Guidance for 2022 and beyond will be calculated on a financial statements disclosure basis which includes non-cash costs such as depreciation, amortization and share based payments. The assumed USD:JPY FX rate in 2022 is 109.

² The Previous Guidance was calculated on a cash cost basis. Guidance for 2022 and beyond will be calculated on a financial statements disclosure basis which includes non-cash costs such as depreciation, amortization and share based payments. The assumed USD:JPY FX rate in 2022 is 109.

(3) Number of common shares issued

1) Number of shares issued at period end (including treasury shares)	At December 31, 2021	81,518,316	shares	At December 31, 2020	80,596,128	shares
2) Number of treasury shares at period end	At December 31, 2021	213	shares	At December 31, 2020	213	shares
3) Average number of shares in issue in the period	Year ended December 31, 2021	81,187,311	shares	Year ended December 31, 2020	78,737,535	shares

* The Tanshin, including the consolidated financial statements presented within it, is not subject to audit.

* Explanation regarding the appropriate use of our forecast and other points to be noted
(Note concerning forward-looking statements)

The financial forecast is based on judgments and estimates that have been prepared on the basis of information available as at 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 February 10, 2022.

Presentation slides will be made available 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 year ended December 31, 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 clinical development of our candidates.

As of December 31, 2021, the Group had over 20 programs in total ongoing in discovery, with multiple in-house and partnered programs currently in preclinical/clinical studies^{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 retained COVID-19 safety measures to ensure R&D continuity and productivity, regardless of the relaxing of Government guidelines in the U.K. in July 2021. All research and development activity continues to move forward productively.

Regaining of worldwide rights to muscarinic agonist 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. The muscarinic program was re-partnered with Neurocrine Biosciences in November 2021 (see later comment).

³ Clinical trials: HTL0016878 for neurological diseases, PF-07081532 for T2DM/Obesity, PF-07054894 for Inflammatory Bowel Disease, PF-07258669 for Anorexia, and TMP301 for neurological disorders; BHV3100 for neurological diseases; Preclinical trials: M1 agonist for neurological diseases, M1/M4 dual agonist for neurological diseases, GPR35 agonist for Inflammatory Bowel Disease, KY1051 for immuno-oncology, GPR52 agonist for neurological diseases, EP4 antagonist for immuno-oncology, EP4 agonist for Inflammatory Bowel Disease, and H4 antagonist for atopic dermatitis.

⁴ Due to the Group's policy to focus resources on programs with greater potential, HTL0018318 for neurological diseases (voluntarily suspended), HTL009936 for neurological diseases, and HTL0030310 for endocrine disorders will not be prioritized for development at this time. In addition, imaradenant (AZD4635) for multiple solid malignancies was removed by AstraZeneca from its clinical development pipeline in the third quarter 2021.

Pfizer partnership

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 the Group. 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 1 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)

Biohaven partnership

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.

AstraZeneca partnership

On November 12, 2021, the Group noted that in AstraZeneca's third quarter 2021 clinical trials appendix presentation, the oral, small molecule adenosine A2a receptor antagonist imaradenant (AZD4635) had been removed from its clinical development pipeline as part of its ongoing pipeline prioritization. Imaradenant was discovered by the Group and licensed to AstraZeneca in 2015. AstraZeneca has been evaluating imaradenant in Phase 1 and 2 clinical trials as a monotherapy and in combination with Imfinzi (durvalumab) in solid tumors. In these trials, imaradenant, with or without Imfinzi, was found to be safe and well tolerated and associated with clinical benefit in some immune checkpoint-naïve patients with metastatic castrate-resistant prostate cancer (mCRPC). Imaradenant has been extensively tested in patients with a range of different solid tumor types and has been demonstrated to be safe and well tolerated at escalating doses. Targeting the production or action of adenosine is a promising strategy for overcoming immune suppression in the tumor microenvironment, and several companies have now disclosed positive results from early clinical trials. AstraZeneca has a diverse oncology pipeline that requires it to regularly make strategic prioritization decisions regarding projects in its portfolio. Following the removal of the imaradenant program from AstraZeneca's clinical pipeline, the Group will discuss with its partner AstraZeneca the next steps for the future of imaradenant, including the possibility of the Group regaining worldwide rights to the licensed program.

