Sosei Group Corporation

Annual Report

Nine month period ended 31 December 2018

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The Annual Report consists of the following two reports:

Annual Securities Report

Document to be filed:	Annual Securities Report
Grounds act:	Article 24, Paragraph 1 of Financial Instruments and Exchange
Destination of filing:	Director General of the Kanto Local Finance Bureau
Date of filing:	March 28, 2019
Accounting period:	The 29th Term (April 1, 2018 – December 31, 2018)
Company name:	Sosei Group Corporation
Representative's name and title:	Shinichi Tamura, Representative Executive Officer, CEO
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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

1.1 Management Indices

Period		International Financial Reporting Standards				
		The 25th Term	The 26th Term	The 27th Term	The 28th Term	The 29th Term
Fiscal year-end		March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	December 31, 2018
Revenue	¥m	3,671	8,151	18,901	6,955	2,872
Income (loss) before income taxes	¥m	1,301	(3,297)	12,483	(3,702)	(7,243)
Net income (loss) attributable to owners of the parent company	¥m	516	(1,432)	9,311	(2,654)	(5,977)
Comprehensive income (loss) attributable to owners of the parent company	¥m	216	(4,285)	4,793	(1,227)	(7,618)
Equity attributable to owners of the parent company	¥m	14,600	23,142	28,354	48,882	41,577
Total assets	¥m	47,833	47,354	48,087	69,486	58,987
Equity attributable to owners of the parent company per share	¥	265.00	343.26	419.05	641.31	544.89
Basic earnings (loss) per share	¥	9.38	(23.40)	137.80	(37.55)	(78.40)
Diluted earnings (loss) per share	¥	9.28	(23.40)	137.31	(37.55)	(78.40)
Ratio of equity attributable to owners of the parent company to total assets	(%)	30.5	48.9	59.0	70.3	70.5
Ratio of profit to equity attributable to owners of the parent company	(%)	3.6	(7.6)	36.2	(6.9)	(13.2)
Price earnings ratio (PER)	(Times)	73.24	–	19.74	-	-
Cash flows from operating activities	¥m	92	4,471	12,856	(2,167)	(3,995)
Cash flows from investing activities	¥m	(22,018)	(337)	(2,327)	(6,148)	(2,808)
Cash flows from financing activities	¥m	19,864	863	(6,310)	22,641	(2,268)
Cash and cash equivalents at the end of the year	¥m	5,573	10,068	13,899	28,281	18,760
Number of employees [Separately, average number of temporary employees]	(Employees)	106 [9.5]	116 [7.3]	145 [5.3]	152 [2.4]	169 [12.1]

Notes
1. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS").
2. Revenue does not include consumption taxes.
3. Price earnings ratio (PER) was not provided because a net loss was recorded in the 26th Term, 28th Term and 29th Term.
4. The number of employees presented above represents full-time employees. The annual average number of temporary employees (including part-time employees and employees from temp agencies) is provided separately in square parentheses [ ].
5. As of the 26th Term, the unit of presentation was changed from thousands of yen to millions of yen. For ease of comparison the unit of presentation for the 25th Term has been changed to millions of yen.
6. Following the finalization of the provisional accounting treatment for the combination of businesses in February 2015, the Company retrospectively adjusted the consolidated financial statements for the fiscal year ended March 31, 2015.
7. The Company and the Group changed the end of the fiscal year from March 31 to December 31 at the 28th ordinary general meeting of shareholders and it will continue to have a December fiscal year end. The 29th term is a nine month irregular term.
8. Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. Equity attributable to owners of the parent company per share, earnings per share and diluted earnings per share have been calculated as if the stock split had occurred at the beginning of the 25th consolidated fiscal year.

Sosei Group Corporation

Section 1. Company Overview

1 Changes in Key Management Indices (continued)

1.2 Filing Company's Management Indices

Period		The 25th Term	The 26th Term	The 27th Term	The 28th Term	The 29th Term
Fiscal year-end		March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	December 31, 2018
Operating revenue	¥m	657	999	1,499	1,168	819
Ordinary (loss) profit	¥m	254	(1,148)	1,866	(2,174)	(2,052)
Net (loss) income	¥m	233	(1,147)	246	(2,605)	(2,501)
Capital stock	¥m	19,478	25,955	26,004	36,782	36,854
Total number of issued shares	(Shares)	13,774,000	16,855,284	16,916,184	19,054,984	76,301,936
Net assets	¥m	27,481	39,283	40,078	59,693	57,747
Total assets	¥m	48,203	48,690	48,151	69,658	66,418
Net assets per share	(Yen)	495.61	582.65	592.31	764.52	732.78
Cash dividends per share [Interim dividends per share]	(Yen)	10.00 [–]	– [–]	– [–]	– [–]	– [–]
Net (loss) income per share	(Yen)	4.23	(18.75)	3.65	(36.85)	(32.79)
Diluted net income per share	(Yen)	4.19	–	3.64	–	–
Equity ratio	(%)	56.6	80.0	81.7	83.7	84.2
Return on equity (ROE)	(%)	0.86	–	0.63	–	–
Price earnings ratio (PER)	(Times)	178.57	–	744.70	–	–
Dividend payout ratio	(%)	59.03	–	–	–	–
Number of employees [Separately, average number of temporary employees]	(Employees)	12 [0.2]	13 [1.0]	13 [0.7]	13 [1.6]	19 [1.2]

Notes

1. The filing company financial statements are prepared in accordance with Japanese Generally Accepted Accounting Standards (hereinafter, "JGAAP")
2. Operating revenue does not include consumption taxes.
3. Cash dividends per share for the 25th Term include the ¥10 commemorative dividend for the 25th anniversary of the Company's founding.
4. Diluted net income per share is not provided for the 26th Term, 28th Term and 29th Term, despite the existence of residual shares, because a net loss per share was recorded.
5. Return on equity (ROE) and price earnings ratio (PER) are not provided for the 26th Term, 28th Term and 29th Term because a net loss was recorded.
6. The number of employees presented above represents full-time employees. The annual average number of temporary employees (including part-time employees and employees dispatched from temp agencies) is provided separately in parentheses [ ].
7. As of the 26th Term, the unit of presentation was changed from thousands of yen to millions of yen. For ease of comparison the unit of presentation for the 25th Term has been changed to millions of yen.
8. The Company and the Group changed the end of the fiscal year from March 31 to December 31 at the 28th ordinary general meeting of shareholders and it will continue to have a December fiscal year end. The 29th term is a nine month irregular term.
9. Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. Net assets per share, net income per share and diluted net income per share have been calculated as if the stock split had occurred at the beginning of the 25th consolidated fiscal year.

Sosei Group Corporation

Section 1. Company Overview

2 History

Date	Event
June 1990	Sosei Co. Ltd. established in Bunkyo-ku, Tokyo, aiming to be a biopharmaceutical R&D and technology transfer business company
March 1999	Launched the Drug Reprofiling Platform® (DRP®) project and made a full-scale start in the pharmaceutical development business
April 2001	Concluded an agreement with Laboratoire HRA Pharma for in-licensing of NorLevo® TABLETS 0.75mg (emergency contraceptive pill: development code SOH-075)
September 2002	Established London office in the U.K.
July 2004	Listed on the Mothers index of the Tokyo Stock Exchange
June 2005	Moved to a "Company with committees" (Company with Nomination, Compensation and Audit committees in 2015)
August 2005	Acquired 100% of Sosei R&D Ltd. (formerly Arakis Ltd., U.K.)
October 2006	Moved to a holding company structure and changed the company name to Sosei Group Corporation
October 2008	Concluded a basic agreement with ASKA Pharmaceutical Co., Ltd. regarding out-licensing sales rights for NorLevo® TABLETS 0.75mg in Japan
July 2009	Relocated Headquarters to Kojimachi, Chiyoda-ku, Tokyo
February 2011	NorLevo® TABLETS 0.75mg received Ministry of Health, Labour and Welfare (MHLW) approval in Japan
May 2011	Concluded an agreement with Onxeo S.A. (formerly BioAlliance Pharma SA) regarding in-licensing of SO-1105 (treatment for oropharyngeal candidiasis)
September 2012	NVA237 received MHLW approval in Japan with the product name of "Seebri® Inhalation Capsules 50 mcg" (world first approval for glycopyrronium bromide as a COPD treatment)
May 2013	Established Sosei Corporate Venture Capital
September 2013	QVA149 received European Commission approval in Europe with the product name of "Ultibro® Breezhaler®" (world first approval for LAMA/LABA combination drug)
January 2014	Marketing authorization for NorLevo® TABLETS (emergency contraceptive pill: development code SOH-075) transferred to ASKA Pharmaceutical Co., Ltd.
February 2014	Concluded agreement with FUJIFILM Pharma Co., Ltd. for commercialization of SO-1105
December 2014	Acquired Jitsubo Co., Ltd.
February 2015	Acquired 100% of Heptares Therapeutics Ltd.
August 2015	Concluded collaboration agreement with AstraZeneca UK Ltd. on development of immuno-oncology treatments
October 2015	Seebri® (NVA237) and Utibron™ Neohaler® (QVA149 received Food and Drug Administration (FDA) approval in the U.S.
November 2015	Concluded strategic collaboration agreement with Pfizer Inc. on novel treatments related to up to 10 types of GPCR target
April 2016	Concluded R&D and commercialization collaboration agreement with Allegan Pharmaceuticals International Ltd. regarding novel treatments in Alzheimer's and other neurological disorders
June 2016	Established Sosei RMF1 Limited Partnership for Investment
November 2016	Jitsubo Co., Ltd. became an affiliate company accounted for by the equity method
November 2016	The Company's subsidiary, Heptares Therapeutics Ltd. acquired 100% of G7 Therapeutics AG (renamed as Heptares Therapeutics Zurich AG)
March 2017	Entered agreement with Daiichi Sankyo Company, Limited to discover and develop novel, small-molecules for the treatment of pain
May 2017	Acquired a 25.6% stake in MiNA (Holdings) Ltd.
November 2017	Concluded contract amendment with Allergan Pharmaceuticals International Ltd for the development of a treatment for dementia with Lewy bodies in Japan
November 2017	Global offering raised ¥21,286m
September 2018	SO1105 received marketing approval in Japan under the product name of "Oravi®"
November 2018	UK legal entity reorganization involving the transfer of the trade and assets of Sosei R&D Ltd. to Heptares Therapeutics Ltd and initiation of the liquidation of Sosei R&D Ltd.

* NorLevo® is a registered trademark of Laboratoire HRA Pharma.

* Seebri® Inhalation Capsules 50 mcg, Ultibro® Inhalation Capsules, Seebri® Breezhaler® and Ultibro® Breezhaler® are registered trademarks of Novartis International AG ("Novartis").

* Oravi® is registered trademarks of Vectans pharma SAS.

Sosei Group Corporation

Section 1. Company Overview

3 Business Description

Our Business

We are a clinical-stage biotechnology company focused on discovering, designing and developing innovative medicines to treat diseases with significant unmet medical needs. Our vision is to become one of Japan's global biotechnology champions.

Our core scientific focus is to discover new medicines, including novel small molecules, peptides and therapeutic antibodies, targeting G Protein-Coupled Receptors, or GPCRs, a super-family of integral cell membrane proteins that are present on cells and tissues throughout the body. GPCRs are involved in signaling pathways that influence a wide range of biological processes and are important drug targets implicated in a broad range of human diseases and disorders. GPCRs are involved in approximately 34%[1] of currently marketed drugs. GPCRs form the largest human membrane protein family, with around 400 non-olfactory receptors, of which 224 remain yet to be explored, offering broad untapped potential.

Despite GPCRs representing one of the most important groups of drug targets for modern medicine, drug discovery targeting GPCRs remains challenging. The available structural information about GPCRs strongly suggests that they are intrinsically druggable with small molecules. Historically, however, mapping the structure of GPCRs when they are isolated from the cell membrane has been difficult as GPCRs are inherently unstable in isolation, often preventing the structural determination. The unstable nature of GPCRs has also hindered the ability to generate stable antigens to raise antibodies.

Our Solution

Anchored by our proprietary stabilized receptor, or StaR®, technology, we have developed technologies that enable us to "unlock" GPCRs through an advanced understanding of their structures. Our StaR® technology allows us to effectively stabilize a GPCR by engineering a small number of single point mutations outside of the ligand-binding site such that they retain their organized structure even after they are removed from the cell membrane. The resulting stabilized proteins (StaR® proteins) are much more robust than the corresponding "wild-type" or unmutated proteins. These StaR® proteins are more readily purified and subjected to a variety of hit discovery and biophysical approaches. For example, these StaR® proteins enable crystallization for detailed X-ray (or other) structure determination, which facilitates the design of innovative medicines with better safety and efficacy profiles and lower preclinical and clinical attrition rates compared to wild-type proteins. StaR® technology also enables the production of stabilized proteins that can be utilized for biologics discovery, either via in vitro phage screening, or for in vivo immunization.

Our GPCR Pipeline

Our structure-based drug design, or SBDD, platform, which is driven by our StaR® technology, has enabled us to develop small molecules, peptides and antigens for mAb discovery. To date, we have leveraged our proprietary technologies and scalable SBDD platform to create a pipeline of drug candidates targeting GPCRs that we believe have potential to become first-in-class or best-in-class medicines in therapeutic areas such as neurodegenerative and neurological diseases, immuno-oncology, metabolic and orphan diseases.

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[1] Hauser A. S., Attwood M. M., Rask-Andersen M., Schiöth H. B., Gloriam D. E. (2017). Trends in GPCR drug discovery: new agents, targets and indications. Nat. Rev. Drug Discov. 16, 829–842. 10.1038/nrd.2017.178

Section 1. Company Overview

3 Business Description (continued)

We have a balanced business model that involves (1) partnerships with major global pharmaceutical companies, (2) collaborations in R&D with other innovative pharmaceutical and biotechnology companies, and (3) in-house proprietary drug development. This balanced strategy diversifies risk via multiple partnerships and generates revenue from multiple programs. In the medium term, this strategy provides us with the opportunity to generate new upfront milestones, while continuing to receive milestones and royalties from our existing partnerships.

Our partnered pipeline includes drug candidates that we have out-licensed to leading pharmaceutical and biotechnology companies, including Allergan and AstraZeneca, and drug candidates for which we have ongoing collaboration projects, including with Pfizer, Daiichi Sankyo and MorphoSys. Our partners are developing one or more drug candidates that we discovered using our SBDD platform, such as those in our muscarinic and adenosine A2a programs. We believe these strategic arrangements validate our GPCR technologies and SBDD platform capabilities, and also provide a diversified source of revenues in the form of up-front and milestone payments.

Our partnered pipeline also includes drug candidates that we are currently co-developing or which we plan to co-develop with collaboration partners under profit and risk-sharing arrangements. We have entered into strategic co-development agreements with Kymab and PeptiDream, for the discovery, development and commercialization of certain novel antibody therapeutics and peptides.

Our in-house pipeline comprises drug candidates that we are developing and may potentially aim to commercialize ourselves. Going forward, we may seek to put high-value drug candidates that we cannot pursue (for one reason or another), into the capable hands of large partners who have the skilled resources to advance programs rapidly into clinical development.

Our Other Business Activities

In addition to our core activities in GPCR medicine design and development, we also have a legacy business that earns us what has been a growing stream of royalties on global sales of Novartis' respiratory disease products Seebri® Breezhaler® and Ultibro® Breezhaler® for COPD. The royalties provide us with a significant source of non-dilutive capital to support our strategic objectives. We believe QVM149, a novel triple-combination therapy in Phase 3 development with Novartis for asthma, will also be a potential revenue source in the future.

In May 2017, we acquired a strategic equity stake in MiNA (Holdings) Limited, or MiNA, a private U.K. biotechnology company developing novel treatments that harness gene activation mechanisms through small activating RNA, or saRNA, a new therapeutic class. We remain a supportive shareholder with a significant shareholding and continue to monitor our investment in MiNA.

Sosei Group Corporation

Section 1. Company Overview

3 Business Description (continued)

As of December 31, 2018 the Group comprised the Company (Sosei Group Corporation) and, six consolidated subsidiaries. The Group does not split its results into different business segments.

Business segment	Company name	Nature of business
Group-wide business activities	Sosei Group Corporation	Strategic management of entire Group and administrative duties performed on behalf of its subsidiaries.
Subsidiaries	Sosei Co. Ltd.	Pharmaceutical R&D and sales.
	Sosei CVC Ltd.	Management of regenerative medicine fund.
	Sosei RMF1 Limited Partnership for Investment	Investment in regenerative medicine bio-venture companies.
	Sosei R&D Ltd.	Maintains IP relating to marketed respiratory assets that generate royalty income (see note 1).
	Heptares Therapeutics Ltd.	Structural analysis and production of early lead compounds targeting GPCRs, identification of drug candidates using proprietary StaR® technology.
	Heptares Therapeutics Zurich AG	Promotion of structure-based drug design, screening, and research and development of antibody drugs utilizing platform technologies related to GPCRs (see note 2).

Note 1: On November 29, 2018 Sosei R&D Ltd, which is a subsidiary company, transferred its entire trade and assets to Heptares Therapeutics Ltd. to simplify the Group's UK business structure. Sosei R&D Ltd. is in the process of being liquidated.

Note 2: During 2018 Heptares Therapeutics Zurich AG was engaged in structure-based drug design, screening, and research and development of antibody drugs utilizing basic technologies related to GPCR discovery. In November 2018 management decided that the site would close in 2019 after the transfer of its technologies to Heptares Therapeutics Ltd. in the United Kingdom.

In addition, the Group had two associated undertakings that are accounted for under the equity method; MiNA (Holdings) Ltd. and Jitsubo Co. Ltd.

The Company corresponds to a specified listed company provided in Article 49 paragraph 2 of the Cabinet Office Ordinance on Restrictions on Securities Transactions. Therefore, criteria for assessing the materiality of information under the insider trading regulations are determined based on consolidated figures.

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Section 1. Company Overview

4 Status of Subsidiaries and Affiliates

Company Name	Location	Capital Stock	Ratio of Voting (%)	Relationship
Consolidated subsidiaries				
Sosei Co. Ltd.	Chiyoda-ku, Tokyo	Million yen 90	100.0	Parent company provides: - centralized administrative services - provision of officers - funding assistance
Sosei R&D Ltd. Notes 1,2,3,4	London, U.K.	Thousand GBP 9	100.0 (100.0)	Parent company provides: - centralized administrative services - provision of officers
Heptares Therapeutics Ltd. Notes 1,2,5	Cambridge, U.K.	Thousand GBP 416	100.0	Parent company provides: - centralized administrative services - provision of officers - two way funding assistance
Sosei CVC Ltd.	Chiyoda-ku, Tokyo	Million yen 35	90.0	Parent company provides: - centralized administrative services - provision of officers
Other 2 companies				
Equity-method affiliates				
2 companies				

Notes
1. Over 10% of the revenue of the Company relates to the specified subsidiaries.
2. The revenues of Sosei R&D Ltd. and Heptares Therapeutics Ltd. (excluding internal revenues between consolidated affiliates) represent more than 10% of the Company's consolidated revenue. Major profit/loss information for the fiscal period ended December 31, 2018 is as follows:

	Major profit/loss information (IFRS)				
	Net sales ¥m	Income (loss) before income taxes ¥m	Net income (loss) for the year ¥m	Net assets ¥m	Total assets ¥m
Sosei R&D Ltd.	1,584	505	498	2	4
Heptares Therapeutics Ltd.	988	(6,122)	(4,977)	17,780	31,556

3. The ownership percentage ( ) of voting rights is the indirect ownership percentage.
4. As at March 28, 2019, Sosei R&D Ltd. is in the process of being liquidated.
5. During 2018, Heptares Therapeutics Ltd. moved its UK operations from Hertfordshire to Cambridge.

Sosei Group Corporation

Section 1. Company Overview

5 Status of Employees

5.1 Consolidated Companies

At December 31, 2018

Segment	Number of employees
Pharmaceutical business	150 (10.9)
Company-wide business activities of the filing company	19 (1.2)
	169 (12.1)

Notes
1. The number of employees presented above represents full-time employees. The annual average number of temporary employees (including part-time employees and employees engaged through temp agencies) is provided separately in parentheses.
2. The number of employees in the pharmaceutical business increased by 11 in order to strengthen research activities.
3. The number of employees in the Company-wide business activities of the filing company increased by 6 in order to strengthen the administration department.
4. The number of employees of Company-wide business activities of the filing company is the number of the administration department.

5.2 Filing Company (the Company)

At December 31, 2018

Number of employees (Person)	Average age (Years old)	Average years of service (Year)	Average annual salary (¥)
19 (1.2)	47.3	3.1	12,413,915

Notes
1. The number of employees presented above represents full-time employees. The annual average number of temporary employees (including part-time employees and employees engaged through temp agencies) is provided separately in parentheses.
2. Average annual salary includes bonuses and overtime.
3. Average annual salary is calculated from January 2018 to December 2018.
4. The number of employees in the Company-wide business activities of the filing company increased by 6 in order to strengthen the administration department.

5.3 Status of Labor Union

No labor unions exist. Labor-management relations are regarded as amicable.

Sosei Group Corporation

Section 2. Business Review

Forward-looking statements in this text were determined by the Group as of December 31, 2018.

1 Management Policy, Management Environment and Issues to be Addressed

1.1 Management Policy

The Group is a clinical-stage biopharmaceutical company focused on discovering, designing and developing innovative medicines for patients, to treat diseases with significant unmet medical needs, both in Japan and overseas.

1.2 Management Environment

The development of pharmaceutical products is characterized by fierce competition between numerous domestic and overseas companies, research institutions, and other entities, including major international corporations. Development requires massive investment and has long lead times, and the likelihood of success is not high. However, there are still unmet medical needs in the world and expectations exist about the development of new drugs that will offer value to patients.

1.3 Issues to Be Addressed

Wholly-owned drug development

To achieve our goal of building one of Japan's global biotechnology champions, the Group will continue to make prudent investments in research and development to create the best possible pipeline of drug candidates for the future. The Group will continue to invest in our StaR® technology to ensure it remains at the cutting-edge of science. StaR® technology underpins our drug discovery and structure-based drug design (SBDD) platform. This drug discovery and design platform will generate multiple new early-stage drug candidates each year. We will seek to maximize value from our productive drug discovery engine to identify and prioritize targets with high commercial potential and to increase the number of drug candidates we target for new partnerships. At the same time, we will prioritize R&D spend by rationalizing our long list of programs to focus only on the most high-value candidates. Over the long term this growth strategy is expected to generate significant sales to the Group and ensure the maximum potential value of these drug candidates is retained for our shareholders.

Diversifying risks/revenues; managing capital

Our overall business model will continue to be (1) partnerships with major global pharmaceutical companies, (2) collaborations in R&D with other innovative pharmaceutical and biotechnology companies, and (3) in-house proprietary drug development. This balanced strategy diversifies risk via multiple partnerships and generates revenue from multiple programs. In the medium term, this strategy provides us with the opportunity to generate new upfront milestones, while continuing to receive milestones and royalties from our existing partnerships. As a leading bio-technology company in Japan, we have great relationships and excellent access to capital. We have a strong cash position to fund our operational business activities. As a matter of good management practice, we continuously analyze and assess all financing options to ensure the business is sufficiently funded.

Sosei Group Corporation

Section 2. Business Review

1 Management Policy, Management Environment and Issues to be Addressed (continued)

Creating shareholder value

The Group is strongly committed to the bio-technology business model. The model is well established overseas and has been proven to generate very significant long-term value for shareholders. As such, we believe the best way to create long-term value is to make prudent investments in our technology to ensure we remain at the cutting edge of science in our chosen field of GPCR-targeted Structure-based Drug Design. This will drive a sustainable pipeline of exciting drug candidates in areas of high unmet medical need. StaR® technology is our competitive advantage, enabling us to design potentially safer, more effective medicines for the future. StaR® technology enables very high productive output relative to our peers. This means we create far more drug discovery candidates than we can possibly work on at the same time. We are limited by time and resources, and therefore we will rationalize and focus only on the most high-value candidates for us. This ensures prudent R&D spending at sustainable levels. We seek to allocate capital in the most efficient way, prioritizing the highest potential projects. We will seek to increase the number of new partnerships with global pharmaceutical and biotech companies. This will accelerate value creation by putting high-value drug candidates that we cannot pursue (for one reason or another), into the capable hands of large partners who have the skilled resources to advance programs rapidly into clinical development. We always endeavor to retain excellent economics on each deal we consummate. We proactively manage our cost base, with multiple internal projects designed to track, monitor and cut unnecessary costs from the business. Our value creation philosophy is designed to advance a broad drug candidate pipeline that will generate high value for shareholders over the long term.

Strengthening corporate governance

The Group has business activities across multiple jurisdictions and recognizes the need for an effective corporate governance system. We are continuously looking for ways to enhance our systems and processes, to ensure we strictly comply with all national regulations. The Group employs several independent directors, and promotes coordination between the audit committee, independent auditors and internal audit department. Our Board is responsible for setting and overseeing management strategy and conducting risk management and compliance activities and to maintain accountability. We aim to be a deeply trusted corporation.

Section 2. Business Review

2 Business and Operational Risks

The main risks relating to the financial position and operating results of the Group that management considers could have a potential significant impact on investor decisions are described below. The Group's business faces various risks, not all of which may necessarily be included below.

2.1 Research and Development of Pharmaceutical Products

Uncertainty of research and development

The Group's business is focused on pharmaceutical development. Generally, the research and development period for pharmaceutical products, from basic research through to approval, takes a long time and requires a considerable scale of investment in research and development. Moreover, the likelihood of success is extremely low compared to other industries. Thus, research and development activities are accompanied by uncertainty, and there is a possibility that this uncertainty may have a significant impact on the Group's financial position and operating results.

Competition in the pharmaceutical industry

Competition in the pharmaceutical industry is fierce due to the large number of domestic and overseas companies and research institutions, and other entities including major international corporations. Technological innovation is also advancing rapidly. The Group's financial position and operating results may be significantly impacted as a result of such competition.

Side effects

Pharmaceutical products may produce unexpected side effects. Should unexpected side effects lead to trial cessation, product recall, discontinuance of manufacturing and sales, or filing of lawsuits regarding adverse drug reactions, there may be a significant impact on the Group's financial position and operating results.

Pharmaceutical laws and other regulations

The pharmaceutical industry is subject to a variety of regulations due to pharmaceutical laws and pharmaceutical administrative guidance in individual countries, and other laws and regulations applicable to the business activities of research, development, manufacturing and sales.

Taking a drug from the discovery stage to the manufacturing and marketing approval stage incurs a great deal of development cost over a long period of time. If sufficient data on quality, efficacy and safety is not obtained, and its medical utility as a drug cannot be demonstrated, approval from regulatory authorities may not be granted as planned, and the market launch may become difficult. If this happens with products licensed to other companies, the licensing conditions may change from those established at the outset or licensing itself may become difficult.

In such an event, or in the event that there is a large change in applicable regulations, there may be a significant impact on the Group's financial position and operating results.

Section 2. Business Review

2 Business and Operational Risks (continued)

2.2 Business Activities of the Group

Partnerships

The Group aims to build broad partnerships at each stage of research and development, and thereby incorporate state-of-the-art technology while avoiding an increase in fixed costs. Should these current partnerships change, or should the Group fail to create partnerships as expected, there may be a significant impact on the Group's financial position and operating results.

Securing and training human resources

The business activities of the Group are strongly dependent on the current management team, and the heads and members of each department who promote the business.

For that reason, the Group continually strives to secure and develop excellent human resources, but if human resources cannot be secured or trained as planned, it is possible this will have a significant impact on the Group's financial position and operating results.

Intellectual property rights

The Group uses a variety of intellectual property rights in research and development activities, which are either proprietary or in-licensed by the Group. However, it is possible that the Group may not be able to continue to use the intellectual property rights it needs to operate its businesses. Also, it is possible that a third party will in the future launch a dispute based on intellectual property right infringement. Such events could have a significant impact on the Group's financial position and operating results.

Financing

A large amount of research and development spending is necessary in the pharmaceutical industry, and that amount tends to increase as research and development progresses. When the Group requires funds, if it is not possible to carry out flexible funding due to deterioration in the market environment, there may be a significant impact on the Group's financial position and operating results, such as the Group being forced to reconsider its research and development plans.

Foreign exchange fluctuations

The Group has expanded its business activities globally and has foreign currency-denominated licensing transactions with foreign companies and overseas research and development activities. Foreign exchange risk cannot be completely removed even by hedging, and if the risk manifests itself as a sudden exchange rate fluctuation, it may have a significant impact on the Group's financial position and operating results.

Section 2. Business Review

2 Business and Operational Risks (continued)

2.2 Business Activities of the Group (continued)

Contractual payment obligations

In its development pipeline-related contracts with business partners, the Group may have an obligation to make payments to a partner at a development stage prior to sales and after the commencement of sales. Also, there may be an obligation to pay joint development costs, and to invest in marketing activities after sales start. However, if the cost is high compared to the Group's capital resources, the Group may experience a significant financial burden, which could have a significant impact on its financial position and operating results.

Technology licensing

Technology licensing of products developed by the Company or its subsidiaries

The Group can profit through licensing out products to other companies at an intermediate stage of development and receiving an upfront payment and sales-associated revenue. However, if technology is not licensed out at the planned time due to delays in development or for some other reason, or if it becomes difficult to license out a development product as planned, it could have a significant impact on the Group's financial position and operating results.

