Consolidated Financial Results for the Nine Months Ended September 30, 2020 (IFRS)

November 11, 2020

Company name: Sosei Group Corporation — Listing: Tokyo Stock Exchange
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Financial results briefing session: No

(Rounded million yen)

1. Consolidated Results for 9 month period ended September 30, 2020 (from January 1, 2020 to September 30, 2020)

(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	%
9 month period ended September 30, 2020	4,443	(42.8)	(1,217)	—	(1,478)	—	(1,642)	—	(1,642)	—	(3,319)	—
9 month period ended September 30, 2019	7,770	170.5	1,094	—	1,142	—	1,461	—	1,461	—	(102)	—

	Earnings per share – basic	Earnings per share – diluted
	Yen	Yen
9 month period ended September 30, 2020	(21.03)	(21.03)
9 month period ended September 30, 2019	19.11	18.91

(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 September 30, 2020	73,322	48,230	48,230	65.8
At December 31, 2019	56,680	45,078	45,075	79.5

2. Dividends

	Dividends per share				
	End Q1	End Q2	End Q3	End Q4	Total
	Yen	Yen	Yen	Yen	Yen
FY2019	-	0.00	-	0.00	0.00
FY2020	-	0.00	-		
FY2020 (E)				0.00	0.00

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

3. Business Outlook and Financial Forecast (from January 1, 2020 to December 31, 2020)

Despite these challenging times, the Group remains committed to delivering on its mission and vision, and to serving collaboration partners and patients in our clinical trials. The Group's smaller size enabled it to quickly enact flexible business continuity plans, and therefore it has continued to make good progress across the business and remain well positioned to pursue a number of

strategic opportunities. The Group is taking steps to increase partnered activity, whilst simultaneously investing in technologies, tools and capabilities to advance an exciting pipeline of next-generation candidates that will form the basis of high value partnerships in the future.

The Group is continuing to drive a sustainable balance of resources and capital. Whilst it aims to pursue profitability, we recognize that the uncertainty caused by the COVID-19 pandemic is likely to impact on this goal. As of September 30, 2020 the Group's financial forecasts remain **unchanged** from December 31, 2019:

- Forecast cash R&D expenses in the range of JPY 4,200 to JPY 4,700 million[1].
- Forecast cash G&A expenses in the range of JPY 1,800 to JPY 2,300 million[2].
- The Group expects to receive upfront consideration related to new partnerships.
- The Group expects to receive milestone payments from existing drug discovery and development partnerships.
- The Group will continue to invest in technologies, tools and capabilities to advance next-generation candidates; while strongly managing its cost base.

The Group continues to believe it is well capitalized for the future. The Group's existing cash, cash flows from operations and existing sources of and access to financing are sufficient to cover its needs for drug discovery and early development activities, working capital, capital expenditures and debt servicing requirements, as well as to pursue business development initiatives. In addition, on July 16, 2020, the Group issued approximately JPY 5 billion of new equity and JPY 16 billion of long-term convertible bonds and intends to use the majority of the funds for a potentially transformative acquisition to pursue strategic growth.

* Notes

(1) Changes in the number of significant subsidiaries for the nine month period ended September 30, 2020 (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 September 30, 2020	80,585,728 shares	At December 31, 2019	77,073,136 shares
2) Number of treasury shares at period end	At September 30, 2020	213 shares	At December 31, 2019	213 shares
3) Average number of shares in issue in period	9 month period ended September 30, 2020	78,116,362 shares	9 month period ended September 30, 2019	76,485,742 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.

[1] The assumed FX rate of USD:JPY 110
[2] The assumed FX rate of USD:JPY 110

○ Contents of Attached Materials

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 nine month period ended September 30, 2020, the Group continued to advance its drug discovery and early-stage development pipeline, as well as enhance its proprietary StaR® ("stabilized receptor") technology 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) generating new and progressing existing collaborations in 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.

On 25 March 2020, the Group hosted its 30th Ordinary General Meeting of Shareholders in Tokyo. At the event, the Group's Chairman, President and CEO, Mr. Shinichi Tamura, discussed the strengthened focus on the execution of the next stage of its growth strategy, which aims to leverage world-class Platform, Discovery and Early Development capabilities to advance and extend a portfolio of Partnered Programs. The Group's strategy was outlined as follows:

1. Build a leading science and technology-led drug discovery business
    - The acquisition of Heptares Therapeutics in 2015 with its world-leading scientific and technological capabilities, notably the StaR® G protein-coupled receptor (GPCR) technology and SBDD platform, was and remains the cornerstone of this mission.
    - This technology and platform are core to the Group's drug discovery efforts and together have allowed it to establish one of the world's leading approaches to GPCR-target drug design.
    - The Group will continue to leverage the significant untapped opportunity to discover drugs that target GPCRs and other membrane proteins, with a clear focus on high-value programs, including those addressing difficult to drug targets.
2. Generate multiple new drug candidates targeted for high-value collaborations or long-term ventures
    - The Group's science and technology-led approach has enabled it to create over 24 preclinical drug candidates in the last ten years, with seven[3] of these having moved into human clinical trials. This high degree of productivity comes from its extremely efficient approach, which enables the Group to generate preclinical candidates 1-2 years faster than the pharmaceutical industry standard.
    - Many of these preclinical drug candidates have formed the basis of the Group's high-value collaborations, including partnerships with Pfizer, Allergan, AstraZeneca, Takeda, Genentech and more recently, AbbVie.
    - The Group will continue this drug discovery and early-stage development strategy, with an aim to execute at least 2 new high-value collaborations or long-term ventures every year

