Consolidated Financial Results for the Six Months Ended June 30, 2023 (IFRS)

August 4, 2023

Company name: Sosei Group Corporation — Listing: Tokyo Stock Exchange
Security code: 4565 — URL: https://www.soseiheptares.com/
Representative: Christopher Cargill, Representative Executive Officer, CEO
Contact person: Hironoshin Nomura, Executive Officer, CFO — Tel: +81-3-5210-3290
Scheduled date of Quarterly Securities Report filing: August 8, 2023 — Scheduled date of dividend payments: -
Supplementary materials for financial results: Yes
Financial results briefing session: Yes

(Rounded million yen)

1. Consolidated Results for the 6 month period ended June 30, 2023 (from January 1, 2023 to June 30, 2023)

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

	Revenue		Operating income		Profit before income taxes		Net profit		Net profit attributable to owners of the parent company		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
6 month period ended June 30, 2023	2,146	(12.7)	(4,168)	-	(3,760)	-	(2,060)	-	(2,060)	-	4,369	-
6 month period ended June 30, 2022	2,457	(21.3)	(3,804)	-	(4,282)	-	(3,538)	-	(3,538)	-	(1,494)	-

	Earnings per share – basic	Earnings per share – diluted
	Yen	Yen
6 month period ended June 30, 2023	(25.13)	(25.13)
6 month period ended June 30, 2022	(43.33)	(43.33)

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets
	Million yen	Million yen	Million yen	%
At June 30, 2023	104,063	62,662	62,662	60.2
At December 31, 2022	99,417	57,936	57,936	58.3

2. Dividends

	Dividends per share				
	End Q1	End Q2	End Q3	End Q4	Total
	Yen	Yen	Yen	Yen	Yen
FY2022	-	0.00	-	0.00	0.00
FY2023	-	0.00			
FY2023 (E)			-	0.00	0.00

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

3. Forecast for the year from January 1, 2023 to December 31, 2023

A financial results forecast for the year ended December 31, 2023 has not been provided because it is difficult to forecast a reasonable estimate of the full-year results. Details concerning the reasons thereof, business policy and cost estimates are provided in "1. Analysis of Operating Results and Financial Position (3) Future outlook" on page 11 of this document.

* Notes

(1) Changes in the number of significant subsidiaries for the six-month period ended June 30, 2023 (changes of specified subsidiaries affecting the scope of consolidation): None

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

1) Changes in accounting policies required by IFRS: None
2) Changes due to changes in accounting policies other than those of item 1: None
3) Changes in accounting estimates: None

(3) Number of common shares issued

1) Number of shares issued at period end (including treasury shares)	At June 30, 2023	82,336,777 shares	At December 31, 2022	81,923,230 shares
2) Number of treasury shares at period end	At June 30, 2023	335 shares	At December 31, 2022	254 shares
3) Average number of shares in issue in period	6 month period ended June 30, 2023	82,023,480 shares	6 month period ended June 30, 2022	81,644,748 shares

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

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

Note concerning forward-looking statements:

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

The Company is scheduled to hold a webinar presentation for all existing and potential investors as well as sell-/buy-side analysts which will consist of a presentation followed by a Q&A session on August 4, 2023. Presentation slides will be made available on August 4, 2023 through the investor section of the Company's Home Page.

○ Contents of Attached Materials

1. Analysis of Operating Results and Financial Position

(1) Analysis of operating results

Sosei Group is a science and technology-led company, specializing in drug discovery and early-stage drug development. Our mission is to make life-changing medicines using world-leading science and our vision is to become one of Japan's global biopharmaceutical champions.

The Group has established an innovative and productive StaR® ("stabilized receptor") and structure-based drug design ("SBDD") and discovery technology platform, which is focused predominantly on and provides unprecedented access to an important class of proteins called G protein-coupled receptors ("GPCRs"). GPCRs represent the largest single class of targets for drug discovery across a wide range of therapeutic areas.

A significant number of novel drug candidates have been generated through the application of this platform and are currently in development by global biopharma partners and internally.

Following the creation of a new leadership team in 2022, management has outlined a clear and evolved strategy to leverage the Group's proprietary platform, pipeline and capabilities to grow the business internationally and in Japan. This strategy is based on four key strategic pillars:

(i) Extending and enhancing the competitive advantages of the Group's world-leading StaR®/SBDD discovery capabilities through continued internal innovation combined with external collaborations that provide access to complementary technologies.

