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In addition, in the UK, the attached document is being distributed only to and is directed only at Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") and Qualified Investors falling within Article 49(2)(a) to (d) of the Order, and (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

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If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the relevant manager described in the attached document or any of its affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that manager or such affiliate on behalf of the issuer in such jurisdiction.

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None of the managers described in the attached document nor any of their respective affiliates accepts any responsibility whatsoever for the contents of the attached document or for any statement made or purported to be made by any of them, or on any of their behalf, in connection with the securities. The managers described in the attached document and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of the attached document or any such statement. No representation or warranty, express or implied, is made by the managers described in the attached document or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in the attached document.

You are responsible for protecting against viruses and other destructive items. Your receipt of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Neither this electronic transmission, the attached document nor the final offering document constitutes or contains any offer to sell or invitation to subscribe or make commitments for or in respect of any securities in any jurisdiction where such an offer or invitation would be unlawful and the attached document is subject to correction, completion and amendment in its final form.

The managers described in the attached document are acting exclusively for the issuer of the Securities and no one else in connection with the offer. None of the managers described in the attached document will regard any other person (whether or not a recipient of the attached document) as its client in relation to the offer and will not be responsible to anyone other than the issuer of the Securities for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to in the attached document.

OFFERING CIRCULAR

Sosei Group Corporation

(incorporated with limited liability under the laws of Japan)

Offering of 3,301,400 Shares of Common Stock

and

¥16,000,000,000 0.50 per cent Convertible Bonds due 2025

Offer Price for the Offered Shares: ¥1,595 per Share
Offer Price for the Bonds: 102.5 Per Cent

This Offering Circular relates to the concurrent offerings (the "Offerings") by Sosei Group Corporation of (i) 3,301,400 shares of common stock (the "Offered Shares") and (ii) ¥16,000,000,000 in aggregate principal amount of 0.50 per cent Convertible Bonds due 2025 (being bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the "Bonds", which term shall, unless the context requires otherwise, include the Stock Acquisition Rights (as defined below) incorporated therein).

The Bonds will be issued in registered form in the denomination of ¥10,000,000 each with a stock acquisition right (*shinkabu yoyakuken*) (the "Stock Acquisition Rights"). The Stock Acquisition Rights will be exercisable from, and including, July 30, 2020 to, and including, July 2, 2025 and will entitle the Bondholder (as defined in the terms and conditions of the Bonds (the "Bond Conditions")) to acquire fully-paid and non-assessable Shares (as defined herein) at an initial conversion price, subject to adjustment in certain events and as set out in the Bond Conditions, of ¥1,834 per Share.

Unless previously redeemed or purchased and cancelled, or unless the Bonds have become due and repayable, the Bonds will be redeemed at 100 per cent of their principal amount on July 16, 2025. In addition, at any time on or after July 16, 2023, we may at our option redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount (together with accrued interest) as set out in the Bond Conditions, provided that no such redemption may be made unless the Closing Price of the Shares for any 20 Trading Days in a period of 30 consecutive Trading Days, the last of which occurs not more than 30 days prior to the date upon which the Optional Redemption Notice (as defined below) is first given, is at least 130 per cent of the Conversion Price in effect on each such Trading Day.

Bondholders are entitled to require us to redeem the Bonds at 100 per cent of their principal amount (together with accrued interest) on July 16, 2022 as set out in the Bond Conditions.

The Shares are listed on the Mothers Market of the Tokyo Stock Exchange, Inc. (the "Tokyo Stock Exchange"). The closing price of the Shares on June 30, 2020, as reported by Tokyo Stock Exchange, was ¥1,734 per Share.

Application will be made to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing of and quotation for the Bonds on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Admission to the Official List of the SGX-ST and quotation for the Bonds on the SGX-ST is not to be taken as an indication of the merits of us, our subsidiaries, our associated companies or the Bonds.

It is expected that payment for the Offered Shares will be made in yen for value on or about July 16, 2020 (Tokyo time) and the Offered Shares will be delivered through the book entry system of Japan Securities Depository Center, Inc. ("JASDEC") in Tokyo on July 17, 2020, or on such other date as we and the Lead Manager (as described in "Subscription and Sale") may agree.

The Bonds will initially be evidenced by a global certificate (the "Global Certificate"), deposited with, and registered in the name of, or a nominee for, a common depositary for each of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, S.A. ("Clearstream, Luxembourg") on or about July 16, 2020 for the accounts of their respective accountholders. The Lead Manager expects to deliver the Bonds to investors through the facilities of Euroclear and Clearstream, Luxembourg on or about July 16, 2020.

This Offering Circular does not constitute an offer of, or solicitation of an offer to buy or subscribe for, the Shares or the Bonds in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Shares and the Bonds have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. In addition, neither the Shares or the Bonds have been, or will be, registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "FIEA") or may be sold within Japan or to, or for the account of, residents of Japan, including corporations incorporated under the laws of Japan, unless otherwise permitted under the FIEA. For a summary of certain restrictions on offers and sales of the Shares and the Bonds, see "Subscription and Sale".

See "Risk Factors" for a discussion of certain factors that should be considered in connection with an investment in the Shares and the Bonds.

Sole Bookrunner and Lead Manager

BofA Securities

Co-Managers

Mizuho International plc **Nomura**

The date of this Offering Circular is June 30, 2020.

We accept responsibility for the information contained in this Offering Circular. To the best of our knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Having made all reasonable enquiries, we confirm that (i) this Offering Circular contains all information with respect to us, our subsidiaries and affiliates, the Shares and the Bonds (including all information in relation to the applicable laws of Japan) which is material in the context of the issue and offering of the Offered Shares or the Bonds, (ii) the statements contained in this Offering Circular are in every material particular true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Circular are honestly held, have been reached after considering all relevant circumstances of which we are aware and are based on reasonable assumptions, (iv) there are no other facts in relation to us, our subsidiaries and affiliates, the Shares or the Bonds the omission of which would, in the context of the issue and offering of the Offered Shares or the Bonds, make any statement in this Offering Circular misleading in any material respects, and (v) all reasonable enquiries have been made by us to ascertain such facts and to verify the accuracy of all such information and statements.

No person has been authorised to give any information or to make any representation not contained in this Offering Circular, and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by or on behalf of us, the Trustee (as defined in the Bond Conditions) or the Managers (as described in "Subscription and Sale"). Neither the delivery of this Offering Circular nor any sale made in connection herewith at any time implies that the information contained in this Offering Circular is correct as at any time subsequent to the date hereof, nor does it imply that there has been no change in our affairs or our financial position since the date hereof.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of us or the Managers, or the Trustee, the Principal Agent, the Custodian, the Registrar or the Custodian's Agent (each as defined in the Bond Conditions), to subscribe for, or purchase, any of the Shares or the Bonds. The distribution of this Offering Circular and the offering of the Shares and the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by us and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Shares and the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

To the fullest extent permitted by law, none of the Managers, the Trustee, the Principal Agent, the Custodian, the Registrar or the Custodian's Agent, accept any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made on their behalf in connection with us, the Group or the issue and offering of the Offered Shares or the Bonds. Each of the Managers, the Trustee, the Principal Agent, the Custodian, the Registrar and the Custodian's Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

The Managers are acting exclusively for the Company and no one else in connection with the Offerings. None of the Managers will regard any other person (whether or not a recipient of this Offering Circular) as its client in relation to the Offerings and will not be responsible to anyone other than the Company for providing the protections afforded to their clients nor for giving advice in relation to the Offerings or any transaction or arrangement referred to in this Offering Circular.

No action is being taken to permit a public offering of the Shares or the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Shares and the Bonds and the circulation of documents relating thereto, in jurisdictions including the United States, Japan, the European Economic Area, the United Kingdom, Singapore, Hong Kong, Switzerland and to persons connected therewith. See "Subscription and Sale".

The Shares and Bonds have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Shares and the Bonds may not be offered or sold within the United States. The Shares and the Bonds are being offered and sold outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). See "Subscription and Sale".

The Offered Shares have not been and will not be registered under the FIEA and may not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan (including any person

resident in Japan or any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of the FIEA and otherwise in compliance with any applicable laws, regulations and governmental guidelines in Japan.

The Bonds have not been and will not be registered under the FIEA, and are subject to the Act on Special Measures Concerning Taxation of Japan (Act No. 26 of 1957, as amended, the "Special Taxation Measures Act"). The Bonds may not be offered or sold in Japan or to, or for the benefit of, any person resident in Japan, or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a person resident in Japan for Japanese securities law purposes (including any corporation or other entity organized under the laws of Japan) except pursuant to an exemption from the registration requirements of the FIEA and otherwise in compliance with any applicable laws, regulations and governmental guidelines of Japan. In addition, the Bonds are not, as part of the initial distribution by the underwriters at any time, to be directly or indirectly offered or sold to, or for the benefit of, any person other than a Gross Recipient or to others for re-offering or resale, directly or indirectly, to, or for the benefit of, any person other than a Gross Recipient, except as specifically permitted under the Special Taxation Measures Act. A Gross Recipient for this purpose is (i) a beneficial owner that is, for Japanese tax purposes, neither an individual resident of Japan or a Japanese corporation, nor an individual non-resident of Japan or a non-Japanese corporation that in either case is a person having a special relationship with the issuer of the Bonds as described in Article 6, Paragraph (4) of the Special Taxation Measures Act, or a specially-related person of the issuer, (ii) a Japanese financial institution or a Japanese financial instruments business operator, designated in Article 3-2-2, Paragraph (29) of the Cabinet Order (Cabinet Order No. 43 of 1957, as amended), or the Cabinet Order, relating to the Special Taxation Measures Act that will hold the Notes for its own proprietary account or (iii) any other excluded category of persons, corporations or other entities under the Special Taxation Measures Act. ***BY SUBSCRIBING FOR THE BONDS, AN INVESTOR WILL BE DEEMED TO HAVE REPRESENTED THAT IT IS A GROSS RECIPIENT****.*

Interest payments on the Bonds generally will be subject to Japanese withholding tax unless it is established that the Bonds are held by or for the account of a beneficial owner that is (i) for Japanese tax purposes, neither an individual resident of Japan or a Japanese corporation, nor an individual non-resident of Japan or a non-Japanese corporation that in either case is a specially-related person of the issuer, or (ii) a Japanese financial institution or a Japanese financial instruments business operator designated in Article 3-2-2, Paragraph (29) of the Cabinet Order which complies with the requirement for tax exemption under Article 6, Paragraph (9) of the Special Taxation Measures Act or (iii) a public corporation, a financial institution or a financial instruments business operator, etc. described in Article 3-3, Paragraph (6) of the Special Taxation Measures Act which has received such payments through a payment handling agent in Japan as described in Paragraph (1) of said article and complies with the requirement for tax exemption under Paragraph (6) of said article.

Interest payments on the Bonds to an individual resident of Japan, to a Japanese corporation not described in the preceding paragraph, or to an individual non-resident of Japan or a non-Japanese corporation that in either case is a specially-related person of the issuer will be subject to deduction in respect of Japanese income tax at the time of such interest payments.

There are restrictions on the offer and sale of the Shares and the Bonds in the United Kingdom. All applicable provisions of the Financial Services and Markets Act 2000 ("FSMA") with respect to anything done by any person in relation to the Shares and the Bonds in, from or otherwise involving the United Kingdom must be complied with. See "Subscription and Sale".

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS*—The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area or in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "Prospectus Regulation"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the European Economic Area or in the United Kingdom has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the European Economic Area or in the United Kingdom may be unlawful under the PRIIPS Regulation.*

NOTIFICATION UNDER SECTION 309(1)I OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE (THE "SFA")*: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time, the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), we have determined, and hereby notify all relevant persons (as defined in Section 309A(1) of the SFA), that the Shares and the Bonds are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

STABILISATION AND OVER-ALLOTMENT

IN CONNECTION WITH THE OFFERINGS, MERRILL LYNCH INTERNATIONAL (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT SHARES AND/OR BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SHARES AND/OR THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFERINGS IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN (I) IN THE CASE OF SHARES, 30 DAYS AFTER THE ALLOTMENT OF THE OFFERED SHARES AND (II) IN THE CASE OF THE BONDS, THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

SHORT SALE RESTRICTIONS

In connection with the offering of the Offered Shares, the Company has filed an extraordinary report with the relevant authority in Japan pursuant to the FIEA. The Company hereby advises you that, under the FIEA and the regulations thereunder, it is unlawful for any investor who has sold short, has asked a broker for a short sale or has asked a broker to intermediate a short sale of, securities of the same class as are included in the offering of the Offered Shares, within a specified restricted period on any financial instrument exchange (excluding off-auction (*tachiai gai*) trading on a financial instrument exchange market) or any proprietary trading system in Japan, to settle the borrowing of securities with respect to such short sale with securities to be purchased by such investor in the offering of the Offered Shares. For the purpose of this notice, the "specified restricted period" referred to above shall mean a period commencing on the day immediately after the date on which the above-mentioned securities registration statement or extraordinary report, whichever is earlier, has been filed and made publicly available and ending at the time when any amendment thereto regarding the pricing of the offering of the Offered Shares is filed and made publicly available; and "borrowing" shall include any purchase under any resale agreement or other similar arrangement.

Registered securities brokers in Japan (including Merrill Lynch Japan Securities Co., Ltd.) are prohibited from selling securities in the offering of the Offered Shares to any investor who intends to participate therein in order to settle the borrowing of securities with respect to any restricted short sale, as described in the paragraph above.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Offering Circular, "we," "us," "our" and "Sosei" refer to Sosei Group Corporation and, as the context requires, to Sosei Group Corporation taken together with our subsidiaries and affiliates, while references to the "Company" refer to Sosei Group Corporation only.

In this Offering Circular, references to "Shares" are to those shares of our common stock. Under the Companies Act of Japan (Act No. 86 of 2005, as amended) (the "Companies Act"), we may issue new Shares to a Bondholder (as defined in the Bond Conditions) and/or transfer Shares that we hold as treasury stock to a Bondholder, in each case upon exercise of a Stock Acquisition Right. Accordingly, unless otherwise specified or the context requires, references in this Offering Circular to the issuance of Shares shall be read as including both the issuance of new Shares and the transfer of Shares held by us as treasury stock and the words "issue", "issued", "issuance" and "issuable" shall be construed accordingly, except where the context otherwise requires.

In this Offering Circular, except as otherwise indicated, currency amounts are expressed in Japanese yen ("yen" or "¥"), in United States dollars ("U.S. dollars", "dollars", "U.S.$" or "$"), in Swiss francs ("CHF") or in British pounds sterling ("sterling", "GBP" or "£").

Our fiscal year end is December 31. In this Offering Circular, where financial information is presented in thousands or millions of yen or as percentages, as the case may be, we have rounded those amounts up or down. We have also rounded statistical data. In some cases, we have adjusted figures presented in tables in this Offering Circular so that the figures total.

Effective from the fiscal period ended December 31, 2018, we changed our fiscal year end from March 31 to December 31 in order to align our financial year end to our peer group including the major pharmaceutical companies that we partner and collaborate with on a global basis. As a result, financial results for the fiscal period ended December 31, 2018 cover a nine-month period from April 1, 2018 to December 31, 2018.

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

As of June 22, 2018, we changed our auditors from Deloitte Touche Tohmatsu LLC to Ernst & Young ShinNihon LLC. Our consolidated financial statements in Japanese as at and for the twelve-month period ended March 31, 2018 were audited by Deloitte Touche Tohmatsu LLC and the consolidated financial statements in English as at and for the twelve-month period ended March 31, 2018 included elsewhere in this Offering Circular as the comparative information to the consolidated financial statements as at and for the nine-month period ended December 31, 2018 are derived from such financial statements. Our consolidated financial statements as at and for the nine-month period ended December 31, 2018 and as at and for the twelve-month period ended December 31, 2019 were audited by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, Paragraph 1 of the FIEA.

This Offering Circular includes certain statements and data regarding the pharmaceutical industry or particular medicines or diseases, including, but not limited to the current or potential market of, and rationale for, medicines in indications for which we or our collaboration partners are currently developing or marketing, or may seek to develop and market, drug candidates. Such statements are based on market and industry data that we obtained from industry publications and surveys, government reports or other publicly available information. Although we have no reason to believe any of this information is inaccurate in any material respect, we have not independently verified and cannot assure the accuracy of the data provided by or derived from the above mentioned sources. Furthermore, this information cannot always be verified with complete certainty and may not fairly represent current conditions due to limitations on the availability and reliability of primary source information and other uncertainties inherent in the data gathering process. Accordingly, investors should not place undue reliance on this information.

FORWARD-LOOKING STATEMENTS

Many of the statements included in this Offering Circular contain forward-looking statements. These statements appear in a number of places in this Offering Circular and include statements regarding the intent, belief or current expectations of our management with respect to our business, results of operations and financial condition. In many cases, but not all, we use such words as "anticipate", "believe", "estimate", "expect", "forecast", "intend", "may", "outlook", "plan", "probability", "project", "risk", "seek", "should", "target", "will" and similar expressions in relation to us or our management to identify forward-looking statements. You can also identify forward-looking statements by discussions of strategies, plans or intentions. These statements reflect our current views with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results may vary materially from those we currently anticipate.

Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Offering Circular. We disclaim any obligation to update, or to announce publicly any revision to, any of the forward-looking statements contained in this Offering Circular to reflect future actual events or developments. The information contained in this Offering Circular, including without limitation the information under "Risk Factors", "Recent Business" and "Business" identifies important factors that might cause the forward-looking statements not to be realized.

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SUMMARY INFORMATION

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the more detailed information and financial statements and the notes thereto contained elsewhere in this Offering Circular. For a discussion of certain factors that should be considered by prospective investors in connection with an investment in the Shares or the Bonds, see "Risk Factors".

Sosei Group Corporation

Our Business

We are a science and technology-led, clinical-stage biotechnology company focused on discovering and developing innovative medicines to treat diseases with significant unmet medical needs. We also earn royalty revenues on a portfolio of marketed respiratory drugs manufactured and distributed by Novartis.

Our core scientific focus is to discover and develop new medicines that modulate the activity of G protein-coupled receptors (GPCRs), a superfamily of integral cell membrane proteins that are present on cells and tissues throughout the body, and the largest family of clinically relevant targets in the human genome.

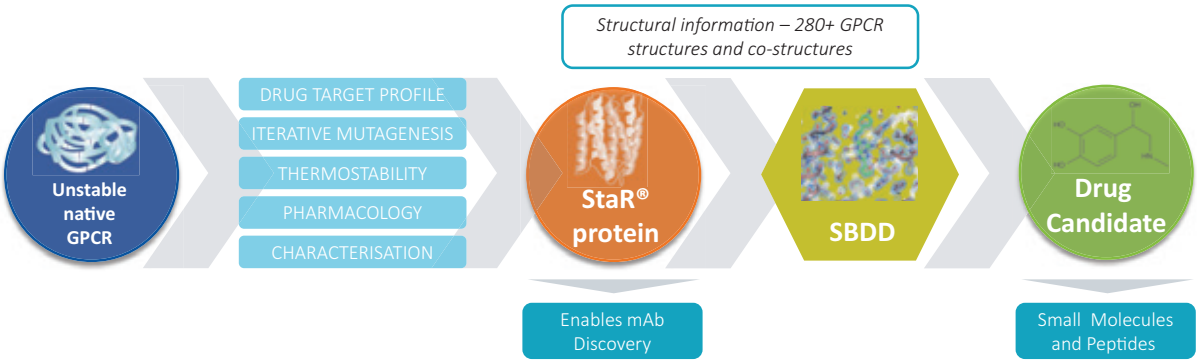
Headquartered in Tokyo, our state-of-the-art research and development facility is in Cambridge, United Kingdom, where we have approximately 130 scientists, of which 76 hold PhDs, applying our proprietary technologies and core capabilities to the discovery and advancement of a broad pipeline of drugs targeting neurological disorders, gastroenterology/immunology, and inflammatory diseases.

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 per cent of currently marketed drugs, and account for around 27 per cent of the global market share of therapeutic drugs, with aggregated sales for 2011-15 of around $890 billion. GPCRs form the largest family of human membrane proteins, with around 400 non-olfactory receptors, of which 224 remain yet to be explored, offering broad untapped potential.

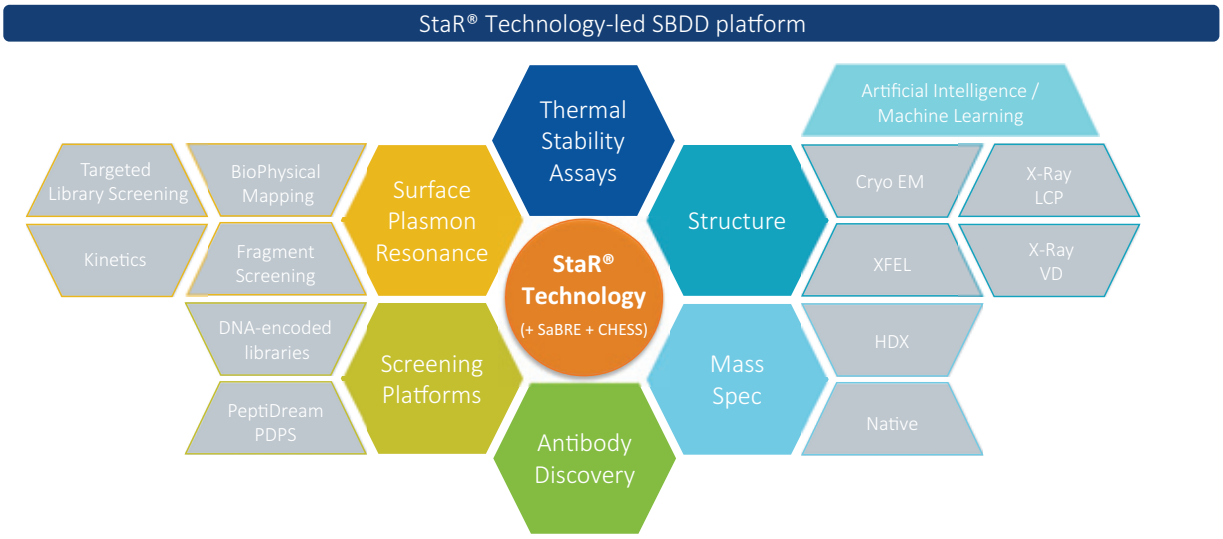
Despite GPCRs representing one of the most important groups of drug targets for modern medicine, drug discovery targeting GPCRs remains difficult and complex. The low thermostability and high conformational plasticity of these integral membrane proteins make them extremely challenging as drug targets. The available structural information for 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 upon isolation, often preventing structure determination. The unstable nature of GPCRs has also hindered the ability to generate stable antigens to raise antibodies.

Our Solution – StaR® Technology and Structure-based Drug Design Platform

Our patent-protected technologies enable unique structural insights into GPCRs as drug targets. As such, we have the ability and the know-how to design new therapeutic agents with optimized pharmacology using Structure-based Drug Design (SBDD). Our approach aims to surpass current pharmaceutical productivity and deliver drug candidates with improved physicochemical properties, enhanced safety and efficacy profiles, and potentially lower clinical attrition rates.

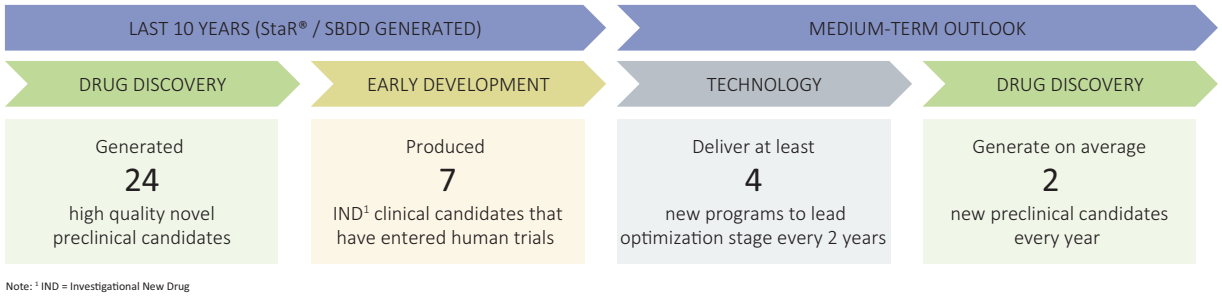


StaR® (Stabilized Receptor) technology forms the backbone of our integrated SBDD platform that enables us to "unlock" the potential of GPCRs through an advanced understanding of their structure and atomic and molecular interactions. Our StaR® technology allows us to stabilize a GPCR by engineering a 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. The following diagram illustrates the StaR® technology at the center, which provides a gateway for unstable GPCRs to enter a portfolio of SBDD technologies to enable novel drug design.



Our StaR® technology, when combined with our comprehensive Fragment-Based Drug Design (FBDD) and SBDD approaches, enables us to discover and design very selective, high-affinity drug candidates. We have succeeded in elucidating the X-ray crystal structures of more than 28 receptors, and have also succeeded in obtaining more than 280 structures in total for these receptors complexed to drug leads, a vital step in a viable SBDD process. Many members of the GPCR family have been difficult to drug with other technologies, but with ours, GPCRs can be used as StaR® proteins to produce drug candidates that have not previously existed.

Leveraging our SBDD platform, over the last 10 years we have generated 24 preclinical candidates through drug discovery and produced seven IND candidates that have entered human clinical trials. Based on our current drug discovery pipeline, and further investments to accelerate productivity, we aim to deliver at least four new programs through to lead optimization stage every two years and generate on average two new high value preclinical drug candidates every year.

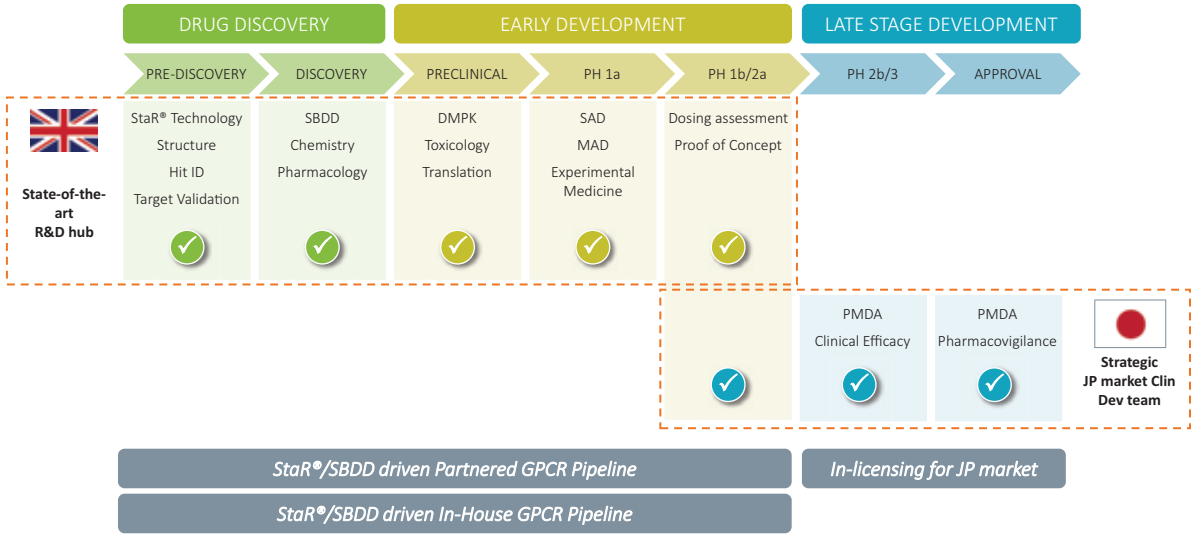


Note: [1] IND = Investigational New Drug

We are committed to maintaining our leadership advantage in this area and have integrated new, complementary technologies, including artificial intelligence-based drug discovery approaches and cryo-EM structure determination, to augment our discovery and development capabilities.

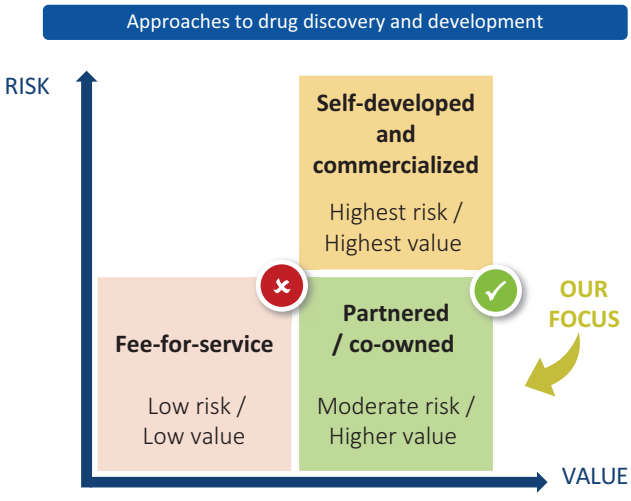
Our Model

We are a fully integrated and specialized research, drug discovery, preclinical and development organization. In the United Kingdom, we operate a research center that can advance assets from concept, through drug discovery and into early clinical development. In Japan, the world's third largest pharmaceutical market, we operate a strategic clinical development function capable of advancing our own in-house discovered candidates (for example, our M_1 agonist for dementia with Lewy bodies), or candidates in-licensed from others, through late-stage development to Japanese PMDA approval.



Our business model is focused across three core areas to create value; (i) supporting our existing partnerships with major global pharmaceutical and emerging biotech companies, (ii) generating new seeds and preclinical candidates to feed our growing in-house pipeline, and (iii) executing new high-value partnerships based on successful in-house drug discovery and early-stage development of new candidates.

In the past 12 months, we have executed multi-target GPCR drug discovery and development collaborations worth potentially over $2.5 billion with Takeda, Genentech, and AbbVie, adding to earlier and ongoing partnerships with AstraZeneca and Pfizer, among others. These partnerships validate our technologies, balance our risk, and provide us with a broad source of non-dilutive capital to further expand our pipeline and technology leadership. Our strategy is to pursue and secure further collaborations with pharmaceutical companies around GPCR targets and pipeline assets that we generate. Our goal is to execute at least two new high-value partnerships or co-owned deals per year.



- Strategic focus on generating programs that will attract large partnership opportunities with global pharma and biotech or venture funds
- Primary goal is for us to achieve out-licensing economics of $500m+ per partnered target / program
- Alternatively, we will seed novel candidates into co-owned asset-centric vehicles with long-term value upside

GOAL – at least two new high-value partnerships or co-owned deals per year

Our GPCR Pipeline

Our SBDD platform, which is driven by our StaR® technology at its core, has enabled us to discover and develop small molecules, peptides and antigens for antibody discovery, and have created a broad 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 neurology, immunology, gastroenterology and inflammatory diseases. As of June 2020, across both our Partnered and In-house GPCR Pipeline, over 20 programs are advancing through pre-discovery and discovery, 13 programs are advancing through preclinical studies, and at least seven programs are in clinical development.

Partnered GPCR Pipeline Programs

Product/Program	Modality[1]	Indication	Partner	Discovery	Preclinical	Phase 1	Phase 2	Phase 3	Marketed
Partnered Pipeline (Traditional out-licensing)									
A_{2A} antagonist	SME	mCRPC	AstraZeneca						
A_{2A} antagonist	SME	Solid tumors	AstraZeneca						
M_1 agonist	SME	Alzheimer's disease	abbvie						
M_4 agonist	SME	Alzheimer's disease	abbvie						
GLP-1 agonist	SME	T2DM/Obesity	Pfizer						
Single target	SME	Undisclosed	Pfizer						
Single target	SME	Metabolic and other	Pfizer						
GLP-1 antagonist	Peptide	Endocrine disorders	Undisclosed						
Multiple targets	SME/LME	Multiple indications	Genentech						
Multiple targets	SME/LME	Multiple indications	Takeda						
Single target	SME	Inflammatory diseases	abbvie						
Partnered Pipeline (Co-development/profit share)									
CXCR4 mAb	mAb	Immuno-oncology	kymab						
Single target	Peptide	Inflammation							
Asset-centric Companies									
Orexin agonists	SME	Narcolepsy	Orexia						
Orexin agonists	SME	Narcolepsy	INEXIA						

[1] Note: SME = small molecule; LME = large molecule; mAb = monoclonal antibody

Our Partnered GPCR Pipeline Programs include clinical candidates out-licensed to leading pharmaceutical and biotechnology companies, including AbbVie and AstraZeneca, and drug candidates for which we have ongoing single or multi-target discovery and development collaborations, including the recently announced deal with AbbVie for inflammatory diseases, in addition to ongoing programs with Genentech, Takeda, and Pfizer.

Our partners are developing one or more drug candidates that we discovered using our StaR® technology and/or SBDD platform, such as those in our clinical-stage muscarinic or adenosine programs, with both programs having now demonstrated early signals of therapeutic benefit in patients. 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. For example, we have entered into a strategic co-development agreement with PeptiDream for the discovery, development and commercialization of certain novel peptides, and have co-ownership of an antibody candidate that was jointly discovered and developed with Kymab. We have also entered into a structured financing agreement with Medicxi to co-invest in two asset-centric companies, Orexia and Inexia, which have obtained a portfolio of lead compounds and related development rights from us.