[3] Increased to 8 in September 2020

3. Invest the proceeds of high-value collaborations and long-term ventures into the technologies needed to reinforce its leadership in GPCR drug discovery and SBDD
    - Technology does not stand still. The Group's goal is to become a pharma discovery partner of choice by providing a highly attractive solution to increasing innovation and productivity.
    - The Group invests its collaboration and venture proceeds to continuously refresh and enhance its technology capabilities. So far it has:
        - acquired G7 Therapeutics in Switzerland,
        - collaborated with a German-based company developing innovative DNA-encoded library tools, and the University of Cambridge on Artificial Intelligence-related approaches, and
        - invested significantly in Nobel Prize winning Cryo-EM technology.
    - The Group intends to continue to acquire, or enter partnerships to secure access to, more new technologies, tools and platforms in order to remain at the cutting edge of science and technology which will expand its leadership in innovative drug discovery.

As of September 30, 2020, the Group had over 20 programs ongoing in discovery, with 13 in preclinical development, and multiple in-house and partnered programs[4][5] currently in clinical trials.

On June 30, 2020 the Group announced that its Board of Directors resolved to issue new shares and euro-yen denominated convertible bonds due 2025, each in an international offering as part of its strategy to prepare for any future acquisitions or investments that complement and enhance its business, while at the same time lowering its funding costs and diversifying its funding sources.

On July 16, 2020 the Group announced that the international offering had been successful in raising a total of JPY 20.9 billion (approximately US$195 million). The Company intends to use the net proceeds of the International Offering as follows:

The majority of funds will be used to pursue strategic growth initiatives including:

- a potentially transformative acquisition to secure long-term revenue growth;
- investments in novel technologies that complement and future-proof its drug discovery platform;
- expansion of its drug candidate discovery and early development capabilities into new target classes; and
- in-licensing late-stage clinical assets to develop for the Japanese market.

Any balance of funds will be used to support organic growth initiatives, such as investments in current research activities and general corporate purposes.

The Group's response to COVID-19

A novel strain of coronavirus (COVID-19) was declared a global pandemic by the World Health Organization (WHO) on March,11 2020. The Group has been carefully monitoring the COVID-19 pandemic and its impact on our operations. As a business operating in the global life sciences

[4] Includes AZD4635 combination for prostate cancer, AZD4635 for multiple solid malignancies, HTL0016878 for neurobehavioral symptoms of Alzheimer's disease, HTL0018318 for Alzheimer's disease (voluntarily suspended), PF-07081532 for T2DM/Obesity, PF-07054894 for Inflammatory Bowel Disease, HTL0014242 for neurological disorders, and HTL0030310 for endocrine disorders.

[5] Phase 2 trial of HTL0018318 for DLB in Japan remains under voluntary suspension and has been withdrawn. The Group plans to 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 investigation.

industry, the Group has an important role to play to ensure the health and safety of all stakeholders and society. The Group's priority remains the health of its employees, community members, and investigators and patients in its clinical trials. The Group has taken several actions in response to the COVID-19 pandemic, including:

- Implemented policies and practices to ensure a safe working environment for its employees and the communities where it operates to reduce the spread of COVID-19. This includes a work from home policy for many employees, while its essential employees, primarily laboratory-based scientists, are working on an optimized rota basis and in accordance with applicable UK government health and safety protocols issued in response to the COVID-19 pandemic. The Group has also introduced weekly SARS-CoV-2 testing of its essential employees at its UK R&D facility.
- Donated supplies of personal protective equipment (PPE) to a local hospice in the United Kingdom.
- Initiated a new in-house COVID-19 R&D program to apply its unique SBDD platform and capabilities to the global research efforts to discover drugs targeting the SARS-CoV-2 coronavirus and to treat COVID-19 and infections caused by future variants of SARS-CoV-2. All findings are to be made freely available to the global research community.

On April 14, 2020 the Group announced that it would apply it Structure-based Drug Design Expertise in a new COVID-19 R&D program. The new R&D program seeks to identify novel compounds that block the activity of the SARS-CoV-2 MPro protease (Nsp5), which has been designated as an important potential target for drug development. The Mpro protease cleaves a polyprotein encoded by the viral genome into 12 non-structural proteins (Nsp4-Nsp16) some of which play crucial roles in viral replication. The Group has created a multidisciplinary team spanning structural and biophysical analysis, computational chemistry and medicinal chemistry. The team brings a wealth of experience in SBDD and cutting-edge technologies that will be applied to the precision design of new inhibitor compounds against not only the SARS-CoV-2 coronavirus but also against predicted future variants. All findings from the program will be made freely available to the global research community investigating solutions to the COVID-19 crisis. Furthermore, the Group is looking to establish collaborations with industry partners to support this program and also to contribute its unique expertise to other areas under investigation as part of the global effort by the pharmaceutical and biotechnology industries to find new treatments for COVID-19. There is no material impact to the Group's financial statements from investing in this important not-for-profit research initiative. Our aim for this project is to make a long-term contribution to the well-being of the patients around the world through industry wide collaboration.

Progressing our multiple partnerships with major global pharmaceutical companies

The Group continued to make good progress with its partners and has implemented measures to ensure R&D continuity and productivity under the new conditions imposed as a result of the COVID-19 situation. This is most notable with Takeda and Genentech, where our work on these respective research and development collaborations has been prioritized and continues to move forward productively.