Neurocrine Biosciences partnership

On November 22, 2021, the Group and Neurocrine Biosciences and the Group announced the signing of a strategic collaboration and licensing agreement to develop novel muscarinic receptor agonists, which Neurocrine Biosciences intends to study in the treatment for schizophrenia, dementia and other neuropsychiatric disorders. Under the terms of the agreement, Neurocrine Biosciences gains development and commercialization rights to a broad portfolio of novel clinical

and preclinical subtype-selective muscarinic M4, M1 and dual M1/M4 receptor agonists discovered by the Group in development for the treatment of major neurological disorders. The most advanced program, HTL-0016878, is a selective M4 agonist. Neurocrine Biosciences plans to submit an Investigational New Drug (IND) application and initiate a placebo-controlled Phase 2 study with HTL-0016878 as a potential treatment for schizophrenia in 2022. The Group retains the rights to develop M1 agonists in Japan in all indications, with Neurocrine Biosciences receiving co-development and profit share options. Muscarinic receptors are central to brain function and validated as drug targets in psychosis and cognitive disorders. The Group has discovered selective muscarinic M4, M1 and M1/M4 dual agonists that offer the potential to deliver therapeutic effects while avoiding both the harmful side effects caused by non-selective agonists and efficacy issues experienced in some older patients caused by positive allosteric modulators that require cooperativity of diminishing levels of acetylcholine. The Group achieved this through application of its world leading G protein-coupled receptor (“GPCR”) StaR® platform and subsequent translational medicine studies.

Under the terms of the agreement, Neurocrine Biosciences will be responsible for development costs associated with the programs globally, except for M1 agonists being developed in Japan. The agreement will be subject to the following terms:

- Upfront License Payment to the Group of US\$100 million in cash.
- Development and Regulatory Milestones: The Group is eligible to receive up to approximately US\$1.5 billion related to the successful progression of licensed candidates through to regulatory approval.
- Commercial Milestones: The Group is eligible to receive up to US\$1.1 billion upon achieving certain global sales milestones of any products developed under the partnership.
- Product Royalties: The Group is eligible to receive tiered royalties ranging from a high single digit to mid-teen percentage of future net sales of any products developed under the partnership.
- R&D Collaboration: The R&D collaboration will be conducted jointly by Neurocrine Biosciences and the Group to advance preclinical candidates through Phase 1 clinical studies. The R&D collaboration will be funded by Neurocrine Biosciences.
- The Group’s M1 Agonist Rights in Japan: the Group retains rights to develop M1 agonists in Japan for any indication, with Neurocrine Biosciences receiving co-development and profit share options.

On December 24, 2021, the Group announced that in connection with the Collaboration and License Agreement (“License Agreement”) with Neurocrine Biosciences announced 22 November 2021, the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (“HSR Act”) expired on 22 December 2021. As such, the License Agreement became effective on 22 December 2021. With completion of the applicable waiting period under the HSR Act, in accordance with the terms of the License Agreement, Neurocrine Biosciences paid to the Group an upfront fee of US\$100 million and the amount has been recognized as revenue in the fourth quarter of the financial year ended December 31, 2021.

GSK partnership

On December 20, 2021, the Group announced it had been notified by its partner GlaxoSmithKline (“GSK”) that a milestone had been reached under their 2020 Global Collaboration and License Agreement to discover and develop selective oral small molecule agonists of GPR35 as potential treatments for immune disorders of the digestive system. The £5 million milestone payment has been recognized as revenue in the fourth quarter of the financial year ended December 31, 2021.

GPR35 is an important orphan GPCR with genetic association to inflammatory bowel disease (IBD) and other gastrointestinal immune disorders, for which there remains significant unmet need for millions of sufferers worldwide.

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.

PharmEnable

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 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.

Metrion Biosciences

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.