Business expansion through M&A (acquisition, merger, transfer or acquisition of business, and investment)

The Group seeks to manage its resources efficiently and strives to maximize corporate value. It is the Group's policy to continue responding flexibly to business expansion opportunities, including M&A. However, if by these measures the expected benefit is not obtained and an impairment loss relating to goodwill or intangible assets is recorded, there may be a significant impact on the Group's financial position and operating results.

Significant contracts

Important agreements are stated under "Part 1: Company Information, Section 2. Business Review, sub-section 5. Significant Contracts in Business Operation." If significant contracts are terminated, it is possible this will have a significant impact on the Group's financial position and operating results.

Litigation

The Group was not litigated against during the fiscal period under review, but the Group could be subject in the future to litigation or other legal procedures, or investigation by authorities. If the Group has to pay a large settlement, is ordered to pay a large fine or is subject to a disadvantageous determination, this could have a significant impact on the Group's financial position and operating results.

Establishment of internal controls

The Group complies with the standards for evaluation and audit of the internal control system related to financial reporting in accordance with the Financial Instruments and Exchange Act, as well as the standards for implementation. It has established an internal control system for financial reporting and strives to operate the system appropriately. However, if the internal controls fail to function effectively or an unexpected problem occurs with internal controls such that the Group incurs significant losses, this could have a significant impact on the Group's financial position and operating results.

2 Business and Operational Risks (continued)

2.2 Business Activities of the Group (continued)

Fund management-related risk

a) Legal regulations
The Group conducts fund management and is subjected to a variety of laws and regulations (Companies Act, Anti-monopoly Act, tax law, Financial Instruments and Exchange Act, Limited Partnership Act for Investment, financial accounting-related laws and regulations). Hence, if fund activities are limited by these regulations or if there is an increase of cost related to these regulations, it could have a significant impact on the Group's financial position and operating results.

b) Risk from investing in unlisted companies
The fund operated by the Group invests in unlisted companies. The revenue and financial bases of unlisted companies are unstable, their management resources are constrained and the shares of unlisted companies are significantly less liquid than those of listed companies. Therefore, when recovering the investment, capital gains may not be made as expected, or capital losses may be incurred and the schedule and conditions of an IPO or sale may significantly differ from expectations. In such cases it is possible this will have a significant impact on the Group's financial position and operating results.

c) Other
There are risks, as listed below, related to the fund managed by the Group and it is possible these will have a significant impact on its financial position and operating results.

   1) As an unlimited liability partner or a general partner, there is a possibility of bearing a loss that exceeds the amount invested
   2) As an unlimited liability partner or a general partner, there is a possibility of being subjected to litigation due to violation of the duty of due care of a prudent manager
   3) There is a possibility that sufficient funds cannot be collected from investors through fundraising, and that this will interfere with investment activities.

2.3 Stock Acquisition Rights

During 2018 a number of stock option plans were in operation to motivate and retain high caliber employees. Under the stock option plan, stock acquisition rights are granted to the Group's directors, executive officers, and employees, as well as to subsidiary directors and employees by resolution of the General Meeting of Shareholders and resolution of the Board of Directors in accordance with the provisions of Article 236, Article 238 and Article 239 of the Companies Act. The number of shares for the purpose of these stock acquisition rights (hereinafter "residual shares") totaled 1,936,000 shares as at the end of the month before the submission date of this report (Feb 28, 2019), which is less than 3% of the total number of the Group's issued shares and residual shares. If these stock acquisition rights are exercised, per-share value of shares of the Company will be diluted. In March 2019 the Group announced a proposal to issue restricted share units and performance share units instead of new stock option plans. If these shares are issued the per-share value of shares of the Company will be diluted.

Sosei Group Corporation

Section 2. Business Review

3 Overview of Operating Results

3.1 Operating Results

The Group is a clinical-stage biotechnology company. Our vision is to become one of Japan's global biotechnology champions, by discovering and developing highly innovative medicines targeting G Protein-Coupled Receptors ("GPCRs").

During the fiscal period under review, the Group continued to advance its proprietary StaR® ("stabilized receptor") technology, Structure-based Drug Design ("SBDD") platform, and in-house development pipeline.

We continued to make excellent progress in strengthening our wider business and remain well-positioned to capitalize on a number of strategic opportunities. Our balanced business model progressed across all areas; (1) partnerships with major global pharmaceutical companies, (2) collaborations in R&D with other innovative pharmaceutical and biotechnology companies, and (3) in-house proprietary drug development.

As of December 31, 2018, the Group had 15 programs ongoing in discovery, with 4 in preclinical development, and 7 currently in clinical trials.

Our partnerships with major pharmaceutical companies continue to progress very well. Our partnership with AstraZeneca UK Limited ("AstraZeneca") is advancing a next-generation immuno-oncology agent (AZD4635). In the area of in-house proprietary drug development, the Group continued to make the necessary investments in our pipeline as we advanced multiple candidates towards clinical studies. In September 2018, the Group received approval in Japan for Oravi® Mucoadhesive Tablets 50mg for Oropharyngeal Candidiasis. Furthermore, in December 2018, the Group reported its first healthy subject had been dosed with the novel small molecule HTL0014242 in a Phase I clinical study, marking the start of a new in-house clinical program targeting neurological disorders.

Section 2. Business Review

3 Overview of Operating Results (continued)

3.1 Operating Results (continued)

Comparison of the financial results for the current nine month fiscal period with that of the previously reported twelve-month fiscal period is affected by the change of accounting reference date. To assist in understanding the current financial period's performance, supplementary unaudited summary proforma information is additionally presented. The proforma information compares the nine month period ended December 31, 2018 to the nine month period ended December 31, 2017 ('prior corresponding period').

The Group reported the following financial results for the nine month period ended December 31, 2018. Revenue of JPY 2,872 million (a decrease of JPY 3,405 million vs. the prior corresponding period), an operating loss of JPY 5,734 million (an increase of JPY 5,640 million vs. the prior corresponding period), a net loss before income taxes of JPY 7,243 million (an increase of JPY 5,344 million vs. the prior corresponding period) and a net loss of JPY 5,978 million (an increase of JPY 4,265 million vs. the prior corresponding period).

	Reported (Audited)		Proforma (Unaudited)	
	9 months ended December 31, 2018 ¥m	Year ended March 31, 2018 ¥m	9 months ended December 31, 2018 ¥m	9 months ended December 31, 2017 ¥m
Revenue	2,872	6,955	2,872	6,277
Cost of sales	(335)	-	(335)	-
Research and development expenses	(5,384)	(4,935)	(5,384)	(3,456)
Selling, general and administrative expenses	(2,704)	(4,482)	(2,704)	(3,213)
Other net expenses	(183)	171	(183)	298
Operating (loss)	(5,734)	(2,291)	(5,734)	(94)
Net finance costs	(955)	(1,135)	(955)	(1,610)
Share of loss of associates	(488)	(276)	(488)	(195)
Impairment loss on associates	(66)	-	(66)	-
Loss before income taxes	(7,243)	(3,702)	(7,243)	(1,899)
Net loss	(5,978)	(2,654)	(5,978)	(1,713)

Section 2. Business Review

3 Overview of Operating Results (continued)

3.1 Operating Results (continued)

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

	Reported (Audited) 9 months ended December 31, 2018 ¥m	Proforma (unaudited) 9 months ended December 31, 2017 ¥m	Change
Royalty income	2,104	2,053	51
Milestone fees and lump-sum payments	340	3,783	(3,443)
Other	428	441	(13)
	2,872	6,277	(3,405)

Revenue related to royalties in the nine month period under review totaled JPY 2,104 million (an increase of JPY 51 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[2].

Ultibro® Breezhaler® remains the number one LABA/LAMA across Europe. Furthermore, in its (calendar) Q4 2018 results presentation, Novartis confirmed its commitment to respiratory products that contain the Group's out-licensed compound glycopyrronium bromide. Novartis confirmed that the status has not changed from Q3 2018 and enrolment of the Phase III IRIDIUM, PALLADIUM and QUARTZ studies of QVM149 for asthma have been completed. The filing of QVM149 is planned for H2 2019, ahead of an expected commercial launch in 2020, and the Group is eligible to receive further royalties on sales of this product.

[2] Glycopyrronium bromide and certain use and formulation intellectual property were exclusively licensed to Novartis in April 2005 by Sosei and Vectura. In the US, these products are available at different doses or regimens under the names Utibron™ Neohaler® and Seebri™ Neohaler® and Sunovion Pharmaceuticals Inc. has assumed as of December 21, 2016 US commercialization rights for them. Seebri™ Neohaler® was launched in October 2017 by Sunovion Pharmaceuticals Inc.

Sosei Group Corporation

Section 2. Business Review

3 Overview of Operating Results (continued)

3.1 Operating Results (continued)

Revenue related to milestones in the nine month period under review totaled JPY 340 million (a decrease of JPY 3,443 million vs. the prior corresponding period). The prior corresponding period contained major milestone payments from Allergan (USD 15 million), AstraZeneca (USD 12 million) and Teva Pharmaceutical Industries Ltd ("Teva") (USD 5 million). Therefore, the main reason for the decline in milestone revenues was the absence of any upfront payments related to new partnerships, and the absence of any major milestone payments from existing discovery and development partnerships. The Group classifies a "major" milestone payment as any single payment greater than or equal to approximately USD 5 million.

Cost of sales

Cost of sales represents the fully loaded cost of those employees providing research and development services to specific customers under contracts. It also includes other costs directly associated with these activities such as lab consumables and an allocated share of depreciation of lab equipment.

Research and development expenses and General and administrative expenses

	Reported (audited) 9 months ended December 31, 2018 ¥m	Proforma (unaudited) 9 months ended December 31, 2017 ¥m	Change
Research and development	5,384	3,456	1,928
Cash expenses	5,187	3,370	1,817
Non-cash expenses	197	86	111
General and administrative expenses	2,704	3,213	(509)
Cash expenses	1,611	2,099	(488)
Non-cash expenses	1,093	1,114	(21)

Research and development cash expenses

Cash research and development ("R&D") expenses in the nine month period under review totaled JPY 5,187 million yen (an increase of JPY 1,817 million vs. the prior corresponding period). This was primarily due to increased preparatory spend related to our Phase IIa MATILDA study for DLB in Japan (which entered voluntary hold on 18 September 2018), together with continued investment in our in-house drug development programs, platform and translational science capabilities. In the period under review, 97% of R&D spend related to our UK operations.

General and administrative cash expenses

Cash general and administrative ("G&A") expenses in the nine month period under review totaled JPY 1,611 million (a decrease of JPY 488 million vs. the prior corresponding period). This was primarily due to a reduction in National Insurance charges in the U.K. (related to Stock-Based Compensation), as well as tight management of costs.

Section 2. Business Review

3 Overview of Operating Results (continued)

3.1 Operating Results (continued)

Non-cash expenses

Non-cash expenses consist of depreciation on property, plant and equipment, amortization of intangible assets, and stock-based compensation expenses. Non-cash expenses in the nine month period under review were JPY 1,290 million (an increase of JPY 90 million vs. the prior corresponding period). In total, depreciation expense for the nine month period under review totaled JPY 205 million (an increase of JPY 107 million vs. the prior corresponding period). Amortization amounted to JPY 664 million (a decrease of JPY 2 million vs. the prior corresponding period). The stock-based compensation expense for the period was JPY 421 million (a decrease of JPY 15 million vs. the prior corresponding period).

Other net expenses

Other net expenses totaled JPY183 million, a decrease of JPY 481 million vs. the prior corresponding period. The current period cost comprises a charge for impairment partially offset by grant income. The impairment charge relates to intangible assets recognized at the time of the acquisition of Heptares. One program that had an identified value at the time of the acquisition was discontinued during the period. In the prior corresponding period other income included proceeds received from the disposal of Activus Pharma of JPY 326 million.

Operating loss

Operating loss in the nine month period under review totaled JPY 5,734 million (an increase of JPY 5,640 million vs. the prior corresponding period). The main reason for the increase in operating loss is the decrease in revenue (for the reasons stated above) and the increase in R&D expense (for the reasons stated above) during the nine month period under review.

Net Finance costs

Net finance costs in the nine month period under review totaled JPY 955 million (a decrease of JPY 655 million vs. the prior corresponding period). Finance costs include interest expense, foreign exchange gains / losses and fair value movements in financial assets and liabilities. In the current reporting period they included a JPY 1,121 million write-down related to the lapsing of our exclusive option to increase our investment in MiNA. The main reasons for the decrease compared to the prior corresponding period are the inclusion of a contingent consideration credit and foreign exchange (as a result of more stable JPY, USD, and GBP rates) in the nine month period under review. As a reminder to our valued Shareholders, the contingent consideration charge relates to additional purchase consideration to be paid to the former shareholders of Heptares Therapeutics Limited. The contingent consideration charge represents the re-measurement of the estimated liability due in the future to the former shareholders of Heptares Therapeutics Limited. As at 31 December 2018, the Group has to date paid USD 66 million in milestones, out of the total maximum potential milestone amount payable of USD 220 million.

Net loss

The net loss in the nine month period under review totaled JPY 5,978 million (an increase of JPY 4,265 million vs. the prior corresponding period). The main reason for the increase in net loss is the decrease in revenue (for the reasons stated above), and the increase in R&D expense (for the reasons stated above) during the nine month period under review.

Section 2. Business Review

3 Overview of Operating Results (continued)

3.1 Operating Results (continued)

<u>*Analysis of financial position*</u>

1) Assets, liabilities and equity

Assets

Total assets at December 31, 2018 were JPY 58,987 million (a decrease of JPY 10,499 million vs. the end of the previous fiscal year). The main reason for the decrease is a reduction of JPY 9,521 million in cash and cash equivalents associated with operating activity expenditure and debt repayments.

Liabilities

Total liabilities at December 31, 2018 were JPY 17,407 million (a decrease of JPY 3,193 million vs. the end of the previous fiscal year). The main reasons for the decrease are a reduction of JPY 2,209 million in interest-bearing liabilities, a decrease in the fair value of the contingent consideration liability of JPY 454 million and a decrease in deferred tax liabilities of JPY 535 million.

Equity

Total equity at December 31, 2018 was JPY 41,580 million (a decrease of JPY 7,306 million vs. the end of the previous fiscal year). This decrease is primarily due to the net loss for the period (JPY 5,978 million) and the impact of exchange differences arising on translation of foreign operations (JPY 1,641 million). The ratio of equity attributable to the owners of the parent company to total assets was 70.5%, an increase of 0.2% vs. the end of the previous fiscal year.

3.2 Analysis of cash flows

Cash and cash equivalents at December 31, 2018 decreased by JPY 9,521 million from the beginning of the year and amounted to JPY 18,760 million.

Cash flows from operating activities

Net cash used in operating activities for the period under review totaled JPY 3,995 million. This is predominantly due to the loss before income taxes recorded for the period arising from the Group's increased investment in R&D.

Cash flows from investing activities

Net cash used in investing activities for the period under review totaled JPY 2,808 million. This is primarily due to the acquisition of fixed assets totaling JPY 1,807 million related to investment in our new R&D facility at Granta Park, Cambridge, United Kingdom, and investments totaling JPY 650 million made by Sosei RMF1 Limited Partnership for Investment, which is the Group's wholly-owned subsidiary.

Cash flows from financing activities

Net cash used in financing activities for the period under review totaled JPY 2,268 million This was primarily due to repayments of long-term interest-bearing debt of JPY 2,255 million.

Sosei Group Corporation

Section 2. Business Review

3 Overview of Operating Results (continued)

3.3 Capital resources and liquidity of funds

Working capital is generated through receipt of lump sum payments, milestone payments, and royalty income from partner companies in accordance with the terms of collaboration and licensing agreements. In addition, we raise funds for working capital purposes and business acquisitions through the issuance of new shares in our holding company and through bank borrowings. Our main funding demand relates to the development of candidate drugs on an ongoing basis. Our R&D activities include: clinical trials of candidate drugs, in-house development of pipeline drugs for the future, and gaining approval from regulatory authorities. We will continue investing in research and development activities. A significant investment in our new research and development facility in the UK has been completed in the fiscal period under review. Please refer to Section 5 *Financial Statements Notes to the Consolidated Financial Statements*, note 9 *Financial Instruments*, sub-section 9.1 *Capital management.*

3.4 Status of production, orders received and sales

Purchasing Performance
Not applicable. The scale of the Group's purchase of goods is not material.

Status of Sales Orders Received
Not applicable. The Group's revenue mainly comprises milestone receipts and royalties.

Sales Performance
The Group reported only one business segment in the nine month period ended December 31, 2018. Revenues by major business partner and their percentage of total revenue for the nine month period ended December 31, 2018 are as follows:

	Reported (audited) FY2018 April 1, 2018- December 31, 2018 ¥m	Proforma (unaudited) FY2017 Q3 April 1, 2017- December 31, 2017 ¥m	Change %
Royalty revenue	2,104	2,053	2.5
Milestone revenue and lump-sum revenue	340	3,783	(91.0)
Other	428	441	(2.9)
	2,872	6,277	(54.2)

Notes: 1. Intersegment transactions have been eliminated.
2. The Company and the Group changed their fiscal year end from March 31 to December 31 at the 28th ordinary general meeting of shareholders. The 29th term is therefore a nine month period from April 1, 2018 to December 31, 2018. Comparative disclosures are for the nine month period ended 31 December 2017.
3. Revenues by major business partner and their percentage of total revenue for the nine month period ended December 31, 2018 and the fiscal year ended March 31, 2018 are as follows.

Section 2. Business Review

3 Overview of Operating Results (continued)

3.4 Status of production, orders received and sales (Continued)

Business partner	FY2018 April 1, 2018- December 31, 2018		FY2017 April 1, 2017- March 31, 2018	
	Amount ¥m	Percentage (%)	Amount ¥m	Percentage (%)
Novartis International AG	2,035	70.9	2,459	35.4
Daiichi Sankyo Company, Ltd.	294	10.2	164	2.4
Allergan Pharmaceuticals International Ltd.	177	6.2	1,917	27.6
AstraZeneca UK Ltd.	-	-	1,415	20.3
Teva Pharmaceutical Industries Ltd.	-	-	716	10.3

4. The above amounts do not include consumption taxes.

3.5 Significant accounting policies and estimates

The Group's significant accounting policies are described in Section 5 *Financial Statements*, sub-section 3 S*ignificant accounting policies* and sub-section 4 S*ignificant accounting estimates and associated judgments*.

3.6 Differences between the main items in the Consolidated Financial Statements prepared in accordance with IFRS and the corresponding items in the Consolidated Financial Statements prepared in accordance with Japanese GAAP

Amortization of goodwill

Goodwill is amortized under the straight-line method under Japanese GAAP; however, under IFRS goodwill is not amortized and must be tested for impairment each fiscal year. As a result, selling, general and administrative expenses and share of loss of associates accounted for using the equity method reported under IFRS for the nine month period ended December 31, 2018 are 714 million yen and 17 million yen lower than under Japanese GAAP.

Section 2. Business Review

4 Significant Contracts in Business Operation

The significant contracts that existed during the fiscal period ended December 31, 2018 were as follows:

4.1 Contracts Involving Sosei Group Corporation

Contract regarding acquisition of Heptares

Contract name	Share Purchase Agreement
Counterparty	105 Heptares shareholders
Execution date	February 20, 2015
Contract period	Not determined
Main contents of contract	The Company acquired all of the issued shares of Heptares for a maximum price of USD 400 million, comprising USD 180 million as consideration for the shares and a maximum price of USD 220 million in contingent consideration payable in the event that Heptares receives milestone or royalty revenues upon the occurrence of certain events stipulated in the agreement.

Syndicated loan contract

Contract name	Loan Agreement
Counterparty	Financial institutions, with Mizuho Bank, Ltd. as arranger and agent
Execution date	September 28, 2015
Borrowing amount	¥m 10,000
Borrowing date	September 30, 2015
Repayment date	September 30, 2020

Syndicated loan contract

Contract name	Loan Agreement
Counterparty	Financial institutions, with Mizuho Bank, Ltd. as arranger and agent
Execution date	May 18, 2017
Borrowing amount	¥m 5,000
Borrowing date	May, 2017
Repayment date	April 30, 2022

Disposal of Activus Pharma Co. Ltd

Contract name	Disposal of Activus Pharma Co. Ltd
Counterparty	Formosa Pharmaceuticals, Inc.
Execution date	August 8, 2017
Contract period	The agreement is effective from its conclusion date
Main contents of contract	All shares of Activus Pharma Co. Ltd. were transferred to Formosa Pharmaceuticals, Inc., a subsidiary of Formosa Laboratories, Inc. (Taiwan Stock Exchange: 4746), which has strength in drug substance drug production. The Company received US $ 3.5 million by transferring 1,957 shares of all voting rights stock (100% holding voting rights). A milestone is receivable according to the progress of the pipeline being developed by Activus Pharma Co. Ltd plus a sales royalty if the developed product is commercialized.

Section 2. Business Review

4 Significant Contracts in Business Operation (continued)

4.2 Contracts Involving Heptares

Investment in MiNA (Holdings) Ltd.

Contract name	Equity investment with option to acquire entire share capital
Counterparty	MiNA (Holdings) Ltd. and shareholders (Note: The Group's holding was transferred from Sosei R&D Ltd. to Heptares Therapeutics Ltd in November 2018)
Execution date	May 2, 2017
Contract period	Option expired 45 days from receipt of clinical trials data. Management chose not to exercise its option rights in October 2018.
Main contents of contract	The Company paid £35m to acquire 25.6% of the voting stock of MiNA (Holdings) Ltd. inclusive of option rights to acquire the remaining shares for £140m. The option rights were allowed to lapse in October 2018.

Development of Respiratory Drugs

Contract name	License Agreement
Counterparty	Novartis International Pharmaceutical Ltd., Vectura Ltd. (Note: Originally contracted with Sosei R&D Ltd and novated to Heptares UK Ltd. in November 2018)
Execution date	April 12, 2005
Contract period	From the date of conclusion of the agreement until the later of (1) the expiry of the last patent licensed by Sosei R&D Ltd. and its joint licenser Vectura or (2) 10 years after the initial launch date of the last product commercialized by Sosei R&D Ltd. or a licensee.
Main contents of contract	Sosei R&D Ltd. and Vectura granted exclusive licenses to Novartis to develop and commercialize NVA237 and QVA149 globally.

Contract name	Research and License Agreement
Counterparty	AstraZeneca UK Limited
Execution date	August 6, 2015
Contract period	From the effective date of the agreement (the end of the waiting period under the United States antitrust law) until the later for each applicable product and country of (1) the expiry date of the applicable patent rights, (2) the end of the legal monopoly period, or (3) the earlier of 10 years after the market launch or the launch of a generic version.
Main contents of contract	Heptares granted AstraZeneca exclusive global rights to develop, manufacture and commercialize the adenosine A2A receptor antagonist HTL1071 and receives as consideration an upfront payment, milestone and royalty revenues. In addition, both companies are to conduct a joint research program.

Section 2. Business Review

4 Significant Contracts in Business Operation (continued)

4.2 Contracts Involving Heptares (continued)

Contract name	Research Collaboration and License Agreement
Counterparty	Pfizer Inc.
Execution date	November 18, 2015
Contract period	From the date of conclusion of the agreement until the later for each applicable product and country of either (1) the final patent expiry date of the applicable patent rights, or (2) 10 years after the market launch.
Main contents of contract	Heptares granted Pfizer exclusive rights to develop, manufacture, and commercialize new pharmaceutical products related to up to 10 types of GPCR targets in multiple fields in return for development and commercialization milestone payments and royalties on net sales.

Contract name	Research, Development and License Agreement
Counterparty	Allergan Pharmaceuticals International Limited (“Allergan”)
Execution date	April 7, 2016
Contract period	From the date of conclusion of the agreement until the later for each applicable product and country of either (1) the final patent expiry date of the applicable patent rights, (2) the end of the legal monopoly period, or (3) 10 years after the initial market launch.
Main contents of contract	Heptares granted Allergan exclusive rights to develop, manufacture, and commercialize novel subtype-selective muscarinic receptor agonists for the treatment of major neurological disorders, including Alzheimer’s disease in return for an upfront payment, development and commercialization milestone payments and royalties on net sales.

Contract name	Research Collaboration and License Agreement
Counterparty	Daiichi Sankyo Company, Limited
Execution date	March 13, 2017
Contract period	Until the end of the payment obligation
Main contents of contract	Heptares contracted to discover novel, small molecules focusing on a single GPCR nominated by Daiichi Sankyo and granted Daiichi Sankyo the rights to develop, manufacture, and commercialize the treatment in return for an upfront payment, research and development support payments, development and commercialization milestone payments and royalties on net sales.

Contract name	Agreement
Counterparty	Allergan Pharmaceuticals International Limited
Execution date	November 7, 2017
Contract period	No fixed period
Main contents of contract	Heptares received a license from Allergan free of charge to develop and advertise a novel muscarinic M1 receptor agonist HTL 0018318 for the treatment of Lewy body dementia in Japan. The right to implement HTL 0018318 development outside Japan is reserved by Allergan.

Section 2. Business Review

5 Research and Development Activities

As a biotechnology company oriented towards product development, the Group focuses its management resources on pharmaceutical research and development activities. The Group's research and development expenses comprise development expenses for the Group's development products and expenses for discovering the next generation of development candidates and research for foundational technologies for drug discovery.

The Group's research and development expenses for the nine month period ended December 31, 2018 were 5,384 million yen in accordance with IFRS.

Specific details of the research and development activities can be found in "Section 2. Business Review, sub-section 3. Overview of Operating Results."

Sosei Group Corporation

Section 3. Facilities

1 Overview of Capital Expenditures

The only significant capital expenditure in the year related to the transfer of UK R&D operations to a new facility in Granta Park, Cambridge. Total expenditure to December 31, 2018 was ¥m 1,744. There were no disposals or sales of important equipment during the fiscal period ended December 31, 2018.

2 Status of Main Facilities

The Group’s main facilities as of December 31, 2018 were as follows:

2.1 Filing Company

		Book value				
Office name (Location)	Description	Buildings ¥m	Furniture and fixtures ¥m	Leases ¥m	Total ¥m	Number of employees
Head office (Chiyoda-ku, Tokyo)	Management operations of the overall company	37	10	34	81	14

Notes

1. The above amounts are based on J-GAAP and do not include consumption taxes.
2. Head office is a leased facility.
3. The average number of temporary employees in the fiscal period was 1.2

2.2 Overseas Subsidiaries

		Book value					
Office and factory name (Location)	Description	Buildings and structures ¥m	Machinery and equipment ¥m	Furniture and fixtures ¥m	Construction in progress ¥m	Total ¥m	Number of employees
Heptares Therapeutics Ltd. Head office (Cambridge, U.K.)	Research facility	1,515	651	128	252	2,546	127

Notes

1. The above amounts are based on IFRS and do not include consumption taxes.
2. Research facility is a leased building.
3. The average number of temporary employees in the fiscal period was 9.4

3 Plans for New Installation and Retirement of Facilities

3.1 New Installation of Important Facilities

Not applicable.

3.2 Retirement of Important Facilities

Not applicable.

Sosei Group Corporation

Section 4. Information about the Filing Company

1. Stock Information

1.1 Total Number of Shares

Total Number of Shares

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

Issued Shares

Type	Number of issued shares at December 31, 2018 (shares)	Number of issued shares at the date of submission at March 28, 2019 (shares)	Name of listed financial instruments exchange or name of registered authorized financial instruments firms associations	Details
Common shares	76,301,936	76,301,936	Tokyo Stock Exchange (Mothers)	Number of shares constituting one unit: 100 shares
Total	76,301,936	76,301,936	–	–

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 March 1, 2019 and the submission date of this securities report is not included.

