Sosei Group Corporation

Quarterly Report for the Third Quarter of 2020
(Quarter ended September 30, 2020)

Table of Contents

Quarterly Report

Document to be filed:	Quarterly Securities Report
Grounds act:	Article 24-4-7, Paragraph 1 of Financial Instruments and Exchange
Destination of filing:	Director General of the Kanto Local Finance Bureau
Date of filing:	November 11, 2020
Accounting period:	The 31st Term Third Quarter (July 1, 2020 – September 30, 2020)
Company name:	Sosei Group Corporation
Representative's name and title:	Shinichi Tamura, Representative Executive Officer, CEO
Location of head office:	2-1 Kojimachi, Chiyoda-ku, Tokyo
Phone:	+81-3-5210-3290 (main)
Contact person:	Chris Cargill, CFO
Nearest contact location:	2-1 Kojimachi, Chiyoda-ku, Tokyo
Phone:	+81-3-5210-3290 (main)
Contact person:	Chris Cargill, CFO
Location for public inspection:	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

Sosei Group Corporation

Section 1. Company Overview

1. Changes in Key Management Indices

Term		The 30th Term nine month period ended September 30, 2019 (Unaudited)	The 31tst Term nine month period ended September 30, 2020 (Unaudited)	The 30th Term (Audited)
Period		January 1, 2019 September 30, 2019	January 1, 2020 September 30, 2020	January 1, 2019 December 31, 2019
Revenue (Three month period ended September 30)	¥m	7,770 (2,714)	4,443 (1,927)	9,726
(Loss) profit before income taxes	¥m	1,142	(1,478)	534
Net (loss) profit attributable to owners of the parent company (Net profit, three month period ended September 30)	¥m	1,461 (1,066)	(1,642) (475)	1,432
Comprehensive loss attributable to owners of the parent company	¥m	(102)	(3,319)	2,367
Equity attributable to owners of the parent company	¥m	42,421	48,230	45,075
Total assets	¥m	59,322	73,322	56,680
Basic (loss) earnings per share (Earnings, three month period ended September 30)	¥	19.11 (13.88)	(21.03) (5.94)	18.70
Diluted (loss) earnings per share	¥	18.91	(21.03)	18.50
Ratio of equity attributable to owners of the parent company to total assets	(%)	71.5	65.8	79.5
Cash flows from operating activities	¥m	4,232	2,232	3,441
Cash flows from investing activities	¥m	(215)	(109)	(246)
Cash flows from financing activities	¥m	(2,074)	20,678	(6,964)
Cash and cash equivalents at the end of the period	¥m	20,729	37,800	15,375

Notes 1. The Group has prepared interim condensed consolidated financial statements and, therefore, has not included information regarding changes in key management indices for the submitting company.

2. The financial figures quoted above have been extracted from the interim condensed consolidated financial statements and consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

3. Revenue does not include consumption taxes.

2 Business Description

For the nine month period ended September 30, 2020, there was no significant change in the nature of the business run by the Group, which includes the Company and its affiliated companies. There were also no changes in the Group’s significant affiliated companies.

Sosei Group Corporation

Section 2. Business Review

Forward-looking statements in this section reflect the views of management as of November 11, 2020.

1 Business and Operational Risks

During the nine month period ended September 30, 2020 the world was impacted by a novel strain of coronavirus commonly referred to as 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 in the form of new business-related and operational risks that were not stated in the annual securities report for the preceding fiscal year, and were not apparent at the time last year's annual securities report was created. The extent to which the coronavirus impacts our business will depend on future developments, which are highly uncertain and difficult to predict. While the COVID-19 pandemic in the United Kingdom and Japan continues to evolve, the Group is monitoring closely for potential impacts:

Potential business impacts from COVID-19

- 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.

In June 2020, the Group sold all of its shares in Sosei CVC Ltd., a subsidiary company. Accordingly, the fund management-related risks of *2.3 Business Activities of the Group* noted in the Annual Securities Report for the fiscal year ended December 31, 2019 are no longer applicable.