Orexia Therapeutics / Centessa Pharmaceuticals

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. On June 4, 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 December 31, 2021, the Group owned 929,353 shares of Centessa Pharmaceuticals plc, representing approximately 1% of its issued share capital.

InveniAI®

On July 6, 2021 the Group and InveniAI® LLC (“InveniAI,”), a global leader in pioneering the application of artificial intelligence (AI) and machine learning (ML) to transform innovation across drug discovery and development, announced the initiation of a new R&D collaboration. The objective of the collaboration is to identify new therapeutic product concepts for immune diseases where an AI and ML based approach can be applied to generate compelling evidence for the role of GPCRs in relevant immunomodulatory pathways; the goal being to use these targets as a basis for SBDD to generate novel compounds that could improve responses to existing immunotherapies. The collaboration will combine InveniAI's AI-powered platform for target discovery with the Group's world-leading GPCR SBDD and early development capabilities to generate and advance transformative therapeutics across disease indications that remain with high unmet medical needs.

Twist Bioscience

On December 16, 2021, the Group and Twist Bioscience Corporation (“Twist”), a company enabling customers to succeed through its offering of high-quality synthetic DNA using its silicon platform, announced a strategic collaboration to discover therapeutic antibodies against GPCR identified by the Group. The collaboration will utilize the Group’s fully structurally enabled GPCR target proteins, isolated and stabilized using its proprietary StaR® platform technology. Twist will leverage its proprietary antibody libraries, including two synthetic GPCR-focused antibody libraries, and apply its sophisticated bioinformatics approaches. The Group will have exclusive, full global rights to develop and commercialize any antibody leads identified and directed to the targets of interest. Twist will be eligible for an upfront payment, ongoing R&D costs and future payments based on the achievement of predefined development milestones.

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.

Covid-19 treatment

On December 7, 2021, the Group announced it had received grant funding from Wellcome, through the COVID-19 Therapeutics Accelerator. The funding will be used to advance the pre-clinical development of the Group's novel oral anti-viral small molecules targeting the main protease of SARS-CoV-2 (Mpro), an enzyme critical to SARS-CoV-2 replication, as potential treatments for COVID-19. The Group initiated its COVID-19 R&D program in April 2020 with the aim of applying its world-leading SBDD capabilities to design drug candidates that selectively inhibit Mpro. The Group has also been leveraging the highly conserved structure of SARS-CoV-2 Mpro as a basis for the design of small molecules that could be effective against predicted future variants of SARS-CoV-2 and other related human viruses. The Group's most advanced candidate resulting from this program, SH-879, has demonstrated potent anti-viral activity against SARS-CoV-2 as well as potential for oral dosing and a differentiated profile from other anti-viral drugs for COVID-19 that are either approved or in late-stage development. The Group will deploy the funding from Wellcome to accelerate development of SH-879 and other potential candidates through preclinical studies, targeting the nomination of a single clinical candidate for human trials with a convenient dosing regime and the potential for use without the need for co-dosing with other anti-viral therapies. This work is being supported by a Wellcome grant through the COVID-19 Therapeutics Accelerator. The COVID-19 Therapeutics Accelerator was launched in March 2020 by Wellcome, Bill & Melinda Gates Foundation and Mastercard, with additional funding from a range of donors to accelerate the development of COVID-19 therapeutics that address gaps in existing treatment research.

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 the Group's 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.

Activities related to financing

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. The new funds were used to repurchase the Group's existing convertible bonds due 2025, and will be used to accelerate 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 its existing convertible bonds due 2025 (which had an aggregate principal amount of JPY 16 billion). The

remaining convertible bonds, totalling JPY 0.25 billion in principal amount, were converted by their holders into stock in September 2021.

Operational highlights after the period under review (period ended December 21, 2021)

On January 6, 2022, the Group and Verily, an Alphabet precision health company, announced that they had entered into a strategic research collaboration. The research agreement brings together the complementary capabilities of Verily's immune profiling and the Group's GPCR SBDD. The collaboration aims to:

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

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

As of December 31, 2021, the Group had a total of 198 employees (an increase of 8 employees vs. the end of the previous fiscal year FY20).