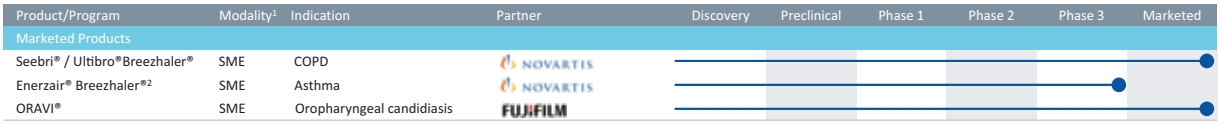
In-house GPCR Pipeline Programs

Product/Program	Modality[1]	Indication	Originator	Discovery	Preclinical	Phase 1	Phase 2
In-house GPCR Pipeline (Non-partnered)							
$mGlu_5$ NAM	SME	ALS / Neurological disorders	SOSEI HEPTARES				
$SSTR_5$ agonist	Peptide	Endocrine disorders	SOSEI HEPTARES				
M_1 agonist[2]	SME	DLB (Japan)	SOSEI HEPTARES				
Emerging In-house GPCR Pipeline (Non-partnered)							
CGRP antagonist	SME	Severe Migraine / Cluster Headache	SOSEI HEPTARES				
H4 antagonist	SME	Atopic dermatitis	SOSEI HEPTARES				
EP4 agonist	SME	Immuno-oncology	SOSEI HEPTARES				
GPR35 agonist	SME	Inflammatory bowel disorders	SOSEI HEPTARES				

[1] Note: SME = small molecule
[2] Phase 2 trial of HTL0018318 for DLB in Japan has been withdrawn. The Group plans to resubmit a new clinical trial notification for HTL0018318 (or another novel M_1 agonist) to the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) in the future

Our In-house GPCR Pipeline Programs comprise multiple drug candidates that address patient populations across neurology, immunology, gastroenterology and inflammatory diseases, and selected programs are included in the diagram above. We plan to further develop these programs through to points of inflection before seeking high value partnerships with global pharmaceutical and biotech companies. As of June 2020, our In-house (unpartnered) GPCR Pipeline has over 10 programs advancing through pre-discovery and discovery, seven programs advancing through preclinical studies, and 3 programs are in clinical development.

Our Other Medicines



[1] Note: SME = small molecule
[2] Enerzair®Breezhaler® approved in Japan and recommended for approval in the EU

In addition to our core activities in GPCR medicine design and development, we also have a legacy business that earns us a stable stream of royalties on global sales of Novartis' respiratory disease products Seebri® Breezhaler® and Ultibro® Breezhaler® for COPD (recently launched in China). The royalties provide us with a source of non-dilutive capital to support our strategic objectives. We believe Enerzair® Breezhaler® (QVM149), a novel combination therapy that is licensed to Novartis and recently approved in Japan and recommended for approval in the European Union for treating uncontrolled asthma, will also be a potential revenue source in the future. Enerzair® Breezhaler® (QVM149) has recently completed Phase 3 clinical trials and is expected to be approved in the EU and potentially other markets in the second half of 2020. See "Business—Other Medicines—Partnership with Novartis—Enerzair® Breezhaler® (QVM149)."

Our Intellectual Property

We believe our technologies and SBDD platform are protected by our intellectual property portfolio. Our GPCR technologies and SBDD platform are protected by 540 owned and licensed global patents and patent applications covering major territories, including the U.S., China, Japan and Europe (including over 325 issued patents), protecting our technology and pipeline, including 12 families comprising 120 issued patents and 27 patent applications protecting the StaR® technology platform globally. See "—Intellectual Property."

Our GPCR pipeline also benefits from protections offered by an extensive product patent portfolio. 51 patent families (representing over 390 patents and patent filings) have been or have the potential to be licensed in connection with drug products covering many indications under which we may earn royalties. Those patent families provide patent coverage in significant revenue markets around the world, including the U.S., key European member states including the UK and Germany, and Canada, China, Japan, Brazil and Mexico.

Similarly, our legacy business relating to our licensing agreement with Novartis, also benefits from protections offered by an extensive patent portfolio. 4 patent families (representing over 120 patents and patent filings) are currently licensed in connection with the respiratory disease products under which we currently earn royalties. Those patent families provide patent coverage in significant revenue markets around the world, including the U.S., key European member states including U.K. and Germany, and Canada, China, Japan, Brazil and Mexico.

Our Strengths

We believe our core competitive strengths include:

- our leading capability in exploiting undruggable or challenging GPCRs, based on our unique and differentiated proprietary StaR® technology and SBDD capabilities that are protected by our intellectual property portfolio;
- our partnerships with global pharmaceutical and biotechnology companies on GPCRs, in addition to the significant legacy Novartis royalties that underpin our growth;
- our strong and emerging in-house pipeline addressing distinct patient populations with unmet needs in neurology, gastroenterology, immunology, and inflammatory diseases, which we expect will become attractive partnering opportunities;

- our highly productive and sustainable drug discovery process that continues to seed multiple new preclinical candidates into the pipeline; and
- our experienced management team with significant track record in building and identifying value-enhancing investment and M&A opportunities, executing on and integrating these assets and effectively managing a global biotech business with significant presence in both Japan and the United Kingdom.

Our Strategies

Building on our strengths, our goal is to be a leading science-led global biotechnology company focused on drug discovery and development of innovative medicines to treat diseases with high unmet medical needs. We intend to:

- focus on the significant untapped opportunity to design drugs that target GPCRs;
- build a leading science-led global biotechnology business through leveraging our StaR® technology and integrated SBDD platform and creating a deep and sustainable pipeline of product candidates;
- advance our partnered pipeline, specifically the lead drug candidates currently in clinical development, and those in various stages of discovery collaborations;
- accelerate our in-house pipeline of GPCR drug candidates through discovery and/or through early clinical studies before seeking strategic development partners;
- continue to extend and protect our patent portfolio that underpins our SBDD approach; and
- strategically advance our model by acquiring assets and/or investing in new technologies and tools to enhance our drug discovery and early development capabilities, in addition to expanding into new protein drug target classes.

Company Information

We are a joint stock company with limited liability incorporated under the laws of Japan. Our registered head office is located at 2-1, Kojimachi, Chiyoda-ku, Tokyo 102-0083, Japan.

Our Shares have been listed on the Mothers Market of the Tokyo Stock Exchange since July 2004, with the Identification Number 4565. Our market capitalization (based on the closing price of the Shares on the Tokyo Stock Exchange and the number of issued and outstanding Shares as of June 29, 2020) was approximately ¥132 billion.

THE SHARE OFFERING

Share Offering	3,301,400 newly issued Shares will be offered by us outside Japan and the United States in reliance on Regulation S.
Offered Price per Share	¥1,595
Sole Bookrunner and Lead Manager	Merrill Lynch International
Co-Managers	Mizuho International plc Nomura International plc
Use of Proceeds	The net proceeds from the issue of the Shares, after deducting aggregate underwriting discounts and estimated aggregate offering expenses payable by us, and the net proceeds from the issue of the Bonds, are estimated to be approximately ¥5.0 billion and ¥15.9 billion, respectively. We plan to apply the total net proceeds from the Offerings as follows: • approximately ¥18.8 billion towards strategic growth initiatives, including funding acquisitions, or investments in companies or technologies that complement our business, expanding drug candidate discovery and early development, and potentially in-licensing pipeline products for the Japanese market; and • approximately ¥2.1 billion towards organic growth initiatives, including the cost of research and working capital. See "Use of Proceeds."
Total Issued Shares (as of June 29, 2020)	77,270,728 Shares
Lock-up Arrangements	In connection with the Offerings, we have agreed not to, and not to direct any entities or any persons acting at our direction to, (i) offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase, purchase any option or contract to issue or sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, or file any registration statement under the FIEA or with the Commission under the Securities Act relating to, any Shares or any securities convertible into or exercisable or exchangeable for Shares, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of the Shares or any such other securities, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise, in each case, for a period beginning on the date of the Subscription and Purchase Agreement (as defined in "Subscription and Sale") and ending on the date 90 calendar days after the closing date of the Offerings without the prior written consent of the Lead Manager, subject to certain exceptions (including the issue and transfer of Shares upon exercise of stock acquisition rights granted under the stock option plans described in this Offering Circular, the issue or transfer by us of the Shares to any of our or our subsidiaries' employees, officers or directors pursuant to the restricted share units plan and the performance share units plan described in the Offering Circular and the grant or issue of stock acquisition rights to our or our subsidiaries' employees, officers or directors pursuant to the stock option plans described in this Offering Circular).

	In connection with the Offerings, each of Shinichi Tamura (Chairman of the Board, Representative Executive Officer, President and Chief Executive Officer of the Company) and Chris Cargill (Executive Vice President and Chief Financial Officer of the Company) has agreed not to (i) offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Shares or any securities convertible into or exercisable or exchangeable for Shares (including without limitation, Shares or such other securities which may be deemed to be beneficially owned by the undersigned in accordance with the rules and regulations of the U.S. Securities and Exchange Commission and securities which may be issued upon exercise of a stock option or warrant), or publicly disclose the intention to make any such offer, sale, pledge, lending or disposition, (ii) enter into any derivatives agreement or any other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Shares or any such other securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise, or (iii) make any demand for or exercise any right with respect to the registration of any Shares or any security convertible into or exercisable or exchangeable for Shares, in each case, for a period beginning on the date hereof and ending on the date 90 calendar days after the closing date of the Offerings without the prior written consent of the Lead Manager. See "Subscription and Sale".
Listing	The Shares are listed on the Mothers Market of the Tokyo Stock Exchange.
Voting Rights	Holders of Shares have one voting right for each unit of Shares held on all matters submitted to a vote at a meeting of shareholders. Currently, one unit consists of 100 Shares. See "Description of the Shares".
Dividends	All Shares are equally entitled to payment of dividends. Year-end and interim dividends, if any, may be distributed to shareholders and pledgees of record as of June 30 and December 31 in each year in proportion to the number of Shares held by each shareholder. Pursuant to our articles of incorporation and subject to statutory restrictions, the declaration and payment of dividends require the resolution of the Board of Directors for annual or interim dividends. We believe, as we focus on our research and development ("R&D") activities, that it is necessary for us to prioritize earnings retention for the time being with a view to harnessing the growth opportunities which are expected to enable greater returns to our shareholders in the future, and therefore do not expect to pay any dividends in the near to medium term. See "Information Concerning the Shares".
Withholding Tax	Unless reduced or exempted by an applicable income tax treaty, dividends payable by us to non-residents of Japan or non-Japanese corporations without a permanent establishment in Japan are, generally, subject to Japanese withholding tax at the rate of

	(i) 15.315 per cent for dividends to be paid on or before December 31, 2037 and (ii) 15 per cent for dividends to be paid thereafter, except for dividends paid to any individual shareholder who holds three per cent or more of the total issued shares, for which the applicable rate is 20.42 per cent on or before December 31, 2037 and 20 per cent thereafter. See "Japanese Taxation".
Payment and Settlement	It is expected that payment for the Offered Shares will be made in yen for value on or about July 16, 2020 (Tokyo time), and delivery of the Offered Shares to investors will be made through the book-entry facilities of JASDEC in Tokyo on or about July 17, 2020 (Tokyo time).
Securities Codes for the Shares	Tokyo Stock Exchange Identification Number: 4565 International Security Identification Number (ISIN): JP3431300007 SEDOL: B01QMC2JP
Legal Entity Identifier (LEI)	2138004M62BFNJMR2Z82
Selling Restrictions	The Offered Shares are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on the offer and sale of the Offered Shares, see "Subscription and Sale".

THE BOND OFFERING AND THE BONDS

Bond Offering:

Issuer	Sosei Group Corporation.
Securities Offered	¥16,000,000,000 in aggregate principal amount of 0.50 per cent Convertible Bonds due 2025 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*).
Issue Price per Bond	100.0 per cent
Offer Price per Bond	102.5 per cent
Sole Bookrunner and Lead Manager	Merrill Lynch International
Co-Managers	Mizuho International plc Nomura International plc
Closing Date	On or about July 16, 2020
Delivery	It is expected that the Global Certificate in respect of the Bonds will be deposited with, and registered in the name of, or of a nominee for, a common depositary for each of Euroclear and Clearstream, Luxembourg on or about July 16, 2020.
Form	The Bonds will be issued in registered form, evidenced on issue by a Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See "Summary of Provisions relating to the Bonds while in Global Form".
Listing	Application will be made for the listing and quotation for the Bonds on the Official List of the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.
Lock-up	See "—The Share Offering—Lock-up" above.
Use of Proceeds	See "—The Share Offering—Use of Proceeds" above.
Selling Restrictions	The Bonds are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on the offer and sale of the Bonds and the Shares, see "Subscription and Sale".

Bond Terms:

Form and Denomination	The Bonds are issued in registered form in the denomination of ¥10,000,000.
Coupon	0.50 per cent.
Initial Conversion Prices	¥1,834 per Share. Subject to adjustment in certain events as set out in the Bond Conditions, including upon the occurrence of a Corporate Event (provided that any of the conditions set out in item (i) to (iv) of Bond

	Condition 7.5 is satisfied), a Delisting Event or a Squeezeout Event (each as defined in the Bond Conditions). See Bond Condition 5.2.
Exercise of Stock Acquisition Rights	A holder of a Bond may exercise the Stock Acquisition Right at any time during the period from, and including, July 30, 2020 to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on July 2, 2025 to acquire fully-paid and non-assessable Shares.
Status	The Company's obligations in respect of the Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Bond Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Bond Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.
Negative Pledge	So long as any of the Bonds remains outstanding, the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Bond Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined in Bond Condition 2) unless the same security or such other security or guarantee is accorded to the Bonds. See Bond Condition 2.
Redemption at Maturity	Unless the Bonds have previously been redeemed or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised, the Company will redeem the Bonds at 100 per cent of their principal amount on July 16, 2025.
Early Redemption—Increased Shares Prices	The Company may, on or after July 16, 2023, redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount, together with accrued interest, on the date fixed for such redemption provided, however, that no such redemption may be made unless the Closing Price of the Shares for any 20 Trading Days in a period of 30 consecutive Trading Days, the last of which occurs not more than 30 days prior to the date upon which the Optional Redemption Notice (as defined below) is first given, is at least 130 per cent of the Conversion Price in effect on each such Trading Day. See Bond Condition 7.2.
Early Redemption—Clean up Redemption	The Company may, but shall not be bound to, having given not less than 30 nor more than 60 days' prior notice to the Bondholders in accordance with Bond Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, together with interest accrued pursuant to Condition 4 to (but excluding) the date fixed for such redemption and all Additional Amounts due on the Bonds (if any), if, at any time prior to the date upon which the Clean-up Redemption Notice is first given, the outstanding principal

amount of the Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as at the date of issue thereof.

Early Redemption—Taxation Reasons . . . . . If the Company satisfies the Trustee, immediately prior to giving the notice to the Bondholders, that (i) as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after June 30, 2020, the Company has or will become obliged to pay any Additional Amounts (as defined in Bond Condition 9) in accordance with Bond Condition 9 and (ii) the Company is unable to avoid such obligation by taking reasonable measures available to it, the Company may, but shall not be bound to, having given not less than 30 nor more than 60 days' prior notice to the Bondholders in accordance with Bond Condition 19 (which notice shall be irrevocable) redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount.

If, however, the outstanding principal amount of the Bonds at the time of such notice of redemption is 10 per cent or more of the aggregate principal amount of Bonds as at the date of issue thereof, each holders of such Bonds will have the right to elect that its Bonds should not be redeemed and that, in respect of payments on such Bonds to be made after that date, payments will be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges. See Bond Condition 7.4.

Early Redemption—Corporate Events . . . . . In the case of a Corporate Event, the Company shall give notice to the Bondholders of such Corporate Event and the anticipated effective date of such transaction and the provisions set out in Bond Condition 6 shall apply.

Upon or following the occurrence of a Corporate Event, the Company shall be required to redeem all, but not some only, of the Bonds then outstanding at a redemption price determined in accordance with Bond Condition 7.8 if any of the following conditions is satisfied:

(i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect a scheme provided for by Bond Condition 6.4.1; or

(ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company cannot effect such a scheme in compliance with Bond Condition 6.4.1; or

(iii) despite the Company using its best endeavours pursuant to Bond Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date (as defined in the Bond Condition 6.3), whichever occurs later, (x) no Listing (as defined in Bond Condition 6.4.2) has been obtained for the shares of common stock of the New Obligor (as defined in Bond Condition 6.1) and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such

	Listing will be obtained on or prior to such Corporate Event Effective Date; or (iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer (as defined in Bond Condition 3.1) stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. See Bond Condition 7.5.
Early Redemption—Delisting of the Shares	In certain circumstances where a tender offer is made to holders of Shares of the Company by an Offeror (as defined in the Bond Conditions) where, *inter alia*, the Company expresses its opinion to support such offer, the Company or the Offeror publicly announces or admits that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange (as defined in Bond Condition 3.1), and the Offeror acquires any Shares pursuant to the offer, then the Company shall give notice to Bondholders in accordance with Bond Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at a redemption price determined in accordance with Bond Condition 7.8. See Bond Condition 7.6.
Early Redemption—Squeezeout Redemption	Upon the occurrence of a Squeezeout Event, the Company shall give notice to the Bondholders in accordance with Bond Condition 19, as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price determined in accordance with Bond Condition 7.8. See Bond Condition 7.7.
Early Redemption at the Option of Bondholders	The holder of any Bond is entitled, at its option, to require the Company to redeem such Bond at 100 per cent of its principal amount on July 16, 2022. See Bond Condition 7.9.
Cross Default	The Bonds are subject to a cross default in respect of indebtedness for borrowed money or any guarantee and/or indemnity thereof of the Company or of any Principal Subsidiary in respect of amounts of at least ¥1 billion (or its equivalent in any other currency or currencies). See Bond Conditions 10.3 and 10.4.
Taxation	All payments by the Company in respect of the Bonds will be made without any deduction for withholding taxes of Japan, except to the extent described in Bond Condition 9.
Governing Law	English law
Jurisdiction	English courts
International Securities Identification Number ("ISIN")	XS2198851219
Common Code	219885121

Legal Entity Identifier (LEI) for the Company	2138004M62BFNJMR2Z82
Trustee and Custodian	The Law Debenture Trust Corporation p.l.c.
Principal Agent and Registrar	Mizuho Trust & Banking (Luxembourg) S.A.
Custodian's Agent in Japan	Mizuho Bank, Ltd.

RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider, along with other matters set out in this Offering Circular, the following factors. All of these factors are contingencies which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring.

Risks Relating to Our Business

Discovery, design and development of novel drugs is high risk and may never lead to marketable products.

We are a clinical-stage biopharmaceutical company focused on discovering and developing innovative medicines to treat diseases with significant unmet medical needs. We are currently focused on discovering new medicines, including novel small molecules, peptides and therapeutic antibodies targeting GPCRs, a super-family of integral cell membrane proteins that are present on cells and tissues throughout the body. In doing so, we utilize a Structure-based Drug Design ("SBDD") platform, driven primarily by our proprietary stabilized receptor ("StaR®") technology. Our future success depends on the ability to utilize our SBDD platform to facilitate the discovery, design and development of drug candidates that potently target GPCRs to beneficially modulate disease conditions without side effects, either ahead of our competitors or in a manner that outperforms the drug candidates of our competitors.

While we believe that our proprietary platform technology offers a competitive advantage in drug discovery, and design and development for diseases in which GPCRs are implicated, the benefit and value of our SBDD platform or our StaR® technology and other proprietary technologies, as compared to other drug discovery techniques and technologies, is not yet proven. There is no guarantee that our StaR® technology will lead to the discovery or successful design and development of drug candidates that have a lower attrition rate than through what other drug discovery technologies are able to achieve. Additionally, there is no guarantee that these technologies will yield results as expected, or in a time frame that is economically viable or capable of being commercialized. Although GPCR drug candidates discovered through our technology have started to generate milestone payments to us for certain discovery and development phases, these candidate drugs have not yet reached a commercialization phase.

Furthermore, the drug candidates we currently seek to develop may not demonstrate efficacy or potency in patients compared to the properties ascribed to such candidates in preclinical studies. Similarly, the same candidates may interact with human biological systems in unforeseen, ineffective or harmful ways. As a result, we may not succeed in developing a sufficient number of drug candidates that will lead to meaningful partnerships and generate milestone or royalty revenues. If we do not successfully develop drug candidates using our technologies, we will not be profitable and the value of our common stock will decline.

We face significant competition in the biotechnology and pharmaceutical industry, and our business, results of operations, financial condition and cash flows will suffer if we fail to compete effectively.

Competition in the biopharmaceutical industry is significant due to the large number of companies and research institutions. Many of those companies and competitors have substantially greater financial, technical and other resources, including more personnel and experience in successfully discovering and developing drug candidates, obtaining regulatory approvals and commercializing drug products. Our competitors may also:

- develop and market drug products that are less expensive or more effective than any drug product developed from our drug candidates;
- commercialize competing drug products before we or our licensed partners can launch any drug products developed from our drug candidates;
- file for patent protection within the same or overlapping fields which may subsequently impact or limit the discovery, design, development and/or commercialization of our candidate drugs;
- operate larger research, discovery and development programs, possess commercial scale manufacturing operations or have substantially greater financial resources than we do;
- initiate or withstand substantial price competition more successfully than we or our licensed partners can;
- have greater success in recruiting skilled technical and scientific workers from the limited pool of available talent;

- more effectively negotiate third party licenses and strategic relationships or obtain blocking rights; and
- take advantage of acquisition or other opportunities more readily than we can.

We compete with a number of companies and institutions focused on candidates that target the same indications for which our drug candidates are intended, and other companies may develop a more promising drug candidate for a specific application than those that we, or our licensed partners, are able to develop. If our competitors are able to market drug products that are less expensive, safer or more effective than the future drug products developed from our drug candidates, and these reach the market before our drug products, or otherwise negatively affect the competitiveness of our drug candidates, we may not achieve commercial success and our ability to generate revenue would be impaired, which would have a material adverse effect on our future business, financial condition and results of operations.

In addition, the pharmaceutical and biotechnology industry is characterized by high levels of innovation occurring at a rapid pace. If we fail to stay at the forefront of technological change, we may be unable to compete effectively. Other companies in the industry may develop new technologies or approaches that decrease our ability to compete effectively and eliminate or diminish the potential advantages of our drug discovery platform technologies and programs.

For example, our most advanced pipeline products include an adenosine$_{2A}$ antagonist for immuno-oncology with AstraZeneca and muscarinic agonists for Alzheimer's disease with AbbVie. We are aware of multiple competing programs in the same therapeutic areas which, if successful, may preclude us from capturing meaningful market share in those therapeutic areas, if any.

We may require substantial additional funding which may not be available to us on acceptable terms, or at all.

In general, large amounts of R&D investment and spending are necessary in the pharmaceutical industry, and those amounts increase as drug candidates progress to later stages of development. Accordingly, we expect to incur significant expenses to advance the clinical development of our drug candidates as well as on other operating expenses. Our future capital requirements will depend on many factors, including:

- our ability to earn milestone or royalty payments on existing out-licensing and other agreements with partners and to establish and maintain additional licensing agreements or partnerships on favorable terms;
- the timing of preclinical studies and clinical trials related to our product pipeline;
- earnouts payable to the former shareholders of Heptares;
- the costs of preparing, filing and prosecuting patent applications and maintaining, enforcing and defending our intellectual property rights;
- the extent to which we acquire or in-license other technologies and intellectual property rights;
- the timing of any payment obligations under our development pipeline-related contracts with business partners, including any obligation to make payments to a partner at a development stage prior to sales or after the commencement of sales, or any obligation to pay joint development costs or to invest in marketing activities after sales start; and
- possible future acquisitions.

Some of these factors affecting our funding needs are outside of our control and there is no assurance that additional funding will be available to us on acceptable terms, or at all. Our current undrawn loan facility contains restrictive financial and other covenants that limit our ability to operate. For further information regarding our current financing arrangements and restrictive covenants, see Note 17 to our audited consolidated financial statements for the twelve-month period ended December 31, 2019. In the future, our financing arrangements may contain further restrictions. In addition, our drug candidates may not be successfully developed, receive necessary approvals of marketing and sale or achieve commercial success, which would adversely affect our revenues and profitability and could impair our ability to meet our debt service obligations or to make principal payments upon maturity.

If we are unable to obtain funding on commercially reasonable terms, or at all, we will be required to reconsider and curtail R&D activities and planning, which may have a material adverse effect on our results of operations, financial condition and future pipeline viability.

Our financial condition may be adversely impacted if our licensed partners suffer a decrease in sales.

We currently derive some of our revenues from a legacy business that earns us royalties on global sales of Novartis' respiratory products, Seebri® Breezhaler® and Ultibro® Breezhaler®. Our revenue stream could be adversely affected if these respiratory disease in-market products suffer a decrease in sales, which is out of our control. A decrease in these sales could negatively affect our royalty based-revenues and may impact our market penetration and royalties on these products. In particular, a decrease in sales of Seebri® Breezhaler® or Ultibro® Breezhaler® could have a significant negative impact on our revenues, financial condition or results of operations.

To date, revenue from our licensed respiratory disease products has provided us with a source of income which has allowed us to invest in the discovery and development of drug candidates as well as further develop our drug discovery platform and technologies. We also currently have Enerzair® Breezhaler® (QVM149), another respiratory disease product that is licensed to Novartis and recently approved in Japan and recommended for approval in the European Union for treating uncontrolled asthma. However, such revenues, and any future revenues from Enerzair® Breezhaler® (or any other of our drug candidates currently in development), if they become commercialized, will have a finite duration and, for a variety of reasons, could dramatically reduce or cease earlier than anticipated. This may result from other competitor products entering the relevant disease field, regulatory restrictions, serious adverse events or product recalls. In addition, if any of our partners fail to pursue a successful marketing strategy, or face strong competition, our ability to receive royalty payments could be adversely affected, and we do not have any ability to effect changes that would promote sales of those products.

Our results of operations may be adversely affected by the timing of receipt of up-front fees and milestone income.

We have experienced and will continue to experience significant fluctuations in our results due to the timing of the receipt of up-front fees and milestone income from our collaboration partners under our co-development and licensing agreements. Because receipts under these agreements are generally based on the achievement of various R&D milestones, our revenues can fluctuate significantly from quarter to quarter and year to year. For example, our revenues were ¥6,955 million for the twelve-month period ended March 31, 2018, ¥2,872 million for the nine-month period ended December 31, 2018, and ¥9,726 million for the twelve-month period ended December 31, 2019, respectively. While our revenues for the twelve-month period ended December 31, 2019 largely benefitted from up-front fees from the commencement of new collaborations as well as major milestone income receipts, our revenues for the nine-month period ended December 31, 2018 did not contain any upfront fees related to new partnerships or major milestone income receipts from existing discovery and development partnerships. Under our co-development and licensing agreements, development strategies and schedules are determined by our collaboration partners, making it difficult for us to influence or know if and when milestones will be earned. Future receipts under these arrangements are also uncertain because our partners may choose to terminate development activities for the drug candidates under license in their licensed territory, clinical trials concerning such drug candidates may not be completed as originally contemplated or at all, the drug candidates may not be approved for the proposed indications and the drug candidates may not be commercially successful. Failure to receive additional milestone income in connection with our existing co-development and licensing agreements, and our inability or decision to not license compounds or the failure to enter into other agreements with new collaboration partners could have a material adverse effect on our business, results of operations, financial condition and cash flows.

There can be no assurance that our investment in MiNA will result in a return on our investment

In May 2017, we entered into an agreement under which we acquired an exclusive option to potentially acquire MiNA (Holdings) Limited, or MiNA, a private U.K. biopharmaceutical company and pioneer in saRNA therapeutics. Pursuant to the agreement, we made an up-front strategic investment of £35 million into MiNA in return for a 25.6% equity share and an exclusive option to acquire the remainder of the MiNA's equity capital in two tranches. As a result of the initial up-front strategic investment, MiNA became and continues to be an associate holding of ours. Investments in associates are accounted for using the equity method. We entered into the agreement with MiNA following an extensive assessment and evaluation of the potential of MiNA's lead clinical-stage saRNA asset (MTL-CEBPA) for treating patients with advanced liver cancer (HCC), and more broadly for restoring liver function in other major progressive liver diseases. In October 2018 we decided not to exercise our exclusive option to acquire the remainder of MiNA. Our decision was based on our further evaluation of the investment opportunity including a rigorous analysis of interim data from MiNA's Phase 1/2a OUTREACH study of MTL-CEBPA in HCC; and the prioritization of resources and capital directed towards

opportunities across our own Partnered and In-House GPCR Pipelines. MiNA's strategy is currently focused on investigating MTL-CEBPA as a combination cancer therapy, as well as enhancing its RNA activation platform and building a pipeline of novel saRNA therapeutics targeting multiple indications. Whilst we remain supportive shareholders of MiNA and maintain a single Non-Executive Director position on MiNA's Board of Directors, we consider our investment in MiNA to be non-core to our business going forward, and we do not intend to contribute further investment capital. As such, we expect our current 23.7% shareholding to be diluted over time. Given the inherent uncertainties with respect to saRNA therapeutics, as well as clinical trials, we cannot assure you when those trials will be conclusive or what the results of those trials may be. The saRNA technology is at a nascent stage and the modality remains unproven. The scientific discoveries that form the basis of MiNA's efforts to discover and develop new drug candidates are relatively new, and the evidence to support the feasibility of developing drug candidates based on these discoveries is both preliminary and limited. There can be no assurance that relevant clinical milestones will be attained by MiNA and that we will generate a return on our investment.

Pursuit of further growth through mergers and acquisitions involves potential risks.

As part of our business strategy in the past, we have strategically acquired businesses, including Heptares in 2015, which has enabled us to expand our drug discovery and development with the StaR® technology and related technology platform. While our current strategy is to focus on organic growth, from time to time we evaluate opportunities to expand the scope of our business through mergers and acquisitions and other types of strategic transactions. Pursuing mergers, acquisitions and other strategic transactions entails a number of risks. For example, we have in the past made equity investments in companies with highly promising yet unproven technologies. These investments may enable us to accelerate our business model as they lead to a significant value inflection. However, investments in unproven technologies also carry the risk of failure which may prevent us from achieving our strategic goals and lead to impairment of equity investments. In addition, post-acquisition integration of the company may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be fully realized. There can be no assurance that any acquired businesses would achieve anticipated strategic goals, revenues and earnings. Any failure to manage a potential acquisition successfully could have a material adverse effect on our business, results of operations and financial condition.

Risks Related to Development, Clinical Testing and Regulatory Approval of Our Drug Candidates

Clinical drug development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and early trials may not be predictive of the results of later-stage clinical trials. If we or our collaboration partners are unable to successfully develop and commercialize our drug candidates or experience significant delays in doing so, our business, results of operations, financial condition and cash flows may be materially adversely affected.

Our business focuses on drug discovery, design and development through R&D. Generally, the R&D period for pharmaceutical products, from preclinical research to approval, takes a long time and requires a considerable level of financial investment. Moreover, the likelihood of product success is extremely low compared to other industries, as there is a significant attrition risk with the development of drug candidates failing at any time during clinical trials. The results of preclinical studies and early phase clinical trials of our drug candidates are not predictive of the results of later-stage clinical trials. It is not uncommon for companies in the biopharmaceutical industry to suffer significant setbacks in late stage clinical trials due to lack of efficacy, potency or adverse safety profiles, notwithstanding promising results in earlier trials and preclinical work. Clinical trials for our drug candidates and pipeline may not yield successful results. As a result, potential in R&D activities is accompanied by uncertainty, and these risks are also associated with our current and future drug candidates under development, both within our business and where out-licensed to partners.

Further, during each stage of the pharmaceutical development, the planned or ongoing research and clinical trials for our pipeline may encounter delays or be forced to be terminated for various reasons, including:

- difficulty in obtaining funds required for clinical trials;
- disappointing results from preclinical testing or success in preclinical testing not being indicative of results obtained in later trials;
- delays in obtaining regulatory approval to commence clinical trials or work to support application for regulatory approval;
- difficulty in enrolling sufficient numbers of patients in clinical trials who are suitable and in a timely manner, including having patients complete a trial task or return for post-treatment;

- unexpected, serious or severe adverse events or side effects experienced by patients;
- limited or insufficient efficacy;
- difficulty in maintaining a sufficient number of clinical trial sites or such clinical trial sites deviating from protocol or withdrawing from clinical trials;
- difficulty or inability to manufacture sufficient quantities of the drug candidate for clinical trials;
- difficulty in obtaining all necessary regulatory approvals in each jurisdiction where the drug candidate is intended to be sold; and
- adverse findings of third party blocking rights in our ongoing intellectual property and patent freedom to operate analyses.

Delays or terminations may be encountered if clinical trials are suspended or terminated by us, our collaboration partners or applicable regulatory authorities, the institutional review boards, or IRBs, of the institutions in which such trials are being conducted or the Data Safety Monitoring Board for such trials. Such authorities may impose a suspension or termination due to a number of factors, including failure to conduct the clinical trials in accordance with regulatory requirements or clinical trial protocols, inspection of clinical trial operations or trial sites by regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues, adverse events or side effects, failure to demonstrate a sufficient benefit from using a drug candidate, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trials. In addition, we or our partners may decide to change the scope or end-points of clinical trials based on discussions with regulatory authorities to, for example, conduct additional tests or include more patients. Such changes may significantly increase the costs of clinical trials for our drug candidates. If any clinical trials of our drug candidates are terminated, the commercial prospects of those drug candidates will be harmed, and our ability to generate product revenues from such drug candidates will be delayed or compromised. Even delays may harm the commercial prospects of our drug candidates, thereby delaying or compromising our ability to generate revenues from the commercialized drug product. Many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may ultimately lead to the denial of regulatory approval of our drug candidates. In addition, any delays in completing clinical trials for our drug candidates will increase developmental costs, slow down the drug candidate development and approval process and could jeopardize the ability to commence sales and generate revenues. If we or our collaboration partners are unable to successfully develop and commercialize our drug candidates or experience significant delays in doing so, it could have a material adverse effect on our business, results of operations, financial condition and cash flows.