Sosei Group Corporation

Section 2. Business Review

2 Overview of Operating Results

2.1 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 us 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[1] 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.

[1] Increased to 8 in September 2020

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

  - 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. **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[2][3] 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:

---

[2] 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.

[3] 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.

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

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 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, 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 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

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

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

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

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.

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

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.

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

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.

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

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.

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

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[4]. 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.

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

Sosei Group Corporation

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

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 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).

Sosei Group Corporation

Section 2. Business Review

2 Overview of Operating Results (continued)

2.1 Operating Results (continued)

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 /profit
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).

2.2 Analysis of Balance Sheet

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

Section 2. Business Review

2 Overview of Operating Results (continued)

2.2 Analysis of Balance Sheet (continued)

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 1,705 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.

2.3 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.

2.4 Operational and Financial Issues to Be Addressed

For the nine month period ended September 30, 2020, there was no significant change in management issues to be addressed by the Group.

2.5 Research and Development Activities

The Group's research and development expenses for the nine month period ended September 30, 2020 were 2,696 million yen (a decrease of JPY 456 million vs. the prior corresponding period). Specific details of the research and development activities can be found in "Section 2. Business Review, sub-section 2. Overview of Operating Results, 2-1 Operating Results."

3 Significant Contracts affecting Business Operations

For the three month period ended September 30, 2020, there was no significant contracts affecting business operations.

Sosei Group Corporation

Section 3. Information about the Filing Company

1. Stock Information

1.1 Total Number of Shares

Total Number of Shares at September 30, 2020

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

Issued Shares

Type	Number of issued shares at September 30, 2020 (shares)	Number of issued shares at the date of submission (shares) (November 11, 2020)	Name of listed financial instruments exchange or name of registered authorized financial instruments firms associations	Details
Common shares	80,585,728	80,585,728	Tokyo Stock Exchange (Mothers)	Number of shares constituting one unit: 100 shares
Total	80,585,728	80,585,728	—	—

Note In the "number of issued shares at the date of submission" the number of shares issued through the exercise of stock options during the period between November 1, 2020 and the submission date of this quarterly report is not included.

1.2 Stock Acquisition Rights (Stock Options)

Not applicable.

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

Not applicable.

1.4 Changes in the Total Number of Issued Shares and Capital Stock for the three month period ended September 30, 2020

Date	Increase/ (decrease) in total number of issued shares (shares)	Balance of total number of issued shares (shares)	Increase/ (decrease) in capital stock ¥m	Balance of capital stock ¥m	Increase/ (decrease) in legal capital reserve ¥m	Balance of legal capital reserve ¥m
July 1, 2020 — September 30, 2020 (Note 1, 2, 3)	3,315,000	80,585,728	2,549	40,211	2,549	28,328

Note 1. The ¥m amounts are based on J-GAAP.

2. The total number of issued shares increased by 13,600 due to the exercise of stock acquisition rights, and the resulting increases in capital stock and legal capital reserve were 21 million yen each.

3. The total number of issued shares increased by 3,301,400 due to the issuance of New Shares through an International Offering on July 16, 2020, and the resulting increases in capital stock and legal capital reserve were 2,528 million yen each.

1.5 Major Shareholders

Not applicable due to there being no record date in the third quarter.

Sosei Group Corporation

Section 3. Information about the Filing Company

1. Stock Information (continued)

1.6 Voting Rights

The following information is in accordance with the shareholder registry as of June 30, 2020 (this is the most recent record date as there was no record date for the three month period ended September 30, 2020):

Issued Shares

As of June 30, 2020

Item	Number of shares (shares)	Number of voting rights	Details
Non-voting shares	-	-	-
Shares with restricted voting rights (treasury shares, etc.)	-	-	-
Shares with restricted voting rights (other)	-	-	-
Shares with full voting rights (treasury shares, etc.)	Common shares 200	-	-
Shares with full voting rights (other)	Common shares 77,230,500	772,305	Note 1
Shares less than one unit	Common shares 40,028	-	Note 2
Total number of issued shares	**77,270,728**	-	-
Voting rights held by all the shareholders	-	**772,305**	-

Note 1. These are standard shares of the Company which do not have any limitation of rights.