As a result of the above activities, the Group reported the following financial results for the year ended December 31, 2021. Revenue of JPY 17,712 million (an increase of JPY 8,870 million vs. the prior year), an operating profit of JPY 3,775 million (an increase of JPY 2,847 million vs. the prior year), a net profit before income taxes of JPY 433 million (a decrease of JPY 1,189 million vs. the prior year) and a net profit of JPY 1,017 million (a decrease of JPY 462 million vs. the prior year).

	Year ended December 31, 2021	Year ended December 31, 2020	Change
	¥m	¥m	
Revenue	17,712	8,842	8,870
Cash cost of sales	(784)	(607)	(177)
Cash research and development expenses	(5,511)	(3,411)	(2,100)
Cash selling, general and administrative expenses	(2,518)	(1,995)	(523)
Other cash income	5	75	(70)
Cash earnings	8,904	2,904	6,000
Non-cash costs	(5,129)	(1,976)	(3,153)
Operating profit	3,775	928	2,847
Net finance (costs) income	(3,598)	1,050	(4,648)
Share of gain (loss) of associates	50	(356)	406
Gain on reversal of impairment loss for investments accounted for using the equity method	206	—	206
Net profit before income tax	433	1,622	(1,189)
Net profit	1,017	1,479	(462)

Average annual exchange rate

USD:JPY	110.16	106.77	3.39
GBP:JPY	151.50	137.02	14.48

Note: Cash earnings describes operating profit before deducting depreciation, amortization, stock-based compensation expense 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

	Year ended December 31, 2021	Year ended December 31, 2020	Change
	¥m	¥m	
Upfront fees and milestone income	14,667	5,353	9,314
Royalty income	2,311	2,544	(233)
Product supply revenue	28	—	28
Other	706	945	(239)
	17,712	8,842	8,870

Revenue in the year under review totalled JPY 17,712 million (an increase of JPY 8,870 million vs. the prior year).

Revenue related to upfront fees and milestone income in the year under review totalled JPY 14,667 million (an increase of JPY 9,314 million vs. the prior year). Upfront fees and milestone income can vary considerably year on year and depend on the achievement of defined milestone events and the commencement of new partnership agreements within that year. In 2021, the Group received two upfront fees, including a fee of \$100m from Neurocrine Biosciences which was substantially

larger than all four of the upfront fees received in 2020 combined. In 2021, the Group also received eight development milestone related fees compared to seven in 2020.

Revenue related to royalties in the year under review totalled JPY 2,311 million (a decrease of JPY 233 million vs. the prior year). The Group's royalty revenue relates to sales of Ultibro® Breezhaler®, Seebri® Breezhaler® and Enerzair® Breezhaler® by Novartis⁵.

Operating expenses

	Year ended December 31, 2021 ¥m	Year ended December 31, 2020 ¥m	Change
Cash cost of sales	784	607	177
Cash research and development expenses	5,511	3,411	2,100
Cash general and administrative expenses	2,518	1,995	523
Non-cash expenses	5,129	1,976	3,153
Cost of sales	149	154	(5)
Research and development expenses	420	382	38
General and administrative expenses	1,422	1,440	(18)
Other expenses	3,138	—	3,138

Cash cost of sales

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 and an allocated share of depreciation of lab equipment) and the cost of pharmaceutical products sold to customers. Cost of sales in the year under review totalled JPY 784 million (an increase of JPY 177 million vs. the prior year). This increase is primarily due to the higher number of partnered programs in 2021 in which the Group was contracted to supply R&D services to customers.

Cash research and development expenses

Cash research and development ("R&D") expenses in the year under review totalled JPY 5,511 million yen (an increase of JPY 2,100 million vs. the prior year). The increase in R&D spend reflects higher activity levels on in-house programs, participation in new co-development collaborations and the impact of a stronger GBP vs. JPY. In particular, the Group made increased R&D investments in the 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. It is noted that the muscarinic program was outlicensed to Neurocrine Biosciences in November 2021 and they will be responsible for future pre-clinical and clinical trial costs. In addition, costs in the prior corresponding period were lower than normal due to the slowdown in expenditure that followed the declaration of the COVID-19 global pandemic in March 2020. Furthermore, the prior corresponding period also included a one off credit relating to the successful resolution of disputed costs charged by one supplier. In the period under review, 98% of R&D spend related to our UK operations.