Section 4. Information about the Filing Company

1. Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options)

Details of Stock Acquisition Rights

Resolution date	*26th Stock Acquisition Rights* September 6, 2010		*27th Stock Acquisition Rights* September 6, 2010		*29th Stock Acquisition Rights* November 13, 2015	
Number of people granted	Executive officers	2	Executive officers	0	Directors	2
	Directors	0	Directors	2	Executive officers	1
	Employees	10	Employees	0	Employees	5
	Directors of subsidiaries	2	Directors of subsidiaries	0	Directors of subsidiaries	2
	Employees of subsidiaries	10	Employees of subsidiaries	0	Employees of subsidiaries	10
Number of stock acquisition rights (units)	40		115		303	
Class and number of shares underlying stock acquisition rights (shares)	Common shares 16,000		Common shares 46,000		Common shares 121,200	
Amount to be paid in to exercise stock acquisition rights (yen)	162		162		1,033	
Period for exercising stock acquisition rights	From September 7, 2012 to September 6, 2020				From July 1, 2017 to June 30, 2020	
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of stock acquisition rights (yen)	Issue price: 162 Additional paid-in capital per share: 81		Issue price: 163 Additional paid-in capital per share: 82		Issue price: 1,034 Additional paid-in capital per share: 517	
Conditions for exercising stock acquisition rights	If a beneficiary loses his/her position during the exercise period, the beneficiary is able to exercise the rights only during the period prescribed in “Agreement on Allotment of Stock Option”				Notes 3 to 7	
Matters relating to transfer of stock acquisition rights	Approval by resolution of the Company’s Board of Directors				Approval by resolution of the Company’s Board of Directors	
Matters relating to granting of stock acquisition rights in association with acts of organizational restructuring	–				Notes 12	

Section 4. Information about the Filing Company

1. Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

Resolution date	*30th Stock Acquisition Rights* November 13, 2015		*31st Stock Acquisition Rights* May 15, 2017		*32nd Stock Acquisition Rights* May 15, 2017	
Number of people granted	Directors	3	Directors	5	Directors	0
	Executive officers	2	Executive officers	3	Executive officers	0
	Employees	2	Employees	0	Employees	7
	Directors of subsidiaries	2	Directors of subsidiaries	0	Directors of subsidiaries	2
	Employees of subsidiaries	79	Employees of subsidiaries	4	Employees of subsidiaries	7
Number of stock acquisition rights (units)	3,399		671		67	
Class and number of shares underlying stock acquisition rights (shares)	Common shares 1,359,600		Common shares 268,400 (Note 13)		Common shares 26,800 (Note 13)	
Amount to be paid in to exercise stock acquisition rights (yen)	1,033		1		3,085 (Note 14)	
Period for exercising stock acquisition rights	From July 1, 2018 to June 30, 2021		From July 1, 2020 to April 30, 2027			
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of stock acquisition rights (yen)	Issue price: 1,034 Additional paid-in capital per share: 517		Issue price: 3,089 Additional paid-in capital per share: 1,545		Issue price: 3,105 Additional paid-in capital per share: 1,553	
Conditions for exercising stock acquisition rights	Notes 3 to 7		Notes 15			
Matters relating to transfer of stock acquisition rights	Approval by resolution of the Company's Board of Directors		Approval by resolution of the Company's Board of Directors			
Matters relating to granting of stock acquisition rights in association with acts of organizational restructuring	Notes 12		Notes 12			

Section 4. Information about the Filing Company

1. Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

Resolution date	*33rd Stock Acquisition Rights* May 15, 2017		*34th Stock Acquisition Rights* November 21, 2017		*35th Stock Acquisition Rights* November 21, 2017	
Number of people granted	Directors	0	Directors	0	Directors	0
	Executive officers	0	Executive officers	0	Executive officers	0
	Employees	1	Employees	3	Employees	0
	Directors of subsidiaries	0	Directors of subsidiaries	0	Directors of subsidiaries	0
	Employees of subsidiaries	102	Employees of subsidiaries	0	Employees of subsidiaries	9
Number of stock acquisition rights (units)	232 [216]		11		18	
Class and number of shares underlying stock acquisition rights (shares)	Common shares 92,800 [86,400] (Note 13)		Common shares 4,400 (Note 13)		Common shares 7,200 (Note 13)	
Amount to be paid in to exercise stock acquisition rights (yen)	3,085 (Note 14)		2,687 (Note 14)		2,687 (Note 14)	
Period for exercising stock acquisition rights	From July 1, 2020 to April 30, 2027		From December 1, 2020 to October 29, 2027			
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of stock acquisition rights (yen)	Issue price: 3,105 Additional paid-in capital per share: 1,553		Issue price: 2,703 Additional paid-in capital per share: 1,352		Issue price: 2,703 Additional paid-in capital per share: 1,352	
Conditions for exercising stock acquisition rights	Notes 15		Notes 15			
Matters relating to transfer of stock acquisition rights	Approval by resolution of the Company's Board of Directors		Approval by resolution of the Company's Board of Directors			
Matters relating to granting of stock acquisition rights in association with acts of organizational restructuring	Notes 12		Notes 12			

Notes
1. Following a resolution of the Board of Directors meeting held on March 1, 2013, the Company conducted a 100-for-1 stock split on April 1, 2013. Accordingly, the "number of shares underlying stock acquisition rights," "amount to be paid in to exercise stock acquisition rights," and the "share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of stock acquisition rights" have been adjusted.
2. Following a resolution of the Board of Directors meeting held on May 10, 2018, the Company conducted a 4-for-1 stock split on July 1, 2018. Accordingly, the "number of shares underlying stock acquisition rights," "amount to be paid in to exercise stock acquisition rights," and the "share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of stock acquisition rights" have been adjusted.
3. Stock option holders may exercise stock options when the cumulative total of revenue in the Company's audited Consolidated Statement of Comprehensive Income reported in securities reports submitted by the Company for the fiscal years ended March 2016 and March 2017 is 23.0 billion yen or greater.
4. If, during the period from the allotment date to the date the stock option exercise period expires, the average closing price for regular trading of the Company's shares of common stock on the Tokyo Stock Exchange for any five consecutive trading days falls below a price that is 50% of the exercise price (amounts less than one yen rounded off) even one time, stock options may not be exercised even if the conditions of 1. above are met.
5. Stock option holders must be directors, executive officers or employees of the Company or the Company's affiliates when exercising stock options; provided, however, that this does not apply in cases of retirement due to expiration of term of office or reaching the mandatory retirement age, or when there are other legitimate reasons.
6. Stock options may not be exercised by heirs of stock option holders.
7. Stock options may not be exercised if by exercising the options the Company's total number of issued shares after exercise would exceed the total number of authorized shares at that time.
8. If the Company conducts a stock split or stock consolidation, the number of shares underlying stock acquisition rights shall be adjusted using the following formula, with any fraction less than one share resulting from the adjustment being rounded down.

$$\text{Number of shares granted after adjustment} = \text{Number of shares granted before adjustment} \times \text{Ratio of stock split (or stock consolidation)}$$

Section 4. Information about the Filing Company

1. Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

9. If the Company conducts a stock split or stock consolidation, the exercise amount in the case of issuance or transfer of shares upon exercise of the stock acquisition rights shall be adjusted using the following formula, with any fraction less than one yen resulting from the adjustment being rounded up.

$$\text{Exercise amount after adjustment} = \text{Exercise amount before adjustment} \times \frac{1}{\text{Ratio of stock split or stock consolidation}}$$

10. If the Company issues new shares with a paid-in amount lower than the market value, the exercise amount in the case of issuance of shares upon exercise of stock acquisition rights shall be adjusted using the following formula, with any fraction less than one yen resulting from the adjustment being rounded up.

$$\text{Exercise amount after adjustment} = \text{Exercise amount before adjustment} \times \frac{\text{Number of outstanding shares} + \dfrac{\text{Number of shares newly issued} \times \text{Amount paid per share}}{\text{Market value per share}}}{\text{Number of outstanding shares} + \text{Number of shares newly issued}}$$

11. In addition to the above, details are stipulated in an "Agreement on Allotment of Stock Option" concluded between the Company and eligible recipients in accordance with a resolution of the Board of Directors.
12. In the event that the Company conducts a merger (limited to cases where the Company is dissolved in the merger), an absorption-type company split (limited to cases where the Company is the splitting company), an incorporation-type company split, a share exchange or a stock transfer (each limited to cases where the Company becomes a wholly owned subsidiary) (collectively, "Reorganization"), stock acquisition rights of one of the stock corporations listed in Article 236, Paragraph 1, item 8 (a) through (e) of the Companies Act (the "Reorganized Company") shall be granted to the holders of the Stock Acquisition Rights remaining at the time the Reorganization takes effect, in accordance with the following conditions. In this case, the remaining Stock Acquisition Rights will be forfeited and the Reorganized Company shall issue new stock acquisition rights. Provided, however, that the foregoing applies only to cases where the grant of the stock acquisition rights of the Reorganized Company, in accordance with the following conditions, is provided for in the relevant absorption-type merger agreement, incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split agreement, share exchange agreement or stock transfer agreement.

(1) Number of Stock Acquisition Rights of the Reorganized Company to be granted:
Stock acquisition rights will be granted to the respective holders of the remaining Stock Acquisition Rights in the same number as the Rights they held.

(2) Class of shares of the Reorganized Company to be delivered upon exercise of the Stock Acquisition Rights:
Common stock of the Reorganized Company

(3) Number of shares of the Reorganized Company to be delivered upon exercise of the Stock Acquisition Rights
To be determined in accordance with Notes 8 (or note 13 from 31st to 35th) after considering the terms and conditions of the Reorganization.

(4) Value of assets to be contributed upon exercise of the Stock Acquisition Rights:
To be determined in accordance with Notes 9 (or note 14 from 31st to 35th) above after considering the terms and conditions of the Reorganization.

(5) Period for exercising stock acquisition rights:
A period commencing on either the beginning date of the Exercise Period or the effective date of the Reorganization, whichever is later, and ending on the ending date of the Exercise Period.

(6) Matters concerning increase in capital and capital reserve in the event of issuance of shares due to exercise of Stock Acquisition Rights:
i) The amount of capital to be increased in the event that new shares are issued upon the exercise of the Rights shall be one half of the maximum amount of increase in capital, calculated in accordance with Article 17, Paragraph 1 of the Ordinance for Companies Accounting. Any amount less than one yen arising from such calculation shall be rounded up to the nearest yen.
ii) The amount of increase in the capital reserve in the event that new shares are issued upon the exercise of the Rights shall be the maximum amount of increase in capital stated in item i) above, less the amount of capital to be increased as specified in item i) above.

(7) Restrictions on acquiring Stock Acquisition Rights through transfer:
Acquisition of stock acquisition rights through transfer shall require approval by resolution of the Board of Directors of the Reorganized Company.

(8) Other conditions for the exercise of Stock Acquisition Rights:
To be determined according to "Conditions for exercising stock acquisition rights " on the table above.

(9) Acquisition of Stock Acquisition Rights:
i) In the event that a merger agreement by which the Company would be the dissolving company, an agreement or plan to divest by which the Company would be divested, or a share exchange agreement or stock transfer plan by which the Company would become a wholly owned subsidiary is approved by the General Meeting of Shareholders (or by resolution of the Board of Directors if approval by the General Meeting of Shareholders is not required), the Company may acquire without contribution all of the Rights on a date that would be determined separately by the Board of Directors of the Company.
ii)In the event that the provisions in clause Note 4 above prevent a Rights Holder from exercising the Rights, the Company may acquire the Rights without contribution.

13. If, after the allotment date of the Rights, the Company conducts a stock split (including any allotment of shares without contribution; the same shall apply hereinafter) or a stock consolidation, the Number of Shares Granted shall be adjusted according to the following formula. Such adjustment shall only be made with respect to the number of shares subject to unexercised Stock Acquisition

Rights, with any fractional shares resulting from such adjustment rounded down to the nearest whole share.

$$\text{Number of shares granted after adjustment} = \text{Number of shares granted before adjustment} \times \text{Stock split (or consolidation) ratio}$$

The Number of Shares Granted after adjustment shall apply on and after the next day of the record date (if no record date is fixed, the effective date) of stock split or on and after the effective date of stock consolidation.

Furthermore, if, after the allotment date, the Company conducts a merger, company split or capital reduction, or in any other case similar thereto where an adjustment in the Number of Shares Granted is required, the Company shall adjust the Number of Shares Granted as appropriate.

14. The value of the assets to be contributed upon exercise of the Rights shall be the amount obtained by multiplying the amount to be paid for each share of common stock to be delivered upon the exercise of the Rights (the "Exercise Price") by the Number of Shares Granted.

i)In case of a stock split or consolidation the Exercise Price shall be adjusted according to the following formula, with any amount less than one yen resulting from the adjustment rounded up to the nearest yen.

$$\text{Exercise amount after adjustment} = \text{Exercise amount before adjustment} \times \frac{1}{\text{Stock split or consolidation ratio}}$$

ii) In case the Company issues new shares of common stock or disposes of treasury stock at a price below the market price of its common stock (except in the cases of the issue of new shares and disposal of treasury shares based on the exercise of the Rights, and the transfer of treasury shares due to a share exchange), the Exercise Price shall be adjusted according to the following formula, with any amount less than one yen resulting from the adjustment rounded up to the nearest yen.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of outstanding shares} + \dfrac{\text{Number of newly issued shares} \times \text{Amount to be paid per share granted}}{\text{Market price per share before issue of new shares}}}{\text{Number of outstanding shares} + \text{Market price per share before issue of new shares}}$$

In the formula above, the "Market price per share" shall be the average of the closing prices of the shares of common stock of the Company in the regular trading on the TSE for the thirty (30) consecutive trading days (excluding days on which there is no such closing price) commencing forty-five (45) trading days immediately before the date on which the Exercise Price after adjustment shall be applied (any fraction less than one (1) yen arising as a result of such calculation shall be rounded off to one decimal place), and the "Number of outstanding shares" is the total number of shares of the Company's common stock minus the number of treasury shares of common stock.

If the treasury shares are disposed, "Number of newly issued shares" shall be replaced with "Number of treasury shares to be disposed of," and "Amount to be paid per share granted" shall be replaced with "Selling price per share" in the above formula.

iii) In case where the Company is a surviving company in absorption-type merger or a succeeding company in absorption-type company split or a parent company in share exchange or in other similar cases where the adjustment of the Exercise Price is necessary, the Exercise Price shall be adjusted as appropriate and to the extent reasonable.

15.

(1) A Rights Holder may exercise his or her Rights if the closing price of common stock of the Company in the regular trading on the TSE on July 1, 2020 (for 34th and 35th stock options, on December 1, 2020) is one hundred and fifteen percent (115%) or more of the base price. For the purpose of these items, the "base price" means the closing price of common stock of the Company in the regular trading on the TSE on the Allotment Date. Stock options may not be exercised by heirs of stock option holders.

(2) Notwithstanding the conditions provided in the 13 (1) above, one-third of the total number of the Rights allotted to the Rights Holder (any fractional Right resulting from such calculation shall be rounded down to the nearest whole Right) may be exercised if any of the closing price of common stock of the Company in the regular trading on the TSE on the date after one, two or three years from the allotment date (the "Corresponding Date") (if the Corresponding Date is not a trading day or there is no closing price on the Corresponding Date, the immediately preceding trading day) is not less than five percent (5%) of the base price above the price on the Allotment Date or the immediately preceding Corresponding Date, whichever comes later, and two-thirds of the total number of the Rights allotted to the Rights Holder (any fractional Right resulting from such calculation shall be rounded down to the nearest whole Right) may be exercised if two of the closing price of common stock of the Company in the regular trading on the TSE on the Allotment Date or the Corresponding Date is not less than five percent (5%) of the base price above the price on the Allotment Date or the immediately preceding Corresponding Date, whichever comes later.

(3) A Rights Holder must be a director, an executive officer and/or an employee of the Company or its subsidiary at the time the Rights are exercised. Provided, however, this provision shall not apply to directors or executive officers who have retired due to expiration of their terms of office, or employees who have retired upon reaching the mandatory retirement age or for other legitimate reasons that the Board of Directors may deem appropriate.

(4) Exercise of the Rights by heirs of Rights Holder shall not be permitted.

(5) Rights may not be exercised when doing so would cause the total number of shares of the Company outstanding after exercise of such Rights to exceed the total number of shares authorized to be issued by the Company at the time of the exercise.

(6) The Rights may not be exercised in less than one unit.

Sosei Group Corporation

Section 4. Information about the Filing Company

1. Stock Information (continued)

1.2 Stock Acquisition Rights (Stock Options) (continued)

Contents of Rights Plan

Not applicable.

Contents of Exercise of others

Not applicable.

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

Not applicable.

1.4 Changes in Total Number of Issued Shares, and Capital Stock

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
April 1, 2014 – March 31, 2015 Note 1, 2	24,800	13,774,000	24	19,478	(13,779)	7,594
April 1, 2015 – March 31, 2016 Notes 3, 4, 5	3,081,284	16,855,284	6,477	25,955	6,477	14,072
April 1, 2016 – March 31, 2017 Note 6	60,900	16,916,184	49	26,004	49	14,121
April 1, 2017 – March 31, 2018 Notes 7, 8	2,138,800	19,054,984	10,778	36,782	10,778	24,899
April 1, 2018 – December 31, 2018 Notes 9, 10	57,246,952	76,301,936	72	36,854	72	24,971

Notes 1. The following proposal regarding a reduction of legal capital reserve and appropriation of surplus was approved by the Ordinary General Meeting of Shareholders of the Company held on June 18, 2014 and took effect on that day.

(1) Purpose of reduction of legal capital reserve and appropriation of surplus

Using retained earnings carried forward to cover losses, the Company will realize a structure that can ensure flexibility and agility in financial strategy going forward and return profits to shareholders.

(2) Summary of reduction of legal capital reserve

(i) Decrease in reserve

Legal capital reserve: 13,803 million yen

(ii) Increase in surplus

Other capital surplus: 13,803 million yen

(3) Summary of appropriation of surplus

(i) Decrease in surplus

Other capital surplus: 13,803 million yen

(ii) Increase in surplus

Retained earnings carried forward: 13,803 million yen

2. The total number of issued shares increased by 24,800 due to exercise of stock acquisition rights between April 1, 2014 and March 31, 2015, and the resulting increases in capital stock and legal capital reserve were 24 million yen each.

Section 4. Information about the Filing Company

1. Stock Information (continued)

1.4 Changes in Total Number of Issued Shares, and Capital Stock (continued)

3. The Company issued new shares through a public offering with compensation and third-party allotment with compensation in accordance with a resolution of the Board of Directors meeting held on September 1, 2015.

(1) Public offering with compensation

Issue price:	3,647 yen
Payment amount:	3,460.76 yen
Additional paid-in capital per share:	1,730.38 yen

(2) Third-party allotment with compensation (third-party allotment in association with secondary offering due to over-allotment)

Issue price:	3,647 yen
Payment amount:	3,460.76 yen
Additional paid-in capital per share:	1,730.38 yen
Allottee:	Mizuho Securities Co., Ltd.

4. The Company issued new shares by third-party allotment with compensation with a pay-in date of December 16, 2015.

Issue price:	8,537 yen
Additional paid-in capital per share:	4,268.5 yen
Allottee:	Pfizer Seiyaku K.K.

5. The total number of issued shares increased by 80,000 due to the exercise of stock acquisition rights between April 1, 2015 and March 31, 2016, and the resulting increases in capital stock and legal capital reserve were 88 million yen each.

6. The total number of issued shares increased by 60,900 due to the exercise of stock acquisition rights between April 1, 2016 and March 31, 2017, and the resulting increases in capital stock and legal capital reserve were 49 million yen each.

7. This is due to the issuance of new shares by way of an international offering and third-party allotment in association with secondary offering due to over-allotment as follows, based on the resolution at the meeting of the Board of Directors held on November 10, 2017:

(1) International offering (with compensation)
Issue price 10,800 yen
Payment amount 10,283.55 yen
Additional paid-in capital per share 5,141.775 yen

(2) Third-party allotment (with compensation)
Issue price: 10,800 yen
Payment amount: 10,283.55 yen
Additional paid-in capital per share: 5,141.775 yen
Allottee: JPMorgan Securities Japan Co., Ltd.

8. The total number of issued shares increased by 68,800 due to exercise of stock acquisition rights between April 1, 2017 and May 31, 2018, and the resulting increases in capital stock and legal capital reserve were 134 million yen each.

9. On May 10, 2018 the Board of Directors resolved to conduct a stock split. The Company revised its Articles of Incorporation to increase the total number of authorized shares in proportion to the stock split ratio with effect on 1 July 2018. Therefore issued share increased by 57,164,952 shares.

10. The total number of issued shares increased by 82,000 due to exercise of stock acquisition rights between April 1, 2018 and December 31, 2018, and the resulting increases in capital stock and legal capital reserve were 72 million yen each.

Section 4. Information about the Filing Company

1.5 Shareholding by Shareholder Category

As of December 31, 2018

Category	Shareholding status (Number of shares per share unit: 100 shares)								Fractional shares (shares)
	Public sector	Financial institutions	Financial instruments business operators	Other corpor-ations	Foreign investors, etc.		Individuals, etc.	Total	
					Companies, etc.	Individuals			
Number of shareholders (persons)	–	12	62	363	154	69	31,753	32,413	–
Number of shares held (units)	–	24,762	35,645	42,877	138,292	5,871	515,197	762,644	37,536
Shareholding ratio (%)	–	3.246	4.673	5.622	18.133	0.769	67.554	100.000	–

Notes Common shares in the “Individuals, etc.” row include 1 unit and in the “Fractional shares” row include 4 treasury shares of 104 shares owned by the Company.

Section 4. Information about the Filing Company

1. Stock Information (continued)

1.6 Major Shareholders

As of December 31, 2018

Name	Address	Number of shares held (shares)	Percentage of shares held to total number of shares issued (%)
Daisuke Gomi	Matsumoto-shi, Nagano	6,160,000	8.07
Taiyo Hanei Fund, L.P. (Standing proxy: MUFG Bank, Ltd.)	5300 Carillon Point Kirkland, WA 98033, USA (Standing proxy: 2-7-1, Marunouchi, Chiyoda-ku, Tokyo)	2,008,900	2.63
Pfizer Seiyaku K.K.	22-7, Yoyogi 3-chome, Shibuya-ku, Tokyo	1,885,136	2.47
Taiyo Fund, L.P. (Standing proxy: MUFG Bank, Ltd.)	5300 Carillon Point Kirkland, WA 98033, USA (Standing proxy: 2-7-1, Marunouchi, Chiyoda-ku, Tokyo)	1,733,500	2.27
State Street Bank and Trust. Company 505019 (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	AIB International Centre P.O. Box 518 IFSC Dublin, Ireland (Standing proxy: 11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo)	1,355,805	1.78
Shinichi Tamura	London, United Kingdom	1,136,400	1.49
Matsui Securities Co., Ltd.	4, Koujimachi 1-chome, Chiyoda-ku, Tokyo	813,200	1.07
BBH for Matthews Asia Growth Fund (Standing proxy: MUFG Bank, Ltd.)	4 Embarcadero CTR STE 550, San Francisco, California, 94111, USA	682,400	0.89
BNY GCM Client Account JPRD AC ISG (FE-AC) (Standing proxy: MUFG Bank, Ltd.)	Peterborough Court, 133 Fleet Street, London EC4A 2BB, United Kingdom (Standing proxy: 2-7-1, Marunouchi, Chiyoda-ku, Tokyo)	649,883	0.85
Japan Trustee Services Bank, Ltd. (trust account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	646,100	0.85
		17,071,324	22.37

Notes 1. Of the above number of shares held, the number of shares in association with fiduciary activities is as follows:
Japan Trustee Services Bank, Ltd. (trust account) 646,100 shares

Section 4. Information about the Filing Company

1. Stock Information (continued)

1.6 Major Shareholders (continued)

2. In the amended report of possession of large-volumes provided for public inspection on October 22, 2018, the following shareholdings are respectively attributed to Deutsche Securities Inc. and its two joint holders at October 15, 2018. However, since the Company is unable to confirm the actual number of shares held at December 31, 2018, they are not included in the major shareholders table above.

Details included in the report are as follows:

Name	Address	Number of share certificates held (shares)	Holding ratio of share certificates (%)
Deutsche Bank Aktiengesellschaft, London	Winchester House, 1 Great Winchester Street, London EC2N 2DB, England, UK	3,081,689	4.04
Deutsche Securities Inc.	Sanno Park Tower, 11-1 Nagatacho 2 chome, Chiyoda-ku, Tokyo	29,644	0.04
Deutsche Bank Securities Inc.	60 Wall Street, New York, NY 10005-2858, U.S.A.	47	0.00
		3,111,380	4.08

3. In the amended report of possession of large-volumes provided for public inspection on November 6, 2018, the following shareholdings are respectively attributed to J.P. Morgan Asset Management (Japan) Ltd. and its three joint holders at October 31, 2018. However, since the Company is unable to confirm the actual number of shares held at December 31, 2018, they are not included in the major shareholders above.

Details included in the report are as follows:

Name	Address	Number of share certificates held (shares)	Holding ratio of share certificates (%)
J.P. Morgan Asset Management (Japan) Ltd.	Tokyo Building, 7-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo	259,600	0.34
J.P. Morgan Securities Japan Co., Ltd.	Tokyo Building, 7-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo	61,700	0.08
J.P. Morgan Securities plc	25 Bank Street, Canary Wharf, London E14 5JP, U.K.	215,155	0.28
J.P. Morgan Securities LLC	383 Madison Avenue, New York, NY 10179, U.S.A.	257,700	0.34
		794,155	1.04

Section 4. Information about the Filing Company

1. Stock Information (continued)

1.6 Major Shareholders (continued)

4. In the amended report of possession of large-volumes provided for public inspection on November 15, 2018, the following shareholdings are respectively attributed to Taiyo Fund management Co. LLC. and its four joint holders at November 8, 2018. However, since the Company is unable to confirm the actual number of shares held at December 31, 2018, they are not included in the major shareholders above.

Details included in the report are as follows:

Name	Address	Number of share certificates held (shares)	Holding ratio of share certificates (%)
Taiyo Fund Management Co. LLC	5300 Carillon Point Kirkland, WA 98033, USA	1,552,400	2.03
Taiyo Hanei GP, Ltd.	c/o Appleby Trust Ltd, Clifton House 75 Fort Street, Grand Cayman, KY1-1108, Cayman Island	1,875,500	2.46
Taiyo Pacific CG LLC	5300 Carillon Point Kirkland, WA 98033, USA	1,786,100	2.34
Taiyo Maki GP, LTD	c/o Appleby Trust Ltd, Clifton House 75 Fort Street, Grand Cayman, KY1-1108, Cayman Island	202,900	0.27
Taiyo Hinata GP LLC	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA	86,800	0.11
		5,503,700	7.21

Section 4. Information about the Filing Company

1. Stock Information (continued)

1.7 Voting Rights

Issued Shares

As of December 31, 2018

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 100	-	-
Shares with full voting rights (other)	Common shares 76,264,300	762,643	Note
Shares less than one unit	Common shares 37,536	-	-
Total number of issued shares	76,301,936	-	-
Voting rights held by all the shareholders	-	762,643	-

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

Treasury Shares, Etc.

As of December 31, 2018

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	100	-	100	0.00

Section 4. Information about the Filing Company

2 Acquisitions, etc. of Treasury Shares
Classes of shares: Ordinary shares

2.1 Acquisitions by Resolution of General Meeting of Shareholders
Not applicable.

2.2 Acquisitions by Resolution of Board of Directors
Not applicable.

2.3 Acquisitions not Based on Resolution of General Meeting of Shareholders or Board of Directors
Not applicable.

2.4 Disposals or Holding of Acquired Treasury Shares

Item	April 1, 2018 - December 31, 2018		January 1, 2019 – February 28, 2019	
	Number of shares (shares)	Amount of disposal share price (yen)	Number of shares (shares)	Amount of disposal share price (yen)
Undertaken treasury shares	–	–	–	–
Retirement treasury shares	–	–	–	–
Mergers, Stock exchange, company split treasury shares	–	–	–	–
Others	–	–	–	–
Holding of Acquired Treasury Shares	104	–	104	–

3 Dividend Policy
The declaration and payment of any dividends in the future will depend on the results of operations, financial conditions, cash requirements, future prospects, profits available for distribution and other factors deemed by the Board to be relevant at the time.

At present, the Group is making prudent investments to build a globally competitive biotechnology business and, therefore, does not expect to pay any dividends in the near to medium term. The Board will continue to reassess this position based on the factors above.

With regard to dividends of surplus, except where stipulated otherwise by laws and regulations, the Company's Articles of Incorporation stipulate that the Board of Directors may decide without a resolution of the General Meeting of Shareholders. Moreover, the record date for the year-end dividend shall be December 31, and the record date for the interim dividend shall be June 30.

Section 4. Information about the Filing Company

4 Trends in Share Price

4.1 Highest and Lowest Share Prices for the Most Recent Five Years by Term

Term	24th Term	25th Term	26th Term	27th Term	28th Term	29th Term
Closing date	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	Dec 31, 2018
Highest (yen)	6,100	6,000	18,900	26,180	13,080	9,080 1,855
Lowest (yen)	2,478	1,854	2,882	10,380	8,320	6,380 748

Note 1. The yearly highest and lowest share prices were those recorded on the Mothers market of the Tokyo Stock Exchange.
2. The 29th term is a nine month irregular term.
3. The share prices in the second line of the 29th Term are stated after the stock split.

4.2 Monthly Highest and Lowest Share Prices for the Most Recent Six Months

Month	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018
Highest (yen)	1,774	1,820	1,855	1,368	1,185	1,163
Lowest (yen)	1,304	1,185	1,030	835	844	748

Note The monthly highest and lowest share prices were those recorded on the Mothers market of the Tokyo Stock Exchange.