(ii) Diligently driving forward existing partnerships with global biopharma companies and initiating new high-value partnerships to ensure the continued flow of revenues through upfront and development milestone payments, and ultimately royalties from sales of products that reach the market.

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

(iv) Building out an agile, scalable and effective clinical development and commercialization business in Japan. This new strategic initiative is designed to capitalize on significant underserved opportunities that the Group sees within this large attractive market. The Group intends to start this strategy by in-licensing foreign de-risked approved or late-stage clinical assets and will expand the pipeline with internally generated programs in the future.

(i) Extending and enhancing the Group's world-leading StaR®/SBDD discovery capabilities

In terms of enhancing the Group's world-leading StaR®/SBDD, the Group will focus on making progress with existing strategic collaborations with companies which have complementary technologies and look to collaborate with new partners to successfully execute the Group's strategy to become a multi-program, early clinical stage business while continuing to be a discovery and development partner-of-choice for leading biopharmaceutical companies.

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

In January 2023, Christopher Cargill, President and CEO of the Company, presented at the 41st Annual J.P. Morgan Healthcare Conference, and the Group had one-on-one meetings with various leading global pharmaceutical and biopharmaceutical companies at the event to strengthen existing and build new business relationships.

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

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

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

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

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

The Group has achieved the first of these clinical starts. On July 3, 2023 the Group announced that it has dosed the first subject in a Phase 1 trial evaluating HTL0048149 (HTL'149), a first-in-class GPR52 agonist, which represents a novel mechanism of action for the treatment of schizophrenia and related neurological diseases. HTL'149 was developed, leveraging insights generated from the Group's StaR® technology and SBDD platform, as a once-daily, orally available small molecule drug with an antipsychotic and pro-cognitive profile and to avoid the adverse effects typically associated with existing antipsychotic drugs. HTL'149 achieves this profile through selectively targeting the orphan GPR52 receptor in the brain to address positive symptoms (e.g. psychosis, delusions, hallucinations), negative symptoms (e.g. social withdrawal) and cognitive impairment (e.g. attention, working memory and executive function) associated with schizophrenia. Through this novel mechanism of action, HTL'149 aims to address the significant proportion of schizophrenia patients who do not respond to or suffer side effects leading to compliance issues from using existing antipsychotics. Furthermore, current antipsychotic drugs do not effectively treat the

negative or cognitive symptoms of disease. The Phase 1 trial is a two-part, randomized, double-blind, placebo-controlled, single- and multiple-ascending dose study to assess the safety, pharmacokinetics, and pharmacodynamics of oral HTL'149 in healthy volunteers aged 18-55 years. The trial will be conducted in the UK and is expected to read-out initial data in 12-18 months.

In H2 2023 the Group plans to initiate a first-in-human Phase 1/2a trial of HTL0039732, a novel EP4 antagonist designed by the Group with potential to treat a wide range of cancers in combination with other immunotherapies. The trial will be conducted under a Clinical Trial and License Agreement signed between the Group and Cancer Research UK.

(iv) Building out a leading commercialization business in Japan

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

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

On July 20, 2023, the Group acquired Idorsia Limited's pharmaceuticals business in Japan and APAC (ex-China)[1], accelerating its transformation into a fully integrated biopharmaceutical Group. This included the acquisition of 100% of Idorsia Pharmaceuticals Japan Ltd. ("IPJ") and Idorsia Pharmaceuticals Korea Co., Ltd. ("IPK").

The acquisition of IPJ and IPK addresses this objective to build out a leading commercialization business in Japan and was the conclusion of a rigorous global search by the Sosei Heptares team. The cash-flow positive transaction, which is fully funded by existing cash and a new long-term, low-rate corporate loan, provides Sosei Heptares with multiple strategic benefits by:

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

The Transaction also brings together complementary capabilities to develop and commercialize novel medicines across Japan and APAC (ex-China) from three sources of innovation: (i) Sosei Heptares' wholly owned discovery and early development pipeline, (ii) selected clinical candidates

[1] APAC (ex-China) territory rights includes Japan, South Korea, Australia, Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam

from Idorsia's pipeline, and (iii) in-licensing of Japan/APAC (ex-China) rights to clinical product candidates from third parties.