Cash general and administrative expenses

Cash general and administrative ("G&A") expenses in the year under review totalled JPY 2,518 million (an increase of JPY 523 million vs. the prior year). The increase in G&A spend is primarily

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.

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.

Non-cash expenses

Non-cash expenses primarily consist of depreciation on property, plant and equipment, amortization of intangible assets, stock-based compensation expense and impairment loss. Non-cash expenses in the year under review were JPY 5,129 million (an increase of JPY 3,153 million vs. the prior year). In total, depreciation amounted to JPY 541 million (an increase of JPY 34 million vs. the prior year). Amortization for the year under review totalled JPY 737 million (a decrease of JPY 106 million vs. the prior year). Stock-based compensation expense for the year was JPY 713 million (an increase of JPY 87 million vs. the prior year). Impairment loss for the year was JPY 3,138 million. This was mainly due to an intangible asset impairment charge associated with a partner's decision not to progress certain out-licensed drug candidates in clinical trials.

Operating profit

Operating profit in the year under review totalled JPY 3,775 million (an increase of JPY 2,847 million vs. the year). The main reason for the increase in the operating profit is the increase in revenue.

Net finance (costs) income

Net finance costs in the year under review totalled JPY 3,598 million (an increase of JPY 4,648 million vs. the prior year). The increase is primarily due to recording a contingent consideration charge relating to the Neurocrine Biosciences licensing transaction. The contingent consideration liability is a fair value estimate by management of the amount payable to the former shareholders of Heptares Therapeutics Limited under the 2015 Share Purchase Agreement. It should be noted that a major component of the 2015 Share Purchase Agreement governing contingent consideration payments to former shareholders of Heptares Therapeutics Limited expired as of the financial year ended, 31 December 2021.

Share of gain (loss) of associates accounted for using the equity method

Share of gain of associates accounted for using the equity method in the year under review totalled JPY 50 million (an increase of JPY 406 million vs. the prior year). This was due to MiNA (Holdings) Limited, an affiliated company of the Group, recording a net profit for the year under review vs. a net loss in the prior corresponding year.

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 year under review totalled 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 divested in April 2021.

Net profit

Net profit in the year under review totalled JPY 1,017 million (a decrease of JPY 462 million vs. the prior year). The main reason for the decrease in net profit is the increase in non-cash costs and finance costs for the reasons stated above.

(2) Analysis of financial position

Assets

Total assets as at December 31, 2021 were JPY 96,985 million (an increase of JPY 20,520 million vs. the end of the previous fiscal year). The primary reason for the increase was an increase in cash resulting from the receipt of the \$100m Neurocrine Biosciences upfront fee and net cash inflow arising from the issuance and repurchase of convertible bonds.

Liabilities

Total liabilities as at December 31, 2021 were JPY 39,517 million (an increase of JPY 15,433 million vs. the end of the previous fiscal year). This was primarily due to the issuance of new convertible bonds totalling JPY 27,212 million (with a face value of JPY 30,000 million) net of the repurchase and conversion of existing convertible bonds totalling JPY 14,937 million (with a face value of JPY 16,000 million).

Equity

Total equity as at December 31, 2021 was JPY 57,468 million (an increase of JPY 5,087 million vs. the end of the previous fiscal year). This increase was primarily due to the inclusion of JPY 3,846 million of foreign exchange translation gains within total comprehensive income.

The ratios of Cash and cash equivalents, Interest-bearing debt and Equity attributable to owners of the parent company to total assets were 62.0%, 30.2% and 59.3%, respectively.

(3) Analysis of cash flows

Cash and cash equivalents as at December 31, 2021 increased by JPY 20,079 million from the beginning of the year and amounted to JPY 60,087 million.