Section 4. Information about the Filing Company

5 Status of Officers as at 27 March 2019

Men: 10, Women: 1 (percentage of female officers: 9%)

5.1 Status of Directors

Title	Post	Name	Date of birth	Summary of career		Term of office	No. of shares owned
Director	Chairman of the Board	Shinichi Tamura	Sept. 17, 1949	Apr. 1978	Joined Fujisawa Pharmaceutical Co., Ltd. (currently Astellas Pharma Inc.)	Note 3	1,136,400
				Feb. 1987	Joined Genentech Limited		
				July 1989	Representative Director & President, Genentech Limited		
				June 1990	Representative Director & CEO, the Company		
				June 2005	Director, Representative Executive Officer and President, CEO, the Company		
				Mar. 2012	Managing Director, Sosei R&D Ltd.		
				June 2016	Chairman of the Board, the Company (to the present) Representative Executive Officer and Executive Chairman, the Company		
				Jan. 2019	Representative Executive Officer, Chairman, President and CEO, the Company (to the present)		
Director	–	Tomohiro Tohyama	Feb. 21, 1950	Apr. 1978	Entered Legal Training and Research Institute, Supreme Court of Japan	Note 3	–
				Apr. 1980	Registered with Dai-ichi Tokyo Bar Association Joined Nishimura & Sanada Law Office		
				May 1984	Mason & Sloane LLP. USA		
				Feb. 1985	Pollock, Bloom & Dekom, USA		
				June 1985	Pryor, Cashman, Sherman & Flynn, USA		
				Aug. 1985	Returned to Nishimura & Sanada Law Office as a partner		
				Oct. 1990	Partner at TMI Associates (to the present)		
				Nov. 1999	Outside Corporate Auditor, Nippon Shikizai, Inc.		
				June 2010	Outside Director, Avex Group Holdings		
				June 2011	Outside Director, the Company (to the present)		
				May 2016	Outside Director and Audit and Supervisory Committee Member, Nippon Shikizai, Inc. (to the present) Outside Director, Trust Capital Co., Ltd. (to the present)		
				June 2016	Outside Statutory Auditor, WOWOW Inc. (to the present)		
Director	–	Julia Gregory	Sept. 7, 1952	Sept. 1980	Senior Vice President, Dillon, Read & Co. (currently UBS AG) (resigned December 1990)	Note 3	–
				Feb. 2000	Executive Vice President & CFO, Lexicon Pharmaceuticals, Inc.		
				June 2009	President & CEO, Five Prime Therapeutics, Inc.		
				July 2012	Executive Vice President & CFO, ContraFect Corporation		
				Nov. 2013	President & CEO, ContraFect Corporation		
				Apr. 2016	Chairman & CEO, Isometry Advisors, Inc. (to the present)		
				Feb. 2017	Director, Iconic Therapeutics, Inc. (to the present)		
				June 2017	Director, the Company (to the present)		
				Aug. 2017	Director, Biohaven Pharmaceutical Holding Company Ltd. (to the present)		
				Jun. 2018	Board of Directors, IMV, Inc. (to the present)		
				Jun. 2018	Managing Director, MM Dillon & Co., Inc. (to the present)		
				Jun. 2018	Board of Directors, Cell Medica (to the present)		
				Aug. 2018	Executive Chair, Board of Directors, Cavion, Inc. (to the present)		

Section 4. Information about the Filing Company

5 Status of Officers as at 27 March 2019 (continued)

Title	Post	Name	Date of birth	Summary of career		Term of office	No. of shares owned
Director	–	Kuniaki Kaga	Sept. 1, 1951	Apr. 1975	Joined Mitsubishi Kasei Kogyo Kabushiki Kaisha (currently Mitsubishi Chemical Industries Limited)	Note 3	–
				Jun. 2004	Deputy Director, Head of Healthcare Planning Department, Mitsubishi Chemical Corporation		
				Oct. 2005	Deputy Director, Mitsubishi Chemical Holdings Corporation Head of Healthcare Strategy Office		
				Jun. 2006	Executive Officer and Head of Healthcare Strategy Office, Mitsubishi Chemical Holdings Corporation Executive Officer, Head of Healthcare Business Domain, and General Manager of Healthcare Planning Office, Healthcare Business Domain, Mitsubishi Chemical Corporation		
				Jun. 2009	Board Director, Mitsubishi Tanabe Pharma Corporation		
				Jun. 2010	Representative Director, Managing Executive Officer, General Manager of International Business Department, Mitsubishi Tanabe Pharma Corporation		
				Apr. 2012	Representative Director, Senior Managing Executive Officer, General Manager of Research Division and International Business Department, Mitsubishi Tanabe Pharma Corporation		
				Apr. 2014	President and Representative Director, Life Science Institute, Inc. and Board Director, Mitsubishi Tanabe Pharma Corporation Board Director, The KAITEKI Institute, Inc.		
				Feb. 2015	President and Representative Director, The KAITEKI Institute, Inc.		
				Apr. 2018	Advisor, Mitsubishi Chemical Corporation (to the present)		
				June 2018	Director, the Company (to the present)		
Director	–	David Roblin	Sept. 25, 1966	Apr. 1991	Medical practice at St George's and St Bartholomew's Hospital, London	Note 3	–
				Apr. 1997	Head of Therapy Area for Anti-Infectives, Bayer Pharma AG		
				Dec. 2008	Senior Vice President, Head of Research, Site Head, Chief Medical Officer Europe R&D, Pfizer Inc.		
				Apr. 2011	Chief Medical Officer, Creabilis SA		
				Sep. 2013	Honorary Professor, Swansea University, School of Medicine (to the present)		
				Jun. 2015	Honorary Professor of Translational Medicine, St George's Hospital Medical School (to the present)		
				Feb. 2017	Chairman of Scientific Translation, The Francis Crick Institute		
				Feb. 2017	COO and President of R&D, Summit Therapeutics plc (to the present)		
				Apr. 2017	Elected Fellow of Academy of Medical Sciences (to the present)		
				May 2017	CMO, Summit Therapeutics plc (to the present)		
				June 2018	Director, the Company (to the present)		

5 Status of Officers as at 27 March 2019 (continued)

Title	Post	Name	Date of birth	Summary of career	Term of office	No. of shares owned
Director	–	Noriaki Nagai	Dec. 1, 1957	Apr. 1981 Joined the Underwriting Dept. of Nomura Securities, Co., Ltd. (NSC) Sep. 1998 Managing Director, Head of European Administration Division of Nomura International plc, London Jun. 2000 General Manager, Legal Dept., NSC Apr. 2006 Member of Board of Executive Officers, Head of Corporate Planning and Legal Dept., Nomura Holdings, Inc. (NHI) and NSC Apr. 2010 Executive Managing Director, NSC Apr. 2011 Chief Legal Officer, Senior Corporate Managing Director, NHI Senior Corporate Managing Director, NSC Jun. 2013 Non-executive Director, Japan Securities Depository Center, Inc. Jun. 2013 Non-executive Director, Japan Securities Clearing Corporation Apr. 2014 Deputy Chief of Staff and Chief Legal Officer, Senior Corporate Managing Director, NHI and NSC Apr. 2015 Professor of Business Law, Doshisha University (to the present) Mar. 2019 Director, the Company (to the present)	Note 3	–
						1,136,400

Notes
1. Directors Tomohiro Tohyama, Julia Gregory, Kuniaki Kaga, David Roblin and Noriaki Nagai are Outside Directors.
2. The Company’s committee structure is as follows:
   - Nomination Committee: Chairman: Shinichi Tamura, Member: Kuniaki Kaga, Member: David Roblin
   - Compensation Committee: Chairman: Julia Gregory, Member: Shinichi Tamura, Member: Tomohiro Tohyama, Member: David Roblin
   - Audit Committee: Chairman: Tomohiro Tohyama, Member: Kuniaki Kaga, Member: Noriaki Nagai
3. From appointment at the Ordinary General Meeting of Shareholders held on March 27, 2019, to the conclusion of the Ordinary General Meeting of Shareholders related to the end of December 31, 2019.

5.2 Status of Executive Officers

Title	Post	Name	Date of birth	Summary of career	Term of office	No. of shares owned
Representative Executive Officer	Executive Chairman	Shinichi Tamura	Refer to (1) Directors	see previous section	Note	1,136,400
Executive Officer and Executive Vice President	Chief R&D Officer	Malcolm Weir	Oct. 24, 1958	Sept. 1997 Visiting Professor of Biochemistry, Imperial College London Jan. 1999 Head of Molecular Sciences Division, Glaxo Wellcome Inc. (current GlaxoSmithKline plc.) June 2000 CEO, Inpharmatica Ltd. (current Galapagos NV) Sept. 2004 Commissioner, Biotechnology and Biological Sciences Research Council in the UK Nov. 2006 Medical Research Council Technology July 2007 Founder and CEO, Heptares Therapeutics Ltd. (to the present) June 2015 Executive Officer and Executive Vice President, the Company (to the present) Apr. 2018 Chairman and Director, Heptares Therapeutics Zurich AG (to the present)	Note	–

Section 4. Information about the Filing Company

Title	Post	Name	Date of birth	Summary of career		Term of office	No. of shares owned
Executive Officer and Executive Vice President	Chief Medical Officer (CMO)	Tim Tasker	Jun. 16, 1953	Aug1978	General Physician University Hospitals: UCH London, Banbury, St Mary's London and Kings College London	Note	–
				Oct 1982	Clinical Pharmacologist - Beecham Pharmaceuticals		
				Oct 1992	VP Clinical Pharmacology Europe SmithKlineBeecham		
				Jan 2002	VP Global Clinical Units Shionogi Pharma Joint Venture - Co-Chair Development GlaxoSmithKline		
				Jul 2005	Executive VP Clinical Development and Chief Medical Officer, Evotec		
				May 2009	Director and Founder, PharmaBioQuintet Pty Limited		
				Jan 2014	Chief Medical Officer and VP Development, Heptares Therapeutics		
				Feb. 2018	Executive Officer and Executive Vice President (to the present)		
Executive Officer and Executive Vice President	Chief Compliance officer	Kazuhiko Yoshizumi	Feb. 19, 1954	Apr. 1977	Joined NEC Corporation	Note	–
				Jan. 2003	General manager of legal department, NEC Corporation		
				Feb. 2010	Joined NEC Fielding Co., Ltd.		
				Apr. 2010	Associate Senior Vice President and General Manager of NEC Fielding Co., Ltd.		
				Apr. 2015	General manager of legal department, the Company		
				July 2016	General manager of legal department and general manager of group compliance, the Company		
				Apr. 2018	Executive Officer and Executive Vice President, Group Chief Compliance Officer, the Company (to the present)		
Executive Officer and Executive Vice President	CFO	Chris Cargill	Jan. 3, 1984	Feb. 2009	Joined KPMG	Note	–
				Apr. 2010	Joined J.P. Morgan Chase & Co.		
				Sep. 2017	Head of IR and Corporate Communication, the Company		
				Jun. 2018	Interim CFO, the Company		
				Jun. 2018	Director, Sosei R&D Ltd. (to the present)		
				Nov. 2018	Executive Officer and Executive Vice President, CFO, the Company (to the present)		
				Jan. 2019	Director. Heptares Therapeutics Ltd. (to the present)		
Executive Officer and Executive Vice President	–	Tadayoshi Yasui	Nov. 29, 1959	Apr. 1984	Joined Snow Brand Milk Products Co., Ltd.	Note	600
				Apr. 1992	Joined Japan Tobacco Inc.		
				Oct. 2005	Joined Novartis Pharma K.K.		
				Jul. 2008	Joined Activus Pharma Co., Ltd.		
				Mar. 2010	Representative Director and President, JCL Bioassay USA, Inc.		
				Jan. 2013	Joined intellim Corporation		
				Aug. 2014	SVP Product Development, Sosei Co. Ltd. Representative Director and President, Activus Pharma Co., Ltd.		
				Jan. 2015	Director, Jitsubo Co., Ltd. (resigned Sep. 2015)		
				Jan. 2017	External Director, Jitsubo Co., Ltd. (to the present)		
				Feb. 2017	Representative Director and President, Sosei Co. Ltd. (to the present)		
				Mar. 2019	Executive Officer and Executive Vice President, the Company (to the present)		
							1,137,000

Note From the conclusion of the first Board of Directors meeting held after the conclusion of the Ordinary General Meeting of Shareholders held on March 27, 2019 to the conclusion of the first Board of Directors meeting held after the conclusion of the Ordinary General Meeting of Shareholders relating to the period ended December 31, 2019.

Section 4. Information about the Filing Company

6 Corporate Governance

6.1 Corporate Governance

Overview of Corporate Governance

The Group aims to become one of Japan's global biotechnology champions. It has been building business systems to support further business expansion and recognizes that building an effective corporate governance system is an important management priority for achieving an increase in corporate value over the medium to long term. For this reason, the Group utilizes outside directors and establishes links between the Audit Committee, the external auditor and the internal audit department, to support the strategic management and oversight functions of the Board of Directors. At the same time, the Group is striving to increase the integrity and transparency of management and further improve its corporate governance through measures such as fulfilling its accountability to various stakeholders, including shareholders, employees, business partners, customers, creditors, consumers, and local communities.

Corporate Governance System

a) Overview of Corporate Governance System and Reason for Adoption of the System

The Company has adopted the "company with nomination committee, etc." system in order to strengthen Board oversight, increase transparency and speed up the decision-making of management, among other aspects.

Under this system, the Company has clearly separated the oversight function and business execution function of management and has largely delegated business execution authority to its executive officers. It judges this system to be appropriate to increase management efficiency and strengthen the oversight of management.

b) Board of Directors and Executive Officers

The Board of Directors comprises 6 directors (including 5 outside directors). The Board sets basic management policies, supervises the execution of duties by executive officers and directors, and deliberates on management strategies to realize sustainable growth and add corporate value. One of the directors serves concurrently as representative executive officer.

The Company's Articles of Incorporation stipulate that there may be no more than 10 directors. Furthermore, the Articles of Incorporation stipulate that a resolution to elect a director must be made by a majority vote where shareholders holding at least one-third of the voting rights of the shareholders eligible to exercise voting rights are present, furthermore that a resolution to elect a director may not be made by cumulative voting.

There are 6 executive officers, including 1 representative executive officers, who receive authority from the Board of Directors to make decisions on the Company's business execution and to carry them out.

Section 4. Information about the Filing Company

6 Corporate Governance (continued)

6.1 Corporate Governance (continued)

c) Outside Directors

The Company has 5 outside directors. There are no reportable personal, capital, or transactional relationships or other special interests between the outside directors and the Company.

In electing the outside directors, the Company recognizes the importance of ensuring the effectiveness of corporate governance and ensuring independence from the management team. Based on their career histories and relationships to the Company, the Company determines that each outside director can ensure adequate independence to execute their duties as an outside director from an independent standpoint. The Company has designated Ms. Julia Gregory, Mr. Kuniaki Kaga, Mr. David Roblin and Mr. Noriaki Nagai as independent directors in accordance with the stipulation of Tokyo Stock Exchange, Inc. as they are outside directors who have no business relationship with the Company.

d) Committees

The Company has a Nomination Committee, a Compensation Committee and an Audit Committee. A Compensation and an Audit Committee are chaired by an outside director. An overview of the committees is as follows.

Nomination Committee

The Nomination Committee comprises 2 outside directors and 1 director serving concurrently as a representative executive officer. The Nomination Committee sets the remuneration policy for directors and executive officers, and, based on that policy determines their individual remuneration in view of performance and other contributions to the company.

Compensation Committee

The Compensation Committee comprises 3 outside directors and 1 director serving concurrently as a representative executive officer. The committee meets once a year, in principle, to decide on the compensation for each individual director and executive officer after considering their results, performance and other contributions to the Company, and taking the Company’s operating environment into account.

Audit Committee

The Audit Committee comprises 3 outside directors and meets once every three months, in principle. The Board of Directors and Executive Officers are responsible for the appointment and dismissal of external auditors and for overseeing the execution of their duties. The Audit Committee does not have full-time members but it works closely with the Internal Audit Department.

Section 4. Information about the Filing Company

6 Corporate Governance (continued)

6.1 Corporate Governance (continued)

e) Other Matters

Decision-Making Body for Dividend of Surplus

With regard to matters such as the dividend of surplus stipulated in the items under Article 459, Paragraph 1 of the Companies Act, the Company's Articles of Incorporation stipulate that in order to enable flexible decision-making the Board of Directors shall decide on these matters without a resolution from the General Meeting of Shareholders, except in cases where it is otherwise stipulated by laws and regulations.

Interim Dividend

With regard to matters such as the interim dividend stipulated in the items under Article 454, Paragraph 5 of the Companies Act, the Company's Articles of Incorporation stipulate that in order to enable flexible decision-making the Company shall pay any interim dividend on June 30 as the reference date.

Matters Requiring a Special Resolution of the General Meeting of Shareholders

With regard to special resolutions of the General Meeting of Shareholders stipulated in Article 309, Paragraph 2 of the Companies Act, to ensure smooth operation of the General Meeting of Shareholders, the Company's Articles of Incorporation stipulate that these resolutions must be made by a vote of at least two-thirds where shareholders holding at least one-third of the voting rights of the shareholders eligible to exercise voting rights are present.

Acquisition of Treasury Shares

To enable execution of flexible capital policies in response to changes in the management environment, the Company's Articles of Incorporation stipulate that the Company may acquire its own stock from market exchanges by resolution of the Board of Directors, in accordance with the provision of Article 165, Paragraph 2 of the Companies Act.

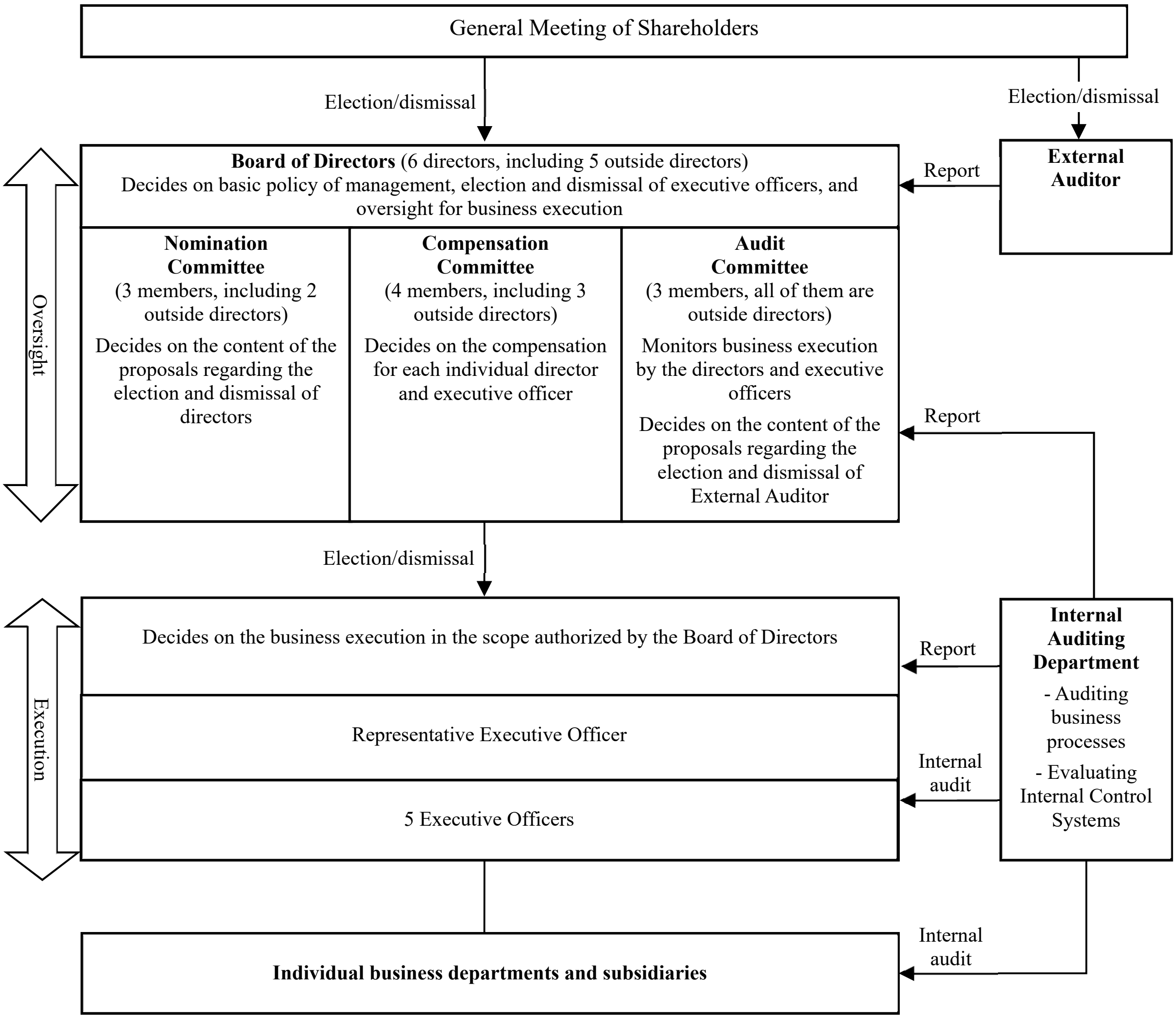
Sosei Group Corporation

Section 4. Information about the Filing Company

6 Corporate Governance (continued)

6.1 Corporate Governance (continued)

f) Schematic Depiction of Corporate Governance System



Status of Establishment of Internal Control Systems

To ensure that the management complies with all aspects of the law, the reliability of financial reporting, implementation of appropriate risk management practices, the Board of Directors has resolved a basic policy on the establishment of internal control systems in accordance with the Companies Act and aims to implement it thoroughly. An overview of the basic policy is as follows:

a) Matters Regarding Directors and Employees who assist the Duties of the Audit Committee
Employees who assist the duties of the Audit Committee shall conduct their duties in coordination with the Internal Audit Department under the direction of the Chairman of the Audit Committee. The evaluation of the execution of the duties shall be conducted by the Audit Committee and transfers of the employees shall require the consent of the Audit Committee.

b) Matters to be Reported by Executive Officers and Employees to the Audit Committee and Other Matters Regarding Reports to the Audit Committee

Officers and employees of the Company and its subsidiaries who learn of facts that could cause considerable damage to the Company or actions that infringe on laws and regulations or the Articles of Incorporation must report these matters to the Audit Committee and will not be subjected to disadvantageous treatment on account of making such reports.

The Internal Audit Department regularly reports on the status of internal audit execution and the status of internal reporting to the Audit Committee.

c) Other Systems for Ensuring that Audits are Effectively Conducted by the Audit Committee

The Internal Audit Department collaborates closely with the Audit Committee. It consults with the Audit Committee on the scope and results of audits.

When the Company receives claims for the payment of expenses required in the performance of the Audit Committee's duties from the Audit Committee members, it promptly processes the expenses.

d) System for Ensuring That Execution of Duties by Executive Officers and Employees and Subsidiaries' Directors and Employees Complies with Laws and Regulations and the Articles of Incorporation

Compliance with laws and regulations and thorough adherence to corporate ethics are stipulated in the Group's Principles of Corporate Conduct, and these are communicated to all officers and employees, including at subsidiaries. Furthermore, internal reporting procedures have been established and are appropriately operated. The Internal Audit Department conducts internal audits at the Company and its subsidiaries.

e) System for Storage and Management of Information Regarding Executive Officers' Execution of Duties

Information regarding the executive officers' execution of duties is appropriately created, stored, and managed in accordance with internal regulations.

f) Regulations and Other Systems Regarding Management of Risk of Loss

The Group has adopted specific policies in relation to business risks and implements appropriate risk management, including at the subsidiary level.

For important management judgements, the Board of Directors conducts a thorough review incorporating the opinions of external experts when necessary, before making decisions.

6 Corporate Governance (continued)

6.1 Corporate Governance (continued)

g) System for Ensuring that Execution of Duties by Executive Officers and Subsidiaries' Directors is carried out efficiently

The duties and scope of authority of executive officers and employees at the Company and its subsidiaries have been clearly defined and, in accordance with regulations, they report regularly on the status of business execution.

The Group promotes the creation of systems to improve operational efficiency.

h) System for Ensuring Appropriateness of Business Operations in the Corporate Group Comprised of the Company and its Subsidiaries

The Company receives reports on the status of business execution by its subsidiaries in accordance with internal regulations and provides guidance and support to subsidiaries for establishing systems to ensure appropriateness of business operations.

The Internal Audit Department provides guidance and recommendations for improvement to subsidiaries based on the results of internal audits of the subsidiaries.

The Group strives to ensure the appropriateness of its financial reporting, as well as evaluating, maintaining, and improving it.

Status of Internal Audits and Audit Committee's Audits

The Company's Internal Audit Department conducts internal audits of the Company and its subsidiaries. The Internal Audit Department is assigned one staff member, who investigates and evaluates the effectiveness, efficiency, and appropriateness of operations, including internal controls over financial reporting, and based on the results provides guidance on improvements to relevant internal departments and subsidiaries whenever needed. The staff member also reports the audit results to the Representative Executive Officer and CEO, and to the Audit Committee.

The Audit Committee met 9 times during the fiscal year under review. The committee received an explanation of the annual audit plan from the external Auditor at the beginning of the fiscal year and subsequently received reports and explanations of the audit procedures and audit results from the external auditor at each quarter-end and at the fiscal year-end. The Committee also evaluated the appropriate qualification and independence of the external auditor and evaluated the appropriateness of the audit conducted by the external auditor.

The Audit Committee receives and comments on a report from the Internal Audit Department regarding the annual internal audit policy and audit plan. When required, the Committee provides instructions regarding the content, method, and other aspects of internal audits. The Audit Committee determines its own annual audit policy and audit plan and receives regular reports from the directors and the executive officers on their execution of duties. The Audit Committee receives reports on the results of internal audits conducted by the Internal Audit Department and provides instructions to the relevant departments as necessary.

Section 4. Information about the Filing Company

6 Corporate Governance (continued)

6.1 Corporate Governance (continued)

Status of Accounting Audits

The Company received an independent audit from Ernst & Young ShinNihon LLC during the fiscal period. The certified public accountants that performed the accounting audit procedures of the Company for the fiscal period under review were Hiromichi Yazaki (number of consecutive years of audits: 1) and Hiroshi Mishima (number of consecutive years of audits: 1). There are 18 certified public accountants and 16 others in the audit team. Deloitte Touche Tohmatsu LLC resigned at the end of the 28th term Ordinary General shareholders meeting due to expiration of term. Ernst & Young ShinNihon LLC was appointed as independent accounting auditor for the following fiscal period.

Executive Compensation

a) Total Amount of Compensation and Other Payments, Total Amount of Compensation and Other Payments by Type, and Number of Officers to Be Paid, by Member Category

Member category	Total amount of compensation and other payments ¥m	Total amount of compensation and other payments by type (¥m)				Number of officers to be paid
		Base salary	Share based compensation	Bonuses	Retirement	
Directors (Outside directors)	44 (44)	31 (31)	13 (13)	– (–)	– (–)	5 (5)
Executive officers	679	124	379	42	134	6

Notes: 1. Payments made to the two directors serving concurrently as an executive officer are included in full in the row showing the amount paid to executive officers above.

2. The above table does not include the remuneration of ¥101 million made to three executive officers, paid and borne by a subsidiary.

3. The amounts shown above include remuneration to one executive officer who retired as of June 4, 2018 and a bonus of ¥2 million paid to the one executive officer in January 2019, in accordance with the resolution of the Compensation Committee held in December 2018.

4. The share based compensation expense shown above is based on the fair value of the share based compensation accounted for in accordance with J-GAAP.

Section 4. Information about the Filing Company

6 Corporate Governance (continued)

6.1 Corporate Governance (continued)

b) Total Amount of Consolidated Compensation and Other Payments for Individuals Whose Consolidated Compensation and Other Payments Amount to 100 Million Yen or More

Name (Member category)	Company category	Total amount of compensation and other payments by type (¥m)				Total amount of consolidated compensation and other payments (¥m)
		Base salary	Share based compensation	Bonuses	Retirement	
Peter Bains (Director, Representative Executive Officer)	Filing company	56	336	40	134	566

Note: The share based compensation expense shown above is based on the fair value of the share based compensation accounted for in accordance with J-GAAP.

c) Policy Regarding Determination of Individual Compensation for Directors and Executive Officers by the Compensation Committee

Basic Policy

The Company’s basic policy on determining executive compensation is to attract high-quality candidates and motivate them to improve the Company’s corporate value and execute management strategies that promote sustainable growth. The Compensation Committee that determines executive compensation comprises 3 outside directors. The individual compensation received by directors and executive officers is determined by the Compensation Committee in consideration of relevant industry compensation levels in the countries in which the officers work and reside, making reference to databases of external survey organizations. For executive officers, it is determined based on their individual roles and an evaluation of performance and other contributions to the Company in the previous fiscal year conducted by the representative executive officers. For representative executive officers and directors, it is determined based on their individual roles and an evaluation of operating results by the Compensation Committee.

Directors’ Compensation

For directors’ compensation, base salary (annual pay) is determined based on each director’s role, presence of concurrent executive officer duties, duties as a member or chairman of the committees, and other factors. The directors do not receive performance-linked compensation such as bonuses or retirement benefits; however, they are granted stock options in consideration of their services in each fiscal year.

The directors serving concurrently as executive officers do not receive compensation as directors.

Section 4. Information about the Filing Company

6 Corporate Governance (continued)

6.1 Corporate Governance (continued)

Executive Officers' Compensation

For executive officers' compensation, base salary (annual pay) is determined based on each executive officer's role and the operating results in the previous fiscal year. In addition, a bonus is paid in accordance with the status of operating results and the degree of achievement of operating results targets in the business for which each officer is responsible, taking the base salary (annual pay) amount as a reference amount. Executive officers are also granted stock options based on their services in each fiscal year.

Overview of Details of Liability Limitation Agreements

The Company and the outside directors have concluded agreements limiting liability for damages under Article 423, Paragraph 1 of the Companies Act, in accordance with the provisions of Article 427, Paragraph 1 of the same act. The maximum amount of liability for damages under these agreements for each outside director is the minimum amount stipulated in Article 425, Paragraph 1 of the Companies Act. Mr. Noriaki Nagai, who was elected as new outside directors at the Ordinary General Meeting of Shareholders held on March 27, 2019, has concluded the same liability limitation agreement as the current outside directors.