Our other out-licensed programs are being advanced exclusively by our partners, such as with AstraZeneca, Pfizer, and AbbVie, whilst progress is ongoing, some delays have been experienced as a result of the global COVID-19 situation.

On May 1, 2020 the Group noted that Novartis had announced that the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) recommended the approval in the European Union of Enerzair® Breezhaler® (QVM149; indacaterol acetate, glycopyrronium bromide and mometasone furoate [IND/GLY/MF]) as a maintenance treatment of uncontrolled asthma in adult patients.

On June 5, 2020 the Group noted that Novartis had announced that full results from the Phase IIIb ARGON study were published online in *Respiratory Medicine*. The Phase IIIb open label ARGON study showed that once-daily treatment with single inhaler, high- and medium-dose Enerzair® Breezhaler® demonstrated non-inferiority to a free combination of twice-daily, high-dose salmeterol xinafoate/fluticasone propionate (Sal/Flu) plus once-daily tiotropium (Tio), delivered in two different devices, in improving quality of life in people with uncontrolled asthma. Among secondary analyses, improvements in lung function, asthma control, health status, and reductions in moderate exacerbations (exploratory analysis) were observed with high-dose once-daily IND/GLY/MF compared to high-dose Sal/Flu plus Tio.

On June 25, 2020 the Group announced that it had entered into an exclusive discovery collaboration and option to license agreement with AbbVie, a research-based global biopharmaceutical company, to discover, develop and commercialize novel medicines that modulate GPCR targets of interest to AbbVie. The collaboration will initially focus on discovery of novel small molecules targeting inflammatory and autoimmune diseases. The Group will apply its proprietary StaR® technology and GPCR-focused SBDD capabilities and fund R&D activities through the completion of Investigational New Drug (IND)-enabling studies. AbbVie has an exclusive option to in-license the program and assume responsibility for global development and commercialization. Under the terms of the agreement, the Group is eligible to receive up to US$32 million in upfront and near-term milestone payments, as well as potential option, development and commercial milestones of up to US$377 million, plus tiered royalties on global commercial sales. AbbVie has the option to expand the collaboration up to a total of four targets.

On June 29, 2020 the Group noted that Novartis Pharma K.K., the Japan business of strategic alliance partner Novartis, had announced the world's first manufacturing and marketing approval for its Enerzair® Inhalation Capsules (medium-dose and high-dose) in Japan as a treatment of bronchial asthma (in cases requiring combination use of inhaled corticosteroid, inhaled long-acting β2-adrenergic agonist and inhaled long-acting anticholinergic agent). The achievement of this milestone resulted in a payment to Sosei Heptares from Novartis under the terms of the 2005 Development and Licensing agreement. Enerzair® is a long-acting beta2-agonist (LABA)/long-acting muscarinic antagonist (LAMA)/inhaled corticosteroid (ICS) combination and delivers its bronchodilating and anti-inflammatory action through treatment once per day with the Breezhaler® inhaler. The two medium-dose and high-dose specifications each contain 150 µg of indacaterol acetate and 50 µg of glycopyrronium bromide, with 80 µg and 160 µg respectively of mometasone furoate. For the first time in Japan, a new digital device combining a sensor with the Breezhaler® inhaler is being made available. The sensor connects with a smartphone to record daily treatment doses and provide medication reminders. It also supports communication between patients and their physicians, contributing to the long-term management of insufficiently controlled asthma.

On July 7, 2020 the Group noted that Novartis had announced that the European Commission (EC) had approved Enerzair® Breezhaler® as a maintenance treatment of asthma in adult patients not adequately controlled with a maintenance combination of LABA/High dose of ICS who experienced one or more asthma exacerbations in the previous year. Once-daily Enerzair® Breezhaler® is the

first LABA/LAMA/ICS fixed-dose combination available in the European Union (EU) for these patients. The approval also includes an optional digital companion with sensor and app that provides inhalation confirmation, medication reminders and access to objective data to better support therapeutic decisions. EC approval is based on robust efficacy and safety data from over 3,000 asthma patients in Novartis' Phase III IRIDIUM study, in which once-daily Enerzair® Breezhaler® was superior to once-daily Atectura® Breezhaler® (IND/MF) in improving the lung function of patients whose asthma is uncontrolled with LABA/ICS standard-of-care treatment. The EC decision is applicable to all 27 European Union member states as well as the UK, Iceland, Norway and Liechtenstein. The achievement of this milestone resulted in a payment to the Group of US$5 million from Novartis under the terms of its 2005 Development and Licensing agreement. The Group is eligible to receive royalties from future sales of Enerzair® Breezhaler® in the EU and other markets in which it is approved.

On July 10, 2020 the Group noted that Novartis had announced that full results from its Phase III IRIDIUM study were published in the peer-reviewed journal *The Lancet Respiratory Medicine*. The IRIDIUM trial met its primary endpoint with once-daily treatment with high- and medium-dose Enerzair® Breezhaler® demonstrating statistically significant improvements in lung function compared with once-daily QMF149 (IND/MF) in patients whose asthma is uncontrolled with LABA/ICS treatment. The key secondary endpoint was improvement in Asthma Control Questionnaire (ACQ-7) score for IND/GLY/MF versus IND/MF. Although both treatments delivered clinically meaningful improvements in this measure, the key secondary endpoint was not met. In secondary analyses, improvements in lung function and clinically meaningful reductions in moderate-to-severe and severe asthma exacerbation rates were observed with high-dose IND/GLY/MF compared to high-dose Sal/Flu. The overall incidence of adverse events (AE) and serious adverse events (SAE) for IND/GLY/MF and IND/MF in the IRIDIUM study were generally low and comparable among treatment groups. Asthma exacerbation was the most reported AE and SAE.