Cash flows from operating activities

Net cash provided by operating activities in the year under review totalled JPY 7,095 million. This was predominantly due to cash inflows from upfront fees relating to new collaborations, milestone receipts and royalties exceeding operating costs.

Cash flows from investing activities

Net cash provided by investing activities in the year under review totalled JPY 278 million. This was primarily due to the receipt of contingent consideration income totalling JPY 273 million.

Cash flows from financing activities

Net cash provided by financing activities in the year under review totalled JPY 11,123 million. This was primarily due to the issuance of new convertible bonds raising JPY 29,855 million less outflows relating to the repurchase and cancellation of existing convertible bonds totalling JPY 18,958 million.

(4) Forecast Guidance

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 for in-house progression into early clinical development, and we will continue to take steps to maintain partnered and co-investment activity to ensure programs are 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 2022 to be a year of continued incremental investment in strategic growth initiatives, including seeking an acquisition of a revenue-generating business to support our medium-term plan for corporate expansion. Like that of 2021, 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 5,750 to JPY 6,750 million⁶ (2021 actual: JPY 5,931 million).
- Forecast cash G&A expenses in the underlying drug discovery business in the range of JPY 3,750 to JPY 4,250 million⁷ (2021 actual: JPY 3,940 million).
- 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 seek out 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 seek out 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.

2. Basic policy on selection of accounting standards

The Group has applied International Financial Reporting Standards since the year ended March 2014.

⁶ The Previous Guidance was calculated on a cash cost basis. Guidance for 2022 and beyond will be calculated on a financial statements disclosure basis which includes non-cash costs such as depreciation, amortization and share based payments. The assumed USD:JPY FX rate in 2022 is 109.

⁷ Previous Guidance was calculated on a cash cost basis. Guidance for 2022 and beyond will be calculated on a financial statements disclosure basis which includes non-cash costs such as depreciation, amortization and share based payments. The assumed USD:JPY FX rate in 2022 is 109.

3. Consolidated financial statements and primary notes (IFRS)

1) Consolidated statement of financial position

	December 31, 2021 ¥m	December 31, 2020 ¥m
Assets		
Non-current assets		
Property, plant and equipment	3,817	3,824
Goodwill	15,095	14,134
Intangible assets	9,120	11,802
Investments accounted for using the equity method	3,479	3,087
Other financial assets	2,564	1,593
Other non-current assets	102	7
Total non-current assets	34,177	34,447
Current assets		
Trade and other receivables	2,138	939
Income tax receivable	70	420
Other financial assets	86	—
Other current assets	427	651
Cash and cash equivalents	60,087	40,008
Total current assets	62,808	42,018
Total assets	96,985	76,465
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred tax liabilities	2,706	2,457
Contingent consideration in business combinations	47	1,107
Corporate bonds	27,440	14,789
Lease liabilities	1,638	1,664
Other non-current liabilities	495	1,082
Total non-current liabilities	32,326	21,099
Current liabilities		
Trade and other payables	1,176	1,508
Contingent consideration in business combinations	4,048	—
Income taxes payable	279	29
Lease liabilities	193	170
Other current liabilities	1,495	1,278
Total current liabilities	7,191	2,985
Total liabilities	39,517	24,084
Equity		
Capital stock	41,036	40,220
Capital surplus	29,100	30,452
Treasury stock	(0)	(0)
Retained earnings	(9,768)	(10,785)
Other components of equity	(2,900)	(7,506)
Equity attributable to owners of the parent	57,468	52,381
Total equity	57,468	52,381
Total liabilities and equity	96,985	76,465