Note 2. "Shares less than one unit" includes 13 treasury shares owned by the Company.

Treasury Shares, Etc.

As of June 30, 2020

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

2. Status of Officers as of September 30, 2020

Not applicable.

Sosei Group Corporation

Section 4. Interim Condensed Consolidated Financial Statements

1. Preparation Policy of the Interim Condensed Consolidated Financial Statements
   The interim condensed consolidated financial statements of the Company are prepared in accordance with International Accounting Standards 34 Interim Financial Reporting pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance of Japan No. 64 of 2007).

2. Auditor's Report
   The interim condensed consolidated financial statements for the three month period ended September 30, 2020 (from July 1, 2020 to September 30, 2020) and for the nine month period ended September 30, 2020 (from January 1, 2020 to September 30, 2020) were reviewed by Ernst & Young ShinNihon LLC, in accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

Sosei Group Corporation

Section 4. Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statement of Financial Position as of September 30, 2020

	Notes	(Unaudited) September 30, 2020 ¥m	(Audited) December 31, 2019 ¥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	6,7	**982**	2,053
Other non-current assets		**31**	41
Total non-current assets		33,446	37,117
Current assets			
Trade receivables	10	**1,249**	1,924
Income tax receivable		**400**	1,765
Other current assets	6	**427**	499
Cash and cash equivalents	6	**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	7	**3,070**	3,203
Corporate bonds	7,8	**14,725**	-
Lease liabilities		**1,615**	1,704
Other financial liabilities	6,7	**-**	1,489
Other non-current liabilities	6,10	**1,130**	895
Total non-current liabilities		22,852	9,299
Current liabilities			
Trade and other payables	7	**886**	1,211
Income taxes payable		**123**	162
Lease liabilities		**214**	175
Other current liabilities	6,10	**1,017**	755
Total current liabilities		2,240	2,303
Total liabilities		25,092	11,602
Equity			
Capital stock	9	**40,211**	37,479
Capital surplus	9	**30,290**	26,548
Treasury stocks		**(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	6	**-**	3
Total equity		48,230	45,078
Total liabilities and equity		73,322	56,680

Sosei Group Corporation

Section 4. Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the nine month period ended September 30, 2020

	Notes	(Unaudited) Nine month period ended September 30, 2020 ¥m	(Unaudited) Nine month period ended September 30, 2019 ¥m
Revenue	10	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	11	(2,475)	(2,649)
Other income		45	36
Other expenses	6	(3)	(306)
Operating (loss) profit		(1,217)	1,094
Finance income	7	538	437
Finance costs	7	(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	7	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	7	(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 for the period 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	12	(21.03)	19.11
Diluted (loss) earnings per share	12	(21.03)	18.91

Sosei Group Corporation

Section 4. Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the three month period ended September 30, 2020

	Notes	(Unaudited) Three month period ended September 30, 2020 ¥m	(Unaudited) Three month period ended September 30, 2019 ¥m
Revenue		1,927	2,714
Cost of sales		(198)	(212)
Gross profit		1,729	2,502
Research and development expenses		(1,006)	(1,114)
Selling, general and administrative expenses		(814)	(739)
Other income		10	12
Other expenses		(0)	(298)
Operating (loss) profit		(81)	363
Finance income		254	665
Finance costs		(257)	(114)
Share of (loss) profit of associates accounted for using the equity method		(124)	(64)
Net loss (profit) before income taxes		(208)	850
Income tax benefit		683	216
Net profit for the period		475	1,066
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		(7)	(2)
Total items that will not be reclassified subsequently to profit or loss		(7)	(2)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		803	(741)
Total items that may be reclassified subsequently to profit or loss		803	(741)
Total other comprehensive income (loss)		796	(743)
Total comprehensive income for the period		1,271	323
Net profit (loss) for the period attributable to:			
Owners of the parent		475	1,066
Non-controlling interests		-	(0)
		475	1,066
Total comprehensive income for the period attributable to:			
Owners of the parent		1,271	323
Non-controlling interests		-	(0)
		1,271	323
Earnings per share (yen)			
Basic earnings per share	12	5.94	13.88
Diluted earnings per share	12	5.90	13.69