Status of holdings in Investment Shares

Sosei RMF1 Limited Partnership for Investment holds the largest amount of investment shares (shown as investment securities) within the Group. Sosei Group Corporation did not hold investment shares in the current and previous fiscal year. The status is as follows:

a) Total number of investment shares and amount recorded in the balance sheet held for purposes other than net investment: Not Applicable

b) Analysis by type, number, amount and purpose of investment shares held for purposes other than net investment:

Not applicable

c) Total amount of investment shares held for the purpose of net investment in the current and previous fiscal year, and the total of dividend income, gains or losses on disposal and valuation gains or losses for the current fiscal period:

	FY2018				FY2017
	Amount on balance sheet ¥m	Amount of dividend received ¥m	Amount of gain or loss on disposal ¥m	Amount of gain or loss on revaluation ¥m	Amount on balance sheet ¥m
Unlisted shares	1,131	-	-	(9)	490
Other	-	-	-	-	-

Note: The above amounts are based on JGAAP.

Section 4. Information about the Filing Company

6.2 Details of Compensation for Audits
Compensation for Audits Paid to External Auditor

Classification	FY2018 Compensation for audit certification services ¥m	FY2018 Compensation for non-audit services ¥m	FY2017 Compensation for audit certification services ¥m	FY2017 Compensation for non-audit services ¥m
Filing company	69	3	60	24
Consolidated subsidiaries	-	-	2	-
Total	69	3	62	24

Note: 1 In the audit agreement between the Company and the External Auditor, there is no clear distinction between the compensation for audits based on the Companies Act and the compensation for audits based on the Financial Instruments and Exchange Act, and no distinction can be made in practice, so amounts of compensation for the External Auditor for the fiscal period under review are the total of these two components.

2 The compensation for audit certification services in the prior fiscal year includes 5 million yen relating to the Amendment Report of the Annual Report and Quarterly Reports.

Details of Other Important Compensation

Nine month period ended December 31, 2018

The Company’s overseas consolidated subsidiaries are audited by accounting offices that are member firms of Ernst & Young LLC, with which the Company’s External Auditor is affiliated. The cost of overseas audits in the current fiscal period is included in the above numbers.

Fiscal year ended March 31, 2018

The Company’s overseas consolidated subsidiaries were audited by accounting offices that were member firms of DTTL, with which the Company’s External Auditor is affiliated. The Company paid compensation for their audit certification services amounting to 22 million yen.

Non-audit Services to Filing Company Performed by External Auditor

Fiscal period ended December 31, 2018

The Company paid compensation for advisory services related to IFRS.

Fiscal year ended March 31, 2018

The Company paid compensation for comfort-letter drafting services related to public offerings to increase capital.

Policy for Determining Compensation for Audits

Audit compensation paid to the Company’s External Auditor is decided with the consent of the Audit Committee after discussion with the External Auditor regarding the audit content, conditions, and other factors for that fiscal year.

Sosei Group Corporation

Section 5. Financial Statements

1. Preparation Policy of the Consolidated and Non-Consolidated Financial Statements

The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS") pursuant to the provisions of Article 93 of the "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976).

The non-consolidated financial statements of the Company are prepared based on the "Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc." (Ordinance of the Ministry of Finance No. 59 of 1963) (hereinafter, the "Ordinance on FS").

The Company is categorized as a company allowed to file specified financial statements, and prepares the non-consolidated financial statements in accordance with the provisions of Article 127 of the Ordinance on FS.

The Company and the Group changed their fiscal year end from March 31 to December 31 at the 28th ordinary general meeting of shareholders. The 29th term is therefore a nine month period from April 1, 2018 to December 31, 2018. Comparative disclosures are for the twelve month period ended 31 March 2018 which is the most recent period for which audited accounts exist.

2. Audit Attestation

In accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements and the non-consolidated financial statements for the fiscal period ended December 31, 2018 were audited by Ernst & Young ShinNihon LLC.

The following change of auditor occurred:

- Year ended March 31, 2018: Deloitte Touche Tohmatsu LLC.
- Period ended December 31, 2018: Ernst & Young ShinNihon LLC.

Details of the extraordinary report filing on May 16, 2018 were as follows:

The names of auditors that changed
Appointed auditor: Ernst & Young ShinNihon LLC.
Resigned auditor: Deloitte Touche Tohmatsu LLC.

The date of change of auditor
On June 22, 2018

Overview of resigned auditor
The appointment date of resigned auditor
On June 22, 2017

Opinion of resigned auditor issued in audit reports for three years
Not applicable.

Section 5. Financial Statements

2. Audit Attestation (continued)

Reasons and circumstances that led to the decision to change
Deloitte Touche Tohmatsu LLC., the Accounting Auditor of the Company, retired at the conclusion of the Ordinary General Meeting of Shareholders as its term of office had expired. Therefore, the Company proposed that the shareholders approve the election of Ernst & Young ShinNihon LLC as Accounting Auditor based on the decision of the Audit Committee.

The Audit Committee selected Ernst & Young ShinNihon LLC as the candidate for Accounting Auditor, as it concluded that Ernst & Young ShinNihon LLC was qualified for the role based on a comprehensive review of its auditing systems, including its plans to conduct auditing of the consolidated financial statements on a global basis. Ernst & Young ShinNihon LLC demonstrated significant expertise in quality control systems and has assured its independence, and according to our judgment, is well qualified for the position of Accounting Auditor.

Opinion from audit report of resigned auditor relating to the above reasons and circumstances
Deloitte Touche Tohmatsu LLC. has responded that there is no special opinion.

3. Special effort to ensure the appropriateness of Financial Statements and development of a system for fair preparation of Consolidated Financial Statements in accordance with IFRS

Significant effort is made to ensure the appropriateness of the financial statements. Specifically, the Company is a member of the Financial Accounting Standards Foundation (FASF), and has developed a system that enables the timely acquisition of information regarding the establishment and revision of accounting standards, practical guidelines, etc.

The Company keeps up to date with accounting developments by reviewing new and amended standards published by the International Accounting Standards Board. To prepare appropriate consolidated financial statements under IFRS, management has developed accounting policies for the Group that comply with IFRS and performs accounting procedures based on those policies.

Sosei Group Corporation

Section 5: Financial Statements
Consolidated Balance Sheet as at 31 December 2018

	Note	December 31, 2018 ¥m	March 31, 2018 ¥m
Assets			
Non-current assets			
Property, plant and equipment	7,10	2,715	1,156
Goodwill	11	14,177	14,685
Intangible assets	11	14,367	16,670
Investments accounted for using the equity method	8,26	3,644	4,424
Deferred tax assets	27	-	6
Other financial assets	8,9	1,515	1,619
Other non-current assets	7	285	10
Total non-current assets	6	36,703	38,570
Current assets			
Trade and other receivables	9,14	987	753
Income tax receivable		2,057	1,057
Other current assets	7	480	825
Cash and cash equivalents	7,9,13	18,760	28,281
Total current assets		22,284	30,916
Total assets	9	58,987	69,486
Liabilities and Equity			
Liabilities			
Non-current liabilities			
Deferred tax liabilities	27	2,542	3,077
Contingent consideration in business combinations	9,15,29	4,180	4,634
Interest-bearing debt	9,17,29	3,970	6,178
Other financial liabilities	9,29	1,179	1,073
Other non-current liabilities		87	43
Total non-current liabilities	7	11,958	15,005
Current liabilities			
Trade and other payables	9,16	2,080	2,411
Income taxes payable		24	39
Interest-bearing debt	9,17,29	2,994	2,995
Other current liabilities		351	150
Total current liabilities	7	5,449	5,595
Total liabilities		17,407	20,600
Equity			
Capital stock	18	36,854	36,783
Capital surplus	18	26,042	25,608
Treasury stock	18	(0)	(0)
Retained earnings	18	(13,696)	(7,527)
Other components of equity	18	(7,623)	(5,982)
Equity attributable to owners of the parent		41,577	48,882
Non-controlling interests		3	4
Total equity	9	41,580	48,886
Total liabilities and equity		58,987	69,486

Section 5: Financial Statements
Consolidated Statement of Profit or Loss & Other Comprehensive Income
For nine month period ended 31 December 2018

	Note	9 months ended December 31, 2018 ¥m	12 months ended March 31, 2018 ¥m
Revenue	6,19	2,872	6,955
Cost of sales	10,20	(335)	-
Gross profit		2,537	6,955
Research and development expenses	10,11, 20	(5,384)	(4,935)
Selling, general and administrative expenses	10,11, 20,21,22	(2,704)	(4,482)
Other income	7,23	140	565
Other expenses	24	(323)	(394)
Operating (loss)		(5,734)	(2,291)
Finance income	9,25	434	104
Finance costs	9,25	(1,389)	(1,239)
Share of loss of associates accounted for using the equity method	26	(488)	(276)
Impairment loss on investments accounted for using the equity method	26	(66)	-
Loss before income taxes		(7,243)	(3,702)
Income tax benefit	27	1,265	1,048
Net loss		(5,978)	(2,654)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(1,641)	1,427
Total items that may be reclassified subsequently to profit or loss		(1,641)	1,427
Total other comprehensive income		(1,641)	1,427
Total comprehensive (loss) income for the period		(7,619)	(1,227)
Net loss attributable to:			
Owners of the parent		(5,977)	(2,654)
Non-controlling interests		(1)	(0)
		(5,978)	(2,654)
Total comprehensive (loss) income for the period attributable to:			
Owners of the parent		(7,618)	(1,227)
Non-controlling interests		(1)	(0)
		(7,619)	(1,227)
Earnings per share (yen)			
Basic loss per share	28	(78.40)	(37.55)
Diluted loss per share	28	(78.40)	(37.55)

Sosei Group Corporation

Section 5: Financial Statements
Consolidated Statement of Changes in Equity
For the nine month period ended 31 December 2018

	Note	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity: Exchange differences on translating foreign operations ¥m	Equity attributable to owners of the parent ¥m	Non-controlling interests ¥m	Total equity ¥m
Balance at April 1, 2017		26,004	14,632	-	(4,873)	(7,409)	28,354	4	28,359
Net loss		-	-	-	(2,654)	-	(2,654)	(0)	(2,654)
Exchange differences on translation		-	-	-	-	1,427	1,427	-	1,427
Total comprehensive (loss) income for the year		-	-	-	(2,654)	1,427	(1,227)	(0)	(1,227)
Issuance of new shares	18	10,779	10,389	-	-	-	21,168	-	21,168
Share-based payments		-	587	-	-	-	587	-	587
Purchase of treasury stock	18	-	-	(0)	-	-	(0)	-	(0)
Total transactions with owners		10,779	10,976	(0)	-	-	21,755	-	21,755
Balance at March 31, 2018		36,783	25,608	(0)	(7,527)	(5,982)	48,882	4	48,886
Changes in accounting policies		-	-	-	(192)	-	(192)	-	(192)
Balance after restatement		36,783	25,608	(0)	(7,719)	(5,982)	48,690	4	48,694
Net loss		-	-	-	(5,977)	-	(5,977)	(1)	(5,978)
Exchange differences on translation		-	-	-	-	(1,641)	(1,641)	-	(1,641)
Total comprehensive (loss) for the period		-	-	-	(5,977)	(1,641)	(7,618)	(1)	(7,619)
Issuance of new shares	18	71	13	-	-	-	84	-	84
Share-based payments		-	421	-	-	-	421	-	421
Total transactions with owners		71	434	-	-	-	505	-	505
Balance at December 31, 2018		36,854	26,042	(0)	(13,696)	(7,623)	41,577	3	41,580

Sosei Group Corporation

Section 5: Financial Statements
Consolidated Cash Flow Statement
For nine month period ended 31 December 2018

	Note	9 months ended December 31, 2018 ¥m	12 months ended March 31, 2018 ¥m
Cash flows from operating activities			
Loss before income taxes		(7,243)	(3,702)
Adjustments for:			
Depreciation and amortization		879	1,028
Share-based payments	21	421	597
Grant income	23	(128)	(235)
Gain on loss of control of subsidiaries	7	-	(326)
Loss on investment in capital		105	-
Gain on investment in securities		(187)	-
Loss on lapse of option to purchase shares	8	1,121	-
Net foreign exchange (gain) loss		(47)	123
Share of loss of associates accounted for using equity method	26	488	276
Impairment loss on investments accounted for using equity method	26	66	-
Impairment loss	11	319	390
Interest expenses		162	259
Change in fair value of contingent consideration	15	(216)	655
Decrease (increase) in other accounts receivables		224	(149)
(Increase) decrease in trade and other receivables		(243)	640
Increase in trade and other payables		210	723
Other		7	(252)
Subtotal		(4,062)	27
Interest and dividends received		16	12
Interest paid		(99)	(162)
Grants received		154	186
Income taxes paid		(23)	(2,230)
Income tax refund		19	-
Net cash (used in) operating activities		(3,995)	(2,167)
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,807)	(880)
Purchase of intangible assets		(352)	-
Payments for purchase of shares of associates		-	(3,973)
Payments related to capitalized development costs		-	(88)
Payments for purchase of investment securities		(650)	(490)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	7	-	378
Purchases of other financial assets		-	(1,084)
Other		1	(11)
Net cash (used in) investing activities		(2,808)	(6,148)
Cash flows from financing activities			
Proceeds from long-term interest-bearing debt	29	-	4,890
Repayments of long-term interest-bearing debt	29	(2,255)	(2,750)
Payment for settlement of contingent consideration	29	(97)	(1,156)
Proceeds from issuance of common stock		84	21,167
Proceeds from contributions from limited partners	29	-	495
Other	29	-	(5)
Net cash (used in) provided by financing activities		(2,268)	22,641
Effects of exchange rate changes on cash and cash equivalents		(450)	56
Net decrease in cash and cash equivalents		(9,521)	14,382
Cash and cash equivalents at the beginning of the period		28,281	13,899
Cash and cash equivalents at the end of the period	13	18,760	28,281

Section 5: Financial Statements
Notes to the 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: http://www.sosei.com/en). The Financial Statements reflect the transactions and balances of the Company and its subsidiaries (the "Group") and its interest in affiliated companies as at the end of December 31, 2018. The Group is engaged in the pharmaceutical business.

2. Basis of preparation

   2.1 Compliance with International Financial Reporting Standards

   The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") published by International Accounting Standards Board. The Group's consolidated financial statements were approved by the Board of Directors on March 27, 2019.

   2.2 Basis of measurement

   The 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 as explained in Note 3 *Significant accounting policies.*

   2.3 Presentation currency

   The consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company, and amounts are rounded to the nearest million yen.

   2.4 Changes in accounting policies

   The significant accounting policies applied to the Group's consolidated financial statements for the period ended December 31, 2018 are consistent with those applied to the consolidated financial statements for the year ended March 31, 2018, except for amendments to IFRS 9 *Financial Instruments* and the implementation of IFRS 15 *Revenue from Contracts with Customers*, which became effective for the Group from 1 April 2018.

IFRS		Outline of new standards and amendments
IFRS 9	Financial Instruments	Amendment to the classification, measurement and recognition of financial instruments
IFRS 15	Revenue from Contracts with Customers	Introduces a new revenue recognition framework based on the satisfaction of performance obligations together with new disclosure requirements. The new standard requires companies to follow a 5-step approach to revenue recognition: ・ Identify the contract ・ Identify performance obligations in the contract ・ Determine the transaction price ・ Allocate the transaction price to the performance obligations in the contract ・ Recognize revenue when (or as) the entity satisfies a performance obligation

Each of the Group's material research and licensing agreements have been analyzed to identify the consideration receivable (the transaction price) and the underlying promises to supply goods or services (performance obligations). Such obligations can include the grant of the license, the provision of research and development services and the supply of product. The transaction price arising under each contract has been matched to performance obligations and revenue has been recognized in line with the satisfaction of the performance obligations. See Note 3.15 and Note 19 for further details.

In adopting IFRS 15 the Group has applied the modified retrospective approach causing a decrease in intangible assets of JPY 923 million, a corresponding decrease in deferred tax liabilities of JPY 263 million, a decrease in deferred revenue of JPY 468 million (included in trade and other payables) and a corresponding decrease in opening equity of JPY 192 million. Some of the revenue that had been recorded as deferred revenue in accordance with IAS 18 in the prior year has been released to the income statement in the current reporting period. Revenue relating to the grant of a license by the Group has been recognized at a point in time and revenue relating to the provision of research and development services has been recognized over time in line with the delivery of those services. Intangible assets arising from an in-license transaction and related capitalized development costs, which had been accounted in accordance with IAS 38, required amendment upon the adoption of IFRS 15. These costs were adjusted retrospectively by amortizing the balances over their useful economic lives starting from the point of their commercialization. As a consequence of measuring and reporting revenue relating to the provision of research and development services the cost of providing these services has been separately reported under Cost of Sales.

In accordance with the requirements of the Standard, where the modified retrospective approach is adopted, prior year results are not restated. No adjustments were required to be made to prior year results upon adopting the amendments to IFRS 9. The adoption of IFRS9 and IFRS15 has not had a material impact on the results at April 1, 2018.

3. Significant accounting policies

2.5 Changes in fiscal year end

The Company and the Group changed their fiscal year end from March 31 to December 31 after the 28th ordinary general meeting of shareholders. The 29th term is therefore a nine month period from April 1, 2018 to December 31, 2018. Comparative disclosures are for the twelve month period ended March 31, 2018 which is the most recent period for which audited accounts exist.

3.1 Basis of consolidation

The consolidated financial statements are prepared based on the financial statements of the Company and entities controlled by the Company as at December 31. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The Company reassesses whether or not it controls the investee if facts and circumstances indicate that there are changes to either of the elements of control above.

Subsidiaries

All subsidiaries are consolidated from the date the Group obtains control of such subsidiaries until the date on which the Group loses control of those subsidiaries. Where the accounting policies of subsidiaries are different from those of the Group, adjustments are made to the financial statements of the subsidiaries. Intragroup transactions are eliminated in the preparation of the consolidated financial statements.

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control of the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent.

When the Group loses control of a subsidiary, a gain or loss on disposal is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests.

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

Associates

An associate is an entity which is not controlled or jointly controlled by the Group but for which the Group has significant influence over the financial and operating policies of the entity. When the Group holds 20% or more but less than 50% of the voting rights of other companies, there is a rebuttable presumption that the Group has a significant influence over the other companies. Investments in associates are accounted for using the equity method from the date the Group gains significant influence until the date it loses that influence over the entity.

An investment in an associate is tested for impairment as a single asset if there is objective evidence indicating that the investment in the associate is impaired.

Unrealized gains arising from transactions with entities accounted for using the equity method are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains unless there is evidence of impairment.

3.2 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed, and equity instruments issued by the Company in exchange for control of the acquiree. If the consideration transferred exceeds the fair value of identifiable assets and liabilities, the excess is recorded as goodwill in the consolidated balance sheet. Conversely, if the fair value of such assets and liabilities exceeds the consideration transferred, the excess is immediately recognized as a gain in the consolidated statement of profit or loss and other comprehensive income. If the initial accounting for a business combination is incomplete by the end of the period in which the business combination occurred, the Group reports provisional amounts for items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period which lasts one year from the acquisition date. Acquisition costs are expensed as incurred.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. Significant accounting policies (continued)

3.2 Business combinations (continued)

Changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments are accounted for through either of the following:

a) Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates, and its subsequent settlement is accounted for within equity.
b) Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with *IFRS 9 Financial Instruments or International Accounting Standards ("IAS") 37 Provisions, Contingent Liabilities and Contingent Assets*, with the corresponding gain or loss being recognized in profit or loss.

The Group chooses whether non-controlling interests are measured at fair value or based on the proportionate interest of the recognized amount of identifiable net assets on the acquisition date for each individual transaction.

3.3 Foreign currency translations

Transactions denominated in foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency of each Group company at the rates of exchange prevailing at the dates of the transactions.

Foreign-denominated monetary assets and liabilities are translated into the functional currency of each Group company using the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are retranslated into the functional currency at the exchange rates on the date fair value is determined. Non-monetary items measured at cost are translated at the exchange rate on the transaction date.

Exchange differences resulting from retranslation or settlement are recognized in profit or loss in the period incurred.

Financial statements of foreign operations

The assets and liabilities of the Group's foreign operations (such as overseas subsidiaries) are translated into Japanese yen at the exchange rates prevailing at the end of the period. Income and expenses are translated into Japanese yen at the average exchange rates for the period as long as there is no significant exchange rate fluctuation

Exchange differences arising from the translation of the financial statements of foreign operations are recognized in "Other comprehensive income" in the consolidated statement of profit or loss and other comprehensive income and accumulated in "Other components of equity" in the consolidated balance sheet.

Section 5: Financial Statements
Notes to the Consolidated Financial Statements

3. Significant accounting policies (continued)

3.4 Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost includes costs directly attributable to the acquisition of the asset, the initial estimate of costs for dismantling and removing the asset and the costs of restoring property to its original state.

Property, plant and equipment are depreciated based on their depreciable amounts by the straight-line method over the estimated useful life of each asset.

The estimated useful lives of major asset categories are as follows:

Buildings and structures:	3 to 15 years
Machinery and equipment:	5 years
Furniture and fixtures:	3 to 20 years
Leased furniture and fixtures:	life of lease (5 years)

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each fiscal year, and any changes in these items, if any, are applied prospectively as changes in accounting estimates.

3.5 Intangible assets

Separately acquired intangible assets with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. The cost includes costs directly attributable to the acquisition of the intangible asset.

Intangible assets are amortized based on their amortizable amounts by the straight-line method over the estimated useful life of each asset. The amortization method, estimated useful lives, and residual values are reviewed at the end of each fiscal year, and changes in these items, if any, are applied prospectively as changes in accounting estimates.

Estimated useful lives of major asset categories are as follows:

Core technology:	20 years
Customer-related assets:	20 years

Intangible assets with indefinite useful lives and intangible assets that are not yet usable and therefore not amortized are tested for impairment in the same quarter in each fiscal year and whenever there is an indication of impairment.

3. Significant accounting policies (continued)

3.5 Intangible assets (continued)

Expenditure on research activities is recognized as a cost in the period in which it occurs. Internally-generated intangible assets arising at the development stage are recognized only if all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the total of expenditures incurred from the date when the intangible asset initially meets the recognition criteria above. When an internally-generated intangible asset cannot be recognized, development expenditures are expensed in the period in which they are incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported, as with other intangible assets, at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, such intangible assets are reported at cost less accumulated amortization and accumulated impairment losses on the same basis as intangible assets that are acquired separately.

3.6 Leases (as a lessee)

Leases in which substantially all the risks and rewards of ownership are transferred to the Group are classified as finance leases. Finance leases are recognized as assets of the Group at the fair value at the inception of the lease or, at the lower of the fair value at the inception of the lease and the present value of the minimum lease payments, and depreciated over the lease term or useful life of the leased asset, whichever is shorter. Lease obligations are recognized as interest-bearing debt. The portion of lease payments corresponding to finance costs is recognized as an expense over the lease period using the effective interest method.

Lease agreements other than finance leases are classified as operating leases. Operating lease payments are recognized as expenses on a straight-line basis over the lease period.

3. Significant accounting policies (continued)

3.7 Goodwill

Goodwill arising from an acquisition of a subsidiary is recorded at cost less accumulated impairment losses. Goodwill is measured upon initial recognition as set out in Note 11 *Goodwill and intangible assets*.

Goodwill is not amortized. It is allocated to cash-generating units and an impairment test is conducted in the same quarter in each fiscal year or whenever there is an indication that goodwill may be impaired. Impairment losses on goodwill are recognized in the consolidated statement of profit or loss and other comprehensive income and are not reversed subsequently.

3.8 Impairment of non-financial assets

The Group reviews its non-financial assets annually to determine whether there is any indication that the non-financial assets may be impaired. If indications of impairment exist, the recoverable amount of the assets is estimated. For goodwill and intangible assets with indefinite useful lives or those not yet available for use the recoverable amount is estimated in the same quarter every year.

The recoverable amount of assets or cash-generating units is the higher of the value in use or fair value less cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and risks inherent to the asset. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups as a result of continued use.

A cash-generating unit to which goodwill is allocated is generally determined based on units managed for the purposes of internal reporting, and each company in the Group is determined to be a cash-generating unit with certain exceptions.

Corporate assets do not generate independent cash inflows. As such, when there is any indication that corporate assets may be impaired, the recoverable amount of the cash-generating unit to which the corporate asset belongs is measured and used for impairment testing. Subsidiaries that do not have external cash flows are included within the cash generating units of the business units that they support.

Impairment loss is recognized in profit or loss when the carrying amount of the asset or cash-generating unit exceeds the recoverable amount. An impairment loss related to a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to that cash-generating unit and is then allocated to other assets of the cash-generating unit prorated on the basis of the carrying amount of each asset in the unit.

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3. Significant accounting policies (continued)

3.8 Impairment of non-financial assets (continued)

Impairment losses relating to goodwill are not reversed. In respect of impairment losses on other assets recognized in prior periods, the Group assesses whether there is any indication that an impairment loss may no longer exist or may have decreased at each reporting date. If there is an indication that an impairment loss previously recognized may no longer exist or may have decreased, and this indicates that estimates used for determining the recoverable amount may need to be reviewed and adjusted, the impairment loss is reversed.

The previously recognized impairment loss is reversed to the extent that the carrying amount of the asset does not exceed what the carrying amount would have been (net of amortization and depreciation) had no impairment loss been recognized for the asset in prior years.

3.9 Financial assets

Initial recognition and measurement of financial assets

The Group classifies financial assets upon initial recognition as either financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income. To date the Group has not elected to classify any of its investments in equity instruments as financial assets measured at fair value through other comprehensive income. Trade receivables and other receivables are recognized initially on their settlement dates. Other financial assets are recognized on their transaction dates.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. A financial asset is measured at amortized cost when both of the following conditions are met:
(a) the financial asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Debt instruments, except for financial assets measured at amortized cost, are classified as financial assets at fair value through profit or loss.

Subsequent measurement of financial assets

After initial recognition, the Group measures a financial asset according to its classification as follows:
(a) Profit or loss on financial assets that are measured at fair value through profit or loss is recognized as the change in the amount of the fair value. Dividends from a financial asset are recognized as part of financial income in net income (loss) for the current period, except for those portions considered to be part of the cost of investment.
(b) Profit or loss on financial assets measured at amortized cost is recognized by the effective interest method.

3. Significant accounting policies (continued)

3.9 Financial assets (continued)

Derecognition of financial assets

The Group derecognizes a financial asset when, and only when:

(a) the contractual rights to cash flows from the financial asset expire, or

(b) it transfers the contractual rights to receive cash flows from the financial asset and transfers substantially all the risks and rewards of ownership of the financial asset.

Impairment of financial assets

For financial assets measured at amortized cost expected credit losses are recorded through an allowance for doubtful accounts. At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. The Group measures the loss allowance for a financial instrument at an amount equal to the expected annual credit loss where the credit risk on that financial instrument has not increased significantly since initial recognition. Alternatively, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit loss if the credit risk on that financial instrument has increased significantly since initial recognition. The Group uses the change in risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make this assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. The Group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit losses. The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Whether or not a financial asset is credit impaired is determined by the default of the borrower, or if the lender, for economic or contractual reasons relating to the borrower's financial difficulty, grants to the borrower a concession(s) that the lender would not otherwise have granted, or when other factors occur, such as the disappearance of an active market. Expected credit losses are measured as the difference between contractual cash flows that are due to the Group in accordance with a contract and the cash flows that the entity expects to receive, discounted at the original effective interest rate. The Group directly reduces the value of a credit impaired-financial asset when it, or a part of it, cannot realistically be expected to be realized and its collateral is realized or transferred to the Group. Where an impairment loss is reduced after initial recognition, the decrease in impairment loss (decrease to the allowance for doubtful accounts) is reversed in profit or loss. The impairment loss is reversed up to the value of the amortization at the time the impairment loss was recognized.

3. Significant accounting policies (continued)

3.10 Financial liabilities

Initial recognition and measurement of financial liabilities

The Group classifies financial liabilities upon initial recognition as financial liabilities measured at amortized cost or financial liabilities measured at fair value through profit or loss.

Financial liabilities are recognized on the transaction date.

At initial recognition, the Group measures a financial liability at its fair value minus, in the case of a financial liability not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

Subsequent measurement of financial liabilities

After initial recognition, the Group measures a financial liability according to its classification as follows:

(a) Profit or loss on financial liabilities that are measured at fair value through profit or loss is recognized as a change in fair value.

(b) Profit or loss on financial liabilities measured at amortized cost is recognized by the effective interest method.

Derecognition of financial liabilities

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

3.11 Presentation of financial assets and financial liabilities

The Group offsets financial assets and financial liabilities showing the net amount only when the Group has the legal right to offset the balances, and either settles the balances on a net basis or intends to simultaneously realize the asset and settle the liability.

3.12 Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, readily available deposits and short-term investments having maturities of three months or less from the date of acquisition that are readily convertible into cash and are exposed to insignificant risk of changes in value.

3.13 Government grants

Government grants are recognized at their fair value when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

3. Significant accounting policies (continued)

3.13 Government grants (continued)

The amount of government grants relating to assets is recognized as deferred income, and transferred to profit or loss on a systematic and reasonable basis over the useful life of the related assets. Government grants relating to items of expenditure are recognized in profit or loss systematically over the period during which the related expenses are to be compensated by the grants.

3.14 Shareholders' equity

Common shares

With regard to equity instruments issued by the Company, the issuance value is recorded in "Capital stock" and "Capital surplus," and any directly attributable costs of issuing shares are deducted from "Capital surplus."

3.15 Revenue recognition

Royalty revenue, milestone revenue and lump-sum payments

The Group enters into research and license agreements with customers for which it receives upfront payments, development milestone payments, research related payments, sales related milestones and sales royalties.