On September 7, 2020 the Group noted that Novartis had announced that high-dose, once-daily Enerzair® Breezhaler® significantly reduces both moderate-to-severe and severe asthma exacerbation rates in patients whose asthma is uncontrolled on medium- or high-dose LABA/ICS, when compared with a once-daily medium-dose of the same treatment. The post hoc analysis – presented at the European Respiratory Society (ERS) Virtual International Congress 2020 – showed high-dose Enerzair® Breezhaler® (150/50/160 µg) significantly reduced the annualized rate of moderate-to-severe asthma exacerbations by 21% (p=0.026) and severe exacerbations by 31% (p=0.003) in asthma patients not adequately controlled on current inhaled therapies, compared with medium-dose (150/50/80 µg) over 52 weeks. High-dose Enerzair® Breezhaler® also reduced the annualized rate of all exacerbations (mild, moderate and severe) by 14% (p=0.132) compared with medium-dose, but this finding was not statistically significant. Both doses tested presented with a favorable safety and tolerability profile. The post hoc analysis complements findings from Novartis' pivotal Phase III IRIDIUM study, recently published in The Lancet Respiratory Medicine. The data also showed the safety profile for high-dose Enerzair® Breezhaler® was in line with previous studies in the Phase III/IIIb PLATINUM clinical development program. Enerzair® Breezhaler® is approved in the EU, Japan, Canada, Switzerland and Australia. Further regulatory reviews are currently underway in other countries.

On September 28, 2020 the Group announced that it had been notified by Pfizer that the first subject in a clinical trial had been dosed with 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-07054894, a CCR6 antagonist targeting

Inflammatory Bowel Disease, originating from the Pfizer/Sosei Heptares collaboration, was nominated for clinical development by Pfizer in June 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, two of which had previously entered clinical trials. The collaboration had leveraged the Group's unique StaR® technology and SBDD capabilities to design oral small molecules that modulate different GPCR targets across multiple disease areas of interest to Pfizer. This candidate is the eighth GPCR-targeted drug candidate to enter clinical trials originating from the Group's StaR® technology and SBDD platform.

Advancing co-investments with innovative technology and venture funds

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

On January 14, 2020 the Group announced that significant scientific progress at its spin-off companies Orexia Limited ("Orexia") and Inexia Limited ("Inexia") triggered the next tranche of funding from venture capital firm Medicxi under its €40 million commitment. The Group and Medicxi, which specializes in financing asset-centric companies, created Orexia and Inexia in 2019 to develop novel therapies based on positive modulators of the G protein-coupled receptors (GPCRs) Orexin OX1 and OX2 for neurological diseases, including narcolepsy.

On May 7, 2020 the Group announced that it had made further significant progress with its orexin program, which is being developed in conjunction with its spin-off companies Orexia and Inexia. The Group solved the structure of the agonist bound orexin OX2 receptor and identified a small molecule binding site using its unique StaR® technology and structure-based approach. The new improved insights into the receptor's structure will help optimize the discovery and development of novel molecules targeting neurological diseases. Orexia and Inexia are funded by Medicxi under a €40 million commitment.

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. The Group's two ongoing in-house Phase I clinical trials (HTL0014242 and HTL0030310) are progressing well and are now the subject of multiple ongoing partnering discussions. However, some delays to the completion of these studies have occurred as a result of the global COVID-19 situation.

On March 20, 2020, the Group announced a new high-impact publication highlighting the potential of structure-based approaches to generate novel peptide-based drugs targeting GPCRs. The article entitled 'Advances in Therapeutic Peptides Targeting G Protein-coupled Receptors' (Davenport et al.) has been published by Nature Reviews Drug Discovery, a prestigious and highly influential peer-reviewed journal.

The article focuses on the new discovery strategies that leverage cutting-edge structure-based technologies, including Sosei Heptares' unique StaR® platform and cryo-EM, to generate novel and selective peptides with precisely designed activities and improved drug-like (pharmacokinetic and pharmacodynamic) properties. Such peptides include agonists, antagonists, as well as peptides designed to activate specific downstream signalling pathways (biased ligands), and dual agonists that activate two different GPCRs.

The generation of novel, precisely designed peptide leads against disease-relevant GPCRs provides multiple partnering opportunities for the Group.

Operational highlights after the period under review (period ended September 30, 2020)

On November 2, 2020 the Group entered into an agreement with Tempero Bio Inc. (Tempero), under which Tempero has in-licensed exclusive global rights to Sosei Heptares' mGlu5 negative allosteric modulator (NAM) program to develop therapies targeting substance use disorders and anxiety. Tempero is a new company created by Aditum Bio in collaboration with Sosei Heptares to develop the mGlu5 NAM program, including the candidate HTL0014242 (TMP-301), which is in Phase I studies. Tempero will be funded by Aditum Bio. Aditum Bio is an investment firm focused on acquiring and developing biotechnology assets that target large patient population health needs. Its strategy is to create individual "spin-out" companies to implement Phase I and Phase II clinical trials to speed these drugs to market. Aditum Bio also aims to combine behavior modification, though digital devices (e.g. mobile apps), with pharmaceuticals to support patient treatment, improve adherence and ultimately create better patient outcomes. Aditum Bio was co-founded by industry veterans Joe Jimenez, former CEO of Novartis, and Mark Fishman, former President of the Novartis Institute for Biomedical Research. The firm works in collaboration with TrialSpark, a tech-enabled platform that conducts innovative clinical trials faster and at lower cost than traditional clinical development organizations. Under the terms of the agreement, Tempero will obtain exclusive global rights to a portfolio of potent, orally available metabotropic glutamate receptor 5 (mGlu5) NAM modulators, including HTL0014242, which were precision-designed by Sosei Heptares using its GPCR Structure-Based Drug Design (SBDD) platform. The candidate HTL0014242 will be renamed TMP-301. Tempero will also gain access to a substantial clinical and preclinical data package, patents and proprietary know-how on the program generated by Sosei Heptares. In return, Sosei Heptares receives an upfront payment and a strategic equity stake in Tempero, and is eligible to receive future success-based development and commercial milestone payments plus tiered royalties from any future product sales.