Section 4. Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statement of Changes in Equity for the nine month period ended September 30, 2020

	Notes	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	9	2,732	2,402	-	-	-	**5,134**	-	**5,134**
Issuance of convertible bonds	9	-	841	-	-	-	**841**	-	**841**
Share-based payments		-	499	-	-	-	**499**	-	**499**
Change on loss of control of subsidiary	6	-	-	-	-	-	**-**	(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 treasure 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

Section 4. Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statement of Cash Flows for the nine month period ended September 30, 2020

	Notes	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 through profit or loss		(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 provisions		-	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	7	238	-
Distribution by limited partnership	7	295	-
Proceeds from contingent consideration receivable	7	-	269
Change in cash and cash equivalents on disposal of subsidiaries	6,7	(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 corporate bonds	8	15,902	-
Payment for settlement of contingent consideration	7	(190)	(931)
Proceeds from contributions from limited partners		-	495
Proceeds from issuance of new shares	9	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

Section 4. Interim Condensed Consolidated Financial Statements

Notes to the Interim Condensed Consolidated Financial Statements

1. Reporting entity

   Sosei Group Corporation (the "Company") is a joint-stock company located in Japan. The address of its registered head office and principal place of business is available on the Company's website (URL: https://www.soseiheptares.com). The interim condensed consolidated financial statements reflect the balances and transactions of the Company and its subsidiaries (the "Group") and its interest in affiliated companies as of September 30, 2020 and for the nine month period then ended. The Group is engaged in the pharmaceutical business.

2. Basis of preparation

   The interim condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the fiscal year ended December 31, 2019. The Group's interim condensed consolidated financial statements were approved by the Board of Directors on November 11, 2020.

   The interim condensed consolidated financial statements of the Group have been prepared on the historical cost basis except for specified financial instruments and other balances measured at fair value. The interim condensed consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company, and amounts are rounded up or down to the nearest million yen.

3. Significant accounting policies

   The significant accounting policies applied to the Group's interim condensed consolidated financial statements for the nine month period ended September 30, 2020 are consistent with those applied to the consolidated financial statements for the twelve month period ended December 31, 2019 except for income tax expenses which were calculated based on the estimated annual effective tax rate for the twelve month period ending December 31, 2020.

4. Use of significant estimates and judgements

   In preparing the interim condensed consolidated financial statements, management is required to make estimates, judgments, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses; however, actual results may differ from these estimates due to their nature. The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of a revision to an accounting estimate are recognized in the period in which the estimate is revised and in any future periods affected. Estimates and assumptions that have material impacts on the interim condensed consolidated financial statements of the Group are consistent with those in the fiscal year ended December 31, 2019.

Section 4. Interim Condensed Consolidated Financial Statements

Notes to the Interim Condensed Consolidated Financial Statements

5. Operating segments

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

6 Loss of control of subsidiaries

Sosei CVC Ltd. and RMF1 Limited Partnership for Investment ceased to be consolidated with effect from June 19, 2020.

6.1 Summary of loss of control

At a board meeting held on May 20, 2020 the directors resolved to sell the Group's shareholding in Sosei CVC Ltd., a consolidated subsidiary, and completed the disposal on June 19, 2020. With the disposal of these shares the Group's ownership of Sosei CVC Ltd. decreased from 90% to 0%, and both Sosei CVC Ltd. and Sosei RMF1 Investment Limited Partnership, controlled by Sosei CVC Ltd. as a General Partner, were excluded from the scope of consolidation from this date. Following the disposal, the Group's interest in Sosei RMF1 Investment Limited Partnership was 15%. This investment had a carrying value of JPY 284 million as at June 19, 2020 and is included within "Other financial assets".