Each research and licensing agreement is analyzed to identify the consideration receivable (the transaction price) and the underlying performance obligations. Such obligations can include the promise to grant a license, the provision of research and development services and the supply of product. The transaction price is then matched to these performance obligations and revenue is recognized at a point in time or over time as the performance obligations are satisfied.

If variable consideration arises under a contract the Group includes in the transaction price only those amounts in respect of which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The promise to grant a license under a contract is a promise to provide a right to access intellectual property if all of the following criteria are met:

(a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights;

(b) the rights granted by the license directly expose the customer to any positive or negative effects of the entity's activities identified in (a); and

(c) those activities do not result in the transfer of a good or a service to the customer as those activities occur.

Where the above criteria are met the promise to grant a license is accounted for as a performance obligation satisfied over time. Where these criteria are not met the promise to grant a license is accounted for as a performance obligation satisfied at a point in time.

3. Significant accounting policies (continued)

3.15 Revenue recognition (continued)

When a contract with a customer includes a distinct promise to grant a license in addition to other promised goods or services, the 5 step approach is applied to each of the performance obligations. It is regarded as distinct if the customer can benefit from the license either on its own or together with other resources that are readily available to the customer, and the Group's promise to transfer the license to the customer is separately identifiable from other promises in the contract. If the promise to grant a license is not distinct from other promised goods or services in the contract the promise to grant a license and those other promised goods or services are accounted for together as a single performance obligation.

Sales related milestones and sales royalties are recorded in line with the achievement of the underlying product sales.

Revenue excludes amounts collected on behalf of tax authorities (for example, some sales taxes).

3.16 Cost of sales

Cost of sales represents the fully loaded cost of those employees providing research and development services for specific customers under contracts. It also includes other costs directly associated with these activities such as lab consumables and an allocated share of depreciation of lab equipment.

3.17 Employee benefits

Post-employment benefits

Within the Group, the Company and Sosei Co., Ltd. (a subsidiary of the Company) are members of the Tokyo Pharmaceutical Welfare Pension Fund Association, a defined benefit plan. Since multiple employers operate this corporate pension plan, an equal amount of contributions has been fixed for all participating companies with no adjustment for the contribution rate related to past service costs and the ratio of employer contributions for each employer. As such, the amount of plan assets corresponding to the companies' contributions cannot be calculated reasonably and, therefore, only contributions payable to the pension fund are recorded in "Selling, general and administrative expenses."

3.18 Share-based compensation transactions

The Group operates stock option plans as incentive plans for its officers and employees. Stock options are estimated at fair value at the grant date and recognized in profit or loss over the period up to the time of vesting. The equivalent amount is recognized as an increase in equity. The fair value of options granted is measured using the Black-Scholes model, taking into account the terms and conditions of the options.

3. Significant accounting policies (continued)

3.19 Borrowing costs

With regard to assets that require a substantial period of time to prepare for their intended use or sale, borrowing costs directly attributable to the acquisition, construction, or production of such assets are capitalized as part of the cost of the assets.

3.20 Income taxes

Income tax expenses comprise current and deferred taxes. These are recognized in profit or loss, except for items arising from business combinations and items recognized in other comprehensive income.

Current tax expenses are calculated at an expected amount of taxes to be paid (or to be returned from tax authorities) using the tax rates (and tax laws and regulations) that have been enacted, or substantially enacted, by the end of the period.

Deferred tax assets or liabilities are recognized for temporary differences arising between the carrying amount of an asset or liability in the consolidated balance sheet and their tax base. However, if temporary differences arise from the initial recognition of an asset or liability in a transaction, other than business combinations, that have no effect on profit or loss for accounting purposes and taxable profits (tax losses) on the transaction date, deferred tax assets or liabilities are not recognized.

Deferred tax assets or liabilities are calculated in accordance with laws and regulations that have been enacted, or substantially enacted, by the end of the period, using the tax rates expected to be applicable when the related deferred tax assets are realized or the related deferred tax liabilities are settled.

Deferred tax assets such as deductible temporary differences, unused tax losses, and tax credits are recognized to the extent that it is probable that future taxable profits will be available against which these assets can be utilized.

Deferred tax assets and liabilities are recognized for temporary differences associated with subsidiaries. However, deferred tax liabilities are not recognized when the Group is able to control the timing of the reversal of temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future. Deferred tax assets are recognized to the extent that it is deemed probable that there will be sufficient taxable profits against which benefits from temporary differences can be utilized and the temporary differences will be reversed in the foreseeable future.

3. Significant accounting policies (continued)

3.21 Earnings per share

Basic earnings per share are calculated by dividing net profit attributable to common shareholders of the parent by the weighted-average number of common shares outstanding, adjusted by the number of treasury shares for the period concerned. Diluted earnings per share are calculated by adjusting the weighted-average number of common shares outstanding, by adjusting net profit and treasury shares for the effects of all dilutive common shares.

4. Significant accounting estimates and associated judgments

In preparing consolidated financial statements in accordance with IFRS, management is required to make judgments, estimates, and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The judgments and estimates made by management that have a significant effect on the amounts recognized in the consolidated financial statements are as follows:

- Assessment of contingent consideration in business combinations (Notes “9. Financial instruments” and “15. Contingent consideration in business combinations”)
- Calculation of the fair value less cost of disposal of a cash-generating unit, which is the smallest unit for the measurement of impairment on property, plant and equipment, goodwill, and intangible assets (Notes “10. Property, plant and equipment” and “11. Goodwill and intangible assets”).
- Recoverability of deferred tax (Notes “27. Income tax”)

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5. New standards and new interpretations not yet adopted

There was one significant accounting standard that was newly established or amended by the approval date of the consolidated financial statements that the Group has not yet adopted:

IFRS	Mandatory adoption (from fiscal year beginning)	Timing of adoption by the Group	Outline of new standards and amendments
IFRS 16 *Leases*	January 1, 2019	Fiscal year ending December 31, 2019	Amendment to the accounting for lease agreements

Under the previous standard, IAS 17 “Leases”, lease contracts that were classified as operating leases were expensed at the time the lease payments were made. Under IFRS 16 leases are accounted for according to the lease terms at the commencement of the lease contracts. Right-of-use assets and lease liabilities are recorded in the consolidated statement of financial position and expensed over the lease term.

In applying this standard, management can choose to apply it either retroactively to each of the past reporting periods shown or to recognize the cumulative impact at the commencement date. The Group has elected to recognize the cumulative impact at the commencement date.

The estimated impact of the adoption of this standard on the consolidated financial statements of the Group at January 1, 2019 is an increase in total assets of approximately 1.8 billion yen and an increase in total liabilities of approximately 1.7 billion yen in the consolidated statement of financial position. The impact on the consolidated statement of profit or loss is expected to be immaterial.

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6. Operating segments

6.1 *Overview of reportable segments*

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

6.2 *Information regarding products and services*

The breakdown of revenue is as follows:

	9 months ended December 31, 2018 ¥m	12 months ended March 31, 2018 ¥m
Royalty income	2,104	2,561
Milestone fees and lump-sum payments	340	3,840
Other	428	554
	2,872	6,955

6.3 *Geographical information*

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

Revenues from external customers

Country	9 months ended December 31, 2018 ¥m	12 months ended March 31, 2018 ¥m
Japan	594	267
Switzerland	2,035	2,459
Ireland	177	1,917
USA	66	160
UK	-	1,415
Israel	-	716
Other	-	21
	2,872	6,955

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6. Operating segments (continued)

6.3 Geographical information (continued)

Non-current assets

	At December 31, 2018 ¥m	At March 31, 2018 ¥m
Japan	967	1,590
UK	28,984	29,343
Other	1,593	1,588
	31,544	32,521

Non-current assets do not include investments accounted for using the equity method, other financial assets and deferred tax assets.

6.4 Information about major customers

Revenues: Customers that account for 10% or more of revenue in the consolidated statement of profit or loss are as follows:

Name of customer	9 months ended December 31, 2018 ¥m	12 months ended March 31, 2018 ¥m
Novartis International AG	2,035	2,459
Daiichi Sankyo Company, Limited	294	164
Allergan Pharmaceuticals International Ltd.	177	1,917
AstraZeneca UK Ltd.	-	1,415
Teva Pharmaceutical Industries Ltd.	-	716

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7 Loss of control of subsidiaries

There was no loss of control of any subsidiary during the nine month period ended December 31, 2018.

Activus Pharma Co. Ltd. was disposed of during the fiscal year ended March 31, 2018.

Summary of loss of control
The Company resolved at the meeting of the Board of Directors held on August 4, 2017, to sell all shares in its wholly-owned subsidiary, Activus Pharma Co. Ltd. (“Activus”), to Formosa Pharmaceuticals, Inc., a subsidiary of Formosa Laboratories, Inc., and transferred all of its voting shares in Activus on August 10, 2017.

Gain on sale of Subsidiary

	At August 10, 2017 ¥m
Consideration received	390
Assets and liabilities over which control was lost:	
Property, plant and equipment	(62)
Other non-current assets	(2)
Cash and cash equivalents	(12)
Other current assets	(6)
Non-current liabilities	2
Current liabilities	16
Subtotal for net assets disposed of	(64)
Gain on sale of subsidiary	326

Note: the Gain on loss of control of the subsidiary was recorded in Other Income in the year.

Change in cash and cash equivalents due to disposal

	At August 10, 2017 ¥m
Cash consideration received	390
Cash and cash equivalents of the subsidiary that was sold	(12)
Change in cash and cash equivalents due to the sale of the subsidiary’s shares	378

8 Purchase shares of associates

There were no purchases of shares of associates during the nine month period ended December 31, 2018. In October 2018 the Company informed MiNA that it would not exercise its option to acquire the entire MiNA business.

The Group acquired its interest in MiNA (Holdings) Limited during the fiscal year ended March 31, 2018.

Summary of the share acquisition

On May 2, 2017, Sosei R&D Ltd., a subsidiary company, acquired 25.6% of the outstanding shares of MiNA (Holdings) Limited ("MiNA"), the parent company of UK-based bio-pharmaceutical company, MiNA Therapeutics Limited. On the 29th November 2018 Sosei R&D Ltd transferred its entire holding in MiNA to Heptares Therapeutics Ltd.

Purpose of the investment

The investment was conducted under the Company's medium to long-term strategy targeting growth through Mergers and Acquisitions, which is focused on identifying innovative clinical-stage products with the potential to be developed rapidly and commercialized independently by the Company. This strategy is complementary to the Company's self-sustaining growth strategy focusing on the development of pipelines of clinical drug candidates consisting of clinical-stage products originating from Heptares Therapeutics, a subsidiary of the Company.

Summary of MiNA

Company name	MiNA (Holdings) Limited
Address	Translation & Innovation Hub, 80 Wood Lane, London, W12 0BZ, United Kingdom
Representative's name and title	Robert Habib, CEO
Business description	Developing new treatments using gene activation mechanisms through "Small Activating RNA (saRNA)"
Year of foundation	2008

Legal form of the investment

Acquisition of shares for cash.

Consideration

Sosei R&D Ltd. paid a consideration of 5,057 million yen (£35m) for a 25.6% interest in MiNA plus an option to acquire the remaining share capital. The contract included a contingent consideration clause and should Sosei R&D Ltd. exercise its option to acquire the remaining share capital for £140m (20,842 million yen) an additional amount up to £240m could be payable dependent on the progression of MiNA's assets.

9 Financial instruments

9.1 Capital management

The Group maintains a capital structure designed to facilitate sustainable growth and maximize corporate value. In particular, the Group maintains positions in cash and cash equivalents, interest-bearing debt, and equity primarily to support the development of its pipeline.

Financial covenants are attached to the Company’s bank borrowings. The Company was in technical breach of the financial covenants as at December 31, 2018 but the Company received notification from the banks participating in the Company’s syndicated loans that they would not require repayment of the loans following the breach of the loan covenants caused by two consecutive periods of loss. Please refer to note 32 *Significant subsequent events*.

The capital structure of the Group is as follows:

	December 31, 2018		March 31, 2018	
	Amount (¥m)	Ratio to total asset (%)	Amount (¥m)	Ratio to total asset (%)
Cash and cash equivalents	18,760	31.8	28,281	40.7
Interest –bearing debt	6,964	11.8	9,172	13.2
Total equity	41,580	70.5	48,886	70.4
Total assets	58,987	100.0	69,486	100.0

Ratio of cash and cash equivalents to interest-bearing debt (%)	269.4	308.3

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9.2 Classification of financial instruments

The breakdown of financial instruments is as follows:

	December 31, 2018 ¥m	March 31, 2018 ¥m
Financial assets		
Financial assets measured at fair value through profit or loss:		
Other financial assets	1,457	1,619
Financial assets measured at amortized cost:		
Other financial assets	58	-
Trade and other receivables	987	753
Financial liabilities		
Financial liabilities measured at fair value through profit or loss:		
Contingent consideration in business combinations	4,180	4,634
Other financial liabilities	1,179	1,073
Financial liabilities measured at amortized cost:		
Interest-bearing debt	6,964	9,173
Trade and other payables	2,080	2,411

9 Financial instruments (continued)

9.3 Risk management of financial instruments

The Group's activities are exposed to various risks due to changes in the economic and financial environment. The Group limits its investments to short-term instruments with minimal risk and does not engage in speculative transactions. The Group's basic policy is to select the most appropriate method of funding from available sources to minimize risk. Funds are principally raised through the issuance of new shares and bank borrowings.

9.4 Currency exchange rate risk

The Group operates globally and is exposed to currency exchange rate risk with regard to transactions denominated in currencies other than the functional currency of each group company. Other than Japanese Yen, the Group's transactions are principally denominated in the British pound, U.S. dollar, Euro and Swiss franc.

The Group's exposures to currency exchange rate risk are as follows:

December 31, 2018

	GBP	USD	EUR	CHF
Net exposure (¥m)	65	(2,729)	255	(3)
Net exposure (In thousands of local currency units)	466	(24,608)	(2,008)	(28)

March 31, 2018

	GBP	USD	EUR	CHF
Net exposure (¥m)	630	(4,010)	93	(6)
Net exposure (In thousands of local currency units)	4,232	(37,732)	709	(56)

Foreign currency sensitivity analysis

A sensitivity analysis of the Group's exposures to currency exchange rate risk is as follows. This analysis shows the impact on profit before income taxes in the consolidated statement of profit or loss and other comprehensive income of a 1% appreciation in Japanese yen against the relevant foreign currency at the reporting date, assuming that all other variables remain constant. The analysis indicates the impact of foreign exchange translation and does not take into account the potential effect on expected revenue, purchases, and other transactions.

9 Financial instruments (continued)

9.4 Currency exchange rate risk (continued)

	December 31, 2018 ¥m	March 31, 2018 ¥m
GBP	(1)	(6)
USD	27	40
EUR	(3)	(0)
CHF	0	0

9.5 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Since interest rates on borrowings are at variable and fixed interest rates. The variable rate at the end of December 2018 was under 0.1% therefore the impact of interest rate risk is insignificant. With regard to other financial instruments the Group's exposure to interest rate risk is considered insignificant because there are only a few instruments that are exposed to interest rate risk.

9.6 Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will cause a financial loss to the Group by failing to meet its contractual obligations. "Trade and other receivables" is exposed to customer credit risk. The Group manages this risk in accordance with credit management policies. Since customers of the Group are companies with high credit standings, the Group's exposure to credit risk is limited. As at December 31, 2018, 54% of the Group trade and other receivables balance related to trade receivables from one company and totaled 536 million yen (595 million yen as at March 31, 2018). There are no past-due receivables or significant expected credit losses. Therefore, no impairment or allowance for doubtful accounts has been recorded.

9.7 Liquidity risk

Liquidity risk is the risk that the Group will encounter problems in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Although "Trade and other payables," "Interest-bearing debt," and "Other financial liabilities" are exposed to liquidity risk, the Group manages the risk by developing and updating a funding plan in a timely manner, maintaining sufficient liquidity in hand, and through other means. The balance of financial liabilities by due date is as follows:

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9 Financial instruments (continued)

9.7 Liquidity risk (continued)

Non-derivative financial liabilities

December 31, 2018

	Book value	Cash flow on contract	Within 1 year	Greater than 1 year and less than 5 years	Greater than 5 years
	¥m	¥m	¥m	¥m	¥m
Contingent consideration in business combinations	4,180	4,588	1,247	3,261	80
Interest-bearing debt	6,964	7,037	3,007	4,030	-
Other financial liabilities	1,179	1,179	-	-	1,179
Trade and other payables	2,080	2,080	2,080	-	-
	14,403	14,884	6,334	7,291	1,259

March 31, 2018

	Book value	Cash flow on contract	Within 1 year	Greater than 1 year and less than 5 years	Greater than 5 years
	¥m	¥m	¥m	¥m	¥m
Contingent consideration in business combinations	4,634	5,142	917	4,225	–
Interest-bearing debt	9,173	9,292	3,007	6,285	–
Other financial liabilities	1,073	1,073	–	–	1,073
Trade and other payables	2,411	2,411	2,411	–	–
	17,291	17,918	6,335	10,510	1,073

Derivative financial liabilities

Not applicable.

9 Financial instruments (continued)

9.8 Fair value

Fair value hierarchy

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

Methods of calculating fair values

The 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 RMF1 investments and contingent consideration receivable relating to business disposals and security deposits; all except security deposits are categorized as level 3. The fair values of these assets 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 the discount rate. Changes in fair value during the period are recorded in “Finance income” or “Finance costs” as a gain or loss on revaluation.

During 2018 Sosei R&D Ltd. received the result of MiNA’s Phase I/IIa OUTREACH study of CEBPA which had the effect of starting a contractual timeframe during which the Group had to decide whether to exercise its option to increase its shareholding in MiNA. Management’s assessment of the data in September determined that it was unlikely to meet the Group’s strict internal hurdle for further investment and accordingly the fair value of the option was reduce to nil.

9 Financial instruments (continued)

9.8 Fair value (continued)

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 the discount rate. Changes in fair value during the period are recorded in "Finance income" or "Finance costs" as a gain or loss on revaluation.

Other financial liabilities

Other financial liabilities are revalued in line with changes in fair value. Other financial liabilities comprise holdings in RMF1 by external parties which are categorized as level 3. The fair value of the liability is assessed based on the repayment obligations to the limited partners of a subsidiary which move in line with changes in the value of the underlying investments (which are valued as explained above). Changes in fair value during the period are recorded in "Gain on investment in capital (included in Finance income)" or "Loss on investment in capital (included in Finance costs)" as a gain or loss on investments in capital.

Analysis of financial instruments measured at fair value

At December 31, 2018

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial assets:				
Other financial assets	-	-	1,457	1,457
	-		1,457	1,457
Financial liabilities:				
Contingent consideration in business combinations	-	-	4,180	4,180
Other financial liabilities	-	-	1,179	1,179
	-	-	5,359	5,359

9 Financial instruments (continued)

9.8 Fair value (continued)

At March 31, 2018

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial assets:				
Other financial assets	-	57	1,562	1,619
Financial liabilities:				
Contingent consideration in business combinations	-	-	4,634	4,634
Other financial liabilities	-	-	1,073	1,073
	-	-	5,707	5,707

Reconciliation of movements of level 3 financial instruments

Nine month period ended December 31, 2018

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the year	1,562	5,707
Increase in investment securities	650	–
Net gains or losses (realized) (Note 1)	(1,121)	–
Net gains or losses (unrealized) (Note 2)	317	20
Other comprehensive income (Note 3)	49	-
Settlements during the year (Note 4)	-	(368)
Balance at the end of the period	1,457	5,359

Note 1: Included in "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.

Note 2: Included in "Financial income" and "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.

Note 3: Foreign currency translation differences of foreign operations in the consolidated statement of profit or loss and comprehensive income.

Note 4: 368 million yen of the settlement amount during the period is unpaid at the end of this consolidated fiscal year and is included in "operating liabilities and other obligations".

9 Financial instruments (continued)

9.8 Fair value (continued)

Fiscal year ended March 31, 2018

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the year	–	5,855
Increase through the acquisition of option rights	1,084	–
Increase in investment securities	490	–
Increase in investment in subsidiary	–	495
Net gains or losses (unrealized) (Note 1)	45	609
Other comprehensive income (Note 2)	(57)	-
Settlements during the year (Note 3)	–	(1,252)
Balance at the end of the period	1,562	5,707

Note 1 Included in "Financial income" and "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.

Note 2 Foreign currency translation differences of foreign operations in the consolidated statement of profit or loss and comprehensive income.

Note 3 94 million yen of the settlement amount during the period is unpaid at the end of this consolidated fiscal year and is included in "operating liabilities and other obligations".

Sensitivity analysis

The impact on the fair value of contingent consideration if significant assumptions in its measurement are changed is as follows:

Item	(Increase) decrease in Fair value of contingent consideration December 31, 2018 ¥m	(Increase) decrease in Fair value of contingent consideration March 31, 2018 ¥m
Amount of milestones or royalties received increases by 5%	(209)	(232)
Amount of milestones or royalties received decreases by 5%	209	232
Interest rate increases by 0.5%	42	53
Interest rate decreases by 0.5%	(42)	(54)

Fair value of financial instruments

Since the fair value of financial instruments at December 31, 2018 and March 31, 2018 approximates their carrying amounts, disclosure of the fair value has been omitted.

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10 Property, plant and equipment

Changes in cost, accumulated depreciation and accumulated impairment losses of property, plant and equipment

10.1 Acquisition cost

	Buildings and structures	Machinery and equipment	Furniture and fixtures	Leased assets	Construction in progress	Total
	¥m	¥m	¥m	¥m	¥m	¥m
Balance at April 1, 2017	42	339	47	–	58	487
Additions	49	217	49	45	575	935
Disposals or sales	(4)	(6)	(10)	–	–	(20)
Changes in the scope of consolidation	(4)	(134)	(25)	–	–	(163)
Presentational adjustment	(5)	122	34	–	1	151
Exchange differences on translation	(3)	25	2	–	3	27
Balance at March 31, 2018	75	563	97	45	637	1,417
Additions	108	508	40	-	1,177	1,833
Disposals or sales	(22)	(17)	(3)	(2)	-	(44)
Transfers	1,432	-	94	-	(1,526)	-
Exchange differences on translation	(3)	(32)	(1)	-	(36)	(72)
Balance at December 31, 2018	1,590	1,022	227	43	252	3,134

10.2 Depreciation and accumulated impairment losses

	Buildings and structures	Machinery and equipment	Furniture and fixtures	Leased assets	Construction in progress	Total
	¥m	¥m	¥m	¥m	¥m	¥m
Balance at April 1, 2017	(15)	(35)	(14)	-	-	(65)
Depreciation expense	(17)	(91)	(22)	(5)	-	(134)
Disposals or sales	4	4	10	-	-	18
Changes in the scope of consolidation	-	83	18	-	-	101
Presentational adjustment	(1)	(126)	(31)	-	-	(158)
Exchange differences on translation	-	(21)	(2)	-	-	(23)
Balance at March 31, 2018	(29)	(186)	(41)	(5)	-	(261)
Depreciation expense	(41)	(125)	(38)	(4)	-	(208)
Disposals or sales	22	11	1	0	-	34
Transfers	4	-	(4)	-	-	-
Exchange differences on translation	7	11	(2)	-	-	16
Balance at December 31, 2018	(37)	(289)	(84)	(9)	-	(419)

10 Property, plant and equipment (continued)

10.3 Carrying amount

	Buildings and structures ¥m	Machinery and equipment ¥m	Furniture and fixtures ¥m	Leased assets ¥m	Construction in progress ¥m	Total ¥m
Balance at April 1, 2017	26	303	34	–	58	422
Balance at March 31, 2018	46	377	56	40	637	1,156
Balance at December 31, 2018	1,553	733	143	34	252	2,715

Depreciation expense is recorded in “Cost of sales”, “Research and development expenses” and “Selling, general and administrative expenses.

Note: Leased assets consist of furniture and fixtures.

Contractual commitments for the acquisition of property, plant and equipment total 106 million yen and 1,271 million yen as of December 31, 2018 and March 31, 2018, respectively.

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11 Goodwill and intangible assets

Changes in cost, accumulated amortization and accumulated impairment losses of goodwill and intangible assets

11.1 Acquisition cost

		Intangible assets					
	Goodwill ¥m	Product-related assets ¥m	In-process research and development costs ¥m	Core technology ¥m	Customer-related assets ¥m	Other ¥m	Total ¥m
Balance at April 1, 2017	14,154	1,407	-	12,189	4,791	43	32,586
Additions	-	-	-	-	-	11	11
Additions from internal developments	-	88	-	-	-	-	88
Disposal	-	-	-	-	-	(7)	(7)
Term adjustment	-	-	-	-	-	(0)	(0)
Impairment losses	-	-	-	-	(463)	-	(463)
Exchange differences on translation	531	-	-	682	304	2	1,518
Balance at March 31, 2018	14,685	1,495	-	12,871	4,632	49	33,732
Changes in accounting policy	-	(780)	-	-	-	-	(780)
Additions	-	338	-	-	-	14	352
Transfers	-	-	376	-	(376)	-	-
Impairment losses	-	-	(355)	-	-	-	(355)
Other	-	-	-	-	-	13	13
Exchange differences on translation	(508)	-	(21)	(648)	(136)	(1)	(1,314)
Balance at December 31, 2018	14,177	1,053	-	12,223	4,120	75	31,648

11 Goodwill and intangible assets (continued)

11.2 Accumulated amortization and accumulated impairment losses

	Goodwill	Intangible assets					Total
		Product-related assets	In-process research and develop-ment costs	Core technology	Customer-related assets	Other	
	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at April 1, 2017	-	-	-	(1,150)	(283)	(26)	(1,460)
Transfers	-	-	-	-	-	5	5
Amortization expense	-	-	-	(646)	(252)	(9)	(906)
Disposals	-	-	-	-	-	5	5
Impairment losses	-	-	-	-	69	-	69
Exchange differences on translation	-	-	-	(70)	(18)	(1)	(89)
Balance at March 31, 2018	-	-	-	(1,866)	(485)	(26)	(2,377)
Changes in accounting policy	-	(143)	-	-	-	-	(143)
Amortization expense	-	(34)	-	(470)	(151)	(9)	(664)
Transfers	-	-	(52)	-	52	-	-
Impairment losses	-	-	49	-	-	-	49
Other	-	-	-	-	-	(13)	(13)
Exchange differences on translation	-	-	3	118	(77)	0	44
Balance at December 31, 2018	-	(177)	-	(2,218)	(661)	(48)	(3,104)

11.3 Carrying amount

	Goodwill	Intangible assets					Total
		Product-related assets	In-process research and develop-ment costs	Core technology	Customer-related assets	Other	
	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at April 1, 2017	14,154	1,407	–	11,039	4,507	16	31,125
Balance at March 31, 2018	14,685	1,495	–	11,005	4,147	23	31,355
Balance at December 31, 2018	14,177	876	–	10,005	3,459	27	28,544

Amortization expense relating to ‘product-related assets’ and parts of ‘other’ is recorded in “Research and development expenses”. Other amortization expense is recorded “Selling, general and administrative expenses.”

11 Goodwill and intangible assets (continued)

11.4 Goodwill

Goodwill arose from the separate acquisitions of Sosei R&D Ltd. ("Sosei R&D"), Heptares, and Heptares Zurich by the Group. The combined Heptares and Heptares Zurich businesses, and Sosei R&D have been identified as separate cash-generating units. In the nine month period ended December 31, 2018, goodwill allocated to each cash-generating unit was: 5,426 million yen for Sosei R&D and 8,751 million yen for Heptares and Heptares Zurich combined. In the fiscal year ended March 31, 2018, goodwill allocated to each cash-generating unit was: 5,426 million yen for Sosei R&D, 9,259 million yen for Heptares and Heptares Zurich combined.

The recoverable amounts of the cash generating units have been assessed using a fair value less costs of disposal model. Fair value less cost of disposal has been calculated based on estimated future cash flows that have been risk adjusted and discounted to take into account the time value of money. The valuation methodology uses significant inputs which are not based on observable market data, therefore this valuation technique is classified as level 3 in the fair value hierarchy.

Results of impairment tests of goodwill relating to these three acquisitions: As a result of the impairment test performed based on the below assumptions, there were no events or circumstances that led to the recognition of impairment losses during the fiscal periods ended December 31, 2018 and March 31, 2018. In each case the valuations indicated sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

Goodwill relating to the Sosei R&D Ltd. acquisition

<u>Estimate of future cash flows:</u>

Future cash flows have been estimated based on Sosei R&D Ltd.'s past performance and its twenty year business plan.

<u>Post-tax discount rate:</u>

The discount rates used were 9.6% and 7.8% for the fiscal period ended December 31, 2018 and March 31, 2018, respectively, based on the weighted-average cost of capital of Sosei R&D Ltd. as appraised by external professional consultants.

Goodwill relating to the acquisitions of Heptares Therapeutics Ltd and Heptares Therapeutics Zurich AG (excludes the Sosei R&D business which has been assessed separately)

<u>Estimate of future cash flows:</u>

Future cash flows have been estimated based on Heptares' past performance and its twenty year business plan. For the period after the business plan a terminal value was included with an expected growth rate of zero.

11 Goodwill and intangible assets (continued)

11.4 Goodwill

Post-tax discount rate:

The discount rates used were 9.6% and 8.7% for the fiscal period ended December 31, 2018 and March 31, 2018, respectively, based on the weighted-average cost of capital of Heptares as appraised by external professional consultants.