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

(v) Other developments in the period

On March 15, 2023, the Company changed the stock market on which its shares are listed from the Growth Market segment to the Prime Market segment, after it received approval from the Tokyo Stock Exchange (TSE).

The Company expects the move to the Prime Market will help it to achieve its vision by providing enhanced support and access to the long-term capital through greater exposure to institutional investment funds, both domestic and international. This will result from a deepening and broadening of its shareholder base to reflect the global nature of the business. On April 27, 2023, Sosei Group shares were included in the Tokyo Stock Price Index (TOPIX), an important stock market index for the TSE in Japan.

As of June 30, 2023, the Group had a total of 211 employees (an increase of 9 employees vs. the end of the prior year).

As a result of the above activities, the Group reported the following financial results for the six month period ended June 30, 2023.

Revenue of JPY 2,146 million (a decrease of JPY 311 million vs. the prior corresponding period), an operating loss of JPY 4,168 million (vs. an operating loss of JPY 3,804 million in the prior corresponding period), a loss before income taxes of JPY 3,760 million (vs. a loss before income taxes of JPY 4,282 million in the prior corresponding period), and a net loss of JPY 2,060 million (vs. a net loss of JPY 3,538 million in the prior corresponding period).

	month period ended June 30, 2023 ¥m	6 month period ended June 30, 2022 ¥m	Change
Revenue	**2,146**	2,457	(311)
Cost of sales	**(225)**	(531)	306
Research and development expenses	**(4,039)**	(3,698)	(341)
Selling, general and administrative expenses	**(2,571)**	(2,265)	(306)
Operating expenses	**(6,835)**	(6,494)	(341)
Net other income	**521**	233	288
Operating loss	**(4,168)**	(3,804)	(364)
Net finance income (costs)	**408**	(12)	420
Share of loss of associate accounted for using the equity method	**-**	(466)	466
Loss before income taxes	**(3,760)**	(4,282)	522
Income tax benefit	**1,700**	744	956
Net loss	**(2,060)**	(3,538)	1,478
Alternative performance measure			
Core operating profit / loss (Note 1)			
Operating loss (as stated above)	**(4,168)**	(3,804)	(364)
Adjustments:			
Depreciation	**294**	281	13
Amortization	**407**	382	25
Share-based payments (Note 2)	**328**	230	98
Restructuring (Note 2)	**53**	533	(480)
M&A related costs	**366**	-	366
Core operating loss	**(2,720)**	(2,378)	(342)
Average exchange rate during period			
USD:JPY	**134.82**	122.83	11.99
GBP:JPY	**166.29**	159.37	6.92

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

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

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

	month period ended June 30, 2023 ¥m	6 month period ended June 30, 2022 ¥m	Change
Upfront fees and milestone income	**667**	512	155
Deferred revenue releases	667	349	318
Milestone revenue recognized at milestone event	-	163	(163)
Upfront fee revenue recognized at deal inception	-	-	-
Royalty income	**1,252**	1,376	(124)
Pharmaceutical product sales	**64**	80	(16)
Other revenue	**163**	489	(326)
Total	**2,146**	2,457	(311)

Revenue in the six month period under review totaled JPY 2,146 million (a decrease of JPY 311 million vs. the prior corresponding period).

Revenue related to upfront fees and milestone income in the six month period under review totaled JPY 667 million (an increase of JPY 155 million vs. the prior corresponding period). Upfront fees and milestone income comprises upfront fee revenue, milestone revenue and deferred revenue releases. Upfront fees and milestone income can vary considerably year on year and depend on the commencement of new partnership agreements and the achievement of defined milestone events within that year. In some contracts, income relating to research and development services is included within upfront fee revenue or milestone revenue, and recorded initially as deferred revenue. Such income is transferred from deferred revenue to revenue as a result of the performance of research and development activity in the period under review. The increase in upfront fees and milestone income was primarily due to larger releases of deferred revenue. This reflects the fact that there were four active contracts from which deferred revenue was released in the current period vs. two such contracts in the prior corresponding period. This was partially offset by a small decrease in milestone revenue.