6.2 Changes in assets and liabilities involving loss of control

At June 19, 2020

	¥m
Assets over which control was lost:	
Other financial assets	(1,269)
Other current assets	(14)
Cash and cash equivalents	(601)
Liabilities over which control was lost:	
Other financial liabilities	1,564
Other non-current liabilities	0
Other current liabilities	6

6.3 Change in cash and cash equivalents due to disposal

At June 19, 2020

	¥m
Cash consideration received	24
Cash and cash equivalents of subsidiaries no longer consolidated	(601)
Change in cash and cash equivalents due to disposal	**(577)**

6.4 Loss on loss of control of subsidiaries

A loss on loss of control of subsidiaries of JPY 3 million is included in "Other expenses".

Section 4. Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

7 Financial instruments

Fair value of the financial instruments

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

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

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

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

7.1 Financial instruments that are ordinary measured at fair value

The breakdown of financial instruments that are ordinary measured at fair value is as follows:

At September 30, 2020

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial assets:				
Financial assets measured at fair value through profit or loss				
Other financial assets	-	-	520	**520**
Financial assets measured at fair value through other comprehensive income				
Other financial assets	-	-	404	**404**
	-	-	924	**924**
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Contingent consideration in business combinations	-	-	3,070	**3,070**
	-	-	3,070	**3,070**

At December 31, 2019

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial assets:				
Financial assets measured at fair value through profit or loss				
Other financial assets	-	-	1,615	1,615
Financial assets measured at fair value through other comprehensive income				
Other financial assets	-	-	380	380
	-	-	1,995	1,995
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Contingent consideration in business combinations	-	-	3,203	3,203
Other financial liabilities	-	-	1,489	1,489
	-	-	4,692	4,692

Section 4. Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

7 Financial instruments (continued)

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

Other financial assets
Other financial assets are revalued in line with changes in fair value. Other financial assets comprise unlisted securities (Orexia Limited, Inexia Limited and RMF1) and contingent consideration receivable relating to business disposals; all are categorized as level 3 of the fair value hierarchy.

The fair values of RMF1 unlisted securities up to the date of were assessed using risk adjusted discounted cashflow models when there was an indication of a movement in fair value during the period. Significant unobservable inputs used in the cash flow models included the projected cashflows and discount rates (ranging from 9.9%- 13.0%). Changes in fair value during the period are recorded in “Finance income” or “Finance costs” as a gain or loss on revaluation.

The fair value of the investment in RMF1 after the date of deconsolidation is assessed using net assets, future cashflows and estimated profits, all of which represent significant unobservable inputs used in the valuation models. Changes in fair value during the period are recorded in “Finance income” or “Finance costs” as a gain or loss on revaluation.

The fair values of Orexia and Inexia are assessed using a model that combines the reproduction cost of assets contributed and the present value of probability adjusted funding inflows, and then applies a lack of control discount. Significant unobservable inputs used in the model include the future cash balance, the estimated probabilities of success of assets progressing to the next milestone event and discount rate (16.0%). Changes in fair value during the period are recorded in “Net change in fair value of equity investments designated as measured at fair value through other comprehensive income”.

The fair values of contingent consideration receivable are assessed using risk adjusted discounted cashflow models when there is an indication of a movement in fair value during the period. Significant unobservable inputs used in the cash flow models include the projected cashflows and discount rates (ranging from 1.8% -2.1%). Changes in fair value during the period are recorded in “Finance income” or “Finance costs” as a gain or loss on revaluation.

Contingent consideration in business combinations
Such consideration is calculated by discounting the estimated amount payable after taking into account the probability of occurrence of future cash outflows. The contingent consideration arising in business combinations is categorized within Level 3 of the fair value hierarchy. Significant unobservable inputs used in the cashflow model include the probabilities of success of assets progressing to the next milestone event and discount rates (ranging from 1.8%- 2.4%). Changes in fair value during the period are recorded in “Finance income” or “Finance costs” as a gain or loss on revaluation.

Section 4. Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

7 Financial instruments (continued)

Other financial liabilities
Other financial liabilities comprised holdings in RMF1 by external parties which were revalued in line with changes in the fair value of RMF1, up to the date of deconsolidation. Other financial liabilities were categorized as level 3 of the fair value hierarchy. Changes in fair value during the period are recorded in "Finance income (Gain on revaluation of investment in capital)" or "Finance costs (Loss on revaluation of investment in capital)".