If any of our drug candidates or out-licensed drugs causes undesirable side effects or we believe a drug candidate has only limited efficacy, there could be significant negative consequences following marketing approval.

Drug candidates may not be sufficiently effective or may be associated with undesirable or unintended side effects or contra-interactions with other drugs, which may arise any time from clinical trials through to and beyond initial commercialization. Limited efficacy or undesirable side effects or contra-interactions could affect patient recruitment. In addition, if any undesirable or unintended side effects caused by one of our drug products are identified, it may lead to, among other things, product recalls, discontinuance of manufacturing and sales, or lawsuits being brought against us. Furthermore, our licensed parties may suffer decreases in sales or drug candidates which we out-license may not be as competitive or effective as other competing drug candidates or be marketed as aggressively. Any of these events could materially adversely affect our results of operations, financial returns, as well as our reputation.

Our business is subject to extensive regulation, and we cannot assure that our drug candidate pipeline will receive regulatory approval; in the event we do not receive such approvals, our business, results of operations, financial condition and cash flows may be materially adversely affected.

The pharmaceutical industry is subject to extensive regulation due to pharmaceutical laws and pharmaceutical administrative guidance in individual countries and other laws and regulations governing research, development, manufacturing and sales. Our drug candidates cannot be marketed or promoted in a country or region before we or our collaboration partners, as the case may be, receive regulatory approval from the authorities of each applicable country or region, and such regulatory approval may be difficult to obtain. Regulatory requirements, by which we are required to comply, include those related to safety and efficacy, clinical trials and commercial sales as well as pricing and distribution. Securing approval also requires the

submission of information about the drug product manufacturing process and the inspection of manufacturing facilities by regulatory authorities. Whether or not we will be successful in obtaining regulatory approval in each applicable jurisdiction is difficult to predict.

The process of obtaining regulatory approval is expensive, uncertain and time-consuming, and typically takes many years following the commencement of clinical trials. In addition, approval policies, laws and regulations, and the type and amount of clinical data necessary to gain approval, may change during the course of a drug candidate's clinical development and adversely affect the timing or success of such development.

Our drug candidates could fail to receive regulatory approval or be delayed or suspended for many reasons, including the following:

- the results of clinical trials may not meet the level of statistical significance, and we may be unable to demonstrate that a drug candidate is of sufficient quality, safety, potency and effectiveness for its proposed indication, as required by or to the satisfaction of the relevant regulatory authorities for approval;
- regulatory authorities may disagree with the design or implementation of our clinical trials, or with our interpretation of data from preclinical studies or clinical trials;
- the data collected from clinical trials of our drug candidates may not be sufficient to obtain regulatory approval from regulatory authorities;
- regulatory authorities may fail to approve, or withdraw the approval of, the manufacturing processes or facilities of third party manufacturers with which we contract for clinical and commercial supplies; or
- pharmaceutical laws, approval policies or regulations of the regulatory authorities may significantly change.

The lengthy approval process as well as the unpredictability of future results of clinical trials may result in our failure or inability to obtain regulatory approval for different drug candidates. It is possible that none of our current drug candidates or any drug candidates we, or our partners, seek to develop in the future will ever obtain regulatory approval. As we rely on the occurrence and timing of milestone and royalty payments, our business, results of operations, financial condition and cash flows may be adversely affected if we, or our licensed partners, fail to obtain regulatory approval on a timely basis, or at all.

We are subject to ongoing obligations and continued regulatory review, as well as possible labeling and other restrictions, in respect of any regulatory approvals received in respect of our drug products or drug candidates, which could limit the sales of our products.

Any regulatory approval may require potentially costly post-marketing testing, including a Phase 4 clinical trial, and surveillance to monitor the safety and efficacy of the drug. In addition, if any applicable regulatory authority approves any of our drug candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and record-keeping for the drug product will be subject to extensive and ongoing regulatory requirements. These requirements may include implementation of a risk evaluation and mitigation strategy and submission of safety and other post-marketing information and reports, registration, and continued compliance with good manufacturing practices, or GMPs, and good clinical practices, or GCPs, for any clinical trials that we conduct post-approval. In addition, any regulatory approvals that we receive for our drug products may be subject to limitations on the approved indicated uses for which the product may be marketed or distributed. If any of our drug products receives regulatory approval, the accompanying label may limit the approved use of our drug product in a specified manner, which could limit sales of the product. If we or a third party were to discover previously unknown problems with a drug product, including adverse events of unanticipated severity or frequency, contraindications, or problems with our third party manufacturers or manufacturing processes, or if we or a third party manufacturer fail to comply with regulatory requirements, we may lose regulatory approval, or we may need to conduct additional clinical trials and/or change the labeling of or manufacturing site for our drug product. These factors could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Even where our drug candidates receive regulatory approval, we cannot assure that they will attain significant market acceptance among physicians, healthcare payors and patients, which could adversely affect our collaboration partners' and our commercial success.

Even if our collaboration partners obtain, or in the case of co-developed or self-commercialized products, we obtain, regulatory approval for one of our drug candidates, the drug product may not gain or sustain market

acceptance among physicians, healthcare payors and patients, which is critical to our collaboration partners' and our commercial success. Market acceptance of any drug product for which we or our collaboration partners receive regulatory approval depends on a number of factors, including:

- its safety and efficacy, as demonstrated in clinical trials;
- the clinical indications for which the drug product is approved;
- the timing of market introduction of such drug product as well as competitive products;
- the scope of regulatory approvals, including its labeling;
- maintaining a continued acceptable safety profile of the drug product following approval;
- relative ease of administrating the drug product;
- the prevalence and severity of side effects or adverse events;
- the potential and perceived advantages of such product over alternative treatments, especially with respect to patient subsets that we or our collaboration partners are targeting with such drug product;
- the safety of such product seen in a broader patient group, including with respect to its use outside the approved indications;
- the cost of treatment in relation to alternative treatments;
- obtaining and maintaining coverage and adequate reimbursement by third party payors, including government payors; and
- the effectiveness of our or our collaboration partners' sales and marketing efforts.

If any of our drug candidates is approved but fails to achieve an adequate level of acceptance by physicians, healthcare payors and patients, the collaboration partner may not be able to generate significant revenues or attain profitability in respect of the relevant drug product, which could have a material adverse effect on the royalty we receive, and therefore affect our business, results of operations, financial condition and cash flows. If any of our self-commercialized drug products fails to attain market acceptance, our business, results of operations, financial condition and cash flows will be directly affected.

Drug candidates that reach commercialization may become subject to unfavorable pricing regulations, third party reimbursement practices or healthcare reform initiatives, which could materially adversely affect our business, results of operations, financial condition and cash flows.

Regulations that govern marketing approvals, pricing, coverage and reimbursement for new drug products vary widely from country to country. Current and future legislation may significantly change the approval requirements in ways that could involve additional costs and cause delays in obtaining approvals. Some countries require approval of the sale price of a drug product before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some markets, particularly in the EU, prescription pharmaceutical pricing remains subject to continuing governmental control, including possible price reductions, even after initial approval is granted. As a result, we or our collaboration partners might obtain marketing approval for a drug product in a particular country, but then be subject to price regulations that delay our or our collaboration partner's commercial launch of the product and thus negatively impact the revenues we are able to generate from the sale of the product in that country.

Adverse pricing limitations may hinder our ability to recoup our investment in one or more drug products, even if our drug products obtain marketing approval. There is significant uncertainty related to the third-party coverage and reimbursement of newly approved drugs. We intend to seek approval to market our drug products in the United States, the U.K., the EU, Japan and other selected jurisdictions. Market acceptance and sales of our drug products will depend significantly on the availability of adequate coverage and reimbursement from third party payors for our drug products and may be affected by existing and future healthcare reform measures. Government and other third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage of and the level of reimbursement for new drugs and, as a result, they may not cover or provide adequate payment for our drug products. These payors may conclude that our drug products are less safe, less effective or less cost-effective than existing or later introduced products, and third-party payors may not approve our drug products for coverage and reimbursement or may cease providing coverage and reimbursement for these drug products. Obtaining coverage and reimbursement approval for a drug product from a government or other third-party payor is a time-consuming and costly process that could require us to provide to the payor supporting

scientific, clinical and cost-effectiveness data for the use of our drug products. We may not be able to provide data sufficient to gain acceptance with respect to coverage and reimbursement. If reimbursement of our future drug products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, we may be unable to achieve or sustain profitability.

In the United States, Japan and certain other relevant jurisdictions, there have been and we expect there will continue to be a number of legislative and regulatory changes to the healthcare system that could impact the profitably from sale of drug products. There have been, and likely will continue to be, legislative and regulatory proposals directed at broadening the availability of healthcare and containing or lowering the cost of healthcare. It is difficult for us to predict the initiatives that may be adopted in the future. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare may adversely affect the demand for any drug product for which we may obtain regulatory approval, as well as our ability to set satisfactory prices for our products, to generate revenues, and to achieve and maintain profitability, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Risks Relating to Our Dependence on Third Parties

Our business is dependent on maintaining our existing partnerships and collaborations and developing new ones. If we are unable to establish or maintain such partnerships or collaborations, or if these partnerships or collaborations are not successful, our business could be materially adversely affected.

Because we develop drug candidates in therapeutic areas with complex development pathways requiring a high degree of commercial efforts for development, we aim to build broad partnerships at each stage of research and development, thereby incorporating state-of-the-art technology while avoiding an increase in fixed costs. The successful implementation of these partnerships is therefore critical to our success in these therapeutic areas. We may seek to enter into additional partnerships or collaborations and may become dependent upon the establishment and successful implementation of partnership or collaboration agreements to pursue our core business strategies.

While we can profit from licensing our drug candidates to other companies at an intermediate stage of development and receiving an upfront fee, milestone income and sales-associated revenue, it is not possible to predict when we will be able to enter into a development partnership for any particular drug candidate. If technology is not licensed out at the anticipated timing due to delays in development or for some other reason, or if it becomes difficult to license out a drug under development as planned, it could have a significant impact on our financial position and operating results.

We currently have material partnerships and collaborations with AbbVie, AstraZeneca, Genentech, Medicxi, Novartis, Pfizer and Takeda. See “Business—Agreements with Business Partners.” These partnerships, collaborations and licensing arrangements have also provided us with important funding for our discovery and development programs, and (subject to the uncertainties and risks mentioned elsewhere) we expect to receive additional funding under these arrangements in the future. Our existing partnerships and collaborations, and any future partnerships and collaborations which we enter into, may pose a number of risks, including the following:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these partnerships;
- collaborators may not perform their obligations as expected;
- collaborators may not pursue development and commercialization of any drug candidates that achieve regulatory approval or may elect not to continue or renew development or commercialization programs based on clinical trial results, changes in the collaborators’ strategic focus or available funding, or external factors, such as an acquisition, that divert resources or create competing priorities;
- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a drug candidate, repeat or conduct new clinical trials or require a new formulation of a drug candidate for clinical testing;
- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our drug products or drug candidates if the collaborators believe that competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than ours, which may cause collaborators to cease to devote resources to the commercialization of our drug candidates;

- a collaborator with marketing and distribution rights to one or more of our drug candidates that achieve regulatory approval may not commit sufficient resources to the marketing and distribution of such product or products;
- disagreements with collaborators, including disagreements over proprietary rights, contract interpretation or the preferred course of development, might cause delays or termination of the research, development or commercialization of drug candidates, might lead to additional responsibilities for us with respect to drug candidates, or might result in litigation or arbitration, any of which would be time-consuming and expensive;
- certain collaborators may not properly maintain or defend certain of our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our intellectual property or proprietary information;
- collaborators may infringe or otherwise violate the intellectual property rights of third parties, which may expose us to litigation and potential liability;
- collaborators may learn about our technology and use this knowledge to compete with us in the future;
- there may be conflicts between different collaborators that could negatively affect those partnerships and collaborations and potentially others; and
- the number and type of our partnerships and collaborations could adversely affect our attractiveness to future collaborators or acquirers.

If our partnerships, collaborations and licensing arrangements do not result in the successful development and commercialization of products or if one of our partners, collaborators or licensees terminates its agreement with us, we may not receive any future milestone, royalty or other payments under the arrangement. If we do not receive the funding we expect under these arrangements, our continued development of our drug candidates could be delayed and we may need additional resources to develop additional drug candidates. All of the risks relating to drug development, regulatory approval and commercialization described in this Offering Circular also apply to the activities of our collaborators and there can be no assurance that our partnerships and license agreements will produce positive results or successful products on a timely basis, or at all.

Our agreements with collaborators generally grant them exclusive rights over certain elements of our intellectual property, and may therefore preclude us from entering into partnerships and collaborations with others relating to the same or similar compounds, indications or diseases. In addition, such agreements may place restrictions or additional obligations on our ability to license additional compounds in different indications, diseases or geographical locations. If we fail to comply with or breach any provision of a partnership or collaboration agreement, a collaborator may have the right to terminate, in whole or in part, such agreement or to seek damages.

Our licensing, partnership or collaboration agreements for the development of drug candidates often entitle our collaborators to terminate the agreement at their discretion. A collaborator might choose to terminate an agreement for various reasons, including to refocus its development priorities or streamline its portfolio, or as part of a larger reorganization following a merger. In some cases our licensing agreements also allow our collaboration partner to exit the arrangement by sublicensing its rights to a third-party, a process over which we have little or no control. If a partnership or collaboration agreement is terminated, in whole or in part, we may be unable to continue the development and commercialization of the applicable drug candidates or may have to find a new partner for continuing the development, and even if we are able to do so, such efforts may be delayed or result in additional costs or less attractive licensing terms. The termination of a partnership or collaboration agreement, or a partnered program as part of a broader partnership, could also result in the loss of future revenues from a particular product candidate, which might require us to recognize an impairment loss on our intangible assets. If important agreements are in the future terminated before reaching their full term, cancelled or by some other reason amended, it may have a material adverse effect on our results of operations, financial condition and cash flows. Allergan, one of our license partners, was recently acquired by AbbVie and we are aware that AbbVie is currently undertaking a review of its pipeline portfolio and considering its options. See “Business—Agreements with Business Partners—GPCR Medicines—AbbVie.”

There is no assurance that a collaborator who is acquired by a third party would not attempt to change certain contract provisions that could negatively affect our relationship. The acquiring company may also not accept the terms or assignment of our contracts and may seek to terminate the agreements. Any one of our collaborators could also breach covenants, restrictions and/or sub-license agreement provisions, leading us into disputes and potential breaches of our agreements with other collaborators.

We currently depend heavily on third parties for the development of some drug candidates, and therefore relinquish significant control over the future development of those drug candidates to third parties. For example, we licensed the muscarinic program to Allergan (since acquired by AbbVie) in 2016 in exchange for a $125 million up-front cash payment and the rights to receive milestone payments and royalty payments from future sales. Under the terms of that agreement, Allergan initially provided $50 million of R&D funding for us to conduct clinical trials through to proof of concept (and topped up this amount by an additional $5m in 2019), after which time Allergan is responsible for furthering such programs to commercialization. The success of our collaboration arrangements will depend heavily on the ability, efforts and activities of our partners, who may have significant discretion in determining the efforts and resources that they apply to these collaborations, and who may also have a greater bargaining power than us in negotiating the terms of such collaboration arrangements. As such, the cost demanded by third parties may significantly increase over time. We rely substantially on third party data managers for our clinical trial data. There is no assurance that these third parties will not make errors in the design, management or retention of our data or data systems. There is no assurance these third parties will pass FDA or regulatory audits, which could delay or prohibit regulatory approval.

Disagreements between us and any collaboration partner regarding clinical development and commercialization matters can lead to delays in developing or commercializing the applicable drug candidate and, in some cases, litigation or arbitration, any of which would divert management attention and resources, be time-consuming and be expensive. These disagreements can be difficult to resolve if neither of the parties has final decision-making authority. If such disagreements are not resolved, the collaboration arrangement may be terminated. If our agreements with collaboration partners are terminated, or we are unable to reach agreements with suitable partners for our drug candidates for which we have not entered into any collaboration arrangements, we may not receive any future R&D funding or milestone or royalty payments with respect to the drug candidate, may face increased costs or may be forced to limit the number of our drug candidates we can commercially develop or the territories in which we commercialize them. We may also become involved in disputes with our collaboration partners relating to intellectual property rights. In addition, our collaboration partners may fail to properly maintain or defend our intellectual property rights or may misappropriate our trade secrets or use our proprietary information in such a way that could jeopardize or invalidate our intellectual property or proprietary information or expose us to litigation and potential liability.

Failure to establish and maintain development and commercialization collaborations with appropriate collaboration partners could have a material adverse effect on our business, financial condition, results of operations and cash flows. We may in the future decide to partner with additional biopharmaceutical companies for development and potential commercialization of therapeutic products. We face significant competition in seeking appropriate collaborators. Our ability to reach a definitive agreement for a partnership will depend, among other things, upon our assessment of the collaborator's resources and expertise, the terms and conditions of the proposed partnership and the proposed collaborator's evaluation of a number of factors. If we fail to enter into partnerships and do not have sufficient funds or expertise to undertake the necessary development and commercialization activities, we may not be able to further develop our drug candidates or bring them to market or continue to develop our candidate pipeline and our business, prospects, financial condition and results of operations may be materially and adversely affected.

We may not have access to all information regarding our drug candidates that are being developed or marketed by partners under collaboration and license agreements and our ability to inform our investors about the status of such product candidates may be limited.

We may not have access to all information regarding our product candidates that are subject to our license and collaboration agreements, including potentially material information about clinical trial design, execution and timing, safety and efficacy, clinical trial results, regulatory affairs, manufacturing, marketing and other areas known by our partners. In addition, we have confidentiality obligations under our collaboration and license agreements. Thus, our ability to keep our investors informed about the status of product candidates subject to those agreements will be limited by the degree to which we are entitled to receive such information and to disclose that information to the public, or our partners provide that information to the public themselves.

We rely on third parties to manufacture our products.

As a company, we have no manufacturing experience. In order to develop products and apply for regulatory approvals, we will need to develop, contract for, or otherwise arrange for the necessary manufacturing capabilities. We expect to rely on others to manufacture the materials we will require for any clinical trials that we initiate. The manufacturing process for any products that we may develop is an element of the regulatory

approval process and we will need to contract with manufacturers who can meet regulatory requirements on an ongoing basis. We may experience difficulty in obtaining adequate manufacturing capacity for our needs. If, in the unlikely event, we are unable to obtain or maintain contract manufacturing for these products, or to do so on commercially reasonable terms, we may not be able to successfully develop and commercialize our products.

To the extent that we enter into manufacturing arrangements with third parties, we will depend on these third parties to perform their obligations in a timely manner and consistent with regulatory requirements. If third party manufacturers with whom we contract fail to perform their obligations, we may be adversely affected in a number of ways, including:

- we may not be able to initiate or continue clinical trials of drug candidates that are under development;
- we may be delayed in submitting applications for regulatory approvals for our drug candidates; and
- we may lose the cooperation of our collaborators.

Risks Relating to Our Intellectual Property

If we are unable to obtain, maintain and protect our intellectual property rights for our drug discovery and platform technologies, including our SBDD platform and StaR® technology, and drug candidates, including our GPCR drug candidates, or if our intellectual property rights are inadequate, our competitive position could be harmed.

Our commercial success will depend in part on our ability to obtain and maintain patent and other intellectual property protection in key markets around the world including the United States, major European territories, China and Asia with respect to our current or any future drug discovery and platform technologies, including our SBDD platform and StaR® technology, and our drug candidates, including our GPCR drug candidates. We rely on a combination of intellectual property rights to support and protect our technologies including trade secret, patent, copyright, trademark and confidentiality. We also rely on licensing and other agreements with employees and third parties relating to ownership, protection and exploitation of intellectual property. All of these options offer only limited protection. We have and continue to undertake an active intellectual property protection program, seeking to protect our proprietary position by filing and prosecuting patent applications in key international jurisdictions related both to our drug discovery and platform technologies, as well as our drug candidates. This program will look to seek protection for any future drug candidates, and any future novel technologies that are important to our business.

Patent protection in the field of biotechnology and pharmacology is highly complex both legally and scientifically and can be uncertain when patent authorities assess patent applications. Even if a patent is granted, it may be contested, circumvented or declared invalid or unenforceable or there may be changes in the patent laws or interpretations in the relevant jurisdiction which could limit our protection. In many jurisdictions, if the various fees payable to governmental patent agencies are unpaid for a length of time, such as maintenance fees and annual fees, it may result in a partial or complete loss of patent rights in the relevant jurisdiction.

Further, the examination process may require us or our licensors or licensees to amend or narrow the claims for our pending patent applications, which may limit the scope of patent protection that may be obtained if these applications issue. The scope of a patent may also be reinterpreted after issuance. The rights already granted under any of our patents and those that may be granted under our future issued patents may not provide us with the proprietary protection or competitive advantages we are seeking or they may undergo amendment thereby limiting their scope. If we or our licensors or licensees are unable to obtain and maintain patent protection for our SBDD platform and StaR® technology, GPCR drug candidates or any other current or future drug discovery and platform technologies or drug candidates, or if the scope of the patent protection obtained is not sufficient, our competitors could develop and commercialize products similar or superior to ours, and our ability to successfully commercialize our products and any other future drug candidates and future technologies may be adversely affected. It is also possible that we or our licensors or licensees fail to identify patentable aspects of inventions made in the course of development and commercialization activities in which we are involved or have an interest before it is too late to obtain patent protection on them.

In addition, some pending applications in our patent portfolio are in very early stages and, with respect to these patent applications, prosecution has yet to commence. The patent prosecution process is expensive, time-consuming and complex, and we may not be able to file, prosecute, maintain, enforce or license all necessary or desirable patent applications or issued patents at a reasonable cost or in a timely manner. It is also possible that during prosecution, the scope of the patent claims initially submitted for examination by the applicable patent

office may be narrowed (sometimes significantly) by the time they issue, if they issue at all. Further, although we enter into non-disclosure and confidentiality agreements with parties who have access to confidential or patentable aspects of our R&D output, such as our employees, collaborators, and other third parties, any of these parties may breach the agreements and disclose such output before a patent application is filed, thereby jeopardizing our ability to seek patent protection. It is also possible that we will fail to identify patentable aspects of our R&D efforts in time to obtain patent protection.

In addition, we own certain provisional patent applications that are not eligible to become issued patents until, among other things, we file a non-provisional patent application within 12 months of filing one or more of our related provisional patent applications. If we do not timely file any non-provisional patent applications, we may lose our priority date with respect to our provisional patent applications and any patent protection on the inventions disclosed in our provisional patent applications. While we intend to timely file non-provisional patent applications relating to our provisional patent applications, we cannot predict whether any of our future patent applications will result in the issuance of patents that effectively protect our drug discovery and platform technologies and drug candidates or if any of our issued patents or if any of our licensors' issued patents will effectively prevent others from commercializing competitive products.

Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications are often not published until months after filing or in some extremely rare cases not until they are issued as a patent. Therefore, we or our licensors cannot be certain that we were the first to make the inventions claimed in our owned or licensed patents, patents we own in the future, or pending patent applications, or that we or our licensors were the first to file for patent protection of those inventions. Moreover, our pending applications cannot be enforced against third parties practicing the inventions claimed in those applications unless and until a patent is granted from those applications.

In addition, the issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, and, therefore, issued patents that we own or license from third parties or own in the future may be challenged in the competent courts or patent offices. These challenges may also be brought as a counterclaim in response to a claim of infringement that we or one of our licensors asserts or by way of declaratory relief of non-infringement in certain territories.

Patent challenges may result in the loss of patent protection, the narrowing of claims in those patents or the invalidity or unenforceability of those patents, which could limit our ability to stop others from using or commercializing similar or identical products, or limit the duration of the patent protection for our drug discovery and platform technologies, including our SBDD platform and StaR® technology, and drug candidates, including our GPCR drug candidates, and any other future technologies and drug candidates. The outcome following legal assertions of invalidity and unenforceability is unpredictable. If a third party were to prevail on a legal assertion of invalidity and/or unenforceability, we would lose at least part, and perhaps all, of specific patent protection rights which could impact our drug discovery and platform technologies, including our SBDD platform and StaR® technology, and drug candidates, including our GPCR drug candidates and any other future drug candidates.

If we are unable to obtain, maintain, and protect our intellectual property our competitive advantage could be harmed, and it could result in a material adverse effect on our business, financial condition, and the results of operations and prospects.

If we are unable to protect the confidentiality of our proprietary information and know-how, the value of our technology and products could be adversely affected.

In addition to seeking patent protection, we also rely on other proprietary rights, including protection of trade secrets, know-how and confidential and proprietary information. To maintain the confidentiality of our trade secrets and proprietary information, we enter into confidentiality agreements with our employees, consultants, collaborators, licensing partners and other third parties who have access to our trade secrets and proprietary information. These agreements require that all confidential information made known to the individual by us during the course of the individual's relationship with us be kept confidential and not disclosed to unauthorized third parties. Our agreements with relevant employees also provide that any inventions conceived by the individual in the course of rendering services to us shall be our exclusive property. However, we may not obtain these agreements in all circumstances, and individuals with whom we have these agreements may not comply with their terms. The assignment of intellectual property rights may not be self-executing or the assignment agreements may be breached, and we may be forced to bring claims against third parties, or defend

claims that they may bring against us, to determine the ownership of what we regard as our intellectual property. In addition, in the event of unauthorized use or disclosure of our trade secrets or proprietary information, these agreements, even if obtained, may not provide meaningful protection, particularly for our trade secrets, inventions published before becoming the subject of a patent filing, or other confidential information. Adequate remedies may not exist in the event of unauthorized use or disclosure of our confidential information including a breach of our confidentiality agreements. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive, and time consuming, and the outcome is unpredictable. In addition, courts in certain jurisdictions may be less willing to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor or other third party, we would have no right to prevent them from using that technology or information to compete with us. The disclosure of our trade secrets or the independent development of our trade secrets by a competitor or other third party would impair our competitive position and may materially harm our business, financial condition, results of operations and prospects.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which would be uncertain and could harm our business.

Our commercial success depends on our ability and the ability of our current or future collaborators to develop, manufacture, market and sell current and future drug candidates, and to use our related proprietary technologies without infringing, misappropriating or otherwise violating the intellectual property and proprietary rights of third parties. The biotechnology and pharmaceutical industries are characterized by extensive litigation regarding patents and other intellectual property rights. We may become party to, or threatened with, adversarial proceedings or litigation regarding intellectual property rights with respect to our current and any other future technologies including our drug discovery techniques and drug candidates. To the extent that our employees, consultants or contractors use technology or know-how owned by third parties in their work for us, disputes may arise between us and those third parties as to the rights in related inventions. If we are found to infringe a third party's intellectual property rights, and we are unsuccessful in demonstrating that those intellectual property rights are invalid or unenforceable, we could be required to obtain a license from such third party to continue developing, manufacturing and commercializing current and future drug candidates. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors and other third parties access to the same technologies licensed to us, and it could require us to make substantial licensing, royalty and other payments. We also could be forced, including by court order, to cease using our drug discovery and platform technologies, including our SBDD platform and StaR® technology, or to cease developing, manufacturing, and/or commercializing current or future drug candidates. In addition, in any such proceeding or litigation, if we are found to infringe another's intellectual property rights we could be found liable for significant monetary damages, including in some jurisdictions punitive or treble damages and attorneys' fees. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and prospects. Any claims by third parties that we have misappropriated their confidential information or trade secrets could have a similar material adverse effect on our business.

If we breach any of our license agreements or collaboration agreements, it could have a material adverse effect on our commercialization efforts with respect to our drug discovery and platform technologies and drug candidates.

We are reliant on licenses to certain patent rights and proprietary technology from third parties that are important or necessary to the development and commercialization of our drug discovery and platform technologies and drug candidates. For example, we have licensed from the University of Zurich certain patents and patent applications related to the Cellular High-throughput Encapsulation Solubilization and Screening, or CHESS, and Saccharomyces cerevisiae-Based Receptor Evolution, or SaBRE, technologies, and we may enter into additional licenses in the future. These and other licenses may not provide exclusive rights to use such intellectual property and technology in all relevant fields of use and in all territories in which we may wish to develop or commercialize our products in the future. As a result, we may not be able to prevent competitors from developing and commercializing competitive products in territories included in all our licenses.

In addition, we may not have the right to control the preparation, filing, prosecution, maintenance, enforcement and defense of patents and patent applications covering the technology that we license from or to third parties. For example, as further discussed in the section entitled "Business—Agreements with Business Partners," under certain circumstances, we have granted counterparties the first right to enforce, maintain or defend our intellectual property rights with respect to certain intellectual property rights licensed or developed under our agreements. Therefore, we cannot be certain that these patents and patent applications will be prepared,

filed, prosecuted, maintained, enforced, and defended in a manner consistent with the best interests of our business. If these counterparties fail to prosecute, maintain, enforce and defend these patents, our rights may be reduced or eliminated and our ability to develop and commercialize drug candidates that are the subject of those agreements could be adversely affected. Furthermore, our owned and in-licensed patents may be subject to a reservation of rights by one or more third parties.

Certain of our license agreements also require us to meet development thresholds to maintain the license, including establishing a set timeline for developing and commercializing products. If we fail to comply with the obligations under our license agreements, including payment terms and diligence terms, our counterparties may have the right to terminate our agreements, in which event we may lose certain of our rights or face other penalties or adverse consequences under our agreements. Such an occurrence could materially adversely affect the value of the technology or drug candidate being developed under one of those agreements. Termination of our license agreements or reduction or elimination of our rights under them may result in our having to negotiate a new or reinstated agreement, which may not be available to us on equally favorable terms, or at all, which may mean we are unable to develop or commercialize the affected drug candidate or cause us to lose our rights under the agreement, including our rights to intellectual property or technology important to our development programs.

In addition, disputes may arise regarding intellectual property the subject of a licensing agreement, including:

- the scope of rights that we granted or were granted under the license agreement and other interpretation-related issues;
- the extent to which our technology and processes infringe on intellectual property of the licensor or licensee that is not subject to the licensing agreement;
- the sublicensing of patent and other rights under future collaborative development relationships;
- our diligence obligations under the license agreement and what activities satisfy those diligence obligations;
- the impact of improvements over our ability to continue to develop and exploit our existing technologies;
- the inventorship and ownership of inventions and know-how resulting from the joint creation or use of intellectual property by our licensors and us and our partners; and the priority of invention of patented technology.

If disputes over intellectual property that we have licensed prevent or impair our ability to maintain our current licensing arrangements on commercially acceptable terms, we may be unable to successfully develop and commercialize the affected drug candidates, which could have a material adverse effect on our business, financial conditions, results of operations and prospects.

Further, the agreements under which we currently license intellectual property or technology from or to third parties are complex, and certain provisions in such agreements may be susceptible to multiple interpretations. The resolution of any contract interpretation disagreement that may arise could narrow what we believe to be the scope of our rights to the relevant intellectual property or technology, increase what we believe to be our financial or other obligations under the relevant agreement or decrease what we believe to be our financial or other entitlements under the relevant agreement, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be successful in obtaining necessary rights to our drug discovery and platform technologies, including our SBDD platform and StaR® technology, and drug candidates, including our GPCR drug candidates, and any future drug candidates we may develop, or obtain through acquisitions and in-licenses.

The licensing or acquisition of third party intellectual property rights is a competitive area, and several more established companies may pursue strategies to license or acquire third party intellectual property rights that we may consider attractive. These established companies may have a competitive advantage over us due to their size, capital resources and greater clinical development and commercialization capabilities. In addition, companies that perceive us to be a competitor may be unwilling to assign or license rights to us. We also may be unable to license or acquire third party intellectual property rights on terms that would allow us to make an appropriate return on our investment.

If we are unable to successfully obtain rights to required third party intellectual property rights or maintain the existing intellectual property rights we have, we may have to abandon development or commercialization of the relevant program or drug candidate or may be required to expend significant time and resources to redesign our current and future technology or drug candidates or method for manufacturing them, all of which may not be feasible on a technical or commercial basis. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and prospects.

Patent terms may be inadequate to protect our competitive position on our products for an adequate amount of time, and our drug discovery and platform technologies, including our SBDD platform and StaR® technology, and drug candidates, including our GPCR drug candidates and any other future drug candidates may face competition sooner than anticipated.

Given the amount of time required for the development, testing and regulatory review of new drug candidates, patents protecting those candidates might expire before or shortly after such candidates are commercialized. We expect to seek patent term adjustments or extensions of patent terms for our owned and licensed patents and any patents we own in the future where such extensions may be available when we are prosecuting patents. However, the applicable authorities may not agree with our assessment of whether such extensions are available, and may refuse to grant extensions to our patents, or may grant more limited extensions than we request. We may not be granted an extension because of, for example, failure to exercise due diligence during the testing phase or regulatory review process, failure to apply within applicable deadlines, failure to apply prior to expiration of relevant patents or otherwise failing to satisfy applicable requirements. If we are unable to obtain patent term extension or the term of any such extension is less than we request, our competitors may be able to take advantage of our investment in development and clinical trials by referencing our clinical and preclinical data and launch their product earlier than might otherwise be the case, which could result in a material adverse effect on our business, financial condition, results of operation and prospects.