Revenue related to royalties in the six month period under review totaled JPY 1,252 million (a decrease of JPY 124 million vs. the prior corresponding period). The Group's royalty revenue relates to sales of Ultibro® Breezhaler®, Seebri® Breezhaler® and Enerzair® Breezhaler® by Novartis International AG ("Novaltis")[2].

Other revenue in the six month period under review totaled JPY 163 million (a decrease of JPY 326 million vs. the prior corresponding period). Other revenue relates to fees earned from the provision of R&D services to partners. The decrease in other revenue was primarily due to the natural maturation of a number of contracts, with responsibility for further R&D passing to the partner. In addition, the two new contracts signed in the prior year are structured such that R&D services are not billable separately.

Operating expenses

Cost of sales

Cost of sales in the six month period under review totaled JPY 225 million (a decrease of JPY 306 million vs. the prior corresponding period). Cost of sales comprises the internal costs of delivering research and development services to customers. This decrease reflects the decrease in Other revenue for the reasons explained above.

[2] 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.

Research and development expenses

Research and development ("R&D") expenses in the six month period under review totaled JPY 4,039 million (an increase of JPY 341 million vs. the prior corresponding period). This increase reflects an increased investment in discovery activities, but also reflects the impact of the weaker Yen. In the period under review, 98% of R&D spend related to our UK operations.

Selling, general and administrative expenses

Selling, general and administrative ("G&A") expenses in the six month period under review totaled JPY 2,571 million (an increase of JPY 306 million vs. the prior corresponding period). This was primarily due to professional advisory fees relating to the acquisition of Idorsia Limited's pharmaceuticals business in Japan and APAC (ex-China), which completed on July 20, 2023.

Net other income

Net other income in the six month period under review totaled JPY 521 million (an increase of JPY 288 million vs. the prior corresponding period). This was primarily due to a higher R&D expenditure-related UK tax credit.

Operating loss

Operating loss in the six month period under review totaled JPY 4,168 million (vs. an operating loss of JPY 3,804 million in the prior corresponding period). This increase reflects the combined effect of all of the movements explained above.

Net finance income

Net finance income in the six month period under review totaled JPY 408 million (an increase of JPY 420 million vs. the prior corresponding period). This increase was primarily due to an increase in interest income as a result of higher UK interest rates.

Share of loss of associate accounted for using the equity method

The Group ceased to equity account for MiNA from October 2022, accordingly, there was no share of profit / loss of associates accounted for using the equity method in the six month period under review.

Loss before income taxes

Loss before income taxes in the six month period under review totaled JPY 3,760 million (vs. a loss before income taxes of JPY 4,282 million in the prior corresponding period). This decrease reflects the combined effect of all of the movements explained above.

Income tax benefit

Income tax benefit in the six month period under review totaled JPY 1,700 million (vs. an income tax benefit of JPY 744 million in the prior corresponding period). The tax benefit reflects the application of the estimated full year effective tax to the year-to-date results for each taxable entity.

Net loss

Net loss in the six month period under review totaled JPY 2,060 million (vs. a net loss of JPY 3,538 million in the prior corresponding period). This decrease reflects the combined effect of all of the movements explained above.

Alternative performance measure: Core operating profit / loss

Core operating profit / loss is an alternative performance measure which adjusts for material non-cash costs and one-off costs in order to provide insights into the recurring cash generating capability of the core business.

Core operating loss in the six month period under review totaled JPY 2,720 million (vs. a core operating loss of JPY 2,378 million in the prior corresponding period). In calculating core operating loss, the following adjustments to the IFRS operating loss have been made:

- Depreciation totaled JPY 294 million (an increase of JPY 13 million vs. the prior corresponding period).
- Amortization totaled JPY 407 million (an increase of JPY 25 million vs. the prior corresponding period).
- Share-based payments totaled JPY 328 million (an increase of JPY 98 million vs. the prior corresponding period).
- Restructuring costs totaled JPY 53 million (a decrease of JPY 480 million vs. the prior corresponding period). These costs related to a management restructuring program at a subsidiary company (including JPY 26 million of accelerated share-based payment expenses vs. JPY 158 million in the prior corresponding period).
- M&A related costs, including professional advisory fees, totaled JPY 366 million (no M&A related costs in the prior corresponding period).