7.2 Financial instruments measured at amortized cost
The breakdown of financial instruments measured at amortized cost is as follows. Financial instruments whose book value is a reasonable approximation of fair value are omitted.

	Nine month period ended September 30, 2020 ¥m		Twelve month period ended December 31, 2019 ¥m	
	Book value	Fair value	Book value	Fair value
Corporate bonds	14,725	15,184	-	-

Note 1: The fair value level of the corporate bond portion of the convertible bond is level 2.

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

Corporate bonds
The fair value of the corporate bond portion of the convertible bonds is calculated by discounting the total amount of principal and interest at an interest rate that takes into account the remaining maturity of the bonds and credit risk. It is classified as Level 2 of the fair value hierarchy. This portion of the convertible bonds is included in the balance under "corporate bonds".

7.3 Reconciliation of movements of level 3 financial instruments

Nine month period ended September 30, 2020

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the period	1,995	4,692
Decrease through the sale of equity investments	(238)	-
Distribution by investment partnerships	(295)	-
Decrease due to loss of control (Note 1)	(985)	(1,564)
Net gains or losses (realized) (Note 2)	(73)	1
Net gains or losses (unrealized) (Note 2)	496	134
Other comprehensive income (Note 3)	24	-
Transfer (Note 4)	-	(193)
Balance at the end of the period	**924**	**3,070**

Note 1: Specific details can be found "note *6 Loss of control of subsidiaries"*
Note 2: Realized / unrealized gains or losses are included in "Finance income" and "Finance costs" in the interim condensed consolidated statement of profit or loss and other comprehensive income.
Note 3: Other comprehensive income is included in "Net change in fair value of equity investments designated as measured at fair value through other comprehensive income" and "Exchange differences on translating foreign operations" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

Section 4. Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

7 Financial instruments (continued)

7.3 Reconciliation of movements of level 3 financial instruments (continued)

Note 4: The amount of obligation satisfied in “Contingent consideration in business combinations” is transferred to “Trade and other payables” in the interim condensed consolidated statement of financial position. The cumulative amount settled after the transfer was JPY 190 million.

Nine month period ended September 30, 2019

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the period	1,457	5,359
Increase through the acquisition of unlisted securities	510	-
Increase through contribution from limited partners	-	495
Net gains or losses (unrealized) (Note 1)	228	(62)
Other comprehensive income (Note 2)	(42)	-
Transfer (Note 3) (Note 4)	(269)	(703)
Balance at the end of the period	1,884	5,089

Note 1: Unrealized gains or losses are included in “Finance income” and “Finance costs” in the consolidated statement of profit or loss and other comprehensive income.

Note 2: Other comprehensive income is included in “Net change in fair value of equity investments designated as measured at fair value through other comprehensive income” and “Exchange differences on translating foreign operations” in the interim condensed consolidated statement of profit or loss and other comprehensive income.

Note 3: The confirmed receipt amount in “Other financial assets” is transferred to “Trade receivables”. The settlement amount after the transfer was JPY 269 million in the first quarter of the previous consolidated cumulative period.

Note 4: The amount of obligation satisfied in “Contingent consideration in business combinations” is transferred to “Trade and other payables” in the interim condensed consolidated statement of financial position. The settlement amount after the transfer was JPY 931 million in the first quarter of the previous consolidated cumulative period.

8. Corporate bonds

Details of the convertible bond issued in the period are as follows:

Nine month period ended September 30, 2020

Issuer	Bond Name	Issue Date	Issuance Amount ¥m	Interest Rate (%)	Collateral	Maturity Date
Sosei Group Corporation	Euro-yen Denominated Convertible Bonds due 2025	July 16, 2020	16,000	0.5	None	July 16,2025

There are no redeemed corporate bonds.

Nine month period ended September 30, 2019

Not applicable.

9. Capital and other capital items

As of July 16, 2020, due to the issuance of new shares (3,301,400 shares) through an international offering, the capital stock has increased by JPY 2,528 million and the capital surplus has increased by JPY 2,528 million.