As of September 30, 2020, the Group had a total of 184 employees (an increase of 21 employees vs. the end of the previous fiscal year FY19).

As a result of the aforementioned activities, the Group reported the following financial results for the nine month period ended September 30, 2020. Revenue of JPY 4,443 million (a decrease of JPY 3,327 million vs. the prior corresponding period), an operating loss of JPY 1,217 million (vs. an operating profit of JPY 1,094 million in the prior corresponding period), a net loss before taxes of JPY 1,478 million (vs. a net profit before income taxes of JPY 1,142 million in the prior corresponding period), and a net loss of JPY 1,642 million (vs. a net profit of JPY 1,461 million in the prior corresponding period).

	9 month period ended September 30, 2020 ¥m	9 month period ended September 30, 2019 ¥m	Change
Revenue	**4,443**	7,770	(3,327)
Cash cost of sales	**(421)**	(574)	153
Cash research and development expenses	**(2,411)**	(2,887)	476
Cash selling, general and administrative expenses	**(1,339)**	(1,632)	293
Cash other net income	**42**	28	14
Cash earnings	**314**	2,705	(2,391)
Non-cash expenses	**(1,531)**	(1,611)	80
Operating (loss) profit	**(1,217)**	1,094	(2,311)
Net finance income	**43**	166	(123)
Share of loss of associates	**(304)**	(118)	(186)
Net (loss) profit before income tax	**(1,478)**	1,142	(2,620)
Net (loss) profit	**(1,642)**	1,461	(3,103)

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

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

	9 month period ended September 30, 2020 ¥m	9 month period ended September 30, 2019 ¥m	Change
Milestone income and upfront fees	**1,962**	5,092	(3,130)
Royalty income	**1,762**	1,718	44
Product supply revenue	**-**	203	(203)
Other	**719**	757	(38)
	4,443	7,770	(3,327)

Revenue in the nine month period under review totaled JPY 4,443 million (a decrease of JPY 3,327 million vs. the prior corresponding period).

Revenue related to milestone income and upfront fees in the nine month period under review totaled JPY 1,962 million (a decrease of JPY 3,130 million vs. the prior corresponding period). Milestone revenues 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 decrease in revenue was primarily due to there being two US$5m milestone receipts from existing discovery and development partnerships in the nine month period under review, whereas the Group received a US$15m milestone payment from AstraZeneca, other major and minor milestone receipts and substantial upfront fees in the prior corresponding period. The Group classifies a "major" milestone payment as any single payment greater than or equal to approximately USD 5 million.

Revenue related to royalties in the nine month period under review totaled JPY 1,762 million (an increase of JPY 44 million vs. the prior corresponding period). The majority of the Group's royalty revenue relates to sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis[6]. Royalty income relating to Enerzair® sales by Novartis commenced in the third quarter of 2020 following the grant of marketing approvals in Japan and the EU.

Operating expenses

	9 month period ended September 30, 2020 ¥m	9 month period ended September 30, 2019 ¥m	Change
Cash cost of sales	**421**	574	(153)
Cash research and development expenses	**2,411**	2,887	(476)
Cash general and administrative expenses	**1,339**	1,632	(293)
Non-cash expenses	**1,531**	1,611	(80)
Cost of sales	**110**	31	79
Research and development expenses	**285**	265	20
General and administrative expenses	**1,136**	1,017	119
Other expenses	**-**	298	(298)

Cash cost of sales

Cost of sales in the nine month period under review totaled JPY 421 million (a decrease of JPY 153 million vs. the prior corresponding period). This is primarily related to the decrease in the costs

[6] 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.

directly associated with ORAVI® product supply. Otherwise, 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).

Cash research and development expenses
Cash research and development ("R&D") expenses in the nine month period under review totaled JPY 2,411 million (a decrease of JPY 476 million vs. the prior corresponding period). The decrease in R&D spend primarily related to a reduction in project activity due to COVID-19, as well as the successful recovery of excess costs incorrectly charged by one supplier. In the period under review, 96% of R&D spend related to our UK operations.

Cash general and administrative expenses
Cash general and administrative ("G&A") expenses in the nine month period under review totaled JPY 1,339 million (a decrease of JPY 293 million vs. the prior corresponding period). The decrease in G&A spend primarily related to a reduction in our UK National Insurance liability linked to share based payments as a result of the reduction in our share price over the 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 nine month period under review were JPY 1,531 million (a decrease of JPY 80 million vs. the prior corresponding period). In total, depreciation amounted to JPY 448 million (an increase of JPY 110 million vs. the prior corresponding period). Amortization for the nine month period under review totaled JPY 627 million (a decrease of JPY 66 million vs. the prior corresponding period). Stock-based compensation expense for the period was JPY 456 million (an increase of JPY 174 million vs. the prior corresponding period). The increase in stock based compensation expense reflects the issuance of new Restricted Stock Units in April 2020. Impairment loss in the prior corresponding period was JPY 298 million. This was due to intangible asset impairment charge associated with a reduction in Oravi® sales and profitability forecasts.