2) Consolidated statement of comprehensive income

	Year ended December 31, 2021 ¥m	Year ended December 31, 2020 ¥m
Revenue	17,712	8,842
Cost of sales	(933)	(761)
Gross profit	16,779	8,081
Research and development expenses	(5,931)	(3,793)
Selling, general and administrative expenses	(3,940)	(3,435)
Other income	8	79
Other expenses	(3,141)	(4)
Operating income	3,775	928
Finance income	199	1,628
Finance costs	(3,797)	(578)
Share of gain (loss) of associates accounted for using the equity method	50	(356)
Gain on reversal of impairment loss for investments accounted for using the equity method	206	—
Profit before income taxes	433	1,622
Income tax benefit (expenses)	584	(143)
Net profit	1,017	1,479
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Financial assets measured at fair value through other comprehensive income (loss)	760	(25)
Total items that may not be reclassified subsequently to profit (loss)	760	(25)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	3,846	(793)
Total items that may be reclassified subsequently to profit (loss)	3,846	(793)
Total other comprehensive income (loss)	4,606	(818)
Total comprehensive income for the year	5,623	661
Net profit attributable to:		
Owners of the parent	1,017	1,479
Non-controlling interests	—	(0)
	1,017	1,479
Total comprehensive income for the year attributable to:		
Owners of the parent	5,623	661
Non-controlling interests	—	(0)
	5,623	661
Earnings per share (yen)		
Basic earnings per share	12.53	18.77
Diluted earnings per share	12.40	18.59

3) 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 ¥m	Non- controlling interests ¥m	Total equity ¥m
Balance at January 1, 2020	37,479	26,548	(0)	(12,264)	(6,688)	45,075	3	45,078
Net profit (loss)	-	-	-	1,479	-	1,479	(0)	1,479
Other comprehensive loss	-	-	-	-	(818)	(818)	-	(818)
Total comprehensive income (loss) for the year	-	-	-	1,479	(818)	661	(0)	661
Issuance of new shares	2,741	2,404	-	-	-	5,145	-	5,145
Share-based payments	-	659	-	-	-	659	-	659
Issuance of convertible bonds	-	841	-	-	-	841	-	841
Change on loss of control of subsidiary	-	-	-	-	-	-	(3)	(3)
Total transactions with owners	2,741	3,904	-	-	-	6,645	(3)	6,642
Balance at December 31, 2020	40,220	30,452	(0)	(10,785)	(7,506)	52,381	-	52,381
Net profit (loss)	-	-	-	1,017	-	1,017	-	1,017
Other comprehensive loss	-	-	-	-	4,606	4,606	-	4,606
Total comprehensive income for the year	-	-	-	1,017	4,606	5,623	-	5,623
Issuance of new shares	689	(89)	-	-	-	600	-	600
Share-based payments	-	699	-	-	-	699	-	699
Issuance of convertible bonds	-	1,809	-	-	-	1,809	-	1,809
Repurchase and cancellation of convertible bonds	-	(3,877)	-	-	-	(3,877)	-	(3,877)
Conversion of convertible bonds	127	106	-	-	-	233	-	233
Total transactions with owners	816	(1,352)	-	-	-	(536)	-	(536)
Balance at December 31, 2021	41,036	29,100	(0)	(9,768)	(2,900)	57,468	-	57,468

4) Consolidated statement of cash flow

	Year ended December 31, 2021 ¥m	Year ended December 31, 2020 ¥m
Cash flows from operating activities		
Profit before income taxes	433	1,622
Adjustments for:		
Receipt of non-cash consideration from customers	—	(750)
Depreciation and amortization	1,278	1,350
Share-based payments	713	626
Impairment loss	3,138	—
Gain on investment in securities	(2)	(259)
Loss on sales of investment in securities	—	73
Loss on investment in capital	—	75
Change in fair value of contingent consideration	2,787	(1,334)
Net foreign exchange (gain) loss	(194)	63
Interest income	(4)	(35)
Interest expenses	529	213
Share of (gain) loss of associates accounted for using the equity method	(50)	356
Gain on reversal of impairment loss for investments accounted for using the equity method	(206)	—
(Increase) decrease in trade and other receivables	(799)	752
(Decrease) increase in trade and other payables	(184)	61
(Decrease) increase in deferred revenue	(800)	551
Other	495	161
Subtotal	7,134	3,525
Grants received	27	2
Interest and dividends received	4	35
Interest paid	(157)	(60)
Income taxes paid	(296)	(168)
Income taxes refunded	383	1,338
Net cash provided by operating activities	7,095	4,672
Cash flows from investing activities		
Purchase of property, plant and equipment	(193)	(92)
Purchase of intangible assets	(8)	(13)
Change in cash and cash equivalents on disposal of subsidiaries	—	(577)
Proceeds from sale of investment in associate	206	—
Proceeds from sales of investment securities	—	238
Distribution by limited partnership	—	295
Proceeds from contingent consideration receivable	273	—
Other	—	(1)
Net cash provided by (used in) investing activities	278	(150)
Cash flows from financing activities		
Repayments of lease liabilities	(183)	(172)
Proceeds from issuance of bonds	29,855	15,902
Payments for repurchase and cancellation of corporate bonds	(18,958)	—
Payment for settlement of contingent consideration	(191)	(597)
Proceeds from issuance of common stock	600	5,145
Net cash provided by financing activities	11,123	20,278
Effects of exchange rate changes on cash and cash equivalents	1,583	(167)
Net increase in cash and cash equivalents	20,079	24,633
Cash and cash equivalents at the beginning of the period	40,008	15,375
Cash and cash equivalents at the end of the period	60,087	40,008