We may not be able to protect our intellectual property and proprietary rights throughout the world.

Filing, prosecuting and defending patents on our drug discovery and platform technologies, including our SBDD platform and StaR® technology, and drug candidates, including our GPCR drug candidates, and all other future drug candidates throughout the world would be prohibitively expensive, and our, our licensors' and our licensees' intellectual property rights in some countries outside the United States and Europe can be less extensive than those in the United States or in Europe. In addition, the laws and practices of some countries do not protect intellectual property rights to the same extent as federal and state laws in the United States and laws in certain European countries. Consequently, we and our licensors and licensees may not be able to prevent third parties from practicing our and our licensors' and licensees' inventions in all countries outside the United States and Europe, or from selling or importing products made using our and our licensors' and licensees' inventions in and into the United States, Europe or other jurisdictions. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products, and may export otherwise infringing products to territories where we or our licensors or licensees have patent protection but where enforcement is not as strong as that in the United States and Europe. These products may compete with our products in jurisdictions where we do not have any issued patents and our patent claims or other intellectual property rights may not be effective or sufficient to prevent them from so competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets and other intellectual property protection, particularly those relating to biopharmaceuticals, which could make it difficult for us to stop the infringement of our or our licensors' patents or marketing of competing products in violation of our intellectual property and proprietary rights generally in those countries. Proceedings to enforce our intellectual property and proprietary rights could result in substantial cost and divert our efforts and attention from other aspects of our business, could put our and our licensors' and licensees' patents at risk of being invalidated or interpreted narrowly and our and our licensors' and licensees' patent applications at risk of not issuing and could provoke third parties to assert claims against us or our licensors and licensees. We or our licensor and licensees may not prevail in any lawsuits that we or our licensors or licensees initiate, and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to enforce our intellectual property and proprietary rights around the world may be inadequate to obtain a commercial advantage from the intellectual property we develop or license.

Changes to the patent laws could diminish the value of patents in general, thereby impairing our ability to protect our drug discovery and platform technologies, including our SBDD platform and StaR® technology, and drug candidates, including our GPCR drug candidates.

As is the case with other biopharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biopharmaceutical industry involves both technological and legal complexity and is therefore costly, time consuming and inherently uncertain. Changes in either the patent laws or interpretation of the patent laws in relevant jurisdictions could increase the uncertainties and costs, such as those surrounding the prosecution of our patent applications and the validity, scope, enforcement or defense of our issued patents. Depending on future legislative developments in relevant jurisdictions, the laws and regulations governing patents could change in unpredictable ways that would weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future.

We may become involved in lawsuits to protect or enforce our intellectual property, which could be expensive, time-consuming and unsuccessful and have a material adverse effect on the success of our business.

Competitors may infringe our owned or licensed patents or misappropriate or otherwise violate our intellectual property rights. We may also be required to defend against claims of infringement and our owned and licensed patents and any patents we own in the future may become involved in priority or other intellectual property related disputes. To counter infringement or unauthorized use, litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity, enforceability and scope of our own intellectual property rights or the proprietary rights of others.

Also, third parties may initiate legal proceedings against us or our licensors or licensees to assert that we are infringing their intellectual property rights or to challenge the validity, enforceability or scope of our owned or licensed intellectual property rights. If our defenses to these claims fail, in addition to requiring us to pay monetary damages, a court could prohibit us from using technologies or features that are essential to our drug discovery and platform technologies, including our SBDD platform and StaR® technology, and drug candidates, including our GPCR drug candidates, if such technologies or features are found to incorporate or be derived from the trade secrets or other proprietary information of third parties. An inability to incorporate such technologies or features would have a material adverse effect on our business and may prevent us from using our drug discovery and platform technologies and/or successfully commercializing our drug candidates and any other future drug candidates. In addition, we may lose valuable intellectual property rights or personnel as a result of such claims.

Proceedings relating to intellectual property claims can be expensive and time consuming. Many of our current and potential competitors have the ability to dedicate substantially greater resources to conduct intellectual property related litigations or proceedings than we can. We may not have sufficient financial or other resources to conduct such litigation or proceedings adequately. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Litigation and other intellectual property related proceedings could result in substantial costs and diversion of management resources, which could harm our business and financial results. In addition, in an infringement proceeding, a court may decide that a patent owned by or licensed to us is invalid or unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. An adverse result in any litigation or other intellectual property related proceeding could put one or more of our patents at risk of being invalidated, held unenforceable or interpreted narrowly.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. Any of the foregoing may have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Related to Managing Growth and Other Risks Related to Our Business

We may not always be successful in securing, retaining and training appropriate human resources.

Our business activities are strongly dependent on the current management team and senior scientists, many of whom have years of experience in the industry. In order to attract and retain highly talented personnel in all areas of our business, we need to maintain a competitive compensation system. While we continually strive to attract, and ensure development of, our human resources, we may not always be successful in hiring and retaining appropriate personnel or the costs involved in maintaining a competitive compensation system may be high. Further, identifying a substance which may develop into a drug candidate with commercial application

requires high level of skills and expertise regardless of whether any of the drug candidates are clinically tested or commercialized. As such, our success depends in part on our continued ability to attract, retain and motivate highly qualified management and clinical and scientific personnel.

Despite our efforts to retain valuable employees, members of our management team and senior scientists may terminate their employment with us at any time. Further, we do not maintain "key person" insurance for any of our executives or other employees. If qualified personnel cannot be secured or trained as planned, or if we lose the services of highly qualified employees, in particular to competitors, we could suffer through competitors gaining a competitive advantage, which could materially adversely affect our results of operations and financial condition.

In pursuit of our vision to be an integrated and global company, we must find the right personnel to fill positions across our operations and research functions. We may experience growth in the number of our employees and the scope of our operations. This growth will place a strain on our management, operations and financial resources, and we may have difficulty managing this future potential growth. Moreover, no assurance can be provided that we will be able to attract new employees to assist in our growth. Many of the other biotech and pharmaceutical companies and academic institutions that we compete against for qualified personnel have greater financial and other resources, different risk profiles and a longer history in the industry than we do. We also may employ consultants or part-time and contract employees. There can be no assurance that these individuals are retainable. While we have been able to attract and retain skilled and experienced personnel and consultants in the past, no assurance can be given that we will be able to do so in the future.

We are exposed to risks related to international operations.

We currently have operations located in Japan and the U.K., with the significant portion of our assets and core operations located in the U.K. If we are successful in further developing our business, we anticipate expanding our operations into other countries in the future. The timing of this depends upon the success of developing our pipeline. Accordingly, our business is and will continue to be subject to the risks generally associated with international business operations, including the following:

- exposure to different regulatory requirements and unexpected changes therein;
- limited protection for intellectual property rights in some countries;
- political and economic instability or slowdown and social or other turmoil;
- trade restrictions or changes in tariffs;
- impositions or increases of investment and other restrictions by foreign governments;
- foreign currency fluctuations, which could result in increased operating expenses and reduced profits or greater losses;
- changes in social, political and economic conditions, or the relationship between our places of business (including Japan and the U.K.) and other relevant countries and regions; and
- business interruptions and difficulties resulting from geo-political actions, including war and terrorism, workforce uncertainties, or natural disasters, including earthquakes, volcanic eruptions, typhoons, hurricanes, floods and fires, in particular if we were to suffer catastrophic losses to our R&D facilities.

Adverse developments in the above and other factors associated with international business operations may have a material adverse effect on our business, results of operations and financial condition.

Our results of operations and financial condition may be adversely affected by foreign exchange fluctuations.

We have expanded our business activities globally and have significant exposure to currency fluctuations relative to our reporting currency, the yen. Financial agreements in our industry are usually denominated in U.S. dollars, and most of our current revenue-generating contracts are in U.S. dollars. Additionally, with the location of our main R&D activities in the U.K., our cost base is very heavily weighted towards the pound. While we may endeavor to hedge foreign currency transactions, sudden fluctuations in the foreign currency exchange rates beyond our expectations can have a significant impact on our results of operations and financial condition. Further, we do not hedge foreign currency translation risk and therefore our financial statements as reported are exposed to movements in particular in the value of the pound and U.S. dollar versus Japanese yen, which may affect our reported financial results. See "Recent Business—Factors affecting our results of operations—Foreign currency exchange rate fluctuations."

We face risks of disputes or litigation, whether with or without merit, in the course of our business.

We face risks of disputes or litigation, whether with or without merit, in the course of our business, in particular to protect or enforce our patents or other intellectual property. Although we strive to ensure that we comply with all laws and regulations in the jurisdictions in which we operate, claims may be brought against us for infringement of intellectual property rights and other matters. Due to the inherent uncertainty of litigation and legal proceedings, it is possible that we will incur liabilities as a consequence of the proceedings and claims brought against us, which may materially adversely affect our results of operations and financial condition.

If we become subject to product liability claims in our operations, our business, reputation, results of operations and financial condition may be materially adversely affected.

We are subject to potential product liability in relation to any of our drug candidates that are under clinical trials. In addition, we may become subject to product liability claims if we commercialize any drug products. For example, we may be sued if any product we develop allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability and a breach of warranties. There may be patients who may have suffered or claim to have suffered side effects resulting in harm to their health. Regardless of merit or eventual outcome, product liability claims may result in:

- significant demand in time and costs to defend the related litigation;
- withdrawal of clinical trial patients;
- initiation of investigation by regulators;
- product recalls, withdrawals or labeling, marketing or promotional restrictions;
- injury to our reputation and negative publicity; and
- substantial monetary awards to clinical trial participants or patients.

Our inability to obtain and retain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of drug products we develop. Even with such insurance, any claim that may be brought against us could result in a court judgment or settlement in an amount that is not covered, in whole or in part, by our insurance or that is in excess of the limits of our insurance coverage. The insurance policies also may have exclusions, and we may become subject to a product liability claim for which we have no coverage. If we become obliged to pay any amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, we may not have, or be able to obtain, sufficient capital to pay such amounts. Any of the foregoing matters could have a material adverse effect on our results of operations, financial condition and cash flows.

If our internal controls prove to be ineffective, our business, results of operations and financial condition may be materially adversely affected.

We have established risk management, compliance and internal control systems and procedures, including those that are designed to comply with the standards for evaluation and audit of the internal control system related to financial reporting in accordance with the FIEA (so-called "J-SOX"), and other applicable laws and regulations. Certain areas within the risk management, compliance and internal control systems may require constant monitoring, maintenance and continual improvements by our senior management and staff. If the efforts to maintain these systems are found to be ineffective or inadequate, we may incur significant losses or be subjected to inappropriate activities such as fraudulent acts or corruptive practice (whether by its employees or third parties), or be found not to be in compliance with laws and regulations, which may in turn subject us to sanctions or penalties (which can, depending on culpability, be substantial), and our business and reputation, as well as our results of operations and financial condition, may be materially adversely affected. Any internal control system, no matter how sophisticated in design, still contains inherent limitations caused by misjudgment or fault, or deliberate acts of misconduct or fraud. As such, there can be no assurance that our risk management, compliance and internal control systems are always adequate or effective notwithstanding our efforts, and any failure to address any internal control matters and other deficiencies could result in investigations and/or disciplinary actions or prosecution being taken against us and/or our employees, disruption to the risk management and/or compliance systems, and a material adverse effect on our reputation, results of operations and financial condition.

Failures in our IT systems may materially adversely affect our operations.

We rely on various information technology networks and systems to process and store electronic information such as intellectual properties. This includes research results and clinical data and other sensitive data. Our information technology networks and systems may be vulnerable to damage, shutdowns or other disruptions due to computer viruses, errors or misconduct by employees or third parties, hacking, power shortages and outages and natural disasters. Such incidents either with us or with our business partners could disrupt our business operations and delay the development of drug candidates and require extensive efforts and costs to remedy. It is possible this will have a significant impact on our reputation, financial position and operating results.

The results of the United Kingdom's withdrawal from the European Union may have a negative effect on global conditions, financial markets and our business.

Our wholly-owned subsidiary, Heptares, which represents the group's core operating assets, is located in Cambridge, U.K., and the bulk of our main R&D activities are conducted at our Cambridge facility. On June 23, 2016, the United Kingdom voted in a referendum to leave the European Union (so-called "Brexit"), which resulted in the notice under Article 50 of the Treaty on European Union being filed on 29 March 2017. The U.K. Parliament and European Union both ratified the withdrawal agreement in January 2020 and the U.K. left the EU on January 31, 2020. This began a transition period that is set to end on December 31, 2020, during which the U.K. and EU will negotiate their future relationship. Significant uncertainty about the future relationship between the United Kingdom and the EU still exists, including with respect to the laws and regulations. The overall effect of Brexit remains uncertain, and Brexit has and may continue to contribute to volatility in the prices of securities of companies located in Europe and in currency exchange rates, including the valuation of the euro and pound in particular. Any one of these factors, or the combination of more than one of these factors, could negatively affect such foreign securities markets and the price of securities therein. Brexit has created additional uncertainties that may ultimately result in new regulatory costs and challenges for companies, increased restrictions on imports and exports throughout Europe and increased restrictions on labor markets which could adversely affect our ability to conduct and expand our operations in Europe and which may have an adverse effect on our business, financial condition and results of operations.

The ongoing COVID-19 pandemic may place constraints on our activities and negatively affect our business.

In December 2019, a novel strain of coronavirus ("COVID-19") was first identified in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The outbreak of COVID-19 has resulted in the implementation of significant governmental measures, including lockdowns, closures, quarantines, and travel bans, intended to control the spread of the virus.

The COVID-19 pandemic may constrain the ability of us and our business partners and suppliers to conduct usual activities, including clinical trials and research activities, for a prolonged period of time, including due to shutdowns that may be requested or mandated by governmental authorities. Such measures taken in response to COVID-19 may adversely impact our operations and are likely to be beyond our control.

Further, the outbreak of COVID-19 is impacting the global economy, as a result of which our business and those of our business partners and suppliers may be adversely affected. Also, global capital markets and financial markets have experienced and may continue to experience negative investor sentiment, significant volatility and liquidity disruptions. This may adversely affect our ability to access capital markets or banks for funding, which could in turn have a negative effect on our liquidity or funding costs. In addition, the nature and extent of the effect of the outbreak on our performance and outlook remains unknown. Our Share price may be adversely affected in the short to medium term by the economic uncertainty caused by COVID-19.

We have recently changed our fiscal period end date, as a result of which our financial statements for the two most recent fiscal periods are not comparable with those of the immediately preceding fiscal period.

Until March 31, 2018, our fiscal periods ended on March 31 of each year. We have since changed our fiscal year end to December 31, as a result of which the following fiscal period was a nine-month period which ended on December 31, 2018. As such, even though our most recent period ended December 31, 2019 was a twelve-month period, the comparative information for the preceding fiscal period included in the relevant financial statements was for a nine-month period ended December 2018. In addition, even though the prior fiscal period ended December 31, 2018 was a nine-month period, the comparative information for the preceding fiscal period

included in the relevant financial statements was for a twelve-month period ended March 31, 2018. As a result, our operating results for these fiscal periods as shown in the financial statements included in this Offering Circular are for periods of different durations and are not directly comparable. Investors are advised to exercise caution when interpreting our financial results.

Comparability of interim and annual financial and operating information included in this Offering Circular

This Offering Circular contains our unaudited interim condensed consolidated financial statements and financial and operating information as at the dates and for the periods indicated in this Offering Circular, which have not been audited by our independent auditor. In addition, quarterly financial and operating information may reflect temporary fluctuations that are not indicative of longer-term trends. Accordingly, our unaudited interim condensed consolidated financial statements and financial and operating information contained in this Offering Circular are not wholly comparable with our annual consolidated financial statements and financial and operating information contained in this Offering Circular and should not be so compared.

Considerations Relating to the Shares and the Bonds

Future issuances and sales of shares of our common stock or rights to purchase common stock, including pursuant to our stock-based compensation plans, could result in an additional dilution of the percentage ownership of our shareholders and could cause the price of shares of our common stock to fall.

We may need significant additional capital in the future to continue our planned operations. To raise capital, we may issue and sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. After the expiration of lock-up period provided in the Subscription and Purchase Agreement, we will be able to issue and sell additional common stock within the unissued portion of our authorized share capital, generally without any shareholder vote. If we issue and sell common stock, convertible securities or other equity securities in more than one transaction, investors may be materially diluted by subsequent issuances and sales. Such sales also may result in material dilution to our existing shareholders, or in rights, preferences and privileges senior to those held by holders of shares of our common stock.

Pursuant to our stock option plan and other stock-based compensation plans, including our restricted stock unit plan (RSU) and performance share unit plan (PSU), we have granted, or may grant in the future, common stock or stock acquisition rights to our directors, executive officers and employees. Future issuances of common stock pursuant to exercises of stock acquisition rights granted under the stock option plan or pursuant to such other stock-based compensation plans may lead to dilution to our existing shareholders and have an adverse effect on the market price of our common stock.

The price of our Shares, like that of other biopharmaceutical companies and Japanese companies, is volatile, and may be lower than expected, which could make it more difficult for a shareholder to liquidate its investment and could therefore increase its risk of suffering a loss.

The market price of our common stock, like that of the securities of many other biopharmaceutical companies, has been and is likely to continue to be highly volatile. Historically the trading prices of the Shares have experienced rapid and significant fluctuations. For example, during 2019, the daily closing price of shares of our common stock on the Tokyo Stock Exchange ranged from ¥864 to ¥2,717 per share. Many factors can affect the market price of the Shares, including fluctuations in our operating results, announcements of collaborations, results of clinical trials, technological innovations or new drug products being developed by us or our competitors, governmental regulation, regulatory approval, developments in patent or other proprietary rights, public concern regarding the safety of our drug products and general market conditions. Moreover, the market price of shares of our common stock is volatile due to significant volume and price fluctuations in the Japanese stock market in general. During periods of volatility, an investor may only be able to sell our common stock at a loss, if at all.

Listing on the Mothers Market of the Tokyo Stock Exchange may lead to short-term volatility and significant fluctuations in our stock value.

The Mothers Market contains significant volatility and instability, which may negatively impact the price of our stock. The Tokyo Stock Exchange is comprised of five sections: the First Section, the Second Section, the Mothers Market, JASDAQ and Tokyo Pro Market. The First Section and the Second Section represent large to medium-sized companies and are the top ranked markets in terms of size and liquidity. The Mothers Market,

however, contains emerging growth companies, is smaller in terms of size and liquidity, and the overwhelming majority of the trading value is comprised of retail investors. Listing on the Mothers Market may lead to short-term volatility and significant fluctuations in our stock value, which may be compounded by the significant retail investor base in our shares.

Daily price range limitations imposed by the Tokyo Stock Exchange may prevent you from selling our shares at a particular price on a particular trading day, or at all.

Share prices on the Tokyo Stock Exchange are determined on a real-time basis by the balance between bids and offers. The Tokyo Stock Exchange is an order-driven market without specialists or market makers to guide price formation. To prevent excessive volatility, the exchange sets daily upward and downward price range limitations for each listed stock, based on the previous day's closing price or special quote. Although transactions may continue at the upward or downward limit price if the limit is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell Shares at a price above or below the relevant daily limit may not be able to effect a sale at such price on a particular trading day, or at all.

Rights of shareholders under Japanese law may be different from rights of shareholders in other jurisdictions.

Our articles of incorporation and the Companies Act govern our corporate affairs. Legal principles relating to matters such as the validity of corporate procedures, fiduciary duties of directors and executive officers and shareholders' liabilities and rights under Japanese law may be different from, or less clearly defined than, those that would apply to a company incorporated in another jurisdiction. In particular, shareholders' rights under Japanese law may not be as extensive as shareholders' rights under the laws of other countries. For example, under the Companies Act, only holders of 3 per cent or more of our total voting rights or our outstanding shares are entitled to examine our accounting books and records. Furthermore, there is a degree of uncertainty as to the duties of the directors of a Japanese joint stock corporation (*kabushiki kaisha*) in the context of an unsolicited takeover bid, and such uncertainty may be more pronounced than that in other jurisdictions.

We do not anticipate paying any cash dividends on our capital stock in the foreseeable future.

We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. As a result, capital appreciation, if any, of our common stock may be the sole source of gain for the foreseeable future for purchasers of the Offered Shares.

There are some limitations on the anti-dilution protection for Bondholders

The Conversion Price at which the Stock Acquisition Rights can be exercised will be adjusted upon certain specified events that are expected to have a dilutive impact on the price and value of the Shares. However, the Conditions do not provide for adjustments to the Conversion Price in all circumstances. Events in respect of which no adjustment to the Conversion Price is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

Future changes to Japanese law may have a mandatory effect under Japanese law

Future changes to provisions relating to Stock Acquisition Rights and/or the Shares may have a mandatory effect under Japanese law. In connection with the Bonds, Bond Condition 15.2 provides for amendments to be made to the Bond Conditions relating to the Stock Acquisition Rights where those amendments become necessary in order to comply with mandatory provisions of Japanese law even if those amendments are materially prejudicial to the interests of Bondholders.

A trading market for the Bonds may not develop

Prior to the issue of the Bonds, there has been no trading market for the Bonds. Although application will be made for the listing and quotation for of the Bonds on the Official List of the SGX-ST, there can be no assurance that an active trading market for the Bonds will develop. Furthermore, there can be no assurance that the Bonds will not trade at prices lower than the initial offer price.

The trading price of the Bonds will be affected by fluctuations in the trading price of the Shares

The trading price of the Bonds is expected to be affected by fluctuations in the trading price of the Shares and it is impossible to predict whether the trading price of the Shares will rise or fall. Any decline in the trading

price of the Shares will have an adverse effect on the trading price of the Bonds. Trading prices of the Bonds and Shares will be influenced by, among other things, our financial position and results of operations including the reporting of our financial results.

Limitations on the Timing of Exercise of Stock Acquisition Rights

Under the current handling rules of JASDEC and market practices, it will take a minimum of three business days for Shares to be delivered to Bondholders upon their exercise of the Stock Acquisition Rights. The Stock Acquisition Rights in respect of the Bonds may not be exercised during any such period in which the relevant Stock Acquisition Date (as defined in the Bond Conditions) (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period. Bondholders should therefore note in particular that exercises of Stock Acquisition Rights are restricted during the period surrounding any record date in respect of Shares set by us.

No cash amounts will be payable in respect of non-unit shares

The rights of holders of Shares not constituting one whole unit are limited under our Articles of Incorporation and may not be tradable on the stock exchange on which they are listed. Currently, our Articles of Incorporation provide that one unit comprises 100 Shares. Since the introduction of the Act on Book-Entry Transfer of Company Bonds, Shares, etc. of Japan (Act No. 75 of 2001, as amended) (including the regulations promulgated thereunder, the "Book-Entry Act"), making it possible for listed shares of Japanese companies comprising less than one full unit to be delivered through the JASDEC book-entry transfer system, JASDEC's guidance requires that stock acquisition rights issued by Japanese companies should be structured such that shares that constitute less than one full unit are delivered to the account of the exercising holder, instead of being automatically sold back to the issuer of such stock acquisition rights and receiving cash amounts in respect of them. Accordingly, Bondholders exercising their Stock Acquisition Rights will not receive cash amounts in respect of Shares that constitute less than one full unit.

Shares that constitute less than one full unit may not be traded on the stock exchange on which they are listed. Accordingly, a holder of Shares that constitute less than one full unit will need to request to us to purchase such Shares in accordance with the Companies Act, the rules of the JASDEC book-entry transfer system, our Articles of Incorporation and Share Handling Regulations if they would like us to do so. Alternatively, a holder may require us to sell a sufficient number of Shares in order to make its holding a full unit in accordance with the Companies Act, the rules of the JASDEC book-entry transfer system, and our Articles of Incorporation and Share Handling Regulations.

The Bonds are unsecured

The Bonds do not benefit from any security, and the Bondholders' claims will rank behind secured creditors in the event of our liquidation or bankruptcy.

TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions of the Bonds will, subject to completion and amendment and save for the paragraphs in italics, be endorsed on the Certificates (as defined herein) evidencing the Bonds.

The ¥16,000,000,000 0.50 per cent Convertible Bonds due 2025 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the "Bonds", which term shall, unless the context requires otherwise, include the Stock Acquisition Rights (as defined below) incorporated in the Bonds) issued by Sosei Group Corporation (the "Company") are constituted by a trust deed (the "Trust Deed") dated July 16, 2020 made between the Company and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include its successors as trustee under the Trust Deed, as trustee for the holders of the Bonds). Each Bond is issued in the denomination of ¥10,000,000 and a stock acquisition right (*shinkabu yoyakuken*) (the "Stock Acquisition Right"), entitling the Bondholder (as defined in Condition 1.2) to acquire fully paid and non-assessable shares of common stock of the Company (the "Shares") as described below, is incorporated in each Bond as an integral part thereof. Copies of the Trust Deed and of the agency agreement (the "Agency Agreement") dated July 16, 2020 relating to the Bonds among, *inter alios*, the Company, the Trustee, Mizuho Trust & Banking (Luxembourg) S.A. as principal agent (the "Principal Agent") and registrar (the "Registrar") and the other agents referred to therein are available for inspection by Bondholders by prior appointment during normal business hours at the specified office for the time being of the Trustee, being at the date of issue of the Bonds at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, and at the specified office(s) of each of the Principal Agent and the Agents (as defined below). References herein to the "Agents" shall, unless the context otherwise requires, include the Principal Agent and any other or further agent(s) appointed by the Company in connection with the Bonds for the purpose of making payments and transfers and acceptance of notices of the exercise of the Stock Acquisition Rights from time to time.

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of and are bound by all those provisions of the Agency Agreement applicable to them. The statements in these terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed. Any terms defined in the Trust Deed and not in these Conditions shall have the same meanings when used herein except where otherwise indicated.

1 Form, Denomination, Issue Price, Title, Status, Transfers of Bonds and Relationship between Bonds and Stock Acquisition Rights

1.1 Form, Denomination and Issue Price

The Bonds are issued in registered form in the denomination of ¥10,000,000 each and are not exchangeable for bonds with stock acquisition rights in bearer form. The issue price of the Bonds (excluding the Stock Acquisition Rights) is 100.0 per cent of the principal amount of the Bonds. The issue price of the Stock Acquisition Rights is zero.

A bond certificate (each, a "Certificate") will be issued in respect of each Bond. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the "Register") of holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1.

1.2 Title

Title to the Bonds will pass only by transfer and registration of title in the Register. The holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

In these Conditions, a "Bondholder" and (in relation to a Bond) "holder" mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

Upon issue, the Bonds will be evidenced by a global certificate (the "Global Certificate") deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds evidenced by

the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Bonds.

1.3 Status

The Bonds are direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

1.4 Transfers of Bonds

1.4.1 *The Register*: The Company will cause to be kept at the specified office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers and redemptions of the Bonds and exercise of the Stock Acquisition Rights.

Each Bondholder shall be entitled to receive one Certificate in respect of each Bond held by such holder.

1.4.2 *Transfers*: A Bond may be transferred upon the surrender (at the specified office(s) of the Principal Agent, the Registrar or any other Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Company), duly completed and executed and any other evidence as the Registrar or the relevant Agent (as the case may be) may reasonably require. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar, the Principal Agent and the Trustee. A copy of the current regulations will be made available during normal business hours by the Principal Agent or the Registrar to any Bondholder upon written request.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form".

1.4.3 *Delivery of New Certificates*: Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within five Transfer Business Days (as defined below) of receipt of the duly completed and signed form of transfer, and surrender of the original Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address so specified (at the Company's expense) unless such holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Agent (as the case may be).

1.4.4 *Formalities Free of Charge*: Registration of a transfer of Bonds and issuance of Certificates in relation thereto shall be effected without charge by or on behalf of the Company, the Registrar or the relevant Agent, but upon (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Agent may require); and (ii) the Company and the Registrar or the relevant Agent being reasonably satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer*: No Bondholder may require the transfer of a Bond to be registered:

(i) during the period of seven days ending on (and including) the due date for redemption pursuant to Condition 7.1, 7.5, 7.6 or 7.7;

(ii) during the period of seven days ending on (and including) any Interest Record Date;

(iii) after a Conversion Notice (as defined in Condition 3.1) has been given with respect to such Bond pursuant to Condition 5.9.1 (unless such Conversion Notice is withdrawn pursuant to Condition 5.9.4 in which event registration of transfer of such Bond may be made on or after the date on which such Conversion Notice is withdrawn);

(iv) after a notice of redemption has been given pursuant to Condition 7.2, 7.3 or 7.4 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.4); or

(v) after a notice of redemption is deposited in respect of such Bond pursuant to Condition 7.9.

1.5 Relationship between Bonds and Stock Acquisition Rights

The obligations of the Company in respect of the Bonds and the Stock Acquisition Rights incorporated therein shall arise and shall be extinguished or cease to be exercisable simultaneously subject as provided herein.

The Bonds and the Stock Acquisition Rights incorporated therein may not be transferred or dealt with separately from each other.

2 Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Company's or such Principal Subsidiary's property or assets, present or future, to secure (i) payment of any sum due in respect of any Relevant Debt or (ii) any payment under any guarantee of any Relevant Debt or (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt, without in any such case at the same time or prior thereto, according or procuring to be accorded to the Bonds, (x) to the satisfaction of the Trustee or as shall be approved by an Extraordinary Resolution (as defined in Condition 3.1), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation or (y) such other security or guarantee as the Trustee may in its absolute discretion deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 2, "Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

(a) either are by their terms payable, or confer a right to receive payment, in any currency other than yen, or are denominated in yen and more than 50 per cent of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Company or the relevant Principal Subsidiary; and

(b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market outside Japan.