Operating loss /profit
Operating loss in the nine month period under review totaled JPY 1,217 million (vs. an operating profit of JPY 1,094 million in the prior corresponding period). The main reason for the operating loss is the decrease in revenue (for the reasons stated above).

Net finance income
Net finance income in the nine month period under review totaled JPY 43 million (vs. a net finance income of JPY 166 million in the prior corresponding period). The decrease in finance income is primarily due to the inclusion of larger contingent consideration credits in the prior corresponding period. Net finance income also includes fair value gains relating to the Group's investment in Sosei RMF1.

Net loss
The net loss in the nine month period under review totaled JPY 1,642 million (a net profit of JPY 1,461 million in the prior corresponding period). The main reason for the net loss is the decrease in revenue (for the reasons stated above).

(2) Analysis of Financial Position

1) Assets, liabilities and equity

Assets

Total assets on September 30, 2020 were JPY 73,322 million (an increase of JPY 16,642 million vs. the end of the previous fiscal year, FY19). The largest movement was in cash and cash equivalents which increased by 22,425 million yen primarily due to the issuance of new shares and convertible bonds in July 2020. This increase was partially offset by the effect of a weak GBP on the translation of GBP-denominated assets into JPY and the deconsolidation of Sosei RMF1 following the disposal in June 2020 of the Group's shareholding in Sosei CVC Limited (which controlled the fund).

Liabilities

Total liabilities on September 30, 2020 were JPY 25,092 million (an increase of JPY 13,490 million vs. the end of the previous fiscal year, FY19). This increase is primarily due to the issuance of convertible bonds in July 2020.

Equity

Total equity on September 30, 2020 was JPY 48,230 million (an increase of JPY 3,152 million vs. the end of the previous fiscal year, FY19). This increase was primarily due to the issuance of new shares and convertible bonds through an international offering in July 2020. This increase was partially offset by the net loss for the period of JPY 1,642 million and exchange differences of translation of JPY 1,677 million.

The ratios of Cash and cash equivalents, Interest-bearing debt and Equity attributable to owners of the parent company to total assets were 51.6%, 22.6% and 65.8%, respectively.

2) Cash flows

Cash and cash equivalents at September 30, 2020 increased by JPY 22,425 million from the beginning of the year and amounted to JPY 37,800 million.

Cash flows from operating activities

Net cash provided by operating activities for the period under review totaled JPY 2,232 million. This included income tax refunds of JPY 1,336 million.

Cash flows from investing activities

Net cash used in investing activities for the period under review totaled JPY 109 million. This was primarily due a decrease in cash and cash equivalents of JPY 577 million resulting from the deconsolidation of Sosei RMF1 in June 2020, partially offset by the receipt of a distribution from Sosei RMF1 totaling JPY 295 million and sales of investment securities by Sosei RMF1 of JPY 238 million.

Cash flows from financing activities

Net cash provided by financing activities for the period under review totaled JPY 20,678 million. This was primarily due to net cash inflows from the issuance of new shares raising JPY 5,134 million (including shares issued through an international offering) and the issuance of convertible bonds raising JPY 15,902 million.

(3) Earnings Forecast

The Group's response to COVID-19

A novel strain of coronavirus (COVID-19) was declared a global pandemic by the World Health Organization (WHO) on March,11 2020. The Group has been carefully monitoring COVID-19 pandemic and its impact on our operations. As a business operating in the global life sciences industry, the Group has an important role to play to ensure the health and safety of all stakeholders and society. The Group's priority remains the health of its employees, community members, and investigators and patients in its clinical trials. The Group has taken several actions in response to the COVID-19 pandemic, including:

- Implementation of policies and practices to ensure a safe working environment for its employees and the communities where it operates to reduce the spread of COVID-19. This includes a work from home policy for many employees, while its essential employees, primarily laboratory-based scientists, continue to report to our UK R&D facility and are working on an optimized rota basis and in accordance with applicable UK government health and safety protocols issued in response to the COVID-19 pandemic. The Group has also introduced weekly SARS-CoV-2 testing of its essential employees at its UK R&D facility.
- Donation of supplies of personal protective equipment (PPE) to a local hospice in the United Kingdom.
- Initiation of a new in-house COVID-19 R&D program to apply its unique SBDD platform and capabilities to the global research efforts to discover drugs targeting the SARS-CoV-2 coronavirus and to treat COVID-19 and infections caused by future variants of SARS-CoV-2. All findings to be made freely available to the global research community.