5) Notes to the consolidated financial statements

5.1 Notes related to going concern assumptions

Not applicable.

5.2 Change in accounting policy

Not applicable.

5.3 Operating segments

Overview of reportable segments

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

Information regarding products and services

The breakdown of revenue is as follows:

	Year ended December 31, 2021 ¥m	Year ended December 31, 2020 ¥m
Upfront fees and milestone income	14,667	5,353
Royalty income	2,311	2,544
Product supply revenue	28	—
Other	706	945
	17,712	8,842

Geographical information

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

Revenues from external customers

Country	Year ended December 31, 2021 ¥m	Year ended December 31, 2020 ¥m
Japan	(22)	256
USA	13,937	3,094
Switzerland	2,311	3,215
UK	1,178	1,706
Bermuda	301	477
Ireland	7	94
	17,712	8,842

Non-current assets

	At December 31, 2021 ¥m	At December 31, 2020 ¥m
Japan	252	407
UK	27,882	29,360
	28,134	29,767

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

Information about major customers

Name of customer	Year ended December 31, 2021 ¥m	Year ended December 31, 2020 ¥m
Neurocrine Biosciences, Inc.	11,408	—
Novartis International AG	2,311	3,215
Genentech, Inc.	1,373	345
GlaxoSmithKline plc.	843	1,341
Pfizer Inc.	544	524
Hisamitsu Pharmaceutical Co.,Inc.	524	—
Takeda Pharmaceutical Company Limited	353	365
Biohaven Pharmaceutical Holding Company Ltd.	183	1,089

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

5.4 Earnings per share

Basic earnings per share

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

	Year ended December 31, 2021	Year ended December 31, 2020
Net profit attributable to owners of the parent (¥m)	1,017	1,479
Weighted-average number of common shares outstanding (Shares)	81,187,311	78,737,535
Basic earnings per share (¥)	12.53	18.77

Diluted earnings per share

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

	Year ended December 31, 2021	Year ended December 31, 2020
Net profit	1,017	1,479
Adjustment to net profit used in the calculation of diluted earnings per share (¥m)	—	—
Net profit used in the calculation of diluted earnings per share (¥m)	1,017	1,479
Weighted-average number of common shares outstanding (Shares)	81,187,311	78,737,535
Increases in number of common shares used in the calculation of diluted earnings per share (Shares):		
Increases in number of common shares due to the exercise of stock options (Shares)	151,334	395,508
Increases in number of common shares due to the allotment of Restricted Stock Units (Shares)	587,147	314,820
Increases in number of common shares due to the allotment of Performance Share Units (Shares)	80,114	45,518
Convertible bonds (Shares)	—	—
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	82,005,906	79,493,381
Diluted earnings per share (¥)	12.40	18.59
Summary of potential stocks 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 (Totalling common shares 18,000) Euro-yen Denominated Convertible Bonds due 2026 (Common shares 13,422,818)	The 32nd-35th series of stock options (Totalling common shares 18,800) Euro-yen Denominated Convertible Bonds due 2025 (Common shares 8,723,200)