3 Definitions and Construction of References

3.1 Definitions

In these Conditions (unless the context otherwise requires):

"Account Management Institution" means an account management institution (*koza-kanri-kikan*) which is an entity entitled under the Book-Entry Act to open and maintain an account for another person or entity;

"Additional Amounts" has the meaning provided in Condition 9;

"Additional Shares" has the meaning provided in Condition 5.3;

"Annual Fiscal Period" means a period commencing on 1 January and ending on the following 31 December; provided that, if the Company shall change its financial year so as to end on a date other than 31 December, "Annual Fiscal Period" shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

"Articles of Incorporation" means the articles of incorporation of the Company from time to time in effect;

"Asset Transfer Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the sale or transfer of all or substantially all of the assets of the Company to another entity (the "Asset Transferee"), pursuant to the terms of which the Company's obligations under the Bonds are to be transferred to or assumed by the Asset Transferee;

"Asset Transferee" has the meaning provided in the definition of Asset Transfer Event;

"Auditors" means the independent auditors for the time being of the Company or, if there shall be joint independent auditors, any one or more of such independent auditors or, if they are unable or unwilling to carry out any action requested of them under these Conditions or the Trust Deed, such other auditors or firm of auditors as may be appointed by the Company and promptly notified in writing to the Trustee by the Company to act as such;

"Authorised Officer" means any one of the directors or officers of the Company or the New Obligor (as the case may be) or any other person whom the Company or the New Obligor (as the case may be) shall have notified to the Trustee in writing as being duly authorised to sign any document or certificate on behalf of the Company or the New Obligor (as the case may be);

"Bankruptcy Act" means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

"Base Dividend" has the meaning provided in Condition 5.2.4;

"Board of Directors" of a company means the board of directors of that company within the meaning of the Companies Act;

"Bondholder" and "holder" have the meaning provided in Condition 1.2;

"Bondholders' Optional Redemption Date" has the meaning provided in Condition 7.9;

"Book-Entry Act" means the Act Concerning Book-Entry Transfer of Corporate Bonds, Shares etc. of Japan (Act No. 75 of 2001, as amended);

"Certificate" has the meaning provided in Condition 1.1;

"Civil Rehabilitation Act" means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

"Clean-up Redemption Notice" has the meaning provided in Condition 7.3;

"Closed Period" has the meaning provided in Condition 7.12;

"Closing Date" means July 16, 2020;

"Closing Price" means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), for any Trading Day, the last reported selling price (regular way) of the Shares or the shares of common stock of the New Obligor (as the case may be) on the Relevant Stock Exchange on such Trading Day or, if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, the average of the closing bid and offered prices of the Shares or the shares of common stock of the New Obligor (as the case may be) for such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company or the New Obligor (as the case may be);

"Companies Act" means the Companies Act of Japan (Act No. 86 of 2005, as amended);

"Company's Territory" has the meaning provided in Condition 12.2;

"Consolidated Financial Statements" means, in relation to any Fiscal Period of the Company, the unaudited consolidated financial statements of the Company and its Consolidated Subsidiaries prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Company and its Consolidated Subsidiaries prepared as aforesaid;

"Consolidated Subsidiary" means, in relation to a Fiscal Period of the Company, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

"Controlling Shareholder" means a shareholder holding, directly or indirectly, 90 per cent (or such other percentage above 90 per cent as provided in the Articles of Incorporation) or more of the Company's voting rights as calculated in accordance with the Companies Act;

"Conversion Notice" means the written notice required to accompany any Bonds deposited for the purposes of the exercise of the Stock Acquisition Rights, the current form of which is set out in the Agency Agreement;

"Conversion Price" has the meaning provided in Condition 5.1.3;

"Corporate Event" has the meaning provided in Condition 6.1;

"Corporate Event Effective Date" has the meaning provided in Condition 6.3;

"Corporate Event Redemption Date" has the meaning provided in Condition 7.5;

"Corporate Reorganisation Act" means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

"Corporate Split Counterparty" has the meaning provided in the definition of Corporate Split Event;

"Corporate Split Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any corporate split (*shinsetsu bunkatsu* or *kyushu bunkatsu*) in which the Company's obligations under the Bonds are to be transferred to or assumed by the corporation which is the counterparty to such corporate split (the "Corporate Split Counterparty");

"Current Market Price per Share" has the meaning provided in Condition 5.2.9;

"Custodian" means The Law Debenture Trust Corporation p.l.c. at its specified office at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom or such other custodian as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 and shall, unless the context otherwise requires, include the nominee of the Custodian;

"Custodian's Agent" means Mizuho Bank, Ltd. at its specified office at 15-1, Konan 2-chome, Minato-ku, Tokyo 108-6009, Japan or such other agent of the Custodian in Japan as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Custodian, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19;

"Delisting Event" has the meaning provided in Condition 7.6.1;

"Delisting Redemption Date" has the meaning provided in Condition 7.6.1;

"Deposit Date" has the meaning provided in Condition 5.9.4;

"Deposit Time" has the meaning provided in Condition 5.9.4;

"Due Date" has the meaning provided in Condition 9;

"Exercise Period" has the meaning provided in Condition 5.1.4;

"Extraordinary Dividend" has the meaning provided in Condition 5.2.4;

"Extraordinary Resolution" means a resolution passed (i) at a meeting of the Bondholders duly convened (including satisfaction of the quorum requirements set out in the Trust Deed) and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than three-quarters of the votes cast thereon, or (ii) by a written resolution or electronic consent in accordance with the provisions contained in the Trust Deed;

"Financial Instruments and Exchange Act" means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

"Fiscal Period" means, as the context may require, (i) a period commencing on 1 January and ending on the following 31 December; or (ii) three month periods each commencing on 1 January, 1 April, 1 July and 1 October; provided that, if the Company shall change its financial year so as to end on a date other than 31 December, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

"Holding Company" has the meaning provided in the definition of Holding Company Event;

"Holding Company Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the Company to become a wholly-owned subsidiary of another corporation (the "Holding Company") by way of share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*);

"Independent Financial Adviser" means an independent investment bank, securities company, accounting firm or consultancy firm of established repute appointed by the Company at its own expense and approved in writing by the Trustee or, if the Company fails to make such appointment when required to do so and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser or otherwise in connection with such appointment, as may be appointed by the Trustee in its absolute discretion (without liability for so doing) following notification to the Company, which appointment shall be deemed to be an appointment of the Company;

"Interest Payment Date" has the meaning provided in Condition 4;

"Interest Period" has the meaning provided in Condition 4;

"Interest Record Date" has the meaning provided in Condition 8.1;

"Listing" has the meaning provided in Condition 6.4.2;

"Merged Company" means the corporation formed by the relevant Merger Event or the corporation into which the Company shall have merged following a Merger Event;

"Merger Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any consolidation or amalgamation (*shinsetsu gappei*) of the Company with, or merger (*kyushu gappei*) of the Company into any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation);

"New Obligor" has the meaning provided in Condition 6.1;

"New Obligor Current Market Price per Share" has the meaning provided in Condition 6.5.3;

"New Stock Acquisition Rights" has the meaning provided in Condition 12.2;

"New Territory" has the meaning provided in Condition 12.2;

"Non-unit Shares" has the meaning provided in Condition 5.1.2;

"Number of Deliverable Shares" has the meaning provided in Condition 6.5.3;

"Number of Held Shares" has the meaning provided in Condition 6.5.3;

"Offeror" has the meaning provided in Condition 7.6.1;

"Optional Redemption Notice" has the meaning provided in Condition 7.2;

"Payment Business Day" has the meaning provided in Condition 8.3;

"Principal Subsidiary" means Sosei Co. Ltd. and any Consolidated Subsidiary of the Company (i) whose revenues as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, those annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the revenues of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the total assets of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements. A certificate signed by a Representative Director or an Authorised Officer that in the Company's opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"Proceedings" has the meaning provided in Condition 21.2;

"Record Date" means the date fixed by the Articles of Incorporation or otherwise specified by the Company for the purpose of determining entitlements to dividends or other distributions to, or rights of, holders of Shares; provided, however, that if the Company has fixed no such record date and the context so requires, the "Record Date" shall be construed as a reference to the date of any event in question coming into effect;

"Register" has the meaning provided in Condition 1.1;

"Registered Account" has the meaning provided in Condition 8.1;

"Relevant Debt" has the meaning provided in Condition 2;

"Relevant Event" means any Corporate Event, Delisting Event or Squeezeout Event;

"Relevant Event Date" has the meaning provided in Condition 5.2.15;

"Relevant Event Redemption Price" has the meaning provided in Condition 7.8;

"Relevant GAAP" means the accounting principles which are adopted by the Company or the New Obligor (as the case may be) for the preparation of the Consolidated Financial Statements under the Financial Instruments and Exchange Act, being one of those generally accepted in Japan or International Financial Reporting Standards (as issued by the International Accounting Standards Board (or its successor) or, if applicable, as adopted or endorsed by the Accounting Standards Board of Japan (or its successor));

"Relevant Number of Shares" has the meaning provided in Condition 5.2.4;

"Relevant Securities" has the meaning provided in Condition 5.2.8;

"Relevant Stock Exchange" means Tokyo Stock Exchange, Inc. (or its successor) or, if at the relevant time the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed on Tokyo Stock Exchange, Inc. (or its successor), the principal stock exchange or securities market in Japan on which the Shares or the shares of common stock of the New Obligor (as the case may be) are then listed or quoted or dealt in;

"Representative Director" means a director of the Company (or the New Obligor, as the case may be) who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company (or the New Obligor, as the case may be) within the meaning of the Companies Act;

"Retroactive Adjustment" has the meaning provided in Condition 5.3;

"Securities" includes, without limitation, the Shares, other shares, options, warrants or other rights (including stock acquisition rights) to subscribe for or purchase or acquire Shares and securities convertible into or exchangeable for Shares;

"Shareholder Determination Date" means (i) any Record Date and (ii) any other date set for the purpose of determination of the holders of Shares in connection with Paragraph 1 of Article 151 of the Book-Entry Act;

"Shareholder Determination Date Restriction Period" means the period from and including the second Tokyo Business Day falling immediately prior to any Shareholder Determination Date to and including such Shareholder Determination Date (provided that if such Shareholder Determination Date falls on a date that is not a Tokyo Business Day, then the Shareholder Determination Date Restriction Period means the period from and including the third Tokyo Business Day falling immediately prior to such Shareholder Determination Date to and including the Tokyo Business Day immediately following such Shareholder Determination Date);

"Squeezeout Effective Date" has the meaning provided in Condition 7.7;

"Squeezeout Event" means either (i) the passing of a resolution at a general meeting of shareholders of the Company approving its acquisition of all of the outstanding Shares in exchange for a consideration, following the outstanding Shares being transformed into callable shares (*zenbushutokujoko tsuki shuruikabushiki*) by way of an amendment to the Articles of Incorporation, for the purpose of, including but not limited to, making the Company a wholly-owned subsidiary of another corporation, (ii) the passing of a resolution by the Board of Directors of the Company approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling

Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushiki uriwatashi seikyu*) under the Companies Act, or (iii) the passing of a resolution at a general meeting of shareholders of the Company approving a consolidation of Shares (*kabushiki no heigo*) under the Companies Act after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing;

"Squeezeout Redemption Date" has the meaning provided in Condition 7.7;

"Stock Acquisition Date" has the meaning provided in Condition 5.9.4;

"Stock Split" means any kind of stock split in relation to the Shares, including a free share distribution to the holders of Shares, a stock dividend or a sub-division of Shares;

"Subsidiary" means a company, more than 50 per cent of the outstanding shareholders' voting rights of which is at any given time owned by the Company, by one or more other Subsidiaries or by the Company and one or more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Company under the Relevant GAAP (and, for this purpose, "voting rights" means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

"Tax Redemption Date" has the meaning provided in Condition 7.4;

"Tax Redemption Notice" has the meaning provided in Condition 7.4;

"Tokyo Business Day" has the meaning provided in Condition 5.1.4;

"Trading Day" means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), a day on which the Relevant Stock Exchange is open for business, but does not include a day on which (a) no last selling price (regular way) for the Shares or the shares of common stock of the New Obligor (as the case may be) is reported by the Relevant Stock Exchange and (b) if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, no closing bid or offered price of the Shares or the shares of common stock of the New Obligor (as the case may be) is furnished as provided in the definition of Closing Price;

"Transfer Business Day" has the meaning provided in Condition 1.4.3; and

"yen" and "¥" mean Japanese yen, the lawful currency of Japan.

3.2 Construction of Certain References

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

Except where the context requires otherwise, references to the "issue" of Shares shall include the transfer and/or delivery of Shares by the Company, whether newly issued or previously issued and held by or on behalf of the Company (and the words "issue", "issued" and "issuable" shall be construed accordingly), and references to "delivery" used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system operated by the Japan Securities Depository Center, Incorporated. The words "substitution" and "grant" used in relation to the exchange of the Company's obligations in respect of the Bonds for those of a New Obligor following a Corporate Event shall be read as including the necessary legal concepts for such exchange to occur under both Japanese law and English law.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

4 Interest

Each Bond bears interest on its outstanding principal amount from and including July 16, 2020 at the rate of 0.50 per cent per annum, payable semi-annually in arrear in equal instalments of ¥25,000 per ¥10,000,000 in principal amount on each Interest Payment Date.

Where interest in respect of any Bond is to be calculated in respect of a period which is other than an Interest Period (such period shall be called a "Calculation Period"), the amount of interest payable shall be calculated by multiplying (i) the product of the above rate of interest and the outstanding principal amount of such Bond by (ii) actual number of days in the Calculation Period divided by 365.

A Bond will cease to bear interest (i) where the Stock Acquisition Right incorporated in it is exercised in accordance with the provisions of Condition 5, from the Interest Payment Date immediately preceding the Stock Acquisition Date or, if none, the Closing Date and (ii) where such Bond is redeemed or repaid, from the due date for redemption or repayment, unless in any such case, payment of any amount due in respect of Bonds is improperly withheld or refused. In such event, such unpaid amount will bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to but excluding that day are received by or on behalf of the relevant Bondholder, and (b) the day seven days after the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions).

In these Conditions:

"Interest Payment Date" shall mean January 16 and July 16 in each year.

"Interest Period" shall mean the period from and including July 16, 2020 to but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

5 Exercise of Stock Acquisition Rights

5.1 Conversion Price, Exercise Period, Shares Issuable and Procedure

5.1.1 *Exercise of Stock Acquisition Rights and Contribution of the Bond*: Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition Right incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which having been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond as at the Stock Acquisition Date.

5.1.2 *Number of Shares*: The number of Shares to be acquired by a Bondholder exercising its Stock Acquisition Rights will be determined by dividing the aggregate principal amount of the Bonds deposited by such Bondholder at the same time upon exercise of the Stock Acquisition Rights by the Conversion Price applicable on the Stock Acquisition Date. Fractions of a Share will not be issued upon exercise of any Stock Acquisition Right and no adjustment or cash payment will be made in respect thereof. However, if two or more Stock Acquisition Rights are exercised at any one time by the same Bondholder, the number of Shares which shall be acquired upon exercise of such Stock Acquisition Rights shall be calculated on the basis of the aggregate principal amount of the Bonds in which the Stock Acquisition Rights so exercised are incorporated.

For the avoidance of doubt, if a Bondholder would receive a number of Shares ("Non-unit Shares") not constituting a unit (*tangen*) of Shares or integral multiples thereof upon exercise of the Stock Acquisition Right(s) or upon a Retroactive Adjustment, such Non-unit Shares shall be delivered to the relevant Bondholder in the same manner as the Shares constituting a whole unit of Shares, and no cash amounts shall be paid by the Company in respect of such Non-unit Shares.

As at the date of this Offering Circular, the Company's Articles of Incorporation provide that 100 Shares constitute one unit. Under the book-entry transfer system established pursuant to the Book-Entry Act, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges. Further, a holder of Shares constituting less than one unit cannot exercise any voting rights pertaining to those Shares. A holder of Shares constituting less than one unit may at any time require the Company to purchase such Shares through the relevant Account Management Institution. The Company's Articles of Incorporation currently provide that a

holder of Shares constituting less than one unit may also request the Company to sell to such holder Shares constituting less than one unit which, when added to the Shares held by such holder, shall constitute one full unit, provided that the Company is obliged to comply with such request only when there is a sufficient number of shares of treasury stock to accommodate such request.

5.1.3 *Conversion Price*: The price at which Shares shall be acquired upon exercise of the Stock Acquisition Rights (the "Conversion Price") shall initially be ¥1,834 per Share, subject to adjustment in the manner provided in Condition 5.2.

5.1.4 *Exercise Period*: Each Stock Acquisition Right may be exercised at any time during the period from, and including, 30 July 2020 to, and including, the close of business (at the place where the Bond is deposited for exercise of the Stock Acquisition Right) on 2 July 2025, or:

(i) if the relevant Bond shall have been called for redemption pursuant to Condition 7.2, 7.3 or 7.4, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof (unless, in the case of such Bond being called for redemption pursuant to Condition 7.4, the relevant Bondholder has elected that such Bond shall not be redeemed);

(ii) if the Bonds shall become due to be redeemed pursuant to Condition 7.5, 7.6 or 7.7, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof;

(iii) if the relevant Bond shall become due to be redeemed pursuant to Condition 7.9, then up to the time when the relevant notice of redemption is deposited at the specified office of an Agent pursuant to Condition 7.9;

(iv) if the relevant Bond shall have been purchased by the Company or a Subsidiary pursuant to Condition 7.10 and cancelled by the Company pursuant to Condition 7.11, then up to the time when such Bond is so cancelled; or

(v) if the relevant Bond shall become due and repayable pursuant to Condition 10, then up to the time when such Bond becomes so due and repayable,

provided that:

(a) in no event shall the Stock Acquisition Rights be exercised after 2 July 2025;

(b) the Stock Acquisition Rights may not be exercised by a Bondholder in circumstances where the relevant Deposit Date would fall during the period commencing on the Interest Record Date in respect of any payment of interest on the Bonds and ending on the relevant Interest Payment Date (both days inclusive);

(c) the Stock Acquisition Rights may not be exercised for such period as may be designated by the Company, which period may not exceed 30 days, and which period shall end on a date not later than 14 days after the Corporate Event Effective Date if the Company reasonably determines that such suspension is necessary in order to consummate the relevant transaction in compliance with these Conditions (including Conditions 6.4.1, 7.6 and 7.7); and

(d) the Stock Acquisition Rights may not be exercised where the relevant Stock Acquisition Date (or the next following Tokyo Business Day, if the Stock Acquisition Date would not be a Tokyo Business Day) would fall on a date within any Shareholder Determination Date Restriction Period; provided that if there is a change to the mandatory provisions of Japanese law, regulation or practice relating to the delivery of shares upon exercise of stock acquisition rights through book-entry transfer system established pursuant to the Book-Entry Act, then this Condition 5.1.4(d) and the definition of Shareholder Determination Date Restriction Period may be amended to the extent permitted by applicable law, regulation and practice by the Company to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Trustee in writing and to the Bondholders in accordance with Condition 19.

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of the determination and period referred to in Condition 5.1.4(c) above at least 30 days prior to the commencement of such period.

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of each such Shareholder Determination Date Restriction Period at least three Tokyo Business Days prior to the commencement of such Shareholder Determination Date Restriction Period, provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect.

As at the date of this Offering Circular, the Record Dates fixed by the Company's Articles of Incorporation are 30 June and 31 December. By way of example, in respect of the Record Date falling on 31 December 2020, it is anticipated that the Stock Acquisition Rights will not be exercisable where the Stock Acquisition Date would fall on any day from (and including) 28 December 2020 to (and including) 4 January 2021.

The term "Tokyo Business Day" means any day (other than a Saturday, Sunday or a day which shall be a legal holiday in Tokyo or a day on which banking institutions in Tokyo are obliged or authorised by law or executive order to close) on which banks are open for business in Tokyo.

The period during which the Stock Acquisition Rights are exercisable pursuant to this Condition 5.1.4 is referred to in these Conditions as the "Exercise Period" (for the avoidance of doubt, the Exercise Period in respect of any Stock Acquisition Right may stop and restart from time to time). Upon final expiration of the Exercise Period, the Stock Acquisition Rights incorporated in the relevant Bonds will lapse and cease to be exercisable or valid for any purposes.

5.1.5 *Rights Attached to Shares Acquired upon Exercise of Stock Acquisition Rights*: Shares acquired upon exercise of the Stock Acquisition Rights shall have the same rights in all respects (including in relation to any distribution of dividends) as the Shares outstanding on the relevant Stock Acquisition Date (except for any right the Record Date for which precedes such Stock Acquisition Date and any other right excluded by mandatory provisions of applicable law).

5.2 Adjustments of the Conversion Price

Upon the occurrence of any of the events described below, the Conversion Price shall be adjusted as follows:

5.2.1 *Stock Split and Consolidation of Shares*: if the Company shall (a) make a Stock Split, (b) consolidate its outstanding Shares into a smaller number of shares, or (c) re-classify any of its Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Stock Acquisition Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5.2.1, shall be entitled to receive the number of Shares and/or other securities of the Company which it would have held or have been entitled to receive after the coming into effect of any of the events described above had the Stock Acquisition Right in respect of such Bond been exercised immediately prior to the coming into effect of such event (or, if the Company has fixed a prior Record Date for the determination of shareholders entitled to receive any such Shares or other securities issued upon any such Stock Split, consolidations or re-classification, immediately prior to such Record Date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the coming into effect of such event (or such Record Date) or any time thereafter. An adjustment made pursuant to this Condition 5.2.1 shall become effective immediately on the relevant event becoming effective or, if a prior Record Date is fixed therefor, immediately after the Record Date; provided that, in the case of a relevant transaction which must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally effective, and which is so approved after the Record Date fixed for the determination of shareholders entitled to receive such Shares or other securities, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date.

If the Company shall make a Stock Split and the Record Date therefor is also:

(i) the Record Date for the allotment, grant, issue or offer of any rights or warrants (including stock acquisition rights) which requires an adjustment of the Conversion Price pursuant to Condition 5.2.2 or 5.2.3; or

(ii) the last date (in the place of issue) of the period during which payment may be made for the issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.5 or 5.2.8; or

(iii) the last date (in the place of issue) of the period during which payment may be made for the issue or transfer of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.8; or

(iv) the date of grant, issue, transfer or offer of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.7 or 5.2.8,

then (except where such Stock Split gives rise to a Retroactive Adjustment of the Conversion Price under this Condition 5.2.1) no adjustment of the Conversion Price in respect of such Stock Split shall be made under this Condition 5.2.1, but in lieu thereof an adjustment shall be made under Condition 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 or 5.2.8, as the case may be, by including in item "n" of the formula described therein the aggregate number of additional Shares to be delivered pursuant to such Stock Split;

5.2.2 *Issue to all, or a class of, Shareholders of Rights or Warrants to Acquire Shares*: if the Company shall allot, grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares:

(i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N+v}{N+n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares to be allotted, issued or acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with an allotment, grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares, any such rights and/or warrants which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or

made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.3 *Issue to all, or a class of, Shareholders of Rights or Warrants to Acquire Convertible/ Exchangeable Securities*: if the Company shall grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire any securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights):

(i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N+v}{N+n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or ratio following the exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights), any such securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights) which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.4 *Distribution to all, or a class of, Shareholders of Assets (including Extraordinary Dividends)*: if the Company shall distribute to the holders of Shares (i) evidence of its indebtedness (such as bonds), (ii) shares of capital stock of the Company (other than Shares), (iii) cash or assets of the Company, or (iv) rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire shares (other than Shares) or securities of the Company (other

than those rights and warrants referred to in Conditions 5.2.2 and 5.2.3), in each of the cases set out in (i) through (iv) above, excluding dividends (being "distribution of surplus" within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act) other than Extraordinary Dividends, then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{CMP - fmv}{CMP}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

CMP = the Current Market Price per Share on the Record Date for the determination of shareholders entitled to receive such distribution, including a distribution of an Extraordinary Dividend.

fmv = (i) in cases other than an Extraordinary Dividend, the fair market value ((a) as determined by the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account), or (b) if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court, and in each of the cases set out in (a) and (b) above, described in a certificate of the Company signed by a Representative Director or an Authorised Officer and delivered by the Company to the Trustee) of the portion of the evidence of indebtedness, shares, cash, assets, rights or warrants so distributed applicable to one Share or, (ii) in the case of an Extraordinary Dividend, the amount of such Extraordinary Dividend divided by the Relevant Number of Shares in respect of such Extraordinary Dividend.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution (including a distribution of an Extraordinary Dividend); provided, however, that (a) if such distribution must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally made, and if such distribution is so approved after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date and (b) if the fair market value of the evidence of indebtedness, shares, cash or assets, rights or warrants so distributed cannot be determined until after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such Record Date.

"Extraordinary Dividend" means, in relation to an Annual Fiscal Period ending on or after the last day of the Annual Fiscal Period in which the Closing Date falls, the part of any dividend (such dividend being the historical dividend without making any retroactive adjustment resulting from Stock Splits or otherwise) in respect of any number of Shares amounting to the Relevant Number of Shares, the Record Date for which falls within such Annual Fiscal Period which, when aggregated with the amount of all other dividends the Record Date for which falls within such Annual Fiscal Period in respect of such number of Shares amounting to the Relevant Number of Shares, is in excess of the sum of (i) the Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period:

"Base Dividend" means: ¥0

The Base Dividend is the amount obtained by multiplying the Relevant Number of Shares (calculated at the initial Conversion Price) by ¥0.

"Relevant Number of Shares" means, such number of Shares (disregarding fractions of a Share) as Bondholders would be entitled to receive in respect of each Bond deposited (were it to be so

deposited) for exercise of the Stock Acquisition Right incorporated therein at the Conversion Price in effect at the Record Date in respect of the relevant dividend.

5.2.5 *Issue to Non-shareholders of Convertible/Exchangeable Securities*: if the Company shall issue any securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights (other than the Bonds or in any of the circumstances described in Conditions 5.2.2 and 5.2.3), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N+v}{N+n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of such convertible or exchangeable securities.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of such convertible or exchangeable securities;

5.2.6 *Issue to Non-shareholders of Shares*: if the Company shall issue or transfer any Shares (other than the 3,301,400 Shares to be issued by the Company on the Closing Date and any Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted, issued or offered by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted, issued or offered by the Company, (iii) to the extent permitted by the Articles of Incorporation, to any holder of Non-unit Shares for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute a full one unit, (iv) in any of the circumstances described in Conditions 5.2.1, 5.2.2 and 5.2.3, (v) to shareholders of any corporation which merges into the Company upon such merger or which becomes a wholly-owned subsidiary of the Company by a share exchange (*kabushiki-kokan*), in proportion to their shareholding in such corporation immediately prior to such merger or such exchange or (vi) to any corporation or to shareholders of any corporation which transfers its business to the Company following the split of such corporation's business (*kyushu bunkatsu*)), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N+v}{N+n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares being issued or transferred as aforesaid.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue or transfer) of the period during which payment may be made in respect of the issue or transfer of such Shares;

5.2.7 *Issue to Non-shareholders of Rights or Warrants to Acquire Shares or Convertible/ Exchangeable Securities*: if the Company shall grant, issue or offer any rights or warrants (including stock acquisition rights) entitling non-shareholders to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.5) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the date of the grant, issue or offer of such rights or warrants shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N+v}{N+n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the date of the grant, issue or offer of such rights or warrants.

n = the number of Shares to be acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price, or upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of all such rights or warrants.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the place of the grant, issue or offer of such rights or warrants;

5.2.8 *Combined Adjustment*: if the Company shall grant, issue, transfer or offer (as the case may be) securities of a type falling within Condition 5.2.5, 5.2.6 or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto and the date of grant, issue, transfer or offer of such securities or, if applicable, the last day of the period during which payment may be made in respect thereof (in each case, referred to as the "relevant date") is also the relevant date

in respect of securities of another type or types (including a different tranche or issue of a same type) falling within Conditions 5.2.5, 5.2.6 and/or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto (all such securities being hereafter referred to as "Relevant Securities"), then any adjustment of the Conversion Price shall not be made separately under each such Condition but in one calculation in accordance with the following formula:

$$NCP = OCP \times \frac{N+v1+v2+v3}{N+n1+n2+n3}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the relevant date but excluding the number of Shares contained in the definition of "n2" below to the extent that such Shares are then issued and outstanding.

n1 = the number of Shares to be acquired upon conversion or exchange of any convertible or exchangeable securities (included within the Relevant Securities) at the initial conversion or exchange price or rate.

n2 = the number of any Shares (included within the Relevant Securities) being issued or transferred.

n3 = the number of Shares to be acquired on exercise of any rights or warrants (included within the Relevant Securities) at the initial subscription, purchase or acquisition price, or upon conversion or exchange of any convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of such rights or warrants.

v1 = the number of Shares which the aggregate consideration receivable by the Company for such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

v2 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of such Shares (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

v3 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of the total number of Shares to be acquired on exercise of such rights or warrants and (if applicable) upon conversion or exchange of such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue, transfer or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

Any such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the relevant place of grant, issue, transfer or offer which is the relevant date.

5.2.9 *Current Market Price per Share*: for the purpose of these Conditions, "Current Market Price per Share" on any date shall be deemed to be the average of the daily Closing Prices of the Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such date.

If, during the said 45 Trading Day period or any period thereafter up to but excluding the date as at which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question, and any event which requires an adjustment with reference to the same Current Market Price per Share) shall occur which gives rise to a separate adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of this Condition 5.2, the Current Market Price per Share as determined above shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall deem to be appropriate and fair in order to compensate for the effect of such event;

5.2.10 *Consideration per Share*: for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the following provisions shall be applicable:

(i) in the case of the issue or transfer of Shares for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions or any expenses paid or incurred by or on behalf of the Company for any underwriting of the issue or transfer or otherwise in connection therewith;

(ii) in the case of the issue or transfer of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Company in consultation with an Independent Financial Adviser or, if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof. Such determination shall be final and binding on the Company, the Trustee and the Bondholders;

(iii) (a) in the case of the issue by the Company of securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights, the aggregate consideration receivable by the Company shall be deemed to be the consideration for any such securities plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate, and (b) in the case of the allotment, grant, issue or offer of rights or warrants, including stock acquisition rights, to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Company shall be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise thereof at the initial subscription, purchase or acquisition price and (if applicable) upon the following conversion or exchange of such securities at the initial conversion or exchange price or rate. The consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate (if applicable) following the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above);

(iv) in the case of the allotment, grant, issue or offer of rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above), and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such exercise at the initial subscription, purchase or acquisition price; and

(v) if any consideration referred to in the foregoing provisions of this Condition 5.2.10 is receivable in a currency other than yen, such consideration shall, in any case where there is a fixed rate of exchange between yen and the relevant currency provided for the purposes of the issue of such Shares or the conversion or exchange of such securities or the exercise of such rights or warrants, be translated into yen for the purposes of this Condition 5.2.10 at such fixed rate of exchange and shall, in all other cases, be so translated at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in Japan for buying and selling spot units of the relevant currency by telegraphic transfer against yen on the date as at which such consideration is required to be calculated;

5.2.11 *Later Adjustments*: if, at the time of computing an adjustment (the "later adjustment") of the Conversion Price pursuant to any of Conditions 5.2.2 to 5.2.8 (both inclusive), the Conversion Price already incorporates an adjustment made (or taken into account pursuant to the proviso to Condition 5.6) to reflect the issue or transfer of such Shares, the allotment, grant, issue or offer of rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire such Shares or other securities convertible into or exchangeable for such Shares, but such Shares are not outstanding at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such Shares shall be deemed to be outstanding for the purposes of making such computation to the extent that the number of the Shares so deemed to be outstanding exceeds the actual number of Shares in issue as a result thereof at the time of making such computation. For the purposes of determining the number of Shares outstanding in Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;

5.2.12 *Meaning of "Fixed"*: any reference in this Condition 5.2 to the date on which the consideration is "fixed" shall be construed as a reference to the first day on which such consideration in a cash amount can be ascertained, where the consideration is originally expressed by reference to a formula and not then ascertainable in a cash amount;

5.2.13 *Other Events*: if the Company determines at its sole discretion that a downward adjustment should be made to the Conversion Price as a result of one or more events or circumstances not otherwise referred to in this Condition 5.2, the Company shall, at its own expense, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and, if the adjustment would result in a reduction in the Conversion Price, the date on which such adjustment should take effect and, upon such determination, such downward adjustment (if any) shall be made and shall take effect in accordance with such determination; and

5.2.14 *Modification to Operation of Adjustment Provisions*: notwithstanding the foregoing, where the circumstances giving rise to any adjustment pursuant to this Condition 5.2 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of other circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 5.2 as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result.

5.2.15 *Conversion Price Adjustment on Relevant Events:* On the occurrence of any Relevant Event (and, in the case of a Corporate Event, if any of the conditions set out in items (i), (ii), (iii) and (iv) of Condition 7.5 is satisfied), the Conversion Price in effect on the date in Japan on which the Relevant Event takes place (and, in the case of a Corporate Event, such condition is satisfied) (the "Relevant Event Date"), shall be adjusted in accordance with the following formula:

$$NCP = \frac{OCP}{(1 + (CP \times c/t))}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

CP = 15.0 per cent, expressed as a fraction.

c = the number of days from and including the Relevant Event Date to but excluding the Maturity Date.

t = the number of days from and including the Closing Date to but excluding the Maturity Date.

Such adjustment shall become effective from the day immediately after the Relevant Event Date. No further adjustment under this Condition 5.2.15 will be made in respect of a Relevant Event (or subsequent Relevant Events) if and once the Conversion Price has been adjusted pursuant to this Condition 5.2.15.

"CP" is the conversion premium (the percentage above the Offer Price for the Offered Shares) at which the Conversion Price is set.

5.3 Retroactive Adjustments

If the Stock Acquisition Date in relation to a Stock Acquisition Right shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions of Condition 5.2 and the relevant Stock Acquisition Date falls on a date before the relevant adjustment becomes effective under Condition 5.2 (such adjustment, a "Retroactive Adjustment"), the Company shall procure that the provisions of Condition 5.9.5 shall be applied, *mutatis mutandis*, to such number of Shares ("Additional Shares") as is equal to the excess of the number of Shares which would have been acquired upon exercise of such Stock Acquisition Right if the relevant Retroactive Adjustment had been given effect as at the said Stock Acquisition Date over the number of Shares previously acquired pursuant to such exercise, and in such event and in respect of such Additional Shares, references in Condition 5.9.5 to the "Stock Acquisition Date" shall be deemed to refer to the date upon which such Retroactive Adjustment is first reflected in the Conversion Price.

5.4 Limitation on Reduction of Conversion Price

Notwithstanding the provisions of this Condition 5, the Conversion Price will not be reduced as a result of any adjustment made hereunder to such an extent that, under applicable law then in effect, the Stock Acquisition Rights may not be permitted to be exercised at such lower Conversion Price into legally issued, fully paid and non-assessable Shares.

5.5 Employee Share Schemes

No adjustment will be made to the Conversion Price where Shares or other Securities are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees, former employees, officers, corporate auditors or directors (including directors holding or formerly holding executive office or the personal service company of any such person) of the Company or any of its Subsidiaries or affiliates, their spouses or relatives, or any associated companies of any such person, or to any trustee or trustees for the benefit of any such person, in any such case, pursuant to any employees' or executives' share or option scheme.

5.6 Minimum Adjustments

No adjustment of the Conversion Price shall be required unless such adjustment would result in an increase or decrease in such Conversion Price of at least one yen provided that any adjustment which by reason of this Condition 5.6 is not required to be made shall be carried forward and taken into account (as if such adjustment were made at the time when it would be made but for the provisions of this Condition 5.6) in any subsequent adjustment.

5.7 Calculations

All calculations (including, without limitation, calculations of the Conversion Price and the Current Market Price per Share) under this Condition 5 shall, unless otherwise expressly specified herein, be made to the nearest one-tenth of a yen with five one-hundredths or more of a yen to be considered a full tenth of a yen.

5.8 Notification of Adjustments

Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly notify the Trustee, the Principal Agent, the other Agents, the Registrar, the Custodian and the Custodian's Agent in writing setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the effective date thereof, and shall promptly give notice to the Bondholders in accordance with Condition 19 stating that the Conversion Price has been adjusted and setting forth the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

5.9 Procedure for Conversion

5.9.1 *Conversion Notice*: To exercise a Stock Acquisition Right, the exercising Bondholder shall complete, sign and deposit at the specified office of an Agent at its own expense during normal business hours of the Agent with which the deposit is being made a Conversion Notice, in the form obtainable from any Agent, together with the Certificate evidencing the relevant Bond. No Stock Acquisition Right may be exercised in part only.