Potential business impacts from COVID-19

The COVID-19 pandemic has created a challenging environment for people and companies across the world. The Group recognizes that the COVID-19 outbreak may have an impact on our business. While we continue to conduct drug discovery and development activities, including clinical trials, the COVID-19 pandemic has impacted, and may continue to impact, the timelines of certain of our early-stage discovery efforts and clinical trials. While the COVID-19 pandemic in the United Kingdom and Japan continues to evolve, the Group is monitoring closely for potential impacts:

- Overall business: apart from its new in-house COVID-19 R&D program, the Group is currently prioritizing revenue-generating work for its major collaboration partners. Work on in-house R&D programs, where the Group does not receive revenues from external partners, has been reduced in the short term. In-house R&D programs can be rapidly scaled up again in the future.
- Supply chain: the Group's core R&D facility in the United Kingdom has continued to operate throughout the COVID-19 pandemic. Its teams are working closely with providers across the supply chain to ensure continuity. To date the Group has not experienced any major interruptions to the supply of critical consumables for laboratory work and management continue to closely monitor the situation.
- Drug discovery projects: to ensure a safe working environment for its employees, laboratory-based work is being conducted on a rota basis with some reduced capacity to enable social distancing and adherence to other government health and safety protocols. Despite this, productivity remains strong. The Group has an extensive CRO network that is

geographically diversified, and it has secured increased capacity with providers in China and Eastern Europe. Despite this, the Group expects to see some small delays to project timelines and management will continue to closely monitor the situation.

- Early development/clinical trials: patient safety is of utmost importance, and the Group is working closely with its providers and partners to advance its current clinical trials safely. The Group expects that there will be an impact to timelines for both in-house and partnered clinical programs, and that studies expected to complete in 2020 are now more likely to complete in 2021.
- Business development and new partnerships: scheduled and future partnership discussion meetings have not been impacted and are being conducted virtually.

Financial forecast

Despite these challenging times, the Group remains committed to delivering on its mission and vision, and to serving collaboration partners and patients in our clinical trials. The Group's smaller size enabled it to quickly enact flexible business continuity plans, and therefore it has continued to make good progress across the business and remain well positioned to pursue a number of strategic opportunities. The Group is taking steps to increase partnered activity, whilst simultaneously investing in technologies, tools and capabilities to advance an exciting pipeline of next-generation candidates that will form the basis of high value partnerships in the future.

The Group is continuing to drive a sustainable balance of resources and capital. Whilst it aims to pursue profitability, we recognize that the uncertainty caused by the COVID-19 pandemic is likely to impact on this goal. As of September 30, 2020 the Group's financial forecasts remain unchanged from December 31, 2019:

- Forecast cash R&D expenses in the range of JPY 4,200 to JPY 4,700 million[7].
- Forecast cash G&A expenses in the range of JPY 1,800 to JPY 2,300 million[8].
- The Group expects to receive upfront consideration related to new partnerships.
- The Group expects to receive milestone payments from existing drug discovery and development partnerships.
- The Group will continue to invest in technologies, tools and capabilities to advance next-generation candidates; while strongly managing its cost base.

The Group continues to believe it is well capitalized for the future. The Group's existing cash, cash flows from operations and existing sources of and access to financing are sufficient to cover its needs for drug discovery and early development activities, working capital, capital expenditures and debt servicing requirements, as well as to pursue business development initiatives. In addition, on July 16, 2020, the Group issued approximately JPY 5 billion of new equity and JPY 16 billion of long-term convertible bonds and intends to use the majority of the funds for a potentially transformative acquisition to pursue strategic growth.

[7] The assumed FX rate of USD:JPY 110

[8] The assumed FX rate of USD:JPY 110

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

1) Interim Condensed Consolidated Statement of Financial Position

	September 30, 2020 (Unaudited) ¥m	December 31, 2019 (Audited) ¥m
Assets		
Non-current assets		
Property, plant and equipment	**3,795**	4,120
Goodwill	**13,894**	14,365
Intangible assets	**11,692**	12,999
Investments accounted for using the equity method	**3,052**	3,539
Other financial assets	**982**	2,053
Other non-current assets	**31**	41
Total non-current assets	**33,446**	37,117
Current assets		
Trade receivables	**1,249**	1,924
Income tax receivable	**400**	1,765
Other current assets	**427**	499
Cash and cash equivalents	**37,800**	15,375
Total current assets	**39,876**	19,563
Total assets	**73,322**	56,680
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred tax liabilities	**2,312**	2,008
Contingent consideration in business combinations	**3,070**	3,203
Corporate bonds	**14,725**	-
Lease liabilities	**1,615**	1,704
Other financial liabilities	**-**	1,489
Other non-current liabilities	**1,130**	895
Total non-current liabilities	**22,852**	9,299
Current liabilities		
Trade and other payables	**886**	1,211
Income taxes payable	**123**	162
Lease liabilities	**214**	175
Other current liabilities	**1,017**	755
Total current liabilities	**2,240**	2,303
Total liabilities	**25,092**	11,602
Equity		
Capital stock	**40,211**	37,479
Capital surplus	**30,290**	26,548
Treasury stock	**(0)**	(0)
Retained earnings	**(13,906)**	(12,264)
Other components of equity	**(8,365)**	(6,688)
Equity attributable to owners of the parent	**48,230**	45,075
Non-controlling interests	**-**	3
Total equity	**48,230**	45,078
Total liabilities and equity	**73,322**	56,680