(2) Analysis of financial position

1) Assets, liabilities and equity

Assets

Total assets as at June 30, 2023 were JPY 104,063 million (an increase of JPY 4,646 million vs. December 31, 2022, the end of the prior financial year). This was primarily due to an increase in the yen value of assets held by our consolidated subsidiary Heptares Therapeutics Ltd. as a result of the weaker yen and an increase in UK tax credits receivable.

Liabilities

Total liabilities as at June 30, 2023 were JPY 41,401 million (a decrease of JPY 80 million vs. December 31, 2022, the end of the prior financial year). This was primarily due to a decrease in deferred tax liabilities, partially offset by an increase in lease liabilities relating to a contractual inflationary increase in UK property rental costs and an increase in the carrying amount of corporate bonds which rises over time as a result of cost amortization.

Equity

Total equity as at June 30, 2023 was JPY 62,662 million (an increase of JPY 4,726 million vs. December 31, 2022, the end of the prior financial year). This was primarily due to an increase in other components of equity of JPY 6,429 million mainly relating to an increase in exchange gains on translation, partially offset by the net loss of JPY 2,060 million.

The ratios of Cash and cash equivalents, Interest-bearing debt and Equity attributable to owners of the parent company to total assets were 63.0%, 29.3% and 60.2%, respectively.

2) Cash flows

Cash and cash equivalents as at June 30, 2023 decreased by JPY 959 million from the beginning of the year and amounted to JPY 65,598 million. The main drivers of each cash flow in the six month period ended June 30, 2023 were as follows:

Cash flows from operating activities

Net cash used in operating activities during the period under review totaled JPY 2,980 million. This was primarily due to cash operating costs exceeding cash revenues.

Cash flows from investing activities

Net cash used in investing activities during the period under review totaled JPY 1,752 million. This was primarily due to the investment in a loan note.

Cash flows from financing activities

Net cash used in financing activities in the period under review totaled JPY 107 million. This was primarily due to the payment of lease liabilities.

Effects of exchange rate changes on cash and cash equivalents

Effects of exchange rate changes on cash and cash equivalents during the period under review totaled JPY 3,880 million. This positive impact was primarily due to a stronger GBP vs. JPY and a stronger USD vs JPY.

(3) Future outlook

The Group's revenue is mostly derived from upfront payments from new partnerships and milestone payments as a result of the progress of R&D with existing partners. These payments are dependent on multiple factors, including negotiations with (potential) partners, R&D policies of partners and clinical trial results of development candidates, and these factors are difficult for the Group to control. Therefore, a Group financial results forecast for 2023 has not been provided because it is difficult to forecast revenue.

Based on its extremely productive drug discovery platform (StaR®/SBDD), the Group aims to further improve efficiency and add value to drug discovery by introducing an agile development model and enhancing translational medicine capabilities and will continue to make sufficient R&D investments in 2023 to achieve this goal. We will continue to target a balance between capital and investments in the pursuit of growth in corporate value.

Cost estimates for our existing business (i.e. excluding the impact of the Idorsia acquisition in July[3]) and anticipated developments / initiatives in 2023 are as follows:

- Forecast R&D expenses in the range of JPY 8,000 to JPY 10,000 million[4] (unchanged; excluding the impact of the Idorsia acquisition).
- Forecast G&A expenses in the range of JPY 4,250 to JPY 4,750 million[4] (unchanged; excluding the impact of the Idorsia acquisition).
- We expect to receive upfront payments relating to one or more new partnerships.
- We expect to receive milestone payments as a result of the progress of R&D at existing partners.
- We will expand our drug candidate discovery into novel drug targets to enhance our pipeline.
- We expect to start clinical trials of multiple development candidates for which we have rights.

[3] On July 20, 2023, the Company acquired all shares of Idorsia Pharmaceutical Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd. However, forecast R&D expenses and forecast G&A expenses have not been changed from the previous forecasts as they are currently being calculated.
[4] The assumed USD:JPY FX rate in 2023 is 143 and GBP:JPY FX rate is 166.