11.5 Significant intangible assets

Product-related assets

Product-related assets relate to Oravi®, an agent for the treatment of oropharyngeal candidiasis, for which Sosei Co., Ltd. has received marketing approval. The carrying amounts of product-related intangible assets at December 31, 2018 and March 31, 2018 include internally-generated intangible assets of 361 million yen and 1,253 million yen, respectively, and other intangible assets of 515 million yen and 242 million yen, respectively. These assets are being amortized using the straight-line method over a useful life of 20 years. The remaining amortization period is 15 years for Oravi®.

Core technology

This represents the assessed value of core technology of Heptares and Heptares Zurich. The carrying amount of core technology at December 31, 2018 and March 31, 2018 was 10,005 million yen and 11,005 million yen, respectively. These assets are being amortized using the straight-line method over a useful life of 20 years. The remaining amortization period is 16 years for Heptares core technology and 18 years for Heptares Zurich core technology.

Customer-related assets

Of the assessed value of intangible assets at the time of acquisition of Heptares, these assets represent the assessed value of assets to which there are counterparties. The carrying amount of customer-related assets at December 31, 2018 and March 31, 2018 was 3,459 million yen and 4,147 million yen, respectively. These assets are being amortized using the straight-line method over the useful life of 20 years. The remaining amortization period is 16- 17 years.

11.6 Impairment

Intangible assets were grouped based on the smallest cash-generating unit that produces largely independent cash inflows. The recoverable amount of the assets was assessed using their fair value less costs of disposal. The approach is classified as Level 3 within the fair value hierarchy.

At December 31, 2018, an impairment assessment was performed as follows:

The Group recorded an impairment loss of 319 million yen in other expenses during the fiscal period. The carrying value of certain in-process research and development costs was impaired to nil when the Group decided to cease the related development program and there were no expected future cash in-flows from that program.

Sosei Group Corporation

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11 Goodwill and intangible assets (continued)

11.6 Impairment (continued)

At March 31, 2018, an impairment assessment was performed as follows:

Impairment losses of 390 million yen were as recognized during the fiscal year ended March 31, 2018 and recorded in "Other expenses" in profit or loss. The assets on which impairment losses were recognized are customer-related assets, in respect of which the underlying contracts were terminated during the fiscal year ended March 31, 2018 by the partner.

11.7 Contractual commitments

Contractual commitments relating to the acquisition of intangible assets existing at the fiscal periods ended December 31, 2018 and March 31, 2018 were zero and 333 million yen, respectively. The commitments relate to milestone payments which are dependent on successful development, and which represent the maximum that would be paid if all milestones, however unlikely, are achieved. The amounts are not risk-adjusted or discounted. Additional milestones and royalties are payable dependent on sales.

12 Lease transactions

12.1 Finance leases

	Total minimum lease payments		Present value of total	
	December 31, 2018 ¥m	March 31, 2018 ¥m	December 31, 2018 ¥m	March 31, 2018 ¥m
Within 1 year	8	8	7	8
Greater than 1 year and less than 5 years	30	37	30	36
Total	38	45	37	44
Future financial expenses	1	1		
Present value of total minimum lease payments	37	44		

12 Lease transactions (continued)

12.2 Operating leases

Leases as lessee

The Group has principally entered into operating lease agreements for facilities and buildings. These contracts do not impose any significant restrictions on decision-making by the Group.

There are no obligations to renew leases or purchase leased assets. There are no escalation clauses in the lease contracts other than inflationary increases in relation to the UK facility. There are no restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

The minimum lease payments recognized in profit or loss for the nine month period ended December 31, 2018 and fiscal year ended March 31, 2018 were 86 million yen and 201 million yen, respectively.

Future minimum lease payments under non-cancellable operating leases as at December 31, 2018 and March 31, 2018 were as follows:

	December 31, 2018 ¥m	March 31, 2018 ¥m
Within 1 year	63	76
Greater than 1 year and less than 5 years	619	504
Greater than 5 years	1,641	991
	2,323	1,571

13 Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

	December 31, 2018 ¥m	March 31, 2018 ¥m
Cash and bank deposits	18,760	28,281

14 Trade and other receivables

The breakdown of trade and other receivables is as follows:

	December 31, 2018 ¥m	March 31, 2018 ¥m
Trade receivables	306	103
Accrued income	681	650
	987	753

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15 Contingent consideration in business combinations

The contingent consideration liability is a fair value estimate by management of the amount payable to the former shareholders of Heptares Therapeutics Limited under the 2015 Share Purchase Agreement. It has been calculated on a risk adjusted and discounted basis. The probabilities of success used in the Group's financial models are based on industry standard rates which are adjusted when management judge the probability of success of the current phase of development of an asset to be different to the standard rate. The maximum amount of contingent consideration payable under the contract is US$220m (¥23,379m) of which US$66m (¥6,969m) has been paid out to date. Under the agreement there are defined mechanisms for determining the amounts payable. In instances where the agreement is not explicit the liability includes management's best estimate of the probable outflows. It is therefore possible that the amounts ultimately payable will be different to those provided for as there may be differing interpretations of the agreement.

16 Trade and other payables

The breakdown of trade and other payables is as follows:

	December 31, 2018 ¥m	March 31, 2018 ¥m
Accounts payable	1,931	1,725
Accrued expenses	149	186
Advances received	-	500
	2,080	2,411

17 Interest-bearing debt

The breakdown of interest-bearing debt is as follows:

	At December 31, 2018 ¥m	At March 31, 2018 ¥m	Average rate	Term
Non-current liabilities:				
Long-term borrowings (Note)	3,940	6,142	1.57%	FY2019-FY2022
Long-term lease obligations	30	36	-	FY2019-FY2022
	3,970	6,178		
Current liabilities:				
Current portion of long-term borrowings (Note)	2,987	2,987	1.57%	-
Current portion of long-term lease obligations	7	8	-	-
	2,994	2,995		
	6,964	9,173		

17 Interest-bearing debt (continued)

Note 1: On September 28, 2015, the Company entered into a syndicated loan agreement with Mizuho Bank, Ltd. acting as the arranger and agent.

(i) Amount borrowed
10,000 million yen

(ii) Repayment date
Starting from the last day of December 2015, 500 million yen has been repaid every three months, and the final repayment date will be the last day of September 2020.

Repayment before the due date may be allowed if certain conditions set forth in the loan agreement are fulfilled.

(iii) Interest rate
TIBOR + spread rate
Spread rate is 1.50% annually.
1.57% as at 31 December 2018.

Note 2: On May 17, 2017, the Company entered into a syndicated loan agreement with Mizuho Bank, Ltd. acting as the arranger and agent.

(i) Amount borrowed
5,000 million yen

(ii) Repayment date
Starting from the last day of July 2017, 250 million yen has been repaid every three months, and the final repayment date will be the last day of April 2022.

Repayment before the due date may be allowed if certain conditions set forth in the loan agreement are fulfilled.

(iii) Interest rate
TIBOR + spread rate
Spread rate is 1.50% annually.
1.57% as at 31 December 2018.

Note 3: Financial covenants apply to the Company's bank borrowings and the Company actively monitors compliance with them. The company was in compliance with these covenants at the period end except for certain financial covenants for which a waiver was received.

For details of the liquidity risk management and interest rate risk management for interest-bearing debt, refer to Note 9 *Financial instruments*.

18 Equity and other components of equity

18.1 Capital stock

	Number of shares authorized	Number of shares issued	Treasury stock
Balance at April 1, 2017	37,344,000	16,916,184	--
Increase in the number of shares due to public offering and third-party allocation of new shares	-	2,070,000	-
Increase in the number of shares through exercise of subscription rights to shares	-	68,800	-
Purchase of shares less than 1 unit	-	-	26
Balance at March 31, 2018	37,344,000	19,054,984	26
Increase in the number of shares through split of shares (Note2)	112,032,000	57,164,952	78
Increase in the number of shares through exercise of subscription rights to shares	-	82,000	-
Balance at December 31, 2018	149,376,000	76,301,936	104

Note 1: Common shares with no par value
Note 2: Effective July 1, 2018, the Company executed a stick split at a ratio of 4 shares per common share.

18.2 Capital surplus

Capital surplus is the amount generated from equity transactions and not included in the capital stock.

18.3 Retained earnings

Retained earnings comprise unappropriated retained earnings or losses. Retained earnings include accumulated exchange differences on translating foreign operations at the IFRS transition date.

18.4 Other components of equity

Exchange differences on translating foreign operations

These adjustments reflect exchange differences resulting from translations of foreign operations' financial statements maintained in foreign currencies for the preparation of the Group's consolidated financial statements.

18.5 Dividends

Dividend payments

There are no dividend payments in the current or preceding fiscal period.

19 Revenue

The Group earns revenue through license and research & development services agreements contracted with third parties. These agreements generate the following types of revenue:

- Milestone income and upfront payments: Upfront payments, Development milestone income, Sales milestone revenue
- Royalty income: Sales royalty income
- Other: Revenue earned from contracted research and development services and product supply revenue

Each type of revenue is classified into the following performance obligations:

Grant of Licenses

When a license is distinguished from other goods or services and evaluated as a right of use license

Upfront payments are recognized at the time of grant of the license if the performance obligation is satisfied at one point in time. Development milestone income takes into consideration the possibility of a significant revenue reversal after the fact. Revenue is therefore only recognized when it is determined that milestones agreed between the parties, such as regulatory filings, have been reached.

Sales-based royalties and sales milestone income are recognized in exchange for a license of intellectual property only when (or as) the later of (i) the subsequent sale or usage occurs, and (ii) the performance obligation to which some or all the sales based royalty / milestone has been satisfied.

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

Not applicable.

Performance obligations other than licenses

Consideration relating to performance obligations that are not satisfied at a point in time is recorded as deferred revenue and recognized as income over a fixed period of time when the Group receives consideration before the performance obligations are satisfied.

Income from contract research and development services is recognized over time. The period of recognition depends on the agreed terms for the provision of the services.

Product supply income is recognized as revenue at the point of sale.

The transaction prices for the grant of licenses and revenue earned from contracts for research and development services are determined based on the standalone selling prices. These can be calculated using the adjusted market valuation approach or the cost plus margin approach. The consideration is the amount receivable within one year from fulfillment of the performance obligations or fulfillment of contractual terms and conditions.

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19 Revenue (continued)

Variable consideration is allocated to specific performance obligations only if both of the following conditions apply:

- Variable payment terms relate to the entity's effort to satisfy the performance obligation or transfer separate goods or services.
- Assignment of the whole of the variable consideration amount to the performance obligation or the separate goods or services takes into account the goods or services promised by the entity, considering all of the performance obligations and payment terms in the contract. This is an amount that equals the value of consideration the Company would expect to be entitled to receive from allocating the transaction price to each performance obligation.

If the consideration in the contract with the customer includes variable consideration, revenue is only recognized when the uncertainty regarding the variable consideration is subsequently resolved and it is highly probable that there will not be a significant reversal of the accumulated revenue recognized.

There are no significant financing components included in revenue.

19.1 Breakdown of revenue
Nine month period ended December 31, 2018

Relationship between types of revenue and performance obligations

	performance obligations		
	Grant of Licenses	Research and Development services	**Total**
Types of Revenue	¥m	¥m	**¥m**
Royalty income	2,104	-	**2,104**
Milestone fees and lump-sum payments	122	218	**340**
Other	-	428	**428**
	2,226	646	**2,872**

19 revenue (continue)

19.1 Breakdown of revenue (continued)

Fiscal year ended March 31, 2018

Types of Revenue	Amount ¥m
Royalty income	2,561
Milestone fees and lump-sum payments	3,840
Other	554
	6,955

Note: IAS18 “Revenue” is applied on the fiscal year ended March 31, 2018.

19.2 Contract balances

The opening and closing balances of receivables and deferred revenue from contracts with customers are as follows:

	At December 31, 2018 ¥m	At April 1, 2018 ¥m
Receivables from contracts with customers	987	753
Deferred revenue from contracts with customers	-	32

There is no balance payables from contracts with customers.

Revenue recognized in the reporting period that was included in the deferred revenue balance at the beginning of the period and revenue recognized in the reporting period from performance obligations satisfied in previous periods is as follows:

	9 months ended December 31, 2018 ¥m
Amount recognized in the reporting period that was included in the deferred revenue balance at the beginning of the period	32
Amount recognized in the reporting period from performance obligations satisfied in previous periods (See Note 1)	2,226

Note 1: Relates to royalty income and the grant of certain licenses.

19 revenue (continue)

19.3 Transaction price allocated to the remaining performance obligations

This is not applicable for the nine month period ended December 31, 2018.

Income from milestone / lump-sum payments allocated to research and development services is not included in the transaction price allocated to the remaining performance obligations because the amount of consideration is uncertain.

The transaction price allocated to the remaining performance obligations relating to research and development services is omitted as a practical expedient. The Group has a right to consideration from a customer in an amount that corresponds with the value to the customer of the entity's performance of services completed to date.

20 Employee benefits

20.1 Post-employment benefits

Sosei Group Corporation and Sosei Co., Ltd. are members of the Tokyo Pharmaceutical Corporate Pension Fund Association, a defined benefit plan. Information about the plan is as follows:

Funding status of the plan as a whole

	At December 31, 2018 ¥m	At March 31, 2018 ¥m
Amount of plan assets	531,844	549,913
Total of actuarial benefit obligations for pension financing calculations and minimum actuarial reserve	512,770	547,839
Difference (note)	19,074	2,074

Note: Major factor for the difference in the nine month period ended December 31, 2018: Difference is 23,254 million yen of past service liability for the pension based on a financial statement calculation less a negative surplus of 11,381 million yen and general reserve of 30,947 million yen.

Major factor for the difference in the fiscal year ended March 31, 2018: Difference is 28,873 million yen of past service liability for the pension based on a financial statement calculation less a positive surplus of 2,650 million yen and general reserve of 28,297 million yen. The past service liabilities under the plan are amortized using the straight-line method for the sum of the principal and interest components.

20 Employee benefits (continued)

20.1 Post-employment benefits (continued)

Ratio of contributions by the Group to the plan as a whole

	At December 31, 2018	At March 31, 2018
Contribution percentage (Note)	0.05%	0.05%

Notes:
The contribution percentage in December 2018: Contribution percentage is determined by dividing the Group's contributions of 0.3 million yen by the total contributions of 517 million yen paid into the fund.
The contribution percentage in March 2018: Contribution percentage was determined by dividing the Group's contributions of 0.3 million yen by the total contributions of 733 million yen paid into the fund.

Supplemental explanation

The Group recorded contributions of 3 million yen for the nine month period ended December 31, 2018 an expense in "Selling, general and administrative expenses." The Group recorded contributions of 4 million yen for the fiscal year ended March 31, 2018 as an expense in "Selling, general and administrative expenses."

Contributions for the fiscal year ending December 31, 2019 are estimated to be approximately 3 million yen.

20.2 Other employment benefits

	Nine month period ended December 31, 2018 ¥m	Fiscal year ended March 31, 2018 ¥m
Remuneration and bonuses	1,896	2,440
Share-based compensation	421	597
Retirement	139	5
	2,456	3,042

Note: Other employment benefits is recorded in "Cost of sales", "Research and development expenses" and "Selling, general and administrative expenses.

21 Share-based compensation

The Group has a stock option scheme and stock options are granted based on resolutions passed by the Company's Board of Directors in accordance with the terms of the plan, as approved by shareholders at the Company's General Meeting of Shareholders.

21.1 Details of stock options

Sosei Group Corporation

Sosei Group Corporation grants stock options to its officers and employees. Shares granted through the execution of stock options are shares issued by Sosei Group Corporation.

	26th Subscription Rights to Shares	27th Subscription Rights to Shares	29th Subscription Rights to Shares
Date of board resolution	September 6, 2010	September 6, 2010	November 13, 2015
Number of subscription rights to shares	40	115	303
Number and class of shares underlying subscription rights to shares	16,000 common shares	46,000 common shares	121,200 common shares
Exercise price	162 yen	162 yen	1,033 yen
Exercise period	From September 7, 2012 to September 6, 2020	From September 7, 2012 to September 6, 2020	From July 1, 2017 to June 30, 2020
Settlement method	Share-based payment	Share-based payment	Share-based payment
Exercising conditions	Stock option holders shall continue to be in employment with the Company from the grant date (September 7, 2010) through to the vesting date (September 6, 2012).	Stock option holders shall continue to be in employment with the Company from the grant date (September 7, 2010) through to the vesting date (September 6, 2012).	Notes 1 to 5

21 Share-based compensation (continued)

21.1 Details of stock options (continued)

	30th Subscription Rights to Shares	31st Subscription Rights to Shares	32nd Subscription Rights to Shares
Date of board resolution	November 13, 2015	May 15, 2017	May 15, 2017
Number of subscription rights to shares	3,399	671	67
Number and class of shares underlying subscription rights to shares	1,359,600 common shares	268,400 common shares	26,800 common shares
Exercise price	1,033 yen	1 yen	3,085 yen
Exercise period	From July 1, 2018 to June 30, 2021	From July 1, 2020 to April 30, 2027	From July 1, 2020 to April 30, 2027
Settlement method	Share-based payment	Share-based payment	Share-based payment
Exercising conditions	Notes 1 to 5	Notes 6	Notes 6

	33rd Subscription Rights to Shares	34th Subscription Rights to Shares	35th Subscription Rights to Shares
Date of board resolution	May 15, 2017	November 21, 2017	November 21, 2017
Number of subscription rights to shares	232	11	18
Number and class of shares underlying subscription rights to shares	92,800 common shares	4,400 common shares	7,200 common shares
Exercise price	3,085 yen	2,687 yen	2,687 yen
Exercise period	From July 1, 2020 to April 30, 2027	From December 1, 2020 to October 29, 2027	From December 1, 2020 to October 29, 2027
Settlement method	Share-based payment	Share-based payment	Share-based payment
Exercising conditions	Notes 6	Notes 7	Notes 7

21.1 Details of stock options (continued)

Notes1. Stock option holders may exercise stock options when total revenue in the Company's audited consolidated statement of profit or loss and other comprehensive income reported in the securities reports submitted by the Company for the fiscal years ended March 31, 2017 and 2016 is 23 billion yen or greater.

2. During the five consecutive trading day period commencing immediately after the allotment date of subscription rights to shares and ending on, and including the expiry date for the stock options, if the average of the closing price of the Company's shares of common stock in the regular trading of the Tokyo Stock Exchange falls below a price that is 50% of the exercise price even once (amounts less than 1 yen are rounded down), stock options may not be exercised even if the condition described in 1. is met.

3. Stock option holders must be directors, executive officers, or employees of the Company or the Company's affiliates when exercising the stock options. However, this condition does not apply to retirement due to the expiration of the term of office or reaching the mandatory retirement age, or when there are other legitimate reasons.

4. Stock options may not be exercised by heirs of stock option holders.

5. Stock options may not be exercised if the exercise of stock options would cause the Company's total number of outstanding shares to exceed the total number of authorized shares at the time of exercise.

6. (1) A Rights Holder may exercise his or her Rights if the closing price of common stock of the Company in the regular trading on the Tokyo Stock Exchange (the "TSE") on July 1, 2020 is one hundred and fifteen percent (115%) or more of the base price. For the purpose of these items, the "base price" means the closing price of common stock of the Company in the regular trading on the TSE on the Allotment Date.

(2) Notwithstanding the conditions provided in the item (i) above, one-third of the total number of the Rights allotted to the Rights Holder (any fractional Right resulting from such calculation shall be rounded down to the nearest whole Right) may be exercised if any of the closing price of common stock of the Company in the regular trading on the TSE on the date after one, two or three years from the Allotment Date (the "Corresponding Date") (if the Corresponding Date is not a trading day or there is no closing price on the Corresponding Date, the immediately preceding trading day) is not less than five percent (5%) of the base price above the price on the Allotment Date or the immediately preceding Corresponding Date, whichever comes later, and two-thirds of the total number of the Rights allotted to the Rights Holder (any fractional Right resulting from such calculation shall be rounded down to the nearest whole Right) may be exercised if two of the closing price of common stock of the Company in the regular trading on the TSE on the Allotment Date or the Corresponding Date is not less than five percent (5%) of the base price above the price on the Allotment Date or the immediately preceding Corresponding Date, whichever comes later.

(3) A Rights Holder must be a director, an executive officer and/or an employee of the Company or its subsidiary at the time the Rights are exercised. Provided, however, this provision shall not apply to directors or executive officers who have retired due to expiration of their terms of office, or employees who have retired upon reaching the mandatory retirement age or for other legitimate reasons that the Board of Directors may deem appropriate.

21.1 Details of stock options (continued)

(4) Exercise of the Rights by heirs of Rights Holder shall not be permitted.

(5) Rights may not be exercised when doing so would cause the total number of shares of the Company outstanding after exercise of such Rights to exceed the total number of shares authorized to be issued by the Company at the time of the exercise.

(6) Stock Acquisition Rights may not be exercised in less than one unit.

7. (1) A Rights Holder may exercise his or her Rights if the closing price of common stock of the Company in the regular trading on the TSE on December 1, 2020 is one hundred and fifteen percent (115%) or more of the base price. For the purpose of these items, the “base price” means the closing price of common stock of the Company in the regular trading on the TSE on the Allotment Date. Stock options may not be exercised by heirs of stock option holders.

(2) Notwithstanding the conditions provided in the 7 (1) above, one-third of the total number of the Rights allotted to the Rights Holder (any fractional Right resulting from such calculation shall be rounded down to the nearest whole Right) may be exercised if any of the closing price of common stock of the Company in the regular trading on the TSE on the date after one, two or three years from the Allotment Date (the “Corresponding Date”) (if the Corresponding Date is not a trading day or there is no closing price on the Corresponding Date, the immediately preceding trading day) is not less than five percent (5%) of the base price above the price on the Allotment Date or the immediately preceding Corresponding Date, whichever comes later, and two-thirds of the total number of the Rights allotted to the Rights Holder (any fractional Right resulting from such calculation shall be rounded down to the nearest whole Right) may be exercised if two of the closing price of common stock of the Company in the regular trading on the TSE on the Allotment Date or the Corresponding Date is not less than five percent (5%) of the base price above the price on the Allotment Date or the immediately preceding Corresponding Date, whichever comes later.

(3) A Rights Holder must be a director, an executive officer and/or an employee of the Company or its subsidiary at the time the Rights are exercised. Provided, however, this provision shall not apply to directors or executive officers who have retired due to expiration of their terms of office, or employees who have retired upon reaching the mandatory retirement age or for other legitimate reasons that the Board of Directors may deem appropriate.

(4) Exercise of the Rights by heirs of Rights Holder shall not be permitted.

(5) Rights may not be exercised when doing so would cause the total number of shares of the Company outstanding after exercise of such Rights to exceed the total number of shares authorized to be issued by the Company at the time of the exercise.

(6) The Rights may not be exercised in less than one unit.

21 Share-based compensation (continued)

21.2 Total number of exercisable shares and average exercise price of stock options in Sosei Group Corporation

If the stock split on July 1, 2018 had occurred at the beginning of the previous fiscal year, the number of shares and weighted-average exercise price would have been as follows:

	Nine month period starting from April 1 to December 31, 2018		Fiscal year ended March 31, 2018	
	Number of shares (Shares)	Weighted-average exercise price (¥)	Number of shares (Shares)	Weighted-average exercise price (¥)
Balance at the beginning of the period	2,264,000	967	2,091,600	947
Granted during the period	-	-	529,600	814
Forfeited during the period	239,600	691	82,000	728
Exercised during the period	82,000	1,033	275,200	592
Balance at the end of the period	1,942,000	998	2,264,000	967
Exercisable balance at the end of the period	1,542,800	998	183,200	738

Note:1. In the nine month period ended December 31, 2018, the exercise price of the stock options outstanding ranged from 1 yen to 3,085 yen (in the fiscal year ended March 31 2018, from 1 yen to 3,085 yen), and the weighted-average remaining contractual life was 3.6 years (in the fiscal year ended March 31 2018, 4.5 years). The weighted-average share price on the exercise date for the stock options exercised during the fiscal period ended December 31, 2018 was 1,575 yen (in the fiscal year ended March 31 2018, it was 2,802 yen).

2. Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. Number of shares and Weighted-average exercise price have been calculated as if the stock split had occurred at the beginning of the previous fiscal year.

The outstanding balance of stock options as of December 31, 2018, was as follows:

Exercise price range (¥)	Number of shares (Shares)	Weighted-average exercise price (¥)	Weighted-average remaining contractual life (year)
Up to 2,000	1,811,200	850	3.3
2,001 to 4,000	131,200	3,049	8.4
	1,942,400	998	3.6

The outstanding balance of stock options as of March 31, 2018, was as follows:

Exercise price range (¥)	Number of shares (Shares)	Weighted-average exercise price (¥)	Weighted-average remaining contractual life (year)
Up to 2,000	2,123,600	829	4.2
2,001 to 4,000	140,400	3,052	9.1
	2,264,000	967	4.5

21.3 Fair values and valuation assumptions relating to share options granted during the period

Not applicable for the fiscal period ended December 31, 2018.

If the stock split on July 1, 2018 had occurred at the beginning of the previous fiscal year, fair value at grant date, share price at grant date and exercise price relating to share options granted during the period (based on the Monte Carlo simulation method) for the fiscal year ended March 31, 2018 would have been as follows:

	31st Subscription Rights to Shares	32nd and 33th Subscription Rights to Shares	34th and 35th Subscription Rights to Shares
Fair value at grant date (¥)	2,449.25	1,750.75	1,372.50
Share price at grant date (¥)	3,087.50	3,087.50	2,637.50
Exercise price (¥)	1.00	3,085.00	2,686.50
Expected volatilities (%)	70.8	70.8	65.6
Expected remaining contractual life (year)	6.4	6.4	6.4
Expected dividends (¥)	—	—	—
Risk free rate (%)	(0.02)	(0.02)	(0.06)

21.4 Expenses related to share-based compensation

Share-based compensation expense, which is included in “Selling, general and administrative expenses” in the consolidated statement of profit or loss and other comprehensive income for the fiscal periods ended December 31, 2018 and March 31, 2018 was 421 million yen and 597 million yen, respectively.

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22. Selling, general and administrative expenses

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

	At December 31, 2018 ¥m	At March 31, 2018 ¥m
Personnel expenses	1,101	1,743
Depreciation expenses	673	913
Outsourcing expenses	524	800
Other	406	1,026
	2,704	4,482

23. Other income

The breakdown of other income is as follows:

	At December 31, 2018 ¥m	At March 31, 2018 ¥m
Grant income	128	235
Gain on sale of subsidiary	-	326
Other	12	4
	140	565

Note: The Group recorded government grants for research and development as grant income.

24 Other expenses

The breakdown of other expenses is as follows:

	At December 31, 2018 ¥m	At March 31, 2018 ¥m
Impairment losses	319	390
Other	4	4
	323	394

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25 Finance income and finance costs

The breakdown of finance income is as follows:

	At December 31, 2018 ¥m	At March 31, 2018 ¥m
Changes in fair value of contingent consideration	216	-
Gain on investment in securities	187	-
Interest income	16	12
Foreign exchange gains	15	—
Gains on investments in capital	-	47
Gain on option valuation	-	45
	434	104

The breakdown of finance costs is as follows:

	At December 31, 2018 ¥m	At March 31, 2018 ¥m
Loss on lapse of option to purchase shares	1,121	-
Interest expenses	163	260
Loss on investment in capital	105	-
Changes in fair value of contingent consideration	-	655
Foreign exchange losses	-	324
	1,389	1,239

26 Investments accounted for using the equity method

The carrying amount of associates that are not individually significant is as follows:

	At December 31, 2018 ¥m	At March 31, 2018 ¥m
Total carrying amount	3,644	4,424

Summary financial information of associates that are not individually significant is as follows:

	At December 31, 2018 ¥m	At March 31, 2018 ¥m
Share of loss of associates accounted for using the equity method	(488)	(276)
Impairment loss on investments accounted for using the equity method	(66)	-
Loss from continuing operations	(554)	(276)
Total comprehensive loss	(554)	(276)

27 Income taxes

27.1 Income tax benefit / expense

The breakdown of income tax (benefit) / expense is as follows:

	Nine month period ended December 31, 2018 ¥m	Fiscal year ended March 31, 2018 ¥m
Current tax expenses		
Tax (benefit) expense on net profit	(1,132)	(774)
Total current tax (benefit) expense	(1,132)	(774)
Deferred tax expenses		
Loss carryforwards or temporary differences	(133)	(274)
Total deferred tax (benefit) expense	(133)	(274)
	(1,265)	(1,048)

A reconciliation of the statutory effective tax rate and actual tax rate is as follows:

	Nine month period ended December 31, 2018 (%)	Fiscal year ended March 31, 2018 (%)
Statutory effective tax rate	30.6	30.9
Items not deductible permanently	(3.7)	(20.8)
Items not included permanently	0.1	37.9
Effect of differences in tax rates of foreign subsidiaries	(10.2)	(6.4)
Effect of unrecognized tax loss carryforwards or temporary differences	(5.3)	(15.6)
Tax deduction on research and development expenditure	5.6	—
Other	0.4	(2.4)
Actual tax rate	17.5	28.3

The Company is mainly subject to corporate income tax, residential tax, and enterprise tax. The effective statutory tax rate based on those taxes was 30.6% and 30.9% for the fiscal periods ended December 31 and March 31, 2018, respectively. However, foreign subsidiaries are subject to corporate tax and other taxes in their locations.