As of July 16, 2020, due to the issuance of convertible bonds, the capital surplus has increased by JPY 841 million.

Due to the allotment of Restricted Stock Units ("RSUs") (72,392 shares) during the nine month period ended September 30, 2020, capital stock has increased by JPY 81 million and capital surplus has decreased by JPY 81 million.

10. Revenue

The Group earns revenue through sales of a developed pharmaceutical product, license agreements for development and marketing rights of pharmaceutical products, and research and development services agreements contracted with third parties. These agreements are classified into the following types of revenue based on their purpose and performance obligations:

10.1 Types of revenue classified by purpose

- Milestone income and upfront fees: Upfront fees, Development milestone income, Sales milestone income
- Royalty income: Sales royalty income
- Product supply revenue
- Income from contracted research and development services

10.2 Types of revenue classified by performance obligation:

Grant of Licenses

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

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

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

Not applicable.

10. Revenue (continued)

10.2 Types of revenue classified by performance obligation: (continued)

Research and Development services
Consideration for upfront fees and development milestone income allocated to performance obligations other than the license
Consideration relating to performance obligations that are not satisfied at a point in time is initially recorded at the value of the contract liability when the Group receives consideration before the performance obligations are satisfied.

Revenue from contracted research and development services is recognized over time from the contract date to the achievement of development milestones, such as regulatory filings, as contractually agreed with a customer based on the progress of the development because the Group's performance enhances the value of the license that the customer controls as the customer earns benefit from it. However, development milestone income is only recognized when it is determined that milestones agreed between the parties, such as regulatory filings, have been reached, taking into consideration the probability of a subsequent significant reversal of revenue.

FTE revenue
Full Time Equivalent ("FTE") revenue earned from research and development services is recognized
over time based on the progress of the research and development activities agreed between the parties because the customer simultaneously receives and consumes the benefits provided by the Group's performance.

Product supply revenue
Product supply revenue is recognized upon the customer's acceptance.

10.3 Breakdown of revenue

Nine month period ended September 30, 2020

	performance obligations			
Types of Revenue	Grant of Licenses ¥m	Research and Development services ¥m	Product supply revenue ¥m	**Total ¥m**
Milestone income and upfront fees	1,664	298	-	**1,962**
Royalty income	1,762	-	-	**1,762**
Product supply revenue	-	-	-	**-**
Other	-	719	-	**719**
	3,426	**1,017**	-	**4,443**

Section 4. Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

10. Revenue (continued)

10.3 Breakdown of revenue (continued)

Nine month period ended September 30, 2019

	performance obligations			
Types of Revenue	Grant of Licenses ¥m	Research and Development services ¥m	Product supply revenue ¥m	Total ¥m
Milestone income and upfront fees	4,864	228	-	5,092
Royalty income	1,718	-	-	1,718
Product supply revenue	-	-	203	203
Other	-	757	-	757
	6,582	985	203	7,770

10.4 Contract balance

Receivables arising from contracts with customers
These are included in "Trade receivables" in the consolidated statement of financial position.

Contract liability
Contract liabilities are included in following accounts in the consolidated statement of financial position :

	At September 30, 2020 ¥m	At December 31, 2019 ¥m
Other non-current liabilities	1,032	796
Other current liabilities	668	439

10.5 Geographical information

The breakdown of external revenue split by location of customer is as follows:

Country	Nine month period ended September 30, 2020 ¥m	Nine month period ended September 30, 2019 ¥m
Japan	536	787
Switzerland	2,433	1,959
United States	792	2,664
Bermuda	313	-
UK	293	2,180
Ireland	76	180
	4,443	7,770

Section 4. Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

11. Selling, general and administrative expenses

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

	Nine month period ended September 30, 2020 ¥m	Nine month period ended September 30, 2019 ¥m
Personnel expenses	1,173	1,201
Depreciation expenses	679	736
Outsourcing expenses	403	435
Other	220	277
	2,475	2,649