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

1) Interim Condensed Consolidated Balance Sheet

	June 30, 2023 (Unaudited) ¥m	December 31, 2022 (Audited) ¥m
Assets		
Non-current assets		
Property, plant and equipment	4,491	3,791
Goodwill	16,795	15,306
Intangible assets	9,423	8,577
Other financial assets	2,177	1,737
Other non-current assets	56	64
Total non-current assets	32,942	29,475
Current assets		
Trade and other receivables	2,639	2,462
Income taxes receivable	1,829	58
Other financial assets	314	-
Other current assets	741	865
Cash and cash equivalents	65,598	66,557
Total current assets	71,121	69,942
Total assets	104,063	99,417
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred tax liabilities	1,599	2,922
Corporate bonds	28,255	27,981
Lease liabilities	2,021	1,577
Other non-current liabilities	4,893	4,909
Total non-current liabilities	36,768	37,389
Current liabilities		
Trade and other payables	1,696	1,628
Income taxes payable	167	260
Lease liabilities	174	176
Other financial liabilities	-	36
Other current liabilities	2,596	1,992
Total current liabilities	4,633	4,092
Total liabilities	41,401	41,481
Equity		
Capital stock	41,780	41,335
Capital surplus	29,437	29,525
Treasury stock	(1)	(1)
Retained earnings	(10,971)	(8,911)
Other components of equity	2,417	(4,012)
Equity attributable to owners of the parent company	62,662	57,936
Total equity	62,662	57,936
Total liabilities and equity	104,063	99,417

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

	Six month period ended June 30, 2023 (Unaudited) ¥m	Six month period ended June 30, 2022 (Unaudited) ¥m
Revenue	**2,146**	2,457
Cost of sales	**(225)**	(531)
Gross profit	**1,921**	1,926
Research & development expenses	**(4,039)**	(3,698)
Selling, general & administrative expenses	**(2,571)**	(2,265)
Other income	**552**	238
Other expenses	**(31)**	(5)
Operating loss	**(4,168)**	(3,804)
Finance income	**784**	349
Finance costs	**(376)**	(361)
Share of loss of associates accounted for using the equity method	**-**	(466)
Loss before income taxes	**(3,760)**	(4,282)
Income tax benefit	**1,700**	744
Net loss	**(2,060)**	(3,538)
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	**377**	(469)
Total items that will not be reclassified subsequently to profit or loss	**377**	(469)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**6,052**	2,513
Total items that may be reclassified subsequently to profit or loss	**6,052**	2,513
Total other comprehensive income	**6,429**	2,044
Total comprehensive income for the period	**4,369**	(1,494)
Net loss for the period attributable to:		
Owners of the parent company	**(2,060)**	(3,538)
	(2,060)	(3,538)
Total comprehensive income for the period attributable to:		
Owners of the parent company	**4,369**	(1,494)
	4,369	(1,494)
Earnings per share (yen)		
Basic loss per share	**(25.13)**	(43.33)
Diluted loss per share	**(25.13)**	(43.33)

3) Interim Condensed Consolidated Statement of Changes in Equity

	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity ¥m	Equity attributable to owners of the parent company ¥m	Total equity ¥m
Balance at January 1, 2023	**41,335**	**29,525**	**(1)**	**(8,911)**	**(4,012)**	**57,936**	**57,936**
Net loss	-	-	-	(2,060)	-	(2,060)	(2,060)
Other comprehensive income	-	-	-	-	6,429	6,429	6,429
Total comprehensive income for the period	-	-	-	(2,060)	6,429	4,369	4,369
Issuance of new shares	445	(445)	-	-	-	-	-
Share-based payments	-	357	-	-	-	357	357
Acquisition of treasury stock	-	-	(0)	-	-	(0)	(0)
Total transactions with owners	445	(88)	(0)	-	-	357	357
Balance at June 30, 2023 (Unaudited)	**41,780**	**29,437**	**(1)**	**(10,971)**	**2,417**	**62,662**	**62,662**

Balance at January 1, 2022	41,036	29,100	(0)	(9,768)	(2,900)	57,468	57,468
Net loss	-	-	-	(3,538)	-	(3,538)	(3,538)
Other comprehensive income	-	-	-	-	2,044	2,044	2,044
Total comprehensive income for the period	-	-	-	(3,538)	2,044	(1,494)	(1,494)
Issuance of new shares	299	(299)	-	-	-	0	0
Share-based payments	-	392	-	-	-	392	392
Total transactions with owners	299	93	-	-	-	392	392
Balance at June 30, 2022 (Unaudited)	41,335	29,193	(0)	(13,306)	(856)	56,366	56,366