5.9.2 *Custodian and Custodian's Agent*: The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Custodian and to appoint another Custodian; provided that there shall always be a Custodian, being a non-resident of Japan and having a specified office outside Japan. Notice of any such termination or appointment and of any changes in the specified office of the Custodian will be given to the Bondholders in accordance with Condition 19. The Custodian has, pursuant to the Agency Agreement, initially appointed Mizuho Bank, Ltd. as the Custodian's Agent at its initial specified office set out at the end of these Conditions and may, with the prior written approval of the Trustee, alter such appointment at any time. The Company shall give notice to the Bondholders in accordance with Condition 19 of any change in the Custodian's Agent and/or its specified office. The Custodian shall have no liability to Bondholders for any loss suffered by them as a result of any failure on the part of the Custodian's Agent to perform its functions pursuant to these Conditions and the Agency Agreement, nor shall the Custodian have any obligation to perform those functions should the Custodian's Agent fail to do so. The Custodian shall not be liable for monitoring or supervising the performance by the Custodian's Agent of such functions. The Contracts (Rights of Third Parties) Act 1999 applies to this Condition 5.9.2 for the benefit of the Custodian.

5.9.3 *Conditions Precedent*: As conditions precedent to the exercise of the Stock Acquisition Right, the Bondholder must pay to the relevant Agent pursuant to this Condition 5.9.3 (or make arrangements satisfactory to such Agent or its delegate for the payment of) all stamp, issue, registration or other similar taxes and duties (if any), together with any incidental expenses in connection therewith, arising on such exercise in the country in which the Stock Acquisition Right is to be exercised or payable in any jurisdiction consequent upon the issue or delivery of Shares to or to the order of a person other than the exercising Bondholder (if any) together with an amount sufficient to pay the expenses of delivery pursuant to Condition 5.9.5(ii). The relevant Agent will not be bound to make any payments until the relevant Agent has received the full amount of such taxes and duties due and payable in respect of the Bonds, the Stock Acquisition Rights in respect of which are being exercised, or other arrangements satisfactory to the relevant Agent have been made. Except as aforesaid, the Company will pay the expenses arising on the acquisition of Shares upon exercise of the Stock Acquisition Rights (which for the avoidance of doubt does not include the exercising Bondholder's own costs and expenses for holding such Shares) and all charges of the Agents in connection therewith (including all costs, charges and expenses incurred by any delegate).

The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued or transferred) must provide the relevant Agent with details of the relevant tax authorities to which such Agent must pay moneys received from the Bondholder for payment of taxes and duties. The payment of such moneys received from the Bondholders to the relevant tax authority will be made at the risk and expense of the Bondholder exercising the relevant Stock Acquisition Rights and such Bondholder will be required to submit any necessary duly completed and signed documents that may be required by the Agent in order to effect the payment of such moneys. The relevant Agent shall be entitled to assume without duty to enquire

and without liability that any information provided by the Bondholder exercising the relevant Stock Acquisition Rights in connection with any such amounts payable and as to the details of the relevant tax authorities to which the Agent must pay moneys received in settlement of the taxes and duties payable pursuant to this Condition 5.9.3 is true, accurate and complete. The Bondholders (and, if applicable, the person other than the Bondholders to whom the Shares are to be delivered) shall, upon exercising the relevant Stock Acquisition Rights, be deemed to have consented to the relevant Agent disclosing otherwise confidential information for the purposes of the relevant Agent's carrying out the duties herein. Such Agent is under no obligation to determine whether a Bondholder is liable to pay any taxes, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) arising upon exercise of any Stock Acquisition Rights.

5.9.4 *Deposit Date and Stock Acquisition Date*:

(i) The time at which the Certificate evidencing any Bond and the Conversion Notice relating thereto are deposited with an Agent, or on which all conditions precedent to the exercise of the relevant Stock Acquisition Right are fulfilled, whichever shall be later, is hereinafter referred to as the "Deposit Time" applicable to such Bond, and the date in London on which the Deposit Time falls is hereinafter referred to as the "Deposit Date" applicable to such Bond. For the avoidance of doubt, a Deposit Date may not occur during any period when the Stock Acquisition Rights may not be exercised;

(ii) The request for exercise of the Stock Acquisition Right shall be deemed to have been made, and accordingly the exercise of the Stock Acquisition Right and the delivery of the relevant Certificate therefor will become effective, at 23:59 hours (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Japan on which such time in London falls, is herein referred to as the "Stock Acquisition Date" applicable to such Bond);

(iii) A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Company; and

(iv) If deposit of the Conversion Notice is made on a day which is not a business day or after 17:00 hours in the place of the specified office of the Agent, such deposit shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

At any time when the relevant Bonds are evidenced by the Global Certificate, the exercising Bondholder shall, in lieu of depositing the Conversion Notice in the manner aforesaid, transmit the Conversion Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder's account pro tanto. The time at which such duly completed Conversion Notice is received by the Agent through the relevant clearing systems shall be deemed for the purposes of these Conditions to be its time of deposit. With effect from the relevant Stock Acquisition Date, Euroclear or Clearstream, Luxembourg, as the case may be, shall debit the Bondholder's account with the number of the Bonds the Stock Acquisition Rights incorporated in which have been exercised and the Register shall be amended accordingly.

5.9.5 *Delivery of Shares*: The Company shall procure that the relevant Agent shall, with effect as at the Stock Acquisition Date, endorse the Conversion Notice on behalf of the Custodian. With effect from the Stock Acquisition Date (or as soon as practicable thereafter under Japanese law, regulation and practice relating to the delivery of shares and the register of shareholders), the Company shall deem the Custodian or its nominee to have become the holder of record of the number of Shares to be acquired upon such exercise of the Stock Acquisition Right (disregarding any fraction of a Share resulting from such exercise and also disregarding any Retroactive Adjustment of the Conversion Price prior to the time when such Retroactive Adjustment is first reflected in the Conversion Price).

Thereafter, subject to any applicable limitations then imposed by Japanese law or regulation (including any administrative order or guidelines issued by any relevant authority) or the Articles of Incorporation or the share handling regulations of the Company:

(i) as soon as practicable and in any event within 14 days after the Stock Acquisition Date, in accordance with the book-entry transfer system established pursuant to the Book-

Entry Act, the Company shall issue and deliver the relevant Shares to the Custodian or its nominee at the account maintained with the Custodian's Agent (as an Account Management Institution), and the Custodian's Agent shall transfer the relevant Shares to or to the order of the exercising Bondholder at such account maintained with an Account Management Institution in Japan as specified in the relevant Conversion Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian's Agent as aforesaid or such instruction given by the exercising Bondholder in the relevant Conversion Notice is inaccurate, incomplete or insufficient for the purposes of such transfer); and

(ii) as soon as practicable, the Company shall deliver to the Custodian's Agent for the account of the Custodian or its nominee, securities (other than the Shares) required to be delivered upon such exercise of the Stock Acquisition Rights, if any, and the Custodian's Agent shall, according to the request made in the relevant Conversion Notice as soon as practicable, and in any event within 21 days after the Stock Acquisition Date, despatch or cause to be despatched to, or to the order of the person named for that purpose in the relevant Conversion Notice and at the place in Japan and in the manner specified in the relevant Conversion Notice (the expense and risk of despatch at any such place being that of the exercising Bondholder), any such securities (other than Shares) required to be delivered upon exercise (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid) and such assignments and other documents (if any) as may be required by law to effect the transfer thereof;

provided, however, that if such securities (other than Shares) are subject to the book-entry transfer system established pursuant to the Book-Entry Act, such delivery or despatch will be implemented in accordance therewith.

Any Conversion Notice transmitted electronically is not required to be endorsed and shall be processed in accordance with the operating procedures of the relevant clearing systems.

5.9.6 *Amount of Stated Capital and Additional Paid-in Capital*: With effect as at the Stock Acquisition Date, one-half of the "maximum capital and other increase amount", as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital.

6 Certain Corporate Events

6.1 Corporate Events

In the case of a proposal for:

(i) any Merger Event; or

(ii) any Asset Transfer Event; or

(iii) any Corporate Split Event; or

(iv) any Holding Company Event; or

(v) the passing of a resolution at a general meeting of shareholders of the Company (or, where such a resolution is not required, at a meeting of the Board of Directors of the Company) for any other corporate reorganisation procedure then provided for under Japanese law (the passing of any such resolution and any Merger Event, any Asset Transfer Event, any Corporate Split Event and any Holding Company Event being together referred to in these Conditions as a "Corporate Event") pursuant to which the obligations under the Bonds and/or the Stock Acquisition Rights are proposed to be transferred to or assumed by another entity (such other entity and any Merged Company, any Asset Transferee, any Corporate Split Counterparty and any Holding Company being together referred to as a "New Obligor"),

the following provisions of this Condition 6 shall apply.

6.2 Notice of Proposal

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of a proposed Corporate Event at the same time as it gives notice to the holders of Shares (or, if no such notice is required, promptly after the first public announcement of such proposed Corporate Event) and, as soon as practicable thereafter, of its proposals in relation to the Bonds (including the Stock Acquisition Rights). Such notice shall specify the anticipated Corporate Event Effective Date. If those proposals and/or that date have not been determined, the notice shall state that fact.

6.3 Notice of Passing of Resolution

Upon the occurrence of a Corporate Event, the Company shall forthwith give a further notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of that fact, the Company's proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its "Corporate Event Effective Date".

6.4 Transfer of Obligations Following a Corporate Event

6.4.1 *Transfer:* If a Corporate Event occurs and

(i) it is legally possible under then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect substitution of the New Obligor for the Company and the grant of the New Stock Acquisition Rights in such a manner as set out in Conditions 6.5 and 12.2;

(ii) a practical structure for such substitution and grant has been or can be established; and

(iii) such substitution and grant can be consummated without the Company or the New Obligor incurring costs or expenses (including taxes) which are in the opinion of the Company unreasonable in the context of the entire transaction,

then the Company shall use its best endeavours to cause the New Obligor to be substituted as the principal obligor under the Bonds and the Trust Deed pursuant to Condition 12.2 and the Trust Deed and for the grant of the New Stock Acquisition Rights in relation to the Bonds in place of the Stock Acquisition Rights in the manner described in Condition 6.5. Such substitution and grant shall take effect on the relevant Corporate Event Effective Date, or, in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, as soon as practicable on or after, but in any event no later than 14 days after, the relevant Corporate Event Effective Date.

6.4.2 *Listing*: In connection with the substitution and grant described in Condition 6.4.1, the Company shall also use its best endeavours to ensure that the shares of common stock of the New Obligor will be listed on any stock exchange in Japan or be quoted or dealt in on any securities market in Japan (such listing, quotation and dealing being hereinafter collectively referred to as "Listing") on the relevant Corporate Event Effective Date.

6.4.3 *Condition*: The obligations of the Company pursuant to this Condition 6.4 shall not apply if the Company delivers a certificate to the Trustee pursuant to Condition 7.5(iv).

6.5 New Stock Acquisition Rights

At the time of the substitution of (or assumption by) the New Obligor as principal obligor under Condition 12.2 and the Trust Deed, New Stock Acquisition Rights will be granted, in place of the Stock Acquisition Rights, to the Bondholders by the New Obligor, in accordance with the following terms:

6.5.1 *Number of the New Stock Acquisition Rights to be Granted*: The number of New Stock Acquisition Rights to be granted will be equal to the number of the Stock Acquisition Rights

incorporated in the Bonds outstanding immediately prior to the relevant Corporate Event Effective Date;

6.5.2 *Class of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: Upon exercise of the New Stock Acquisition Rights, shares of common stock of the New Obligor shall be issued or transferred;

6.5.3 *Number of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: The number of shares of the New Obligor to be issued or transferred upon exercise of the New Stock Acquisition Rights shall be determined by reference to these Conditions taking into account the terms of the transaction contemplated under the relevant Corporate Event, and

(i) in the case of a Merger Event or a Holding Company Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right would upon its exercise immediately after the Corporate Event Effective Date receive the number of shares of common stock of the New Obligor (the "Number of Deliverable Shares") receivable upon the relevant Corporate Event by a holder of the number of Shares (such number being the "Number of Held Shares") which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately prior to the relevant Corporate Event Effective Date. If securities (other than shares of common stock of the New Obligor) or other property shall be delivered to such holder of the Number of Held Shares upon the taking effect of the Merger Event or the Holding Company Event (as the case may be), such number of shares of common stock of the New Obligor shall form part of the Number of Deliverable Shares as shall be calculated by dividing the fair market value of such securities or properties delivered to such holder of the Number of Held Shares by the New Obligor Current Market Price per Share, such fair market value to be determined by the Company, provided that in determining such fair market value, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of the Independent Financial Adviser; or

(ii) in the case of any other Corporate Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right shall, upon its exercise immediately after the Corporate Event Effective Date, receive an equivalent economic interest to be determined by the Company as that which would have been received by a holder of the number of Shares which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately before the relevant Corporate Event Effective Date, provided that, in determining such equivalent economic interest, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

For the purpose of this Condition 6, the "New Obligor Current Market Price per Share" means (i) the average of the daily Closing Prices of the shares of common stock of the New Obligor for the 30 consecutive Trading Days commencing 45 Trading Days immediately before the relevant Corporate Event Effective Date, or (ii) if such market price shall not be available, such price as is determined by the Company, provided that in determining such price, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

The conversion price for the New Stock Acquisition Rights shall be subject to adjustment which shall be as nearly equivalent as may be practicable to the adjustments provided in Condition 5.2;

6.5.4 *Description of the Asset to be Contributed upon Exercise of the New Stock Acquisition Rights and the Amount or the Calculation Method Thereof*: Upon exercise of each New Stock Acquisition Right, the relevant Bond shall be deemed to be acquired by the New Obligor as a capital contribution in kind by the relevant Bondholder at the price equal to the principal amount of the Bond;

6.5.5 *Exercise Period of the New Stock Acquisition Rights*: The New Stock Acquisition Rights may be exercised at any time during the period from, and including, the later of the relevant Corporate Event Effective Date or the date of implementation of the scheme described in Condition 6.4.1 up to, and including, the last day of the Exercise Period of the Stock Acquisition Rights;

6.5.6 *Other Conditions for the Exercise of the New Stock Acquisition Rights*: No New Stock Acquisition Right may be exercised in part;

6.5.7 *Amount of Stated Capital and Additional Paid-in Capital*: As at the date on which the exercise of a New Stock Acquisition Right becomes effective, one-half of the "maximum capital and other increase amount" as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital; and

6.5.8 *Others*: Fractions of a share of common stock of the New Obligor will not be issued upon exercise of the New Stock Acquisition Rights and no adjustment or cash payment will be made in respect thereof. The holder of each bond assumed (by way of substitution or otherwise only for the purposes of Japanese law), or bond provided, by the New Obligor may not transfer such bond separately from the New Stock Acquisition Rights. In cases where such restriction on transfer of the bond would not be effective under the then applicable law, a stock acquisition right incorporated in a bond equivalent to the Bond may be issued to the holder of each Bond outstanding immediately prior to the Corporate Event Effective Date in place of the Stock Acquisition Right and the Bond.

6.6 No Statutory Put Rights

Each Bondholder by accepting or acquiring any Bond agrees that its remedies if a Corporate Event or a Squeezeout Event occurs shall not include any statutory rights provided by Japanese law to require the Company to repurchase such Bond at fair market value, such rights being waived to the fullest extent permitted by applicable law.

6.7 Subsequent Corporate Events

The above provisions of this Condition 6 shall apply in the same way to any subsequent Corporate Events.

7 Redemption, Purchase and Cancellation

7.1 Final Maturity

Unless the Bonds have previously been redeemed or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised (in each case as provided in these Conditions), the Company will redeem the Bonds at 100 per cent of their principal amount on July 16, 2025. The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

7.2 Redemption at the Option of the Company upon Increased Share Prices

At any time on or after July 16, 2023, the Company may, but shall not be bound to, redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption, together with interest accrued pursuant to Condition 4 to (but excluding) the date fixed for such redemption and all Additional Amounts due on the Bonds (if any), provided, however, that no such redemption may be made unless the Closing Price of the Shares for any 20 Trading Days in a period of 30 consecutive Trading Days, the last of which occurs not more than 30 days prior to the date upon which the Optional Redemption Notice (as defined below) is first given, is at least 130 per cent of the Conversion Price in effect on each such Trading Day (taking into account any Retroactive Adjustment not then reflected in the Conversion Price). To exercise such option to redeem, the Company shall give not less than 30 nor more than 60 days' prior notice of such redemption (the "Optional Redemption Notice") to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable); and upon giving such notice, all such Bonds shall be redeemed by the Company on the date fixed for such redemption.

7.3 Redemption at the Option of the Company upon Reduced Outstanding Amounts

The Company may, but shall not be bound to, having given not less than 30 nor more than 60 days' prior notice (the "Clean-up Redemption Notice") to the Bondholders in accordance with Condition 19 (which

notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, together with interest accrued pursuant to Condition 4 to (but excluding) the date fixed for such redemption and all Additional Amounts due on the Bonds (if any), if at any time prior to the date upon which the Clean-up Redemption Notice is first given, the outstanding principal amount of the Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as at the date of issue thereof.

7.4 Redemption for Taxation Reasons

The Company may, but shall not be bound to, at any time, having given not less than 30 nor more than 60 days' prior notice (the "Tax Redemption Notice") to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding on the date fixed for redemption in the Tax Redemption Notice (the "Tax Redemption Date"), at 100 per cent of their principal amount together with interest accrued pursuant to Condition 4 to (but excluding) the Tax Redemption Date if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice that (i) it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after June 30, 2020 and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Trustee a certificate signed by a Representative Director or Authorised Officer stating that the obligation referred to in (i) above has arisen and cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be bound to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders and the Trustee, and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate. Upon the giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent of their principal amount together with interest accrued as aforesaid on the Tax Redemption Date.

Notwithstanding the foregoing, if the Company shall have given a Tax Redemption Notice, and if the outstanding principal amount of the Bonds at the time when such Tax Redemption Notice is given is 10 per cent or more of the aggregate principal amount of the Bonds as at the date of issue thereof, each holder of the Bonds will have the right to elect, and the Tax Redemption Notice shall state that such Bondholder will have the right to elect, that its Bonds should not be redeemed and that the provisions set forth in Condition 9 shall not apply in respect of payment of any amount to be made in respect of the Bonds which will fall after the Tax Redemption Date and payment of all amounts due on such Bonds thereafter shall be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges referred to in Condition 9. Such right of the Bondholder shall be exercised by the Bondholder giving notice to the Company in the form (for the time being current) obtainable from any Agent no later than 20 days prior to the Tax Redemption Date.

7.5 Corporate Event Redemption

Upon or following the occurrence of a Corporate Event, the Company shall be required to give not less than 14 Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the Bonds then outstanding at the Relevant Event Redemption Price per Bond (expressed in yen) determined in accordance with the provisions of Condition 7.8, on the date (the "Corporate Event Redemption Date") specified for redemption in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event), together with interest accrued pursuant

to Condition 4 to (but excluding) the Corporate Event Redemption Date and all Additional Amounts due on the Bonds (if any), if any of the following conditions is satisfied:

(i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect a scheme provided for by Condition 6.4.1; or

(ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company is not able to effect such a scheme in compliance with Condition 6.4.1; or

(iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing has been obtained for the shares of common stock of the New Obligor, and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or

(iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. The Trustee and the Bondholders shall be bound to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.5 and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate.

Any notice of redemption given under this Condition 7.5 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice even if (in the case of Condition 7.5(iii) or 7.5(iv) above) a Listing for the shares of common stock of the New Obligor is subsequently obtained.

7.6 Redemption on Delisting of the Shares

7.6.1 *Offers and Redemption*: If

(i) any offer is made by a party or parties (the "Offeror") other than the Company in accordance with the Financial Instruments and Exchange Act to all holders of Shares (or all such holders other than the Offeror and/or any company controlled by the Offeror and/or persons associated or acting in concert with the Offeror) to acquire all or a portion of the Shares;

(ii) the Company expresses its opinion to support such offer in accordance with the Financial Instruments and Exchange Act;

(iii) the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces or admits, that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or may be disqualified from such listing, quotation or dealing, as a result of the acquisition of Shares pursuant to the offer (unless the Company or the Offeror publicly expresses its intention to use its best endeavours to continue such listing, quotation or dealing after such acquisition); and

(iv) the Offeror acquires any Shares pursuant to the offer,

(the occurrence of items (i), (ii), (iii) and (iv) above together being a "Delisting Event") then the Company shall be required to give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the Relevant Event Redemption Price per Bond (expressed in yen) calculated in accordance with the provisions of Condition 7.8, on the date (the "Delisting Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice), together with interest accrued pursuant to Condition 4 to (but excluding) the Delisting Redemption Date and all Additional Amounts due on the Bonds (if any). The Trustee shall be entitled to assume, without being required to take any action and without liability, until it has written notice to the contrary that the Offeror has not so acquired any Shares.

7.6.2 *Offer Followed by Corporate Event or Squeezeout Event*: Notwithstanding the above provisions of this Condition 7.6, if the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces, that it intends to effect a Corporate Event or Squeezeout Event after the date of acquisition of any Shares pursuant to the offer, then the Company's obligation to redeem the Bonds under this Condition 7.6 shall not apply (but, for the avoidance of doubt, the provisions of Conditions 6 and 7.5, or Condition 7.7, as the case may be, shall be applicable to such Corporate Event or Squeezeout Event, as the case may be) unless such Corporate Event or Squeezeout Event does not occur within 60 days after the date of such acquisition, in which case the Company shall give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the last day of such 60-day period, to redeem all, but not some only, of the Bonds then outstanding on the date (for the avoidance of doubt, the Delisting Redemption Date applicable to such redemption being such date) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice) at the Relevant Event Redemption Price per Bond (expressed in yen) calculated in accordance with the provisions of Condition 7.8 (for the avoidance of doubt, "r" in the formula set out in Condition 7.8 being the number of days from and including such Delisting Redemption Date to but excluding the Maturity Date), together with interest accrued pursuant to Condition 4 to (but excluding) the Delisting Redemption Date and all Additional Amounts due on the Bonds (if any).

7.6.3 *Irrevocable Notice*: Any notice of redemption given under this Condition 7.6 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

7.6.4 *Notice to Bondholders*: Upon the occurrence of:

(a) any of the events set out in (i) through (iv) of Condition 7.6.1; or

(b) any of the events set out in Condition 7.6.2 which results in the cancellation or revival of the Company's obligation to redeem the Bonds,

the Company shall as soon as practicable give notice thereof to the Trustee in writing and to the Bondholders in accordance with Condition 19.

7.7 Squeezeout Redemption

Upon the occurrence of a Squeezeout Event, the Company shall be required to give notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at the Relevant Event Redemption Price per Bond (expressed in yen) calculated in accordance with the provisions Condition 7.8, on the date (the "Squeezeout Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date (the "Squeezeout Effective Date") of the acquisition, sale or consolidation of the Shares with respect to the Squeezeout Event, as the case may be; provided however, that if the Squeezeout Effective Date falls earlier than 14 Tokyo Business Days from the date of such notice, the Squeezeout Redemption Date shall be accelerated to the extent necessary to ensure that it shall fall on a date earlier than the Squeezeout Effective Date), together with interest accrued pursuant to Condition 4 to (but excluding) the Squeezeout Redemption Date and all Additional Amounts due on the Bonds (if any).

7.8 Relevant Event Redemption Price

The Relevant Event Redemption Price per Bond for the purposes of Conditions 7.5, 7.6 and 7.7 shall be determined in accordance with the following formula:

$$\textit{Relevant Event Redemption Price} = (\mathrm{OP} - \mathrm{D}) \times \frac{r}{t} + \mathrm{D}$$

where:

D = ¥10,000,000.

OP = 102.5% x D

r = the number of days (i) in the case of a redemption following a Corporate Event, from and including the Corporate Event Redemption Date to but excluding the Maturity Date, (ii) in the case of a redemption following a Delisting Event, from and including the Delisting Redemption Date (or, if applicable, the Corporate Event Redemption Date which follows such Delisting Event) to but excluding the Maturity Date, and (iii) in the case of a redemption following a Squeezeout Event, from and including the Squeezeout Redemption Date to but excluding the Maturity Date.

t = the number of days from and including the Closing Date to but excluding the Maturity Date.

The amount calculated in accordance with the above formula shall be rounded to the nearest yen with five one-tenths or more of a yen to be considered a full yen.

"D" is the denomination of each Bond and "OP" is the Offer Price of each Bond.

7.9 Redemption at the Option of the Bondholders

The holder of any Bond is entitled, at its option, to require the Company to redeem such Bond at 100 per cent of its principal amount on July 16, 2022 (the "Bondholders' Optional Redemption Date"), together with interest accrued pursuant to Condition 4 to but excluding the Bondholders' Optional Redemption Date) and all Additional Amount due on the Bonds (if any). To exercise such option, the holder of such Bond shall complete, execute and deposit at the specified office of an Agent, at such Bondholder's own expense, during normal business hours of such Agent, a notice of redemption in the form (for the time being current) obtainable from any Agent, together with the Certificate in respect of such Bond. Such notice of redemption must be given not less than 30 days nor more than 60 days prior to the Bondholders' Optional Redemption Date. Such notice may only be withdrawn with the consent in writing of the Company; provided, however, that if, prior to the Bondholders' Optional Redemption Date, the Bonds evidenced by any Certificate so deposited become immediately due and payable pursuant to Condition 10, or, upon due presentation of any Certificate on the Bondholders' Optional Redemption Date, payment of the redemption moneys is improperly withheld or refused, such Certificate shall, without prejudice to the exercise of the option contained in this Condition 7.9, be returned to the relevant holder by uninsured first class mail (airmail if overseas) at the address specified by such holder in the relevant notice of redemption.

7.10 Purchase of Bonds by the Company

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Company and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Company or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Company or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders or otherwise to exercise any voting rights and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for voting on any Extraordinary Resolution or for the purposes of these Conditions. Bonds that have been purchased by the Company may, at the option of the Company, be cancelled. Bonds that have been purchased by any Subsidiary may, at the option of such Subsidiary, be delivered to the Company for cancellation.

7.11 Cancellation

All Bonds which are redeemed or with respect to which the Stock Acquisition Rights have been exercised shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 7.10 shall be forwarded to the Principal Agent for cancellation.

7.12 Notice of Redemption

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition 7 will specify the Conversion Price as at the date of the relevant notice, the Closing Price of the Shares as at the latest practicable date prior to the publication of the relevant notice, the applicable date fixed for redemption, the redemption price of the Bonds, the amount of accrued interest per Bond, the last day on which the Stock Acquisition Rights may be exercised and the aggregate principal amount of the Bonds

outstanding as at the latest practicable date prior to the publication of the relevant notice. No notice of redemption given under Condition 7.2, 7.3 or 7.4 shall be effective if it specifies a date for redemption which falls during a period (a "Closed Period") in which Stock Acquisition Rights may not be exercised pursuant to Condition 5.1.4(c) or within 15 days following the last day of a Closed Period.

7.13 Priorities among Redemption Provisions

If any notice of redemption is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, no other notice may be, or as the case may be, is required to be, given pursuant to any other provision of such Conditions, subject as provided in Condition 7.6.2 and except for such Bonds so elected by the relevant Bondholder not to be redeemed pursuant to Condition 7.4.

If (a) the Company becomes obliged to give notice of redemption pursuant to Condition 7.5 or 7.7, or (b) the events set out in (i) to (iv) of Condition 7.6.1 occur, then a notice pursuant to Condition 7.2, 7.3 or 7.4 may not subsequently be given.

If the Company becomes obliged to redeem the Bonds pursuant to both Condition 7.6 and either Condition 7.5 or 7.7, the procedure pursuant to Condition 7.5 or 7.7, as the case may be, shall apply.

If any notice of redemption is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, that notice shall take priority over a notice given by a Bondholder pursuant to Condition 7.9 (whether such notice is given before or after any notice of redemption being given by the Company pursuant to Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7) so long as such notice by the Company is given prior to the Bondholders' Optional Redemption Date. If any notice of redemption is given by the Company pursuant to Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7 after a notice of redemption is given by a Bondholder pursuant to Condition 7.9, the Certificate for the relevant Bond shall be deemed to have been surrendered for payment as provided in Condition 8 for the purpose of redemption under Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, as the case may be.

8 Payments

8.1 Method of Payment

Payments in respect of principal, interest and premium (if any) will be made (subject to surrender of the Certificates in respect of the relevant Bonds at any specified office outside Japan of the Registrar or any Agent, if no further payments are due in respect of the Bonds evidenced by the relevant Certificates) to the person shown on the Register at the close of business on the third business day before the due date for payment thereof (each an "Interest Record Date"), by transfer to its Registered Account. All payments are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 9. If an amount which is due in respect of the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

"Registered Account" means a yen account maintained by the payee with a bank in Japan, details of which appear on the Register at the close of business on the fifth business day before the due date of payment.

In this Condition 8.1, "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar and the Principal Agent.

8.2 Agents

The initial Principal Agent and the Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Agent, the Registrar or any other Agent and to appoint other or further Agents, provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; and (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed. Notice of any such termination or appointment and of any changes in the specified offices of the Principal Agent, the Registrar or any other Agent will be given to the Bondholders in accordance with Condition 19.

8.3 Payments on Payment Business Days

If the due date for payment of any amount in respect of any Bond is not a Payment Business Day, then the holder of such Bond shall not be entitled to payment of the amount due until the next following Payment Business Day and no other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 8.3 falling after the due date. "Payment Business Day" means any day on which banks are open for business in the place of the specified office of the Agent at which (where required) the Certificate is presented for payment and (in the case of payment by transfer to a Registered Account as referred to in Condition 8.1) on which dealings in foreign currency may be carried out both in Tokyo and in such place.

9 Taxation

All payments by the Company in respect of the Bonds, subject to Condition 7.4, will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. If such withholding or deduction is so required, the Company will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

(i) to a Bondholder (a) who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation, or (b) who fails to comply with Japanese tax law requirements in respect of the exemption from such withholding or deduction, or (c) who is otherwise subject to such taxes, duties, assessments or governmental charges by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or the receipt of payment in respect of any Bond; or

(ii) in respect of which the relevant Certificate is presented for payment, more than 30 days after the Due Date (as defined below) except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting such Certificate for payment as at the expiry of such 30-day period.

If the Company becomes obliged to pay Additional Amounts in accordance with this Condition 9, then it will have the right to redeem the Bonds in accordance with and subject to Condition 7.4.

No Additional Amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Bond where such deduction or withholding is imposed pursuant to Sections 1471 through 1474 of U.S. Internal Revenue Code of 1986, any regulation or agreement thereunder, any an inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions or any agreement with the U.S. Internal Revenue Service ("FATCA withholding"). Further, the Company will have no obligation to otherwise indemnify for any such FATCA withholding deducted or withheld by the Company, the Agents or any other party that is not an agent of the Company.

As used herein, the "Due Date" for any payment means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly given to the Bondholders in accordance with Condition 19.

Any reference in these Conditions and the Trust Deed to principal, premium (if any) or interest in respect of the Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall,

subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction, give notice in writing to the Company that the Bonds are due and repayable at their principal amount together with accrued interest (if any) to the date of payment on the occurrence of any of the following events:

10.1 *Non-Payment*: the Company defaults in the payment of (a) principal of any of the Bonds under Condition 7.4 or 7.9 as and when the same shall become due and payable or (b) interest on any Bonds, and such default is not remedied within seven days; or

10.2 *Breach of Obligations*: the Company defaults in the performance or observance of any covenant, condition or provision contained in the Trust Deed or in the Bonds and on its part to be performed or observed (other than the covenant to make payments in respect of any of the Bonds), which default is, in the opinion of the Trustee, incapable of remedy, or if, in the opinion of the Trustee, capable of remedy, is not remedied within 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Company of notice requiring such default to be remedied; or

10.3 *Cross Default on Indebtedness*: the obligation to repay any indebtedness for money borrowed by the Company or any Principal Subsidiary and having an aggregate outstanding principal amount of at least ¥1 billion (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least ¥1 billion (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is not paid when due (on demand or otherwise) (or at the expiration of any applicable grace period as originally provided); or

10.4 *Cross Default on Guarantee/Indemnity*: the Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least ¥1 billion (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10); or

10.5 *Initiation of Insolvency Proceedings*: proceedings shall have been initiated against the Company or any Principal Subsidiary seeking with respect to the Company or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or

10.6 *Decree of Insolvency/Dissolution*: a final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or (in the opinion of the Trustee) any material part of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or

10.7 *Resolution for Dissolution*: a resolution is passed for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary except:

10.7.1 (in the case of the Company) in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied) or (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such winding-up, dissolution or liquidation, or, (in the case of a Principal Subsidiary) where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or the Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.7.2 if the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.8 *Institution of Insolvency Proceedings*: the Company or any Principal Subsidiary institutes proceedings seeking with respect to itself adjudication of bankruptcy or a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction, or consents to the institution of any such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or (in the opinion of the Trustee) any material part of its property, or makes a general assignment for the benefit of its creditors; or

10.9 *Stoppage of Payment*: the Company or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or

10.10 *Cessation of Business*: the Company or any Principal Subsidiary ceases, or through an official action of its Board of Directors threatens to cease to carry on business, except:

10.10.1 (in the case of the Company) in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied) or (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such cessation of business, or (in the case of a Principal Subsidiary) where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.10.2 the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.11 *Encumbrancer*: any encumbrancer takes possession of the whole or (in the opinion of the Trustee) any material part of the assets or undertakings of the Company or any Principal Subsidiary or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or (in the opinion of the Trustee) any material part of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days;

and, in the case of any of the events described in Condition 10.2, 10.3, 10.4, 10.5 and 10.11 and (if the events relate only to a Principal Subsidiary) Conditions 10.5, 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders.