Section 5: Financial Statements
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27 Income taxes (continued)

27.2 Deferred tax assets and liabilities

Balances of recognized deferred tax assets and liabilities, and details of their increases or decreases are as follows:

Nine month period ended December 31, 2018

	At April 1, 2018	Amounts recognized in profit or loss etc.	At December 31, 2018
	¥m	¥m	¥m
Deferred tax assets			
Tax loss carryforwards	-	-	-
Other	6	(6)	-
Total deferred tax assets	6	(6)	-
Deferred tax liabilities			
Intangible assets and others	(3,060)	601	(2,459)
Other	(17)	(66)	(83)
Total deferred tax liabilities	(3,077)	535	(2,542)

Fiscal year ended March 31, 2018

	At April 1, 2017	Amounts recognized in profit or loss etc.	At March 31, 2018
	¥m	¥m	¥m
Deferred tax assets			
Tax loss carryforwards	–	—	–
Other	4	2	6
Total deferred tax assets	4	2	6
Deferred tax liabilities			
Intangible assets and others	(3,112)	52	(3,060)
Other	(63)	46	(17)
Total deferred tax liabilities	(3,175)	98	(3,077)

Amounts of deductible temporary differences and tax loss carryforwards for which no deferred tax asset is recognized are as follows:

	At December 31, 2018	At March 31, 2018
	¥m	¥m
Deductible temporary differences	9,462	7,465
Tax loss carryforwards	6,034	4,626
	15,496	12,091

27 Income taxes (continued)

27.2 Deferred tax assets and liabilities (continued)

The expiration of tax loss carryforwards for which no deferred tax asset has been recognized is as follows:

	At December 31, 2018 ¥m	At March 31, 2018 ¥m
Year 1	264	326
Year 2	75	264
Year 3	277	75
Year 4	-	277
Year 5 or later	5,418	3,684
	6,034	4,626

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28 Earnings per share

If the stock split on July 1, 2018 had occurred at the beginning of the previous fiscal period, the basic loss per share and the diluted loss per share for the nine month ended December 31, 2018 and for the year ended March 31, 2018 would have been as follows:

28.1 Basic earnings per share

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

	Fiscal period ended December 31, 2018	Fiscal year ended March 31, 2018
Net loss attributable to owners of the parent (¥m)	(5,977)	(2,654)
Weighted-average number of common shares outstanding (Shares)	76,256,495	70,687,212
Basic loss per share (¥)	(78.40)	(37.55)

28.2 Diluted earnings per share

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

	Fiscal period ended December 31, 2018	Fiscal year ended March 31, 2018
Net loss	(5,977)	(2,654)
Adjustment to net profit used in the calculation of diluted earnings per share (¥m)	–	–
Net loss used in the calculation of diluted earnings per share (¥m)	(5,977)	(2,654)
Weighted-average number of common shares outstanding (Shares)	76,256,495	70,687,212
Increases in number of common shares used in the calculation of diluted earnings per share (Shares)	—	—
Increases in number of common shares due to the exercise of stock options (Shares)	—	—
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	76,256,495	70,687,212
Diluted loss per share (¥)	(78.40)	(37.55)

In the nine month period ended December 31, 2018 and the fiscal year ended March 31, 2018, respectively, there is no dilutive effect from potential common shares as partial conversion of stock options reduced the loss per share.

Section 5: Financial Statements
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29 Reconciliation of Liabilities from Financial Activities

Changes of liabilities on financial activities

Nine month period ended December 31, 2018

	April 1, 2018	Cash flows	Non-cash changes		December 31, 2018
			Fair value change	Other	
Long-term interest-bearing debt	9,129	(2,250)	-	48	**6,927**
Lease liabilities	44	(5)	-	(2)	**37**
Contingent consideration	4,634	-	(86)	(368)	**4,180**
Contributions from limited partners	1,073	-	-	106	**1,179**
	14,880	(2,255)	(86)	(216)	**12,323**

Long term interest bearing debt includes both the current and non-current portions

Fiscal year ended March 31, 2018

	April 1, 2017	Cash flows	Non-cash changes			March 31, 2018
			Fair value change	Acquisition of finance lease assets	Other	
Long-term interest-bearing debt	6,900	2,140	-	-	89	**9,129**
Lease liabilities	-	(5)	-	49	-	**44**
Contingent consideration	5,230	(1,156)	655	-	(95)	**4,634**
Contributions from limited partners	625	495	-	-	(47)	**1,073**
	12,755	1,474	655	49	(53)	**14,880**

Non-cash transactions

Fixed assets acquired through finance leases totaled 45 million yen in the fiscal year ended March 31, 2018.

30 Related parties

30.1 Transactions with related parties

Nine month period ended December 31, 2018:

Officers and major individual shareholders

Type	Name	Description of transaction	Transaction amount (¥m)	Ending balance (¥m)
Officer	Tomohiro Tohyama	Legal advice	2	-
Officer	Malcolm Weir	Payment of contingent consideration	20	13
Officer	Tim Tasker	Payment of contingent consideration	-	3

Note

1. Transaction prices and other conditions are determined by reference to similar third party contracts.
2. Transactions with Mr. Tomohiro Tohyama, Director, relate to transactions with TMI Associates, of which he is a partner.

Associates

Not applicable.

Fiscal year ended March 31, 2018:

Officers and major individual shareholders

Type	Name	Description of transaction	Transaction amount (¥m)	Ending balance (¥m)
Officer	Shinichi Tamura	Exercise of stock options	63	–
Officer	Peter Bains	Exercise of stock options	4	–
Officer	Tomohiro Tohyama	Legal advice	4	0
Officer	Malcolm Weir	Payment of contingent consideration	42	19
Officer	Tim Tasker	Payment of contingent consideration	4	4
Officer	Fiona Marshall	Payment of contingent consideration	16	–

Section 5: Financial Statements
Notes to the Consolidated Financial Statements

30 Related parties (continued)

30.1 Transactions with related parties (continued)

Note

1. Transaction prices and other conditions are determined by reference to similar third party contracts.
2. The exercise of stock options by Mr. Tamura in the current term relates to the 27th stock acquisition rights approved by the Board of Directors on July 17, 2007.
3. The exercise of stock options by Mr. Bains in the current term relates to the 30th stock acquisition rights approved by the Board of Directors on September 6, 2010.
4. Transactions with Mr. Tomohiro Tohyama, Director, relate to transactions with TMI Associates, of which he is a partner.
5. Ms. Fiona Marshall, Director, left the Company on February 28, 2018.

Associates

Name	Address	Capital or investment in capital	Business description	Share of voting rights (%)	Relationship	Description of transaction	Transaction amount (¥m)	Account	Ending balance (¥m)
MiNA (Holdings) Limited	UK	£176	Development of drugs	25.6 (Indirectly held)	–	Third-party allotment of shares	1,084	Investments accounted for using the equity method	4,101
						Acquisition of option rights	1,084	Other financial assets	1,072

30.2 Remuneration of key management personnel

	Nine month period ended December 31, 2018 ¥m	Fiscal year ended March 31, 2018 ¥m
Remuneration and bonuses	290	484
Share-based compensation	327	294
Retirement	134	-
	751	778

31 Significant subsidiaries

The major subsidiaries of the Company are as follows:

Company name	Location	Share of voting rights held (%) At December 31, 2018	At March 31, 2018
Heptares Therapeutics Ltd.	UK	100.0	100.0
Sosei R&D Ltd.	UK	100.0	100.0
Sosei Co. Ltd.	Japan	100.0	100.0
Sosei Corporate Venture Capital Ltd.	Japan	90.0	90.0
Sosei RMF1 Limited Partnership for Investment	Japan	17.5	17.5
Heptares Therapeutics Zurich AG	Switzerland	100.0	100.0

Note: Sosei R&D transferred its trade and assets to Heptares Therapeutics Ltd. in November 2018 and is in the process of being liquidated

32 Significant subsequent events

32.1 Milestone income

On January 7, 2019, the Group announced it had been notified by AstraZeneca that it had reached a clinical development milestone with its partnered next generation immuno-oncology candidate AZD4635. The Group received a US$15 million payment from AstraZeneca. The clinical study to date has established the maximum-tolerated dose of AZD4635 as a single agent and in combination with durvalumab. The study has progressed successfully to the point where the therapeutic potential of AZD4635 is being explored in multiple solid tumors. As a result, AstraZeneca is moving the trial towards Phase 2, thereby triggering the milestone payment to the Group. Headline data from the Phase 1 study is planned to be presented at a scientific congress in 2019.

32.2 Bank loan covenant

On February 1, 2019 the Company received notification from the banks participating in the Company's syndicated loans that they would not require repayment of the loans following a breach of the loan covenants caused by two consecutive periods of loss. Details of the loan balances are as follows:

Opening date	Opening balance ¥m	Loan Balance at December 31, 2018 ¥m
September 28, 2015	10,000	3,500
May 18, 2017	5,000	3,500
	15,000	7,000

Section 5: Financial Statements
Notes to the Consolidated Financial Statements

The total period end loan balance is covered by the Group's cash balances by more than two and a half times. The Company is required to comply with the following loan covenants:

i) The amount of net assets in the consolidated statements of financial position at December 31 and June 30 of each year must be maintained at no less than 75% of the amount at the respective corresponding date of the previous fiscal year.

ii) The borrower must not record an operating loss or net loss in the consolidated statements of profit or loss and other comprehensive income for two consecutive fiscal years.

33 Quarterly results

If the stock split on July 1, 2018 had occurred at the beginning of this fiscal period, the basic loss per share for the nine months ended December 31, 2018 would have been as follows:

Quarterly information for the nine month period ended December 31, 2018

Cumulative period	First quarter	Second quarter	Third quarter
Revenue (¥m)	835	1,803	2,872
Loss before income taxes (¥m)	(1,943)	(4,142)	(7,243)
Net loss attributable to owners of the parent company (¥m)	(1,568)	(3,327)	(5,977)
Basic loss per share (Yen)	(20.57)	(43.64)	(78.40)

(Accounting period)	First quarter	Second quarter	Third quarter
Basic loss per share (Yen)	(20.57)	(23.07)	(34.75)

Sosei Corporation Inc

Section 5: Financial Statements
Parent Company Balance Sheet
As at 31 December 2018

	Note	December 31, 2018 ¥m	March 31, 2018 ¥m
Assets			
Current assets			
Cash and deposits		16,511	22,421
Prepaid expenses		26	24
Short-term loan receivable from affiliated companies		4,926	—
Accounts receivable from subsidiaries and associates		42	1,691
Other		25	73
Total current assets		21,530	24,211
Non-current assets			
Property, plant and equipment			
Buildings		37	38
Furniture and fixtures		10	8
Leased assets		34	39
Total property, plant and equipment		81	86
Intangible assets			
Software		4	6
Software in progress		8	3
Other		0	0
Total intangible assets		12	10
Investments and other assets			
Shares of subsidiaries and associates		44,549	44,687
Investments in capital of subsidiaries and associates		188	195
Long-term loans receivable from subsidiaries and associates		1,718	1,238
Other		58	57
Allowance for doubtful accounts		(1,718)	(828)
Total investments and other assets		44,795	45,350
Total non-current assets		44,888	45,447
Total assets		66,418	69,658

Sosei Group Corporation

Section 5: Financial Statements
Parent Company Balance Sheet (Continued)
At 31 December 2018

	Note	December 31, 2018 ¥m	March 31, 2018 ¥m
Liabilities			
Current liabilities			
Current portion of long-term loans payable		3,000	3,000
Short-term loan payables to affiliated companies		917	—
Leased assets		7	7
Accounts payable- other	1	519	508
Accrued expenses		24	64
Income taxes payable		19	38
Deposits received		110	11
Provision for bonuses		24	19
Total current liabilities		4,620	3,650
Non-current liabilities			
Long-term loans payable		4,000	6,250
Lease assets		30	35
Asset retirement obligation		12	11
Long-term accounts payable- other		9	13
Others		—	4
Total non-current liabilities		4,051	6,314
Total liabilities		8,671	9,965
Net assets			
Shareholders' equity:			
Capital stock		36,854	36,782
Capital surplus:			
Legal capital surplus		24,971	24,899
Retained earnings		(5,911)	(3,410)
Treasury stock		(0)	(0)
Total shareholders' equity		55,914	58,271
Subscription rights to shares		1,833	1,421
Total net assets		57,747	59,693
Total liabilities and net assets		66,418	69,658

Sosei Group Corporation

Section 5: Financial Statements
Parent Company Statement of Profit or Loss
For nine month period ended at 31 December 2018

	Note	Fiscal period ended December 31, 2018 ¥m	Fiscal year ended March 31, 2018 ¥m
Operating revenue	1	819	1,168
Operating expenses	1,2	(1,754)	(2,238)
Operating loss		(935)	(1,069)
Non-operating income			
Interest income	1	44	3
Gain on reversal of allowance for doubtful debts of subsidiary companies		-	37
Miscellaneous income		11	0
Total non-operating income		55	41
Non-operating expenses			
Share issuance costs		-	283
Interest expenses	1	101	159
Commission fee		15	118
Foreign exchange losses		160	27
Provision for doubtful receivables from subsidiary companies		890	-
Bad debt expense of subsidiary companies		-	544
Miscellaneous expenses		6	13
Total non-operating expenses		1,172	1,146
Ordinary (loss) profit		(2,052)	(2,174)
Extraordinary income			
Gain on reversal of subscription rights to shares		62	0
Total extraordinary income		62	0
Extraordinary losses			
Loss on disposal of fixed assets		1	1
Loss on valuation of shares of subsidiaries and associates		507	421
Total extraordinary losses		508	422
(Loss) profit before income taxes		(2,498)	(2,596)
Income taxes- current		3	8
(Loss) Profit		(2,501)	(2,605)

Sosei Group Corporation

Section 5: Financial Statements
Parent Company Statement of Changes in Equity
For nine month period ended at 31 December 2018

	Shareholders' equity						
		Capital surplus	Retained earnings Other retained earnings				
	Capital stock ¥m	Legal capital surplus ¥m	Retained earnings brought forward ¥m	Treasury shares ¥m	Total shareholders' equity ¥m	Subscription rights to shares ¥m	Total net assets ¥m
Balance at beginning of current period	36,782	24,899	(3,410)	(0)	58,271	1,421	59,693
Movement during period:							
Issuance of new shares	72	72	-	-	144	-	144
(Loss) profit	-	-	(2,501)	-	(2,501)	-	(2,501)
Net changes of items other than shareholders' equity		-	-	-	-	412	412
Total movement during period	72	72	(2,501)	-	(2,357)	412	(1,945)
Balance at end of current period	**36,854**	**24,971**	**(5,911)**	**(0)**	**55,914**	**1,833**	**57,747**

Section 5: Financial Statements
Parent Company Balance Sheet (Continued)
At 31 December 2018

	Shareholders' equity						
		Capital surplus	Retained earnings				
			Other retained earnings				
	Capital stock	Legal capital surplus	Retained earnings brought forward	Treasury shares	Total shareholders' equity	Subscription rights to shares	Total net assets
	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at beginning of period	26,004	14,121	(805)	-	39,320	757	40,078
Movement during period:							
Issuance of new shares	10,778	10,778	-	-	21,556	-	21,556
(Loss) profit	-	-	(2,605)	-	(2,605)	-	(2,605)
Purchase of treasury shares	-	-	-	(0)	(0)	-	(0)
Net changes of items other than shareholders' equity	-	-	-	-	–	664	664
Total movement during period	10,778	10,778	(2,605)	(0)	18,951	664	19,615
Balance at end of period	**36,782**	**24,899**	**(3,410)**	**(0)**	**58,271**	**1,421**	**59,693**

Section 5: Financial Statements
Notes to the Parent Company Financial Statements

1 Significant Accounting Policies

1.1 Asset Valuation Standards and Methods

Securities

(i) Shares of subsidiaries and affiliated companies are carried at cost determined by the moving-average method.

1.2 Non-current Assets Depreciation Methods

Property, Plant and Equipment

The declining balance method is used. However, the straight-line method is used for facilities attached to buildings and structures acquired on or after April 1, 2016.

The normal estimated useful lives are as follows:

Buildings (facilities attached to buildings):	8-15 years
Furniture and fixtures:	5-20 years

Intangible Assets

The straight-line method is used.

For internal-use software, the straight-line method is used based on an estimated useful life of 5 years.

Leased assets: Finance lease transactions without a transfer of ownership

The straight-line method is used based on the term of the lease and a residual value of zero.

1.3 Recognition Standards for Allowances

Allowance for Doubtful Accounts

To provide for credit loss on accounts receivable and other accounts, an estimated unrecoverable amount is set aside based on historical credit loss rates for ordinary receivables and based on individual considerations for receivables specified as doubtful.

Provision for Bonuses

Provision is made for the payment of employee bonuses based on the estimation of the expenses incurred in the fiscal year.

Section 5: Financial Statements
Notes to the Parent Company Financial Statements

1 Significant Accounting Policies (continued)

1.4. Other Significant Matters relating to the Basis of Preparation

Accounting for Deferred Assets

Share issuance cost are expensed in full at the time of payment:

Standards for Conversion of Significant Foreign-denominated Assets and Liabilities to Japanese Currency

Foreign-denominated monetary claims and obligations are converted to Japanese yen based on spot exchange rates on the fiscal year-end date, and translation differences are accounted in profit or loss.

Accounting for Consumption Taxes

Consumption tax and local consumption tax are accounted for using the tax-exclusion method.

2 Non-consolidated Balance Sheet

2.1 Monetary claims and obligations to subsidiaries and associates (excluding presented items) are as follows:

	December 31, 2018 ¥m	March 31, 2018 ¥m
Monetary obligations to subsidiaries and associates	2	87

2.2 Guarantee liabilities

Debt guarantees totaling 2,336 million yen have been made in relation to a building lease agreement and building contract signed by the Company's subsidiary, Heptares Therapeutics Ltd in FY2018. In FY2017 they totaled 2,785 million yen.

3 Non-consolidated Statement of Income

3.1 Transactions with subsidiaries and associates are as follows:

	Fiscal Period ended December 31, 2018 ¥m	Fiscal Year ended March 31, 2018 ¥m
Operating transactions	829	1,180
Non-operating transactions	36	—

Section 5: Financial Statements
Notes to the Parent Company Financial Statements

3 Non-consolidated Statement of Income (continued)

3.2 The ratio of expenses recorded under general and administrative expenses is 100% for this fiscal year and 100% for the previous fiscal year.

The primary expense items and amounts for operating expenses are as follows.

	Fiscal Period ended March 31, 2018 ¥m	Fiscal Year ended March 31, 2018 ¥m
Personnel expenses	1,207	1,425
Business consignment expenses	307	487

4 Notes on Securities

Shares in subsidiaries and shares in associates:

At December 31, 2018 the carrying amount in the balance sheet was 44,451 million yen for shares in subsidiaries and 98 million yen for shares in associates.

At March 31, 2018 the carrying amount in the balance sheet was 44,082 million yen for shares in subsidiaries and 605 million yen for shares in associates

Market prices are not available and fair values are considered to be extremely difficult to determine.

5 Notes on Tax Effect Accounting

5.1 Main causes for the occurrence of deferred tax assets and deferred tax liabilities

	December 31, 2018 ¥m	March 31, 2018 ¥m
Deferred tax assets		
Tax loss carryforward	662	471
Shares of subsidiaries and associates	3,544	3,388
Allowance of doubtful debts	526	—
Other	54	328
Deferred tax assets subtotal	4,786	4,188
Valuation allowance for tax loss carryforward	(662)	
Valuation allowance for deductible temporary difference	(4,124)	(4,188)
Total deferred tax assets	–	–

5.2 Reconciliation between the statutory effective tax rate and the actual effective tax rate after the application of tax effect accounting

Section 5: Financial Statements
Notes to the Parent Company Financial Statements

	Fiscal Period Ended December 31, 2018 ¥m	Fiscal Year Ended March 31, 2018 ¥m
Statutory effective tax rate	30.6%	30.9%
Items not deductible permanently such as entertainment expenses	(0.2)	(2.0)
Share-based payment expenses	(6.5)	(9.2)
Valuation allowance	(24.2)	(20.3)
Other	0.2	0.3
Actual effective tax rate after the application of tax effect accounting	(0.1)	(0.3)

6 Significant Subsequent Events

6.1 Bank loan covenant

Please refer to Notes to the Consolidated Financial Statements, Note 32. *Significant Subsequent Events*.

7 Supplementary Schedules

7.1 Supplementary Schedule of Property, Plant and Equipment

Classification	Type of assets	Balance at beginning of current period ¥m	Increase during current period ¥m	Decrease during current period ¥m	Deprecia-tion and amortization during current period ¥m	Balance at end of current period ¥m	Accumulated depreciation ¥m
Property, plant and equipment	Buildings	41	0	—	2	41	4
	Furniture and fixtures	21	5	—	2	26	16
	Leased assets	45	—	2	5	43	9
	Total	107	5	2	9	110	29
Intangible assets	Software	34	—	1	2	33	29
	Software in progress	3	5	—	–	8	–
	Other	0	–	—	–	0	–
	Total	37	5	1	2	41	29

The balances at the beginning and end of the current period are based on acquisition costs.

7.2 Supplementary Schedule of Provisions

Account title	Balance at beginning of current period ¥m	Increase during current period ¥m	Decrease during current period ¥m	Balance at end of current period ¥m
Allowance for doubtful accounts	828	890	—	1,718
Provision for bonuses	19	24	19	24

Section 5: Financial Statements
Notes to the Parent Company Financial Statements

7.3 Components of Major Assets and Liabilities

This information is omitted as the consolidated financial statements have been prepared.

7.4 Others

Not applicable.

Sosei Group Corporation

Section 6. Stock-Related Information relating to the Parent Company

Accounting period	From January 1 to December 31
General shareholders meeting	Held in March
Record date	December 31
Record date for distribution of surplus	June 30 (Interim dividends) December 31 (Year-end dividends)
Number of shares constituting one unit	100 shares
Purchase of shares less than one unit	
Handling office	(Special accounts) 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo Stock Transfer Agency Business Planning Department Sumitomo Mitsui Trust Bank, Limited
Transfer agent	(Special accounts) 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Purchasing fee	Free
Method of public notice	Electronic public notice. However, if the Company is unable to make electronic public notice due to an accident or any other compelling reason, it will make an alternative public notice in “The Nikkei” newspaper. Public notices will be posted on the Company’s website: https://www.soseiheptares.com/ir
Special benefit for Shareholders	Not applicable.

Notes The Company’s shareholders may not exercise any rights for shares less than one unit except for the following.

(1) Rights set forth in items of Article 189, paragraph 2 of the Companies Act
(2) Right to receive an allocation of shares for subscription or stock acquisition rights for subscription
(3) Right to request sale of shares less than one unit as provided in the previous article

Sosei Group Corporation

Section 7. Reference Information Relating to the Filing Company

1 Information on Filing Company's Parent Company

The Company does not have a parent company.

2 Other Reference Information

From the beginning of this fiscal year until the filing date of this Annual Securities Report, the Company has filed the following documents.

2.1 Annual Securities Report and Appendices, and Written Confirmation

Filed to Director General of Kanto Local Finance Bureau on June 22, 2018
Accounting period: 28th Term (April 1, 2017 – March 31, 2018)

2.2 Internal Control Report and Appendices

Filed to Director General of Kanto Local Finance Bureau on June 22, 2018
Accounting period: 28th Term (April 1, 2017 – March 31, 2018)

2.3 Quarterly Report and Written Confirmations

Filed to Director General of Kanto Local Finance Bureau on August 9, 2018
The 29th Term First Quarter (April 1, 2018 – June 30, 2018)

Filed to Director General of Kanto Local Finance Bureau on November 8, 2018
The 29th Term Second Quarter (July 1, 2018 – September 30, 2018)

2.4 Extraordinary Reports

Filed to Director General of Kanto Local Finance Bureau on May 16, 2018
Extraordinary Report based on Article 19, paragraph 2, item (ix-4) (Change Accounting Auditors) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed to Director General of Kanto Local Finance Bureau on June 26, 2018
Extraordinary Report based on Article 19, paragraph 2, item (ix-2) (Results of Exercise of Voting Rights at the Annual General Meeting of Shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed to Director General of Kanto Local Finance Bureau on December 20, 2018
Extraordinary Report based on Article 19, paragraph 2, item (ii-9) (Change Executive Officer) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Sosei Group Corporation

Section 8. Independent Auditor’s Reports

Audit Reports

Ernst & Young ShinNihon LLC have audited the Financial Statements and the Internal Control Report of Management and issued unqualified audit opinions thereon.

Please refer to the Japanese Securities Report for the full audit opinions.

Part 2: Information about Company Which Provides Guarantee to Filing Company

Not applicable.

Sosei Group Corporation
Internal Control Report of Management

1. Matters related to the basic framework of internal control over financial reporting
   Chief Executive Officer Chairman and Chief Executive Officer Shinichi Tamura and Executive Vice President Chief Financial Officer CFO Chris Cargill are responsible for the development and operation of the Company's internal control over financial reporting, and have developed and implemented internal control over financial reporting based on the basic framework of internal control presented in the "On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" issued by the Business Accounting Council.

   In addition, since internal control can only provide reasonable assurance that each basic element of internal control is functioning effectively in a combined and unified manner, there is a possibility that internal control over financial reporting cannot completely prevent or detect mis-statements in financial reporting.

2. Matters relating to the scope of assessment, reference date and assessment procedures
   By the resolution of the 28th regular general meeting of shareholders held on June 22, 2018, the annual accounting close date was changed to December 31. Accordingly, the base date of the controls evaluation has been changed to December 31. The evaluation of internal control over financial reporting for the current fiscal period, which reflects the new closing date, covers the period from April 1, 2018 to December 31, 2018, which is the base date for the current fiscal period. The evaluation was performed using the standard for evaluation of internal control over financial reporting which is generally accepted as fair and appropriate.

   In this evaluation, we evaluated internal controls which could significantly impact overall consolidated financial reporting ("Company level controls"), and then selected business processes for evaluation based on the results of such evaluation. In evaluating such business processes, after analyzing such selected business processes, we identified factors of internal control which could significantly impact on the reliability of financial reporting, and then evaluated the effectiveness of internal control by evaluating the establishment, maintenance and operation of such aspects of internal control.

   The scope of evaluation of internal control over financial reporting has been determined for the Company, its consolidated subsidiaries and its equity-accounted affiliates from the viewpoint of their impact on the reliability of financial reporting. The importance of the impact on the reliability of financial reporting is determined by considering the significance of both monetary and qualitative effects. Based on the results of our evaluation of Company level controls, we determined the required scope for our evaluation of internal control relating to business processes. In addition, the scope of Company level controls covered all business locations except those which we determined to be minor from monetary and qualitative materiality perspectives.
   With regard to the scope of evaluation of internal control related to business processes, we designated three business locations as "significant business locations" whose aggregate sales and total assets, respectively, in the previous fiscal period (before the elimination of inter-company transactions) totaled two-thirds of consolidated sales and total assets.

For the locations designated as significant, we evaluated the business processes relating to the accounts most significant to their underlying business activities such as sales, accounts receivable and R&D expenses. Notwithstanding this, we evaluated the business processes relating to important accounts requiring estimates and forecasts which are likely to cause significant mis-statements if not performed properly, for locations designated as significant as well as other locations, since the possible impact of those processes on financial reporting could be material.

3. Matters related to assessment results

The Company determined that the deficiencies in internal control over financial reporting described below are likely to have a significant impact on financial reporting and fall under the category of material weaknesses which are required to be disclosed. Therefore, we have determined that, as at December 31, 2018, our internal control over financial reporting was not effective.

In the course of the year-end closing of the fiscal period ended December 31, 2018, several errors were identified by the independent auditor at our core UK consolidated subsidiary Heptares Therapeutics, Ltd. ("Heptares"). These errors included an error in how a license cost was accounted for, an overstatement of accrued expenses and a currency error in one journal.

These errors arose at Heptares due to a lack of validation of the accounting adopted for a transaction by not checking the underlying invoice, a lack of understanding by R & D staff regarding their role in certain financial processes, a lack of controls over segregation of duties in respect of journal postings and insufficient internal auditing over Heptares because of a lack of skills at our internal audit department. It was therefore determined that there were significant deficiencies that should be disclosed in the purchase accounting process, the period-end financial reporting process and in our Company level controls over the monitoring of Heptares.

The reason why the deficiencies in internal control were not corrected by the end of the fiscal period ended December 31, 2018 is that the significant deficiencies were only identified after the end of the fiscal period.

We greatly recognize the importance of internal control over financial reporting and will take measures to prevent recurrence based on the following policies. We will correct the significant deficiencies in internal control over financial reporting that have been disclosed above and will continue to strengthen our internal control procedures.

- An improvement in the design of forms used in the purchasing process at Heptares, an improvement in the related process documentation and a strengthening of checks performed by the accounting team.
- Introduction of a continuous training program for R & D staff at Heptares on relevant financial processes and the strengthening of related review controls.
- Establishment of controls to ensure thorough segregation of duties in the accounting department of Heptares.
- An increase in personnel in the accounting department of Heptares in order to properly develop and operate the above improved controls.
- An increase in personnel and skills in our internal audit department.

In the financial report for the fiscal period ended December 31, 2018, any matters that required amendment concerning the deficiencies identified by the independent auditor have been reflected in the financial statements of the Company and in the consolidated financial statements. There is no remaining material uncorrected impact on the financial statements balances.

4. Supplementary information
   Nothing particular.

5. Special notes
   Nothing particular.

Sosei Group Corporation
Internal Control Report of Management

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