12. Earnings per share

12.1 Basic earnings per share

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

	Nine month period ended September 30, 2020	Nine month period ended September 30, 2019
(Loss) profit for the period attributable to owners of the parent (¥m)	(1,642)	1,461
Weighted-average number of common shares outstanding (Shares)	78,116,362	76,485,742
Basic (loss) earnings per share (¥)	(21.03)	19.11

	Three month period ended September 30, 2020	Three month period ended September 30, 2019
Profit for the period attributable to owners of the parent (¥m)	475	1,066
Weighted-average number of common shares outstanding (Shares)	80,034,974	76,735,864
Basic earnings per share (¥)	5.94	13.88

Section 4. Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

12.2 Diluted earnings per share

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

	Nine month period ended September 30, 2020	Nine month period ended September 30, 2019
(Loss) profit for the period attributable to owners of the parent (¥m)	**(1,642)**	1,461
Adjustment to (loss) profit for the period used in the calculation of diluted earnings per share (¥m)	**-**	-
(Loss) profit for the period used in the calculation of diluted earnings per share (¥m)	**(1,642)**	1,461
Weighted-average number of common shares outstanding (Shares)	**78,116,362**	76,485,742
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, RSU and PSU (Shares)	**-**	782,209
Increases in number of common shares due to the exercise of convertible bonds (Shares)	**-**	-
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	**78,116,362**	77,267,951
Diluted (loss) earnings per share (¥)	**(21.03)**	18.91

In the nine month period ended September 30, 2020, there is no dilutive effect from potential common shares as partial conversion of stock options, RSU and PSU reduced the loss per share.

	Three month period ended September 30, 2020	Three month period ended September 30, 2019
Profit for the period attributable to owners of the parent (¥m)	**475**	1,066
Adjustment to profit for the period used in the calculation of diluted earnings per share (¥m)	**-**	-
Profit for the period used in the calculation of diluted earnings per share (¥m)	**475**	1,066
Weighted-average number of common shares outstanding (Shares)	**80,034,974**	76,735,864
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, RSU and PSU (Shares)	**547,584**	1,076,851
Increases in number of common shares due to the exercise of convertible bonds (Shares)	**-**	-
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	**80,582,558**	77,812,715
Diluted earnings per share (¥)	**5.90**	13.69
Summary of potential stocks not included in the calculation of diluted earnings per share because they do not have a dilutive effect	**Euro-yen Denominated Convertible Bonds due 2025 (Common shares 8,723,200)**	

Section 4. Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

13. Impact of COVID-19

The impact of COVID-19 on the Group's operations is uncertain and cannot be predicted with confidence. The Directors have considered the actual impact and a range of potential impacts of COVID-19 on the Group's operations in the preparation of these interim condensed consolidated financial statements. The Director's assessment assumes, for accounting purposes, that the impact is not long term.

The Directors believe the Group retains enough liquidity to continue to pursue its stated business strategy and, accordingly, it is appropriate to use the going-concern basis of preparation. This assessment did not identify any adjustments necessary to the underlying carrying amounts of assets and liabilities carried at cost / at amortized cost (including goodwill and intangible assets), but the indirect impact COVID-19 has had on exchange rates has impacted their carrying amounts in the Japanese yen denominated consolidated statement of financial position. The carrying amounts of assets and liabilities carried at fair value (see Note 7) have also been impacted by the volatility in foreign exchange rates and interest rates. The assessment did not identify any adjustments necessary to the underlying values of revenues and expenditures recorded in the period. In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, foreign exchange gains and losses and exchange differences on translating foreign operations continue to be recorded in the interim condensed statement of profit or loss and other comprehensive income in line with normal procedures.

The extent to which COVID-19 impacts our future financial results will depend on the duration and severity of the pandemic.

Sosei Group Corporation

Part 2: Bond Guarantee Information

Not applicable.

Sosei Group Corporation

Independent Auditor’s Report

Review Report

Ernst & Young ShinNihon LLC have reviewed the Financial Statements and have issued an unqualified review opinion thereon.　Please refer to the Japanese Quarterly Securities Report for the full review opinion.