For the purposes of Conditions 10.3 and 10.4, any indebtedness which is in a currency other than yen may be translated into yen at the spot rate for the sale of relevant currency against the purchase of yen quoted by any leading bank selected in its sole discretion by the Trustee on any day when the Trustee requests such a quotation for such purpose.

Upon any such notice being given to the Company, the Bonds shall immediately become due and repayable at 100 per cent of their principal amount (together with premium, if any, and default interest) as provided in the Trust Deed.

11 Undertakings

11.1 Undertakings with Respect to the Stock Acquisition Rights

While any Stock Acquisition Rights are, or are capable of being, exercisable, the Company will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of the Bondholders to give such approval:

11.1.1 *Shares:* issue, register and deliver Shares upon exercise of Stock Acquisition Rights in accordance with these Conditions, and keep available free from pre-emptive or other rights for

the purpose of effecting the exercise of the Stock Acquisition Rights such number of its Shares (whether authorised and unissued or in issue and held in treasury) as would be required to be delivered upon exercise of all of the Stock Acquisition Rights outstanding from time to time and will ensure that all Shares delivered upon exercise of the Stock Acquisition Rights pursuant to these Conditions will be duly and validly issued and fully-paid and non-assessable;

11.1.2 *Transfers:* not take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of Incorporation as then in effect, the Stock Acquisition Rights may be exercised legally for Shares and the Shares issued upon exercise of the Stock Acquisition Rights, if any, may (subject to any limitation imposed by law) be transferred (as between transferor and transferee although not as against the Company) at all times while such action is effective, nor take any action which prevents exercise of the Stock Acquisition Rights or the issue or transfer of Shares in respect thereof, except as permitted under Condition 5.1.4;

11.1.3 *Financial Year and Record Date:* give notice to the Bondholders in accordance with Condition 19 as soon as practicable after it effects any change in its financial year or in the Record Date (including the setting of new Record Dates) for the payment of any cash dividend;

11.1.4 *Listing:* use its best endeavours to obtain and maintain the listing, quotation or dealing in on the Relevant Stock Exchange for the Shares or, if it is unable to do so having used such best endeavours, use its best endeavours to obtain and maintain the listing, quotation or dealing in of the Shares on such other stock exchange or securities market in Japan as the Company may from time to time reasonably determine and give notice of the identity of such stock exchange or securities market to the Bondholders in accordance with Condition 19; provided that, (i) so long as the Company is not in breach of its obligations under Condition 6 in the case of any Corporate Event where the obligations under the Bonds and/or Stock Acquisition Rights are proposed to be transferred to or assumed by a New Obligor, then the Shares may be delisted with effect from the date falling no earlier than 30 days prior to the relevant Corporate Event Effective Date or such earlier date as may be determined by the Relevant Stock Exchange and (unless shares of common stock of the New Obligor are then listed or quoted or dealt in on any stock exchange or securities market) the Company shall use its best endeavours to cause the obtaining of a listing, quotation or dealing in of the shares of common stock of the New Obligor on any stock exchange or securities market in Japan, and (ii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.5, 7.6 or 7.7 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from (x) delivering a certificate to the Trustee, as provided in Condition 7.5(iv), (y) taking any action provided in items (ii) and (iii) of Condition 7.6.1, or (z) proposing an amendment to the Articles of Incorporation for transforming the Shares into callable shares (*zenbushutokujoko tsuki shuruikabushiki*), approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushiki uriwatashi seikyu*), proposing a consolidation of Shares (*kabushiki no heigo*) after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing, or announcing or admitting that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or be disqualified from such listing, quotation or dealing after the acquisition, sale or consolidation of Shares pursuant to a Squeezeout Event, as the case may be);

11.1.5 *Other Securities:* procure that no securities of the Company convertible into, or exchangeable for, by their terms, Shares are, without the prior written consent of the Trustee or by an Extraordinary Resolution of the Bondholders (and in compliance with the conditions attached to such consent, if any), converted into or exchanged for Shares and that no rights or warrants to subscribe for, purchase or otherwise acquire Shares are, without the prior written consent of the Trustee or by an Extraordinary Resolution of the Bondholders (and in compliance with the conditions attached to such consent, if any), exercised otherwise than, in each case, in accordance with the terms of issue thereof (for the avoidance of doubt, such terms may be amended as a result of any change in or bringing into force of Japanese law, including but not limited to certain tax qualification requirements relating to incentive stock options);

11.1.6 *Capital:* not create or issue any class of share capital other than Shares, without giving notice to the Bondholders in accordance with Condition 19, at least 14 days prior to the date of such creation or issue;

11.1.7 *Limitation on Reduction of Conversion Price:* not take any action which would result in an adjustment of the Conversion Price if, after giving effect thereto, the Conversion Price would (but for the provisions of Condition 5.4) be decreased to such an extent that the Shares to be acquired on exercise of the Stock Acquisition Right could not, under any applicable law then in effect, be legally issued as fully-paid and non-assessable;

11.1.8 *Corporate Event:* if a Corporate Event occurs, use its best endeavours to obtain all consents which may be necessary or appropriate under Japanese law to enable the relevant company to give effect to the relevant arrangement, and to take all other action, as required by Condition 6 in a timely manner (unless, for the avoidance of doubt, the Bonds are to be redeemed pursuant to Condition 7.5 or 7.6); and

11.1.9 *Consents:* obtain and maintain all consents, clearances, approvals, authorisations, orders, registrations or qualifications (if any) required to be obtained or maintained by the Company on exercise of the Stock Acquisition Rights.

The Trust Deed contains certain other undertakings in relation to the Bonds and the Stock Acquisition Rights.

11.2 Charges

Except as otherwise provided in Condition 5.9, the Company will pay all charges of the Trustee, the Principal Agent, the Registrar, the other Agents, the Custodian (including the cost of providing notices) and all issue, transfer and other similar taxes payable with respect to the deposit of Bonds pursuant to Condition 5.9.3, and the issue and delivery of Shares and the delivery of any other securities, property or cash pursuant to Condition 5.9.5 following such deposit.

12 Substitution

12.1 Substitution other than under a Corporate Event

The Trustee may, without the consent of the Bondholders, agree with the Company to the substitution in place of the Company (or any previous substitute under this Condition 12) as the principal obligor under the Bonds and the Trust Deed of any Subsidiary of the Company subject to (i) the Bonds continuing to be convertible into Shares as provided in these Conditions, with such amendments as the Trustee shall consider appropriate, (ii) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (iii) satisfaction of such other conditions as are set out in the Trust Deed. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19.

Further conditions to such substitution are set out in the Trust Deed.

12.2 Substitution under a Corporate Event

Prior to a Corporate Event Effective Date, the Trustee may, if so requested by the Company, agree with the Company, without the consent of Bondholders, to the substitution in place of the Company of the New Obligor subject to a trust deed supplemental to the Trust Deed (which shall include the provisions described below), providing that the Company's obligations under the Bonds and the Trust Deed shall be assumed by the New Obligor by way of substitution (which, for the purposes of Japanese law, may be deemed to be a transfer or assumption of such obligations to or by the New Obligor), and that the New Obligor shall grant stock acquisition rights (the "New Stock Acquisition Rights") to all holders of the Bonds then outstanding, in place of the Stock Acquisition Rights incorporated in the Bonds held by them, being executed on or prior to the relevant Corporate Event Effective Date or (in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date) within 14 days after the relevant Corporate Event Effective Date. The Trustee may enter into such supplemental trust deed without consent of Bondholders only if:

(i) under such supplemental trust deed, the New Obligor agrees, in form and manner satisfactory to the Trustee, to be bound by the Trust Deed and the Bonds (with consequential amendments as

the Trustee may deem appropriate) with effect (as specified in this Condition 12.2) as if the New Obligor had been named in the Trust Deed and the Bonds as the principal obligor in place of the Company and providing that the holders of the Bonds then outstanding shall be granted New Stock Acquisition Rights;

(ii) except in the case of a Merger Event, pursuant to such supplemental trust deed the Company guarantees, in a form and manner satisfactory to the Trustee, the payment obligations of the New Obligor under the Trust Deed and the Bonds with effect as specified in this Condition 12.2, provided that no such guarantee will be required if the Company determines and has delivered to the Trustee no later than 10 calendar days prior to the relevant Corporate Event Effective Date a certificate of the Company signed by a Representative Director of the Company that, as at the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's long-term unsecured and unsubordinated debt is unlikely to be lower than the rating then currently assigned to the Company's long-term, unsecured and unsubordinated debt and which certificate the Trustee shall be entitled to rely upon without further investigation and without incurring any liability to any person for doing so. In making this determination, the Company shall consult an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;

(iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "New Territory") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the "Company's Territory"), the New Obligor will give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company's Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.4 in relation to payment of Additional Amounts by the New Obligor (and/or the guarantor, if any);

(iv) a Representative Director of the New Obligor certifies that the New Obligor will be solvent immediately after such substitution (if the Trustee receives such certification, the Trustee need not have regard to the New Obligor's financial condition, profits or prospects or compare them with those of the Company);

(v) the Company shall have certified (by a certificate of a Representative Director) to the Trustee that the New Stock Acquisition Rights satisfy the provisions of Condition 6.5;

(vi) the Company and the New Obligor comply with such other requirements as the Trustee may direct in the interests of the Bondholders; and

(vii) such substitution and grant of the New Stock Acquisition Rights become effective on the Corporate Event Effective Date (or in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, within 14 days after the relevant Corporate Event Effective Date).

12.3 Release of Obligations

An agreement by the Trustee pursuant to Condition 12.2 will (except in respect of any guarantee under Condition 12.2), if so expressed, release the Company (or a previous substitute) from any or all of its obligations under the Trust Deed and the Bonds.

12.4 Deemed Amendment

On completion of the formalities set out in Condition 12.2, the New Obligor will be deemed to be named in the Trust Deed and the Bonds as the principal obligor in place of the Company (or of any previous substitute) and the Trust Deed and the Bonds will be deemed to be amended as necessary to give effect to the substitution. In particular and without limitation:

(i) the terms "Stock Acquisition Rights" and "Shares" shall, where the context so requires, include the New Stock Acquisition Rights and shares of common stock to be issued by the New Obligor; and

(ii) references to the Company in Condition 10, in the definition of Principal Subsidiary and in the Trust Deed shall also include any guarantor pursuant to Condition 12.2(ii) except where the context requires otherwise.

13 Prescription

Claims in respect of the Bonds will become void unless made within the period of 10 years (in the case of principal and, if any, premium) or five years (in the case of interest) from the Due Date for the payment thereof.

14 Replacement of Certificates

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Principal Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Company may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15 Meetings of Bondholders; Modification and Waiver

15.1 Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of any provision of these Conditions or of the Trust Deed. The quorum for any such meeting convened to consider any matter requiring an Extraordinary Resolution shall be two or more persons holding or representing not less than 50 per cent in principal amount of the Bonds for the time being outstanding, or for any adjourned meeting two or more persons being or representing Bondholders (whatever the principal amount of Bonds held or represented) except that at any meeting the business of which includes the modification of certain provisions of the Bonds or of the Trust Deed (including, inter alia, modifying the date of maturity of the Bonds or the date for payment of interest on the Bonds, reducing or cancelling the principal amount of, or any premium payable in respect of, the Bonds, modifying the method or basis of calculating the rate or amount of interest in respect of the Bonds, altering the currency of payment of the Bonds or (to the extent permitted by applicable law) abrogating or modifying any Stock Acquisition Right), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 75 per cent, or at any adjourned such meeting not less than 50 per cent, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

Notwithstanding the above provisions, any resolution in writing signed by or on behalf of the holders of not less than 90 per cent in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of such Bondholders duly convened and held in accordance with the provisions contained in these Conditions and in the Trust Deed. Any resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Bondholders.

15.2 Modification and Waiver

The Trustee may, without the consent of the Bondholders, agree to any modification (except as aforesaid and as set out in the Trust Deed) of the Trust Deed or the Bonds (including these Conditions) or to any waiver or authorisation of any breach, continuing breach or potential breach by the Company of the provisions of the Trust Deed or the Bonds or determine that any Event of Default shall not be treated as such which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of the Trust Deed or the Bonds (including these Conditions) which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error or is necessary in order to comply with mandatory provisions of Japanese law or pursuant to Condition 6 or 12. Any such modification, waiver, authorisation or determination shall be binding on the Bondholders and shall be notified to the Bondholders in accordance with Condition 19 as soon as practicable thereafter.

If there is a change to the mandatory provisions of (i) Japanese law which in the reasonable opinion of the Company after obtaining advice from legal advisers (evidenced by (a) a certificate of a Representative Director or an Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming that such change has occurred) would make it necessary to amend and/or supplement the provisions of Conditions 1.1, 1.5, 5, 6, 7.5 and/or 7.7 or (ii) the Financial Instruments and Exchange Act which in the reasonable opinion of the Company (evidenced by (a) a certificate of a Representative Director or Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.6, the relevant Conditions shall be amended and/or supplemented to reflect that change by means of a trust deed supplemental to the Trust Deed. The Trustee (unless in its sole opinion such supplemental trust deed (i) imposes obligations, responsibilities or liabilities on it which are greater than those it has as Trustee under the Trust Deed or (ii) decreases the protections it has as Trustee under the Trust Deed) shall be obliged (subject to being indemnified and/or secured and/or prefunded by the Company to its satisfaction) to enter into such supplemental trust deed (in a form and substance satisfactory to it) to effect such change (even if, in the opinion of the Trustee, that change may be materially prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing and may rely on any opinion or any certificate of a Representative Director or Authorised Officer provided pursuant to this Condition 15.2 without liability to any person and without further investigation. The Company shall forthwith give notice to the Bondholders following the execution of any such supplemental trust deed in accordance with Condition 19.

15.3 Entitlement of the Trustee

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in these Conditions), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interests of individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15.4 Authority to the Trustee

To the fullest extent permitted by applicable law, by acquiring the Bond, the Bondholder irrevocably authorises and instructs the Trustee (without its direction whether by Extraordinary Resolution or otherwise) to take any action, step or proceeding before a Japanese court on behalf of and in the name of the Bondholder which the Trustee considers to be necessary or desirable in the interests of the Bondholders. The Trustee shall not be bound to take any such action, step or proceeding unless (a) so directed by an Extraordinary Resolution or so requested in writing by holders of at least one-quarter in principal amount of Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction, and shall incur no liability in taking or refraining from taking such action, step or proceeding. The Trustee shall not take any action, step or proceeding on behalf of a Bondholder in respect of the statutory rights referred to in Condition 6.6, such rights having been irrevocably waived by the Bondholder to the fullest extent permitted by applicable law.

16 Enforcement

At any time after the Bonds shall have become due and repayable, the Trustee may, at its absolute discretion and without further notice, take such proceedings, actions or steps against the Company as it may think fit to enforce repayment of the Bonds, together with accrued interest, pursuant to Condition 4 and to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings, actions or steps unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Company unless the Trustee, having become bound so to proceed, fails or is unable to do so within a reasonable time following such direction or request or provision of indemnity and/or security and/or prefunding (whichever is the latest) and such failure or inability shall be continuing.

17 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings, actions or steps to enforce the provisions of the Trust Deed or the terms of the Bonds. The Trustee is entitled to enter into business transactions with the Company or any person or body corporate associated with the Company without accounting for any profit resulting therefrom.

The Trustee may rely without liability to Bondholders on any certificate or report prepared by the Auditors or any Independent Financial Adviser or other expert pursuant to these Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the liability of the Auditors or the Independent Financial Adviser or such other expert (as the case may be) in respect thereof is limited by a monetary cap or otherwise; any such certificate or report shall be conclusive and binding on the Company, the Trustee, and the Bondholders.

18 Independent Financial Adviser

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or in relation to any other matter which is reserved in these Conditions for a decision of an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price or other matter shall be conclusive and binding on the Company, the Trustee and the Bondholders in the absence of manifest error.

If the Company shall fail to appoint an Independent Financial Adviser when required to do so and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser or otherwise in connection with such appointment, the Trustee shall have the power, but shall not be obliged, to make such appointment in its absolute discretion and without liability for so doing, following notification to the Company, in which case such Independent Financial Adviser shall be deemed to have been appointed by the Company.

19 Notices

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). If publication in any of such newspapers is not practicable, notices will be given in such other newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.

20 Contracts (Rights of Third Parties) Act 1999

Except as provided herein, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

21 Governing Law and Submission to Jurisdiction

21.1 Governing Law

The Trust Deed, the Agency Agreement and the Bonds, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Bonds and accordingly any legal action or proceedings arising

out of or in connection with the Trust Deed or the Bonds ("Proceedings") may be brought in such courts. The Company has in the Trust Deed submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

21.3 Agent for Service of Process

The Company has irrevocably appointed Hackwood Secretaries Limited as its agent in England to receive service of process in any Proceedings in England. If for any reason Hackwood Secretaries Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Trust Deed and the Global Certificate contain provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Bond Conditions set out in this Offering Circular. Terms defined in the Bond Conditions have the same meanings in the paragraphs below. The following is a summary of those provisions.

Notices

So long as the Bonds are evidenced by the Global Certificate and the Global Certificate is registered in the name of a nominee on behalf of Euroclear and/or Clearstream, Luxembourg or any other clearing system as shall have been approved in writing by the Trustee (the "Alternative Clearing System"), notices to the Bondholders shall be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or, as the case may be the Alternative Clearing System for communication by it to the entitled accountholders in substitution for publication and mailing as required by the Bond Conditions. Such notices shall be deemed to have been given in accordance with the Bond Conditions on the date of delivery to Euroclear and Clearstream, Luxembourg or such Alternative Clearing System.

Meetings

The registered holder of the Bonds (or any proxy or representative appointed by it) in respect of which the Global Certificate is issued shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each Bond in respect of which the Global Certificate is issued. The Trustee may allow any accountholder (or the representative of such person) of a clearing system entitled to Bonds in respect of which the Global Certificate has been issued to attend and speak (but not to vote) at a meeting of Bondholders on appropriate proof of his identity.

Exercise of Stock Acquisition Rights

Subject to the requirements of the relevant clearing system, the Stock Acquisition Right incorporated in a Bond in respect of which the Global Certificate is issued may be exercised by the transmission in electronic form to any Agent of one or more Conversion Notices duly completed by, or on behalf of, an accountholder in such system with an entitlement to such Bond and otherwise in accordance with the procedures of the relevant clearing systems. Deposit of the Global Certificate with an Agent together with the relevant Conversion Notice shall not be required. The exercise of the Stock Acquisition Right shall be notified by the Agent to the Registrar and the holder of the Global Certificate.

Payments

Payments of principal and premium (if any) and any other amount in respect of Bonds evidenced by the Global Certificate shall be made against presentation of, or, if no further payment falls to be made in respect of such Bonds, against presentation and surrender of, the Global Certificate to or to the order of the Principal Agent or such other Agent as shall have been notified to the Bondholders for such purpose.

Each payment will be made to, or to the order of, the person whose name is entered in the Register on the close of business on the Clearing System Business Day immediately prior to the date of payment, where "Clearing System Business Day" means Monday to Friday inclusive, except 25 December and 1 January.

So long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, a "Payment Business Day" for the purposes of Bond Condition 8.3 shall be any day on which dealings in foreign currency may be carried out in Tokyo.

Transfers

Transfers of interests in the Bonds in respect of which the Global Certificate is issued shall be effected through the records of Euroclear, Clearstream Luxembourg or any Alternative Clearing System and their respective participants in accordance with the rules and procedures of the relevant clearing system and their respective direct and indirect participants.

Prescription

Claims in respect of the Bonds in respect of which the Global Certificate is issued shall become void unless made within a period of 10 years from the appropriate Due Date (as defined in the Bond Conditions).

Trustee's Powers

Notwithstanding anything contained in the Trust Deed, in considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers appropriate to do so in the circumstances, have regard to and rely upon any information made available to it by or on behalf of such clearing system or its operator as to the identity of its accountholders (either individually or by category) with entitlements to the relevant Bonds in respect of which the Global Certificate is issued and may consider such interests (and treat such accountholders) as if such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

Cancellation

Cancellation of any Bond in respect of which the Global Certificate is issued pursuant to the Bond Conditions following its redemption, exercise of the relevant Stock Acquisition Rights or purchase by the Company or any subsidiary will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders and the endorsement (for information only) of the Global Certificate by the Principal Agent.

Early Redemption at the Option of the Company

The options and obligations of the Company to redeem the Bonds prior to maturity provided for in any of Bond Condition 7.2, 7.3, 7.4, 7.5, 7.6 and 7.7 shall be exercised or performed by the Company giving notice to the Bondholders within the time limits relating thereto set out therein and containing the information required of the Company in accordance with the relevant Bond Condition.

Redemption at the Option of Bondholders

The option of the Bondholders provided for in Bond Condition 7.9 may be exercised by a Bondholder by giving notice to the Principal Agent within the time limits relating thereto set out in that Bond Condition substantially in the form of the notice of redemption available from any Agent (or in a form of notice acceptable to Euroclear, Clearstream, Luxembourg or the Alternative Clearing System in accordance with the procedures thereof) and stating the principal amount of Bonds in respect of which the option is exercised.

Election of Bondholders

The election of the Bondholders provided for in Bond Condition 7.4 of the Condition may be exercised by giving notice to the Principal Agent within the time limits relating thereto set out in that Bond Condition and otherwise in accordance with the procedures of the relevant clearing system in the form acceptable thereto from time to time.

Electronic Consent

While the Global Certificate is registered in the name of any nominee, or a nominee for any common depositary for, a clearing system, then (a) approval of a resolution proposed by the Company or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of any Bonds of not less than 90 per cent in nominal amount of the Bonds then outstanding (an "Electronic Consent" as defined in the Trust Deed) shall, for all purposes, take effect as an extraordinary resolution passed at a meeting of Bondholders duly convened and held, and shall be binding on all Bondholders whether or not they participated in such Electronic Consent; and (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, subject to certain requirements set out in the Trust Deed, the Company and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Company and/or the Trustee, as the case may be, (i) by accountholders in the relevant clearing system with entitlements to the Bonds evidenced by such Global Certificate or, (ii) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries.

USE OF PROCEEDS

The net proceeds from the issue of the Shares, after deducting aggregate underwriting discounts and estimated aggregate offering expenses payable by us, and the net proceeds from the issue of the Bonds, are estimated to be approximately ¥5.0 billion and ¥15.9 billion, respectively. We plan to apply the total net proceeds from the Offerings as follows:

- approximately ¥18.8 billion towards strategic growth initiatives, including funding acquisitions, or investments in companies or technologies that complement our business, expanding drug candidate discovery and early development, and potentially in-licensing pipeline products for the Japanese market; and
- approximately ¥2.1 billion towards organic growth initiatives, including the cost of research and working capital.

We note, however, that we have no current plans, commitments or obligations to make any such acquisitions mentioned above. We reserve the right, at the sole discretion of our Board of Directors, to reallocate the proceeds of the Offerings in response to developments in our business. Accordingly, our management will have significant discretion in applying these proceeds. Until we use the net proceeds of the Offerings, we intend to invest the funds in short term, interest-bearing instruments.

SELECTED FINANCIAL DATA

The table below sets forth selected financial data as of the dates and for the periods indicated.

The selected consolidated statements of profit or loss and comprehensive income data and the selected consolidated statements of cash flows data for the fiscal periods ended March 31, 2018, December 31, 2018 and December 31, 2019, and the selected consolidated statements of financial position data as of March 31, 2018, December 31, 2018 and December 31, 2019 have been derived from our annual consolidated financial statements included elsewhere in this Offering Circular.

The selected consolidated statements of profit or loss and comprehensive income data and the selected consolidated statements of cash flows data for the three months ended March 31, 2019 and 2020 and the selected consolidated statement of financial position data as of March 31, 2019 and 2020 have been derived from our unaudited interim condensed consolidated financial statements included elsewhere in this offering circular.

As of June 22, 2018, we changed our auditors from Deloitte Touche Tohmatsu LLC to Ernst & Young ShinNihon LLC. Our consolidated financial statements in Japanese as at and for the twelve-month period ended March 31, 2018 were audited by Deloitte Touche Tohmatsu LLC and the consolidated financial statements in English as at and for the twelve-month period ended March 31, 2018 included elsewhere in this Offering Circular as comparative information to the consolidated financial statements as at and for the nine-month period ended December 31, 2018 are derived from such financial statements. Our consolidated financial statements as at and for the nine-month period ended December 31, 2018 and as at and for the twelve-month period ended December 31, 2019 were audited by Ernst & Young ShinNihon LLC.

The data set forth below should be read together with "Recent Business" and our financial statements and related notes included elsewhere in this Offering Circular. It is also not necessarily indicative of results that should be expected for future periods; in particular, results for the three months ended March 31, 2020 are not necessarily indicative of results of operations to be expected for the full fiscal year.

	As at and for the fiscal period ended			As at and for the three-month period ended	
	March 31, 2018	December 31, 2018[1]	December 31, 2019	March 31, 2019	March 31, 2020
	(Millions of yen, unless otherwise indicated)				
Selected Consolidated Statements of Profit or Loss and Other Comprehensive Income Data					
Revenue	¥ 6,955	¥ 2,872	¥ 9,726	¥ 3,136	¥ 1,162
Cost of sales	—	(335)	(851)	(213)	(175)
Gross profit	6,955	2,537	8,875	2,923	987
Research and development expenses	(4,935)	(5,384)	(4,292)	(1,024)	(668)
Selling, general and administrative expenses	(4,482)	(2,704)	(3,614)	(841)	(783)
Operating profit (loss)	(2,291)	(5,734)	384	1,061	(445)
Profit (loss) before income taxes	(3,702)	(7,243)	534	929	(500)
Profit (loss) for the period	(2,654)	(5,978)	1,432	1,018	(746)
Per Share Data					
Basic earnings (loss) per share	¥(37.55)[2]	¥ (78.40)	¥ 18.70	¥ 13.34	¥ (9.69)
Selected Consolidated Statements of Financial Position Data					
Goodwill	¥14,685	¥ 14,177	¥ 14,365	¥ 14,453	¥ 13,766
Intangible assets	16,670	14,367	12,999	14,524	11,871
Cash and cash equivalents	28,281	18,760	15,375	18,505	16,335
Total assets	69,486	58,987	56,680	61,845	52,864
Deferred tax liabilities	3,077	2,542	2,008	2,467	2,069
Contingent consideration in business combination	4,634	4,180	3,203	3,521	3,111
Interest-bearing debt	6,178	3,970	1,704	4,914	1,553
Total liabilities	20,600	17,407	11,602	18,213	10,639
Capital stock	36,783	36,854	37,479	36,918	37,518

	As at and for the fiscal period ended			As at and for the three-month period ended	
	March 31, 2018	December 31, 2018[1]	December 31, 2019	March 31, 2019	March 31, 2020
	(Millions of yen, unless otherwise indicated)				
Capital surplus	25,608	26,042	26,548	26,086	26,675
Retained earnings	(7,527)	(13,696)	(12,264)	(12,678)	(13,010)
Equity attributable to owners of the parent	48,882	41,577	45,075	43,629	42,222
Total equity	48,886	41,580	45,078	43,632	42,225
Selected Consolidated Statements of Cash Flows Data					
Net cash provided by (used in) operating activities	¥(2,167)	¥ (3,995)	¥ 3,441	¥ 359	¥ 1,469
Net cash provided by (used in) investing activities	(6,148)	(2,808)	(246)	(211)	198
Net cash provided by (used in) financing activities	22,641	(2,268)	(6,964)	(447)	(211)

Notes:

(1) Effective from the fiscal period ended December 31, 2018, we changed the fiscal year end from March 31 to December 31 in order to align our financial year end to our peer group including the major pharmaceutical companies that we partner and collaborate with on a global basis. As a result, the financial results for the fiscal period ended December 31, 2018 cover a nine-month period from April 1, 2018 to December 31, 2018.

(2) Effective July 1, 2018, we executed a stock split at a ratio of four shares per common share. Earnings per share has been calculated as if the stock split had occurred at the beginning of the fiscal period ended March 31, 2018.

RECENT BUSINESS

Factors affecting our results of operations

Revenue

For the twelve-month period ended December 31, 2019 and the three-month period ended March 31, 2020, we derived revenue from royalties in respect of our partnered products, in particular, Seebri® and Ultibro®, which have been commercialized by our collaboration partners, as well as upfront fees and milestone income from collaboration partners to whom we have out-licensed drug candidates for development. The amount which we receive from royalties depends upon our collaboration partners' successes in sales of our partnered products and their receipt of regulatory approval for those products in new markets, while our ability to derive future revenue from milestone income depends heavily upon our collaboration partners' successes in carrying out preclinical and clinical tests.

In addition to revenue derived from royalties and milestone income, we also derive modest revenues from conducting R&D activities on behalf of our collaboration partners.

In the event a drug product is commercialized, we will obtain revenue from the sale of the drug product if we have retained the rights to manufacture and sell the drug product, or from royalties and sales-related milestones based on the aggregate revenue of the drug product if the rights to manufacture and sell the drug product have been licensed to a third party. Our ability to generate revenue from drug products depends on the ability, either on our own or together with our partners, to discover, design and develop suitable drug candidates and obtain regulatory approval for them.

Cost of sales

Cost of sales represents (i) the fully loaded cost of those employees providing research and development services for specific customers under contracts (including other costs directly associated with these activities such as lab consumables) and (ii) the costs directly associated with product supply.

Research and development expenses

We generally recognize our R&D expenses as incurred. Our R&D expenses primarily consist of costs associated with our U.K. operations.

Any R&D costs we incur that are directly reimbursed by our partners have been deducted from our R&D expenses.

Due to the risks inherent in the R&D process, we are unable to estimate with certainty the costs we will incur in the continued discovery, design and development of our drug candidates for potential partnering or self-commercialization. Development times, probability of success for clinical trials and associated development costs vary widely. We anticipate that we will make determinations about which R&D programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical success of each drug candidate, as well as an ongoing assessment of a drug candidate's commercial potential. In addition, we cannot forecast with certainty which drug candidates will be subject to future partnering, when, if at all, such arrangements will be secured, and how such arrangements would affect our development plans and funding requirements.

We expect that our R&D expenses will see modest growth each year for the next few years. However, any failure by us or delay in completing clinical trials, or in obtaining regulatory approvals, could cause our R&D expenses to increase.

Selling, general and administrative expenses

Our selling, general and administrative expenses include personnel expenses, including director compensation, facilities costs, including depreciation of assets, and fees paid for professional services, including audit, accounting and tax services, legal fees, and advisory fees related to business development activity as well as general administration. We expect these expenses to remain broadly flat to modest growth over the next few years.

Foreign currency exchange rate fluctuations

We have significant exposure to currency fluctuations relative to Japanese yen, our reporting currency. Financial agreements in our industry are usually written in U.S. dollars, and most of our revenue-generating contracts are in this currency. Additionally, with the location of our main R&D activities being conducted in the U.K., our cost base is very heavily weighted towards the British pound. Whilst we endeavor to cover foreign currency transactions, we cannot hedge translation risk and hence our financial statements are exposed to movements in the values of the Japanese yen, British pound and U.S. dollar.

See Note 9.4 to our audited consolidated financial statements for the twelve-month period ended December 31, 2019 for a sensitivity analysis on our exposures to currency exchange rate risk.

Operating results for the three-month period ended March 31, 2020

Overview

During the three-month period ended March 31, 2020, we continued to advance our drug discovery and early-stage development pipeline, as well as enhance our proprietary StaR® technology and SBDD platform.

Our business model is focused across three core areas to create value; (i) supporting our existing partnerships with major global pharmaceutical companies, (ii) generating new and progressing existing collaborations in R&D with innovative technology companies and venture funds, and (iii) signing new high-value partnerships based on successful in-house drug discovery and early-stage development of new candidates.

As of March 31, 2020, we had more than 15 programs ongoing in discovery, with seven in preclinical development and nine in clinical trials.[1] [2]

Progressing our multiple partnerships with major global pharmaceutical companies

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

Our other out-licensed programs are being advanced exclusively by our partners, such as with AstraZeneca, Pfizer, and AbbVie. Whilst progress is ongoing, we do anticipate that some delays could emerge as a result of the global COVID-19 situation.

Advancing our collaborations with innovative technology and venture funds

We continued to make significant progress with our technology and venture partners.

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

Investing on our in-house discovery and early development pipeline to generate new candidates for partnering

We continued to make significant investments in our pipeline, as we advanced multiple discovery candidates and early development programs. Our two ongoing in-house Phase 1 clinical trials (HTL0014242 and

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1 Includes QVM149 for Asthma, AZD4635 combination for prostate cancer, HTL0018318 for dementia with Lewy bodies (voluntarily suspended and withdrawn), AZD4635 for multiple solid malignancies, HTL0016878 for neurobehavioral symptoms of Alzheimer's disease, HTL0018318 for Alzheimer's disease (voluntarily suspended), an undisclosed new drug candidate nominated by Pfizer, HTL0014242 for neurological disorders, and HTL0030310 for endocrine disorders.