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

	Nine month period ended September 30, 2020 (Unaudited) ¥m	Nine month period ended September 30, 2019 (Unaudited) ¥m
Revenue	**4,443**	7,770
Cost of sales	**(531)**	(605)
Gross profit	**3,912**	7,165
Research and development expenses	**(2,696)**	(3,152)
Selling, general and administrative expenses	**(2,475)**	(2,649)
Other income	**45**	36
Other expenses	**(3)**	(306)
Operating (loss) profit	**(1,217)**	1,094
Finance income	**538**	437
Finance costs	**(495)**	(271)
Share of loss of associates accounted for using the equity method	**(304)**	(118)
Net (loss) profit before income taxes	**(1,478)**	1,142
Income tax (expense) benefit	**(164)**	319
Net (loss) profit for the period	**(1,642)**	1,461
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Net change in fair value of equity investments designated as measured at fair value through other comprehensive income	**28**	(22)
Total items that will not be reclassified subsequently to profit or loss	**28**	(22)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**(1,705)**	(1,541)
Total items that may be reclassified subsequently to profit or loss	**(1,705)**	(1,541)
Total other comprehensive loss	**(1,677)**	(1,563)
Total comprehensive loss for the period	**(3,319)**	(102)
Net (loss) profit attributable to:		
Owners of the parent	**(1,642)**	1,461
Non-controlling interests	**(0)**	(0)
	(1,642)	1,461
Total comprehensive loss for the period attributable to:		
Owners of the parent	**(3,319)**	(102)
Non-controlling interests	**(0)**	(0)
	(3,319)	(102)
Earnings per share (yen)		
Basic (loss) earnings per share	**(21.03)**	19.11
Diluted (loss) earnings per share	**(21.03)**	18.91

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 ¥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 loss for the period	-	-	-	(1,642)	-	**(1,642)**	(0)	**(1,642)**
Other comprehensive loss	-	-	-	-	(1,677)	**(1,677)**	-	**(1,677)**
Total comprehensive loss for the period	-	-	-	(1,642)	(1,677)	**(3,319)**	(0)	**(3,319)**
Issuance of new shares	2,732	2,402	-	-	-	**5,134**	-	**5,134**
Issuance of convertible bond	-	841	-	-	-	**841**	-	**841**
Share-based payments	-	499	-	-	-	**499**	-	**499**
Change on loss of control of subsidiary	-	-	-	-	-	**-**	(3)	**(3)**
Total transactions with owners	2,732	3,742	-	-	-	**6,474**	(3)	**6,471**
Balance at September 30, 2020 (Unaudited)	**40,211**	**30,290**	**(0)**	**(13,906)**	**(8,365)**	**48,230**	**--**	**48,230**
Balance at January 1, 2019	36,854	26,042	(0)	(13,696)	(7,623)	41,577	3	41,580
Net profit (loss) for the period	-	-	-	1,461	-	1,461	(0)	1,461
Other comprehensive loss	-	-	-	-	(1,563)	(1,563)	-	(1,563)
Total comprehensive income (loss) for the period	-	-	-	1,461	(1,563)	(102)	(0)	(102)
Issuance of new shares	556	108	-	-	-	664	-	664
Purchase of treasury stock	-	-	(0)	-	-	(0)		(0)
Share-based payments	-	282	-	-	-	282	-	282
Total transactions with owners	556	390	(0)	-	-	946	-	946
Balance at September 30, 2019 (Unaudited)	37,410	26,432	(0)	(12,235)	(9,186)	42,421	3	42,424

4) Interim Condensed Consolidated Statement of Cash Flows

	Nine month period ended September 30, 2020 (Unaudited) ¥m	Nine month period ended September 30, 2019 (Unaudited) ¥m
Cash flows from operating activities		
(Loss) profit before income taxes	**(1,478)**	1,142
Adjustments for:		
Receipt of non-cash consideration from customer	**-**	(251)
Depreciation and amortization	**1,008**	1,049
Share-based payments	**456**	282
Impairment loss	**-**	298
(Gain) loss on revaluation of investment securities	**(291)**	72
Loss on sale of investment securities	**73**	-
Loss (gain) on revaluation of investment in capital	**75**	(86)
Change in fair value of contingent consideration	**(49)**	(275)
Net foreign exchange loss (gain)	**23**	(97)
Interest income	**(33)**	(40)
Interest expenses	**114**	174
Share of losses of associates accounted for using the equity method	**304**	118
Decrease (increase) in trade receivables	**569**	(119)
Decrease (increase) in other accounts receivables	**32**	(18)
(Decrease) increase in trade payables	**(319)**	761
Increase in long-term deferred revenues	**532**	1,214
Increase in provision	**-**	111
Other	**19**	(899)
Subtotal	**1,035**	3,436
Grants received	**2**	44
Interest and dividends received	**33**	40
Interest paid	**(7)**	(83)
Income taxes refunded	**1,336**	885
Income taxes paid	**(167)**	(90)
Net cash provided by operating activities	**2,232**	4,232
Cash flows from investing activities		
Purchase of property, plant and equipment	**(54)**	(244)
Purchase of intangible assets	**(10)**	(11)
Payments for purchase of investment securities	**-**	(250)
Proceeds from sale of investment securities	**238**	-
Distribution by limited partnership	**295**	-
Proceeds from contingent consideration receivable	**-**	269
Change in cash and cash equivalents on disposal of subsidiaries	**(577)**	-
Other	**(1)**	21
Net cash used in investing activities	**(109)**	(215)
Cash flows from financing activities		
Repayments of lease obligations	**(168)**	(52)
Repayments of long-term borrowings	**-**	(2,250)
Proceeds from issuance of bond	**15,902**	-
Payment for settlement of contingent consideration	**(190)**	(931)
Proceeds from contributions from limited partners	**-**	495
Proceeds from issuance of new shares	**5,134**	664
Net cash provided by (used in) financing activities	**20,678**	(2,074)
Effects of exchange rate changes on cash and cash equivalents	**(376)**	26
Net increase (decrease) in cash and cash equivalents	**22,425**	1,969
Cash and cash equivalents at the beginning of the period	**15,375**	18,760
Cash and cash equivalents at the end of the period	**37,800**	20,729

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
Not applicable.