4) Interim Condensed Consolidated Statement of Cash Flows

	Six month period ended June 30, 2023 (Unaudited) ¥m	Six month period ended June 30, 2022 (Unaudited) ¥m
Cash flows from operating activities		
Loss before income taxes	(3,760)	(4,282)
Adjustments for:		
Depreciation and amortization	701	663
Share-based payments	354	388
Loss on investments in securities	19	15
Change in fair value of contingent consideration	(101)	(46)
Net foreign exchange gain	(134)	(162)
Interest income	(534)	(40)
Interest expenses	357	343
Share of loss of associate accounted for using the equity method	-	466
Decrease in trade and other receivables	1,728	641
(Decrease) increase in trade payables	(194)	172
Decrease in deferred revenue	(667)	(282)
Other	35	(782)
Subtotal	(2,196)	(2,906)
Grants received	13	16
Interest received	449	40
Interest paid	(83)	(73)
Income tax refunded	0	0
Income taxes paid	(1,163)	(258)
Net cash used in operating activities	(2,980)	(3,181)
Cash flows from investing activities		
Purchase of property, plant and equipment	(200)	(183)
Purchase of intangible assets	(12)	-
Investment in loan note	(1,540)	-
Net cash used in investing activities	(1,752)	(183)
Cash flows from financing activities		
Payment of lease liabilities	(107)	(101)
Payment of contingent consideration	-	(4,680)
Proceeds from issuance of common stock	-	0
Other	(0)	-
Net cash used in financing activities	(107)	(4,781)
Effects of exchange rate changes on cash and cash equivalents	3,880	1,714
Net decrease in cash and cash equivalents	(959)	(6,431)
Cash and cash equivalents at the beginning of the period	66,557	60,087
Cash and cash equivalents at the end of the period	65,598	53,656

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

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

Sosei Group Corporation announces that it has resolved, at a meeting of the Board of Directors held on July 20, 2023, to acquire from Idorsia Ltd. and Idorsia Pharmaceutical Ltd. (together "Idorsia") all shares of Idorsia Pharmaceuticals Japan Ltd. ("IPJ") and Idorsia Pharmaceuticals Korea Co., Ltd. ("IPK"), and acquired all shares on the same day.

Name of the acquired companies and Description of business

Name of the acquired companies:	Idorsia Pharmaceuticals Japan Ltd. Idorsia Pharmaceuticals Korea Co., Ltd.
Description of business:	Import, export, manufacture and sale of pharmaceutical products

Reason for business combinations

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

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

- Accelerating the Company's mission by adding experienced clinical development capability and profitable commercial operations in Japan, with a lean model for sales and marketing, and the ability to scale and create further value.
- Securing and expanding the Company's future pipeline with two major products PIVLAZ® and daridorexant; exclusive opt-ins for cenerimod and lucerastat; and selected rights to up to five additional clinical-stage programs from Idorsia's global pipeline.
- Bringing a highly skilled team with a proven track record of excellence and delivery, led by Dr. Satoshi Tanaka, who has directed several J-NDA (Japan) and MFDS (South Korea) approvals and successful commercial launches over the past two decades.

- Leveraging Japan's quality clinical environment to target underserved, specialty disease areas; and providing the platform to expand across broader APAC regions and extend product launches.

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

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

Date of acquisition
July 20, 2023

Percentage of voting capital interests acquired

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

Method of acquisition
Acquisition of shares for cash

Consideration for acquisition
Approximately JPY 65,000 million.
Prior to the acquisition, Sosei Group invested CHF 10 million in a loan note issued by Idorsia Ltd. The loan note is included in the balance sheet under "Trade and other receivables". Pursuant to the loan note agreement the loan balance was offset against the purchase price at completion.

Methods of financing payments
Existing cash of approximately JPY 25,000 million and corporate loan from Mizuho Bank JPY 40,000 million.

Corporate loan overview

	Mizuho Bank
Amount	JPY 40,000 million
Interest Rates	TAIBO plus Spread
Date of Execution	July 21, 2023
Repayment Deadline	July 11, 2030
Security	None

Fair value of assets acquired and liabilities assumed
As the initial accounting for the business combination has not been completed, the fair values of the assets and liabilities acquired are not disclosed.