2 Phase 2 trial of HTL0018318 for DLB in Japan remains under voluntary suspension and has been withdrawn. We plan to resubmit a new clinical trial notification for HTL0018318 (or another novel M_1 agonist) to the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) in the future pending the outcome of an ongoing investigation.

HTL0030310) are progressing well and are now the subject of multiple ongoing partnering discussions. We do, however, expect that some delays to the completion of these studies could emerge as a result of the global COVID-19 situation.

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

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

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

Analysis of operating results

The following selected consolidated financial information should be read in conjunction with our unaudited interim condensed consolidated financial statements included elsewhere in this Offering Circular.

	3 months ended March 31, 2019	3 months ended March 31, 2020
	(Millions of yen)	
Revenue	¥ 3,136	¥1,162
Cost of sales	(213)	(175)
Research and development expenses	(1,024)	(668)
Selling, general and administrative expenses	(841)	(783)
Other net income	3	19
Operating profit (loss)	1,061	(445)
Net finance income (costs)	(64)	7
Share of loss of associates accounted for using the equity method	(68)	(62)
Profit (loss) before income taxes	929	(500)
Profit (loss) for the period	¥ 1,018	¥ (746)

Revenue

Our revenue for the three-month period ended March 31, 2020 was ¥1,162 million (a decrease of ¥1,974 million compared to the prior corresponding period).

	3 months ended March 31, 2019	3 months ended March 31, 2020
	(Millions of yen)	
Milestone income and upfront fees	¥2,257	¥ 233
Royalty income	576	619
Product supply revenue	65	—
Other	238	310
	¥3,136	¥1,162

Revenue related to milestone income and upfront fees. For the three-month period ended March 31, 2020, revenue related to milestones and upfront fees was ¥233 million (a decrease of ¥2,024 million compared to the prior corresponding period), due to the absence of both upfront fees related to new partnerships and major milestone income from existing discovery and development partnerships in the three-month period ended March 31, 2020, whereas we received a $15 million milestone from AstraZeneca in the corresponding period in the previous year. We classify a "major" milestone income event as any single receipt greater than or equal to approximately $5 million.

Revenue related to royalties. For the three-month period ended March 31, 2020, revenue related to royalties was ¥619 million, compared to ¥576 million for the three-month period ended March 31, 2019 (an increase of ¥43 million compared to the prior corresponding period). The majority of our royalty income relates to sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis.

Ultibro® Breezhaler® remains the number one long-acting beta2 agonist ("LABA")/long-acting muscarinic antagonist ("LAMA") across Europe in terms of sales. In its Q1 2020 results presentation, Novartis updated the program status of QVM149, a new inhaled LABA/LAMA/ICS therapy for the treatment of Asthma, containing our out-licensed compound glycopyrronium bromide. Novartis disclosed that a regulatory decision is expected to be made in 2020 for QVM149. QVM149 was investigated in Phase 3/3b Studies, IRIDIUM and ARGON, which completed in 2019. QVM149 was submitted for registration in Europe in May 2019 and in Japan in Q3 2019. We are eligible to receive further royalties on net sales of this product once commercialized.

Operating expenses

	3 months ended March 31, 2019	3 months ended March 31, 2020
	(Millions of yen)	
Cost of sales	¥ 213	¥175
Research and development expenses	1,024	668
Cash expenses	936	557
Non-cash expenses	88	111
Selling, general and administrative expenses	841	783
Cash expenses	557	437
Non-cash expenses	284	346

Cost of sales. For the three-month period ended March 31, 2020, cost of sales totaled ¥175 million (a decrease of ¥38 million compared to the prior corresponding period). This is primarily related to the decrease in the costs directly associated with ORAVI® product supply. Otherwise, cost of sales comprises the fully loaded cost of those employees providing research and development services to specific customers under contracts (including other costs directly associated with these activities such as lab consumables).

Research and development expenses. For the three-month period ended March 31, 2020, cash R&D expenses totaled ¥557 million (a decrease of ¥379 million compared to the prior corresponding period). The decrease in R&D spend primarily related to a reduction in project activity due to COVID-19 related project delays, as well as the successful recovery of excess costs incorrectly charged by one supplier. In the three-month period ended March 31, 2020, 95 per cent of R&D expenses related to our U.K. operations.

Selling, general and administrative expenses. For the three-month period ended March 31, 2020, cash selling, general and administrative expenses totaled ¥437 million (a decrease of ¥120 million compared to the prior corresponding period). The decrease primarily related to a reduction in our U.K. National Insurance liability linked to share based payments as a result of the reduction in our share price over the quarter.

Non-cash expenses. Non-cash expenses primarily consist of depreciation on property, plant and equipment, amortization of intangible assets and stock-based compensation expenses. For the three-month period ended March 31, 2020, non-cash expenses were ¥457 million (an increase of ¥85 million compared to the prior corresponding period). For the three-month period ended March 31, 2020, depreciation amounted to ¥126 million (an increase of ¥23 million compared to the prior corresponding period). For the three-month period ended March 31, 2020, amortization was ¥214 million (a decrease of ¥24 million compared to the prior corresponding period). For the three-month period ended March 31, 2020, stock-based compensation expense was ¥117 million (an increase of ¥86 million compared to the prior corresponding period).

Operating profit (loss)

For the three-month period ended March 31, 2020, operating loss totaled ¥445 million, compared to an operating profit of ¥1,061 million in the prior corresponding period. The main reason for the operating loss was the decrease in revenue for the reasons stated above.

Net finance income (costs)

For the three-month period ended March 31, 2020, net finance income totaled ¥7 million (an increase of ¥71 million compared to the prior corresponding period). The improvement was primarily due to foreign exchange related gains driven by the strength of the Japanese yen against the British pound.

Profit (loss) for the period

Net loss for the three-month period ended March 31, 2020 totaled ¥746 million, compared to a net profit of ¥1,018 million in the prior corresponding period. The main reason for the net loss was the decrease in revenue for the reasons stated above.

Analysis of financial position

Assets

Total assets at March 31, 2020 were ¥52,864 million (a decrease of ¥3,816 million compared to December 31, 2019). The main reason for this decrease was the effect of the weak British pound on the translation of GBP-denominated assets into Japanese yen.

Liabilities

Total liabilities at March 31, 2020 were ¥10,639 million (a decrease of ¥963 million compared to December 31, 2019). The main reason for this decrease was a decrease in trade payables.

Equity

Total equity at March 31, 2020 was ¥42,225 million (a decrease of ¥2,853 million compared to December 31, 2019). This was primarily due to the net loss of ¥746 million and exchange differences of translation of ¥2,303 million.

Analysis of cash flows

Cash and cash equivalents at March 31, 2020 increased by ¥960 million from the beginning of the year and amounted to ¥16,335 million.

Cash flows from operating activities

Net cash provided by operating activities for the three-month period ended March 31, 2020 totaled ¥1,469 million. This was primarily due to income tax refunds of ¥1,114 million.

Cash flows from investing activities

Net cash provided by investing activities for the three-month period ended March 31, 2020 totaled ¥198 million. This was primarily due to sales of investment securities by RMF1 of ¥238 million.

Cash flows from financing activities

Net cash used in financing activities for the three-month period ended March 31, 2020 totaled ¥211 million. This was primarily due to contingent consideration payments of ¥159 million.

Operating results for the twelve-month period ended December 31, 2019

Overview

During the twelve-month period ended December 31, 2019, we continued to advance our proprietary StaR® technology, SBDD platform, and drug discovery and early-stage 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; (i) existing partnerships with major global pharmaceutical companies, (ii) new and existing collaborations in R&D with innovative technology companies and venture funds, and (iii) in-house drug discovery and early-stage development of new candidates for future high value partnerships.

As of December 31, 2019, we had 15 programs ongoing in discovery, with seven in preclinical development, and nine in clinical trials.

Progressing our multiple partnerships with major global pharmaceutical companies

Our existing partnerships with major pharmaceutical companies continued to progress very well. We achieved significant milestones, with our lead partnered program entering a Phase 2 clinical study with AstraZeneca, as well as its strategic multi-target drug discovery collaboration with Pfizer nominating three new drug candidates to advance into preclinical development, with one of these drug candidates subsequently entering into a Phase 1 clinical trial by year end. Furthermore, in the third quarter we entered into two new strategic partnerships with Genentech and Takeda respectively, with both of these new strategic partnerships progressing well.

Advancing our collaborations with innovative technology and venture funds

In the area of collaborations with innovative technology companies and venture funds, we continued to make significant progress with our partners and announced a new R&D collaboration with venture fund Medicxi relating to our orexin agonist program.

Investing on our in-house discovery and early development pipeline to generate new candidates for partnering

In the area of in-house drug discovery and early-stage development of new candidates for future high value partnerships, we continued to make the necessary investments in our pipeline, as we advance multiple discovery candidates through and into early-stage development. A first healthy subject was dosed with the novel small molecule HTL0030310 in a Phase 1 clinical study, marking the start of a new in-house clinical program targeting endocrine disorders, including Cushing's disease.

Effective from the fiscal period ended December 31, 2018, we changed the fiscal year end from March 31 to December 31 in order to align our financial year end to our peer group including the major pharmaceutical companies that we partner and collaborate with on a global basis. As a result, financial results for the fiscal period ended December 31, 2018 covers a nine-month period from April 1, 2018 to December 31, 2018.

The following selected consolidated financial information should be read in conjunction with our audited annual consolidated financial statements as at and for the twelve-month period ended December 31, 2019 included elsewhere in this Offering Circular.

	9 months ended December 31, 2018	12 months ended December 31, 2019
	(Millions of yen)	
Revenue	¥ 2,872	¥ 9,726
Cost of sales	(335)	(851)
Research and development expenses	(5,384)	(4,292)
Selling, general and administrative expenses	(2,704)	(3,614)
Other net expenses	(183)	(585)
Operating profit (loss)	(5,734)	384
Net finance income (cost)	(955)	331
Share of loss of associates accounted for using the equity method	(488)	(181)
Impairment loss on investments accounted for using the equity method	(66)	—
Profit (loss) before income taxes	(7,243)	534
Profit (loss) for the period	¥(5,978)	¥ 1,432

Analysis of operating results

Revenue

Our revenue for the twelve-month period ended December 31, 2019 was ¥9,726 million, compared to ¥2,872 million for the nine-month period ended December 31, 2018.

	9 months ended December 31, 2018	12 months ended December 31, 2019
	(Millions of yen)	
Milestone income and upfront fees	¥ 340	¥6,013
Royalty income	2,104	2,406
Product supply revenue	—	276
Other	428	1,031
	¥2,872	¥9,726

Revenue related to milestone income and upfront fees. For the twelve-month period ended December 31, 2019, revenue related to milestone income and upfront fees was ¥6,013 million, compared to ¥340 million for the nine-month period ended December 31, 2018. Revenue related to milestone income and upfront fees for the twelve-month period ended December 31, 2019 benefited from the occurrence of milestone income events during the period in addition to the commencement of new collaborations with Medicxi, Genentech and Takeda. Milestone income included a $15 million receipt from AstraZeneca, receipts totaling $14 million from Pfizer and receipts from Novartis and FUJIFILM. The prior fiscal period did not contain any upfront fees related to new partnerships, or major milestone income receipts from existing discovery and development partnerships. We classify a "major" milestone income event as any single receipt greater than or equal to approximately $5 million.

Revenue related to royalties. For the twelve-month period ended December 31, 2019, revenue related to royalties was ¥2,406 million, compared to ¥2,104 million for the nine-month period ended December 31, 2018. The majority of our royalty income relates to sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis.

On January 29, 2020, our partner Novartis reported 2019 sales for its Ultibro® Breezhaler® and Seebri® Breezhaler® products of $548 million (-9 per cent compared to 2018).

Ultibro® Breezhaler® remained the number one LABA/LAMA across Europe. In March 2019, Ultibro® Breezhaler® and Seebri® Breezhaler® was launched by Novartis in China for the treatment of chronic obstructive pulmonary disease (COPD). In November 2019, Ultibro® Breezhaler® was included in the 2019 National Reimbursement Drug List (NRDL) in China for the treatment of COPD.

In its Q4 2019 results presentation, Novartis updated the program status of QVM149, a new inhaled LABA/LAMA/ICS therapy for the treatment of Asthma, containing our out-licensed compound glycopyrronium bromide. Novartis disclosed that a regulatory decision was expected to be made in 2020 for QVM149. QVM149 was investigated in Phase 3/3b Studies, IRIDIUM and ARGON, which have completed in Q3 2019. QVM149 was submitted for registration in Europe in May 2019 and in Japan in Q3 2019. We are eligible to receive further royalties on net sales of this product once commercialized.

Operating expenses

	9 months ended December 31, 2018	12 months ended December 31, 2019
	(Millions of yen)	
Cost of sales	¥ 335	¥ 851
Research and development expenses	5,384	4,292
Cash expenses	5,187	3,937
Non-cash expenses	197	355
Selling, general and administrative expenses	2,704	3,614
Cash expenses	1,611	2,164
Non-cash expenses	1,093	1,450

Cost of sales. For the twelve-month period ended December 31, 2019, cost of sales totaled ¥851 million, compared to ¥335 million for the nine-month period ended December 31, 2018. Cost of sales for the twelve-month period ended December 31, 2019 comprises (i) the fully loaded cost of those employees providing research and development services to specific customers under contracts (including other costs directly associated with these activities such as lab consumables) and (ii) the costs directly associated with ORAVI® product supply which launched in February 2019.

Research and development expenses. For the twelve-month period ended December 31, 2019, cash R&D expenses totaled ¥3,937 million, compared to ¥5,187 million in the nine-month period ended December 31, 2018. R&D expenses decreased in the twelve-month period ended December 2019 due to the voluntary suspension of the Phase 2a MATILDA study for dementia with Lewy bodies ("DLB") patients in Japan and the result of a more focused approach to in-house drug discovery. In the twelve-month period ended December 31, 2019, 96 per cent of R&D expenses related to our U.K. operations.

Selling, general and administrative expenses. For the twelve-month period ended December 31, 2019, cash selling, general and administrative expenses totaled ¥2,164 million, compared to ¥1,611 million for the nine-

month period ended December 31, 2018. Cash selling, general and administrative expenses in the twelve-month period ended December 31, 2019 benefitted from tight management of costs.

Non-cash expenses. Non-cash expenses consist of depreciation on property, plant and equipment, amortization of intangible assets, and stock-based compensation expenses. For the twelve-month period ended December 31, 2019, non-cash expenses were ¥1,805 million, compared to ¥1,290 million for the nine-month period ended December 31, 2018. Depreciation amounted to ¥412 million for the twelve-month period ended December 31, 2019 (compared to ¥205 million for the nine-month period ended December 31, 2018) due to our investment in our state-of-the-art R&D facility in the UK which opened in August 2018, plus the impact of a change in accounting for lease contracts. For the twelve-month period ended December 31, 2019, amortization was ¥1,009 million and stock-based compensation expense was ¥384 million.

Other net expenses

Other expenses (net of other income) for the twelve-month period ended December 31, 2019 totaled ¥585 million, compared to ¥183 million for the nine-month period ended December 31, 2018. This was primarily due to a ¥605 million intangible asset impairment charge associated with a reduction in ORAVI® sales and profitability forecasts, as opposed to a ¥319 million impairment charge in the nine-month period ended December 31, 2018 related to the write off of certain capitalized in-process research and development costs following the Group's decision to cease the related development program and there being no expected future cash in-flows from that program. In addition, there was a reduction in grant income in the twelve-month period ended December 31, 2019.

Operating profit

For the twelve-month period ended December 31, 2019, operating profit totaled ¥384 million, compared to an operating loss of ¥5,734 million in the nine-month period ended December 31, 2018. The improvement in operating profit was primarily due to the increase in revenue and decrease in R&D expenses for the reasons stated above.

Net finance income (costs)

For the twelve-month period ended December 31, 2019, net finance income totaled ¥331 million, compared to a net finance cost of ¥955 million for the nine-month period ended December 31, 2018. The increase was primarily due to a loss of ¥1,121 million recorded in the nine-month period ended December 31, 2018 arising from our decision not to exercise our option to acquire more shares in our associate, MiNA (Holdings) Limited.

Profit (loss) for the period

Net profit for the twelve-month period ended December 31, 2019 totaled ¥1,432 million, compared to a net loss of ¥5,978 million for the nine-month period ended December 31, 2018. This was due to the increase in revenue and decrease in R&D expenses for the reasons stated above.

Analysis of financial position

Assets

Total assets at December 31, 2019 were ¥56,680 million (a decrease of ¥2,307 million compared to December 31, 2018). The main reasons for this decrease are the reduction of ¥3,385 million in cash and cash equivalents associated with the early payment of syndicated loans and the reduction of ¥1,368 million in intangible assets as a result of amortization and impairment, partially offset by an increase of ¥1,405 million in property, plant and equipment (linked to the adoption of IFRS 16) and an increase of ¥937 million in trade and other receivables (linked to the timing of milestone events).

Liabilities

Total liabilities at December 31, 2019 were ¥11,602 million (a decrease of ¥5,805 million compared to December 31, 2018). The main reason for the decrease is the repayment of ¥7,000 million of syndicated loans which were redeemed early, partially offset by the inclusion of lease liabilities resulting from the application of IFRS 16 (which added ¥1,817 million to interest-bearing debt at the start of the year), and the inclusion in other current and non-current liabilities of ¥1,235 million of deferred revenue on new contracts signed during the year.

Equity

Total equity at December 31, 2019 was ¥45,078 million (an increase of ¥3,498 million compared to December 31, 2018). This increase was primarily due to the net profit for the period of ¥1,432 million, other comprehensive income of ¥935 million, and the issuance of new shares of ¥747 million. The ratio of cash and cash equivalents, interest-bearing debt, and equity attributable to owners of the parent company to total assets were 27.1 per cent, 3.3 per cent and 79.5 per cent, respectively.

Analysis of cash flows

Cash and cash equivalents as at December 31, 2019 decreased by ¥3,385 million from the beginning of the year and amounted to ¥15,375 million.

Cash flows from operating activities

Net cash provided by operating activities for the twelve-month period ended December 31, 2019 totaled ¥3,441 million. This was predominantly due to cash inflows from milestone receipts, upfront fees relating to new collaborations and royalties exceeding operating costs, as well as income tax refunds of ¥886 million.

Cash flows from investing activities

Net cash used in investing activities for the twelve-month period ended December 31, 2019 totaled ¥246 million. This was primarily due to an additional RMF1 investment of ¥250 million and expenditure on property, plant and equipment of ¥271 million less contingent consideration receipts of ¥264 million.

Cash flows from financing activities

Net cash used in financing activities for the twelve-month period ended December 31, 2019 totaled ¥6,964 million. This was primarily due to the repayment of long-term interest-bearing debt of ¥7,061 million arising largely from the early repayment of syndicated loans.

Operating results for the nine-month period ended December 31, 2018

Overview

During the nine-month period ended December 31, 2018, we continued to advance our proprietary StaR® technology, 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; (i) existing partnerships with major global pharmaceutical companies, (ii) collaborations in R&D with other innovative pharmaceutical and biotechnology companies, and (iii) in-house proprietary drug development.

As of December 31, 2018, we had 15 programs ongoing in discovery, with four in preclinical development, and seven in clinical trials.

Progressing our multiple partnerships with major global pharmaceutical companies

Our partnerships with major pharmaceutical companies continued to progress very well. Our partnership with AstraZeneca advanced to next-generation immune-oncology agent (AZD4635). In the area of in-house proprietary drug development, we continued to make the necessary investments in our pipeline as we advanced multiple candidates towards clinical studies. In September 2018, we received approval in Japan for Oravi® Mucoadhesive Tablets 50mg for Oropharyngeal Candidiasis. Furthermore, in December 2018, we reported the 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.

Effective from the fiscal period ended December 31, 2018, we changed the fiscal year end from March 31 to December 31 in order to align our financial year end to our peer group including the major pharmaceutical companies that we partner and collaborate with on a global basis. As a result, financial results for the fiscal period ended December 31, 2018 covers a nine-month period from April 1, 2018 to December 31, 2018.

The following selected consolidated financial information should be read in conjunction with our audited annual consolidated financial statements as at and for the nine-month period ended December 31, 2018 included elsewhere in this Offering Circular.

	12 months ended March 31, 2018	9 months ended December 31, 2018
	(Millions of yen)	
Revenue	¥ 6,955	¥ 2,872
Cost of sales	—	(335)
Research and development expenses	(4,935)	(5,384)
Selling, general and administrative expenses	(4,482)	(2,704)
Other net income (expenses)	171	(183)
Operating loss	(2,291)	(5,734)
Net finance costs	(1,135)	(955)
Share of loss of associates accounted for using the equity method	(276)	(488)
Impairment loss on investments accounted for using the equity method	—	(66)
Loss before income taxes	(3,702)	(7,243)
Loss for the period	¥(2,654)	¥(5,978)

Analysis of operating results

Revenue

Our revenue for the nine-month period ended December 31, 2018 was ¥2,872 million, compared to ¥6,955 million for the twelve-month period ended March 31, 2018.

	12 months ended March 31, 2018	9 months ended December 31, 2018
	(Millions of yen)	
Milestone income and upfront fees	¥3,840	¥ 340
Royalty income	2,561	2,104
Other	554	428
	¥6,955	¥2,872

Revenue related to milestone income and upfront fees. For the nine-month period ended December 31, 2018, revenue related to milestone income and upfront fees was ¥340 million, compared to ¥3,840 million for the twelve-month period ended March 31, 2018. Revenue related to milestone income and upfront fees for the nine-month period ended December 31, 2018 did not contain any upfront fees related to new partnerships, or any major milestone income receipts from existing discovery and development partnerships. We classify a "major" milestone income event as any single receipt greater than or equal to approximately $5 million.

Revenue related to royalties. For the nine-month period ended December 31, 2018, revenue related to royalties was ¥2,104 million, compared to ¥2,561 million for the twelve-month period ended March 31, 2018. The majority of our royalty income relates to sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis.

Operating expenses

	12 months ended March 31, 2018	9 months ended December 31, 2018
	(Millions of yen)	
Cost of sales	—	¥ 335
Research and development expenses	¥4,935	5,384
Cash expenses	4,818	5,187
Non-cash expenses	117	197
Selling, general and administrative expenses	4,482	2,704
Cash expenses	2,972	1,611
Non-cash expenses	1,510	1,093

Cost of sales. For the nine-month period ended December 31, 2018, cost of sales totaled ¥335 million. Cost of sales comprises 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.

Research and development expenses. For the nine-month period ended December 31, 2018, cash R&D expenses totaled ¥5,187 million, compared to ¥4,818 million in the twelve-month period ended March 31, 2018. R&D expenses increased in the nine-month period ended December 31, 2018 due to increased preparatory spending related to the Phase 2a MATILDA study for DLB patients in Japan (which went on voluntary suspension in September 2018), together with continued investment in our in-house drug development programs, platform and translational science capabilities. In the nine-month period ended December 31, 2018, 97 per cent of R&D expenses related to our U.K. operations.

Selling, general and administrative expenses. For the nine-month period ended December 31, 2018, cash selling, general and administrative expenses totaled ¥1,611 million, compared to ¥2,972 million for the twelve-month period ended March 31, 2018. Cash selling general and administrative expenses in the nine-month period ended December 31, 2018 benefitted from a reduction in National Insurance charges in the U.K. (related to stock-based compensation), as well as tight management of costs.

Non-cash expenses. Non-cash expenses consist of depreciation on property, plant and equipment, amortization of intangible assets, and stock-based compensation expenses. For the nine-month period ended December 31, 2018, non-cash expenses were ¥1,290 million, compared to ¥1,627 million for the twelve-month period ended March 31, 2018. Depreciation amounted to ¥205 million for the nine-month period ended December 31, 2018 (compared to ¥135 million for the twelve-month period ended March 31, 2018). For the nine-month period ended December 31, 2018, amortization amounted to ¥664 million and stock-based compensation expense was ¥421 million.

Other net income (expenses)

Other expenses (net of other income) for the nine-month period ended December 31, 2018 totaled ¥183 million, compared to other income (net of other expenses) of ¥171 million for the twelve-month period ended March 31, 2018. Other expenses for the nine-month period ended December 31, 2018 comprise of a ¥319 million charge for impairment partially offset by grant income. The impairment charge relates to the write off of certain capitalized in-process research and development costs following the Group's decision to cease the related development program and there being no expected future cash in-flows from that program.

Operating loss

For the nine-month period ended December 31, 2018, operating loss totaled ¥5,734 million, compared to an operating loss of ¥2,291 million in the twelve-month period ended March 31, 2018. Operating loss increased primarily due to the decrease in revenue and the increase in R&D expenses for the reasons stated above.

Net finance costs

Net finance costs for the nine-month period ended December 31, 2018 totaled ¥955 million, compared to ¥1,135 million for the twelve-month period ended March 31, 2018. Finance costs include interest expense, foreign exchange gains/losses and fair value movements in financial assets and liabilities. For the nine-month period ended December 31, 2018, finance costs included a ¥1,121 million write-down related to the lapsing of our exclusive option to increase our investment in MiNA. There was also the inclusion of a contingent consideration credit and foreign exchange (as a result of more stable Japanese yen, U.S. dollar, and British pound rates). The contingent consideration charge relates to additional purchase consideration payable to the former shareholders of Heptares and represents the re-measurement of the estimated liability to the former shareholders of Heptares on a risk adjusted and discounted basis. As of December 31, 2018, we had paid out $66 million in cumulative contingent consideration payments out of a total maximum potential amount payable under the share purchase agreement of $220 million.

Loss for the period

Net loss for the nine-month period ended December 31, 2018 totaled ¥5,978 million, compared to ¥2,654 million for the twelve-month period ended March 31, 2018. Net loss increased primarily due to the decrease in revenue and increase in R&D expenses for the reasons stated above.

Analysis of financial position

Assets

Total assets at December 31, 2018 were ¥58,987 million (a decrease of ¥10,499 million compared to March 31, 2018). The main reason for this decrease is the reduction of ¥9,521 million in cash and cash equivalents associated with operating activity and debt repayments.

Liabilities

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

Equity

Total equity at December 31, 2018 was ¥41,580 million (a decrease of ¥7,306 million compared to March 31, 2018). This decrease was primarily due to the loss for the period of ¥5,978 million and the impact of exchange rate differences arising on translation of foreign operations of ¥1,641 million. The ratio of equity attributable to the owners of the parent company to total assets was 70.5 per cent, an increase of 0.2 per cent compared to March 31, 2018.

Analysis of cash flows

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

Cash flows from operating activities

Net cash used in operating activities for the nine-month period ended December 31, 2018 totaled ¥3,995 million. This was predominantly due to the loss before income taxes recorded for the nine-month period ended December 31, 2018 arising from our increased investment in R&D.

Cash flows from investing activities

Net cash used in investing activities for the nine-month period ended December 31, 2018 totaled ¥2,808 million. This was primarily due to the acquisition of fixed assets totaling ¥1,807 million related to investment in our new R&D facility in Cambridge, U.K. and investments totaling ¥650 million made by Sosei RMF1 Limited Partnership for Investment, a consolidated subsidiary.

Cash flows from financing activities

Net cash used in financing activities for the nine-month period ended December 31, 2018 totaled ¥2,268 million. This was primarily due to the repayment of long-term interest-bearing debt of ¥2,255 million.

Capital resources and liquidity of funds

Working capital is generated through the receipt of upfront fees, milestone income, 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 research and development 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 to invest in research and development activities and related facilities. See Note 9.1 to the audited consolidated financial statements for the twelve-month period ended December 31, 2019.

Recent events—Operational highlights after the period ended March 31, 2020

On April 14, 2020, we announced that we would apply our SBDD expertise in a new COVID-19 R&D program. The new R&D program is to identify novel compounds that block the activity of the SARS-CoV-2

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

On May 1, 2020, we noted that Novartis announced that the European Medicines Agency's Committee for Medicinal Products for Human Use ("CHMP") recommended the approval in the European Union of Enerzair® Breezhaler® (QVM149; indacaterol acetate, glycopyrronium bromide and mometasone furoate [IND/GLY/MF]) as a maintenance treatment of uncontrolled asthma in adult patients. The European Commission reviews the CHMP recommendation and usually delivers its final decision in approximately two months. If the European Commission follows this recommendation and approves Enerzair® Breezhaler®, it will become the first LABA/ LAMA/ inhaled corticosteroid (ICS) fixed-dose combination for uncontrolled asthma patients. Additional regulatory filings for Enerzair® Breezhaler® are currently underway in multiple countries, including Switzerland Canada. While the CHMP positive opinion does not trigger a milestone payment, we will be eligible to receive a $5 million milestone on final approval by the European Commission and thereafter a low-single digit royalty on net sales. The event reported therefore currently has no impact on the consolidated financial results for the fiscal year ending December 31, 2020.

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

On June 19, 2020, we disposed of our 90 per cent holding in Sosei CVC Ltd. We have retained a 15 per cent interest in Sosei RMF1 Limited Partnership for Investment ("RMF1"), the fund managed by Sosei CVC Limited. This disposal did not have a material impact on our Consolidated Statement of Profit or Loss and Other Comprehensive Income. As we no longer control Sosei CVC Ltd. and, therefore, no longer control RMF1, the fund ceased to be consolidated from that point.

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

On June 29, 2020, we announced that Novartis Pharma K.K., the Japan business of our partner Novartis, announced the world's first manufacturing and marketing approval for its Enerzair® Inhalation Capsules in Japan as a treatment of bronchial asthma (in cases requiring combination use of inhaled corticosteroid, inhaled long-acting ß2-adrenergic agonist and inhaled long-acting anticholinergic agent). The achievement of this milestone will result in a payment of $1.25 million to us from Novartis under the terms of the 2005 Development and Licensing agreement, and we will be entitled to royalties on commercial sales.

CAPITALIZATION AND INDEBTEDNESS

The following table shows our consolidated capitalization and indebtedness as at March 31, 2020, which has been extracted without material adjustment from our unaudited interim condensed consolidated financial statements as at the same date, and as adjusted to give effect to the issue of the Offered Shares and the Bonds:

	As at March 31, 2020	
	Actual	As adjusted
	(Millions of yen)	
Short-term debt		
Current portion of long-term lease liabilities	152	152
Total short-term debt	152	152
Long-term debt		
Long-term lease liabilities (less current portion)	1,553	1,553
Bonds now being issued	—	16,000
Total long-term debt	1,553	17,553
Equity		
Capital stock	37,518	40,046
authorized—149,376,000 Shares issued—77,113,726 Shares and 3,301,400 Shares, as adjusted for the issuance of the Offered Shares		
Capital surplus	26,675	29,203
Retained earnings	(13,010)	(13,010)
Treasury stock, at cost: 213 Shares	(0)	(0)
Other components of equity	(8,961)	(8,961)
Equity attributable to owners of the parent	42,222	47,277
Non-controlling interests	3	3
Total equity	42,225	47,280
Total capitalization and indebtedness(2)	¥ 43,930	¥ 64,985

Notes:

(1) As of March 31, 2020, the Group had contingent liabilities of ¥15,611 million representing the maximum remaining amount of contingent consideration payable in relation to business combinations.

(2) Total capitalization and indebtedness is a total of total short-term debt, total long-term debt and total equity.

(3) Save as disclosed above, there has been no material change in our consolidated capitalization, indebtedness or contingent liabilities since March 31, 2020.

INFORMATION CONCERNING THE SHARES

Authorized and Issued Share Capital

As of the date of this Offering Circular, we have an authorized share capital of 149,376,000 Shares, of which 77,270,728 Shares were issued and outstanding as of June 29, 2020. The following table shows recent changes in our issued share capital as of the dates indicated:

Period/Date	Description	Number of new Shares	Total number of issued and outstanding Shares
April 1, 2015 to March 31, 2016	Exercise of stock acquisition rights	80,000	13,854,000
September 16, 2015 to September 28, 2016	Offering of Shares (including a third party allotment in respect of over-allotments)	2,530,000	16,384,000
December 16, 2015	Third party allotment to Pfizer Seiyaku K.K.	471,284	16,855,284
April 1, 2016 to March 31, 2017	Exercise of stock acquisition rights	60,900	16,916,184
November 17, 2017	Offering of Shares (including a third party allotment in respect of over allotments)	2,070,000	18,986,184
April 1, 2017 to March 31, 2018	Exercise of stock acquisition rights	68,800	19,054,984
May 10, 2018	Stock split	57,164,952	76,219,936
April 1, 2018 to December 31, 2018	Exercise of stock acquisition rights	82,000	76,301,936
January 1, 2019 to December 31, 2019	Exercise of stock acquisition rights	771,200	77,073,136
January 1, 2020 to March 31, 2020	Exercise of stock acquisition rights	14,000	77,087,136
January 10, 2020	Issuance of new shares in relation to the Restricted Stock Unit Plan	26,590	77,113,726
April 1, 2020 to April 30, 2020	Exercise of acquisition rights	4,000	77,117,726
April 10, 2020	Issuance of new shares in relation to the Restricted Stock Unit Plan	35,624	77,153,350
May 1, 2020 to May 31, 2020	Exercise of stock acquisition rights	42,400	77,195,750
June 16, 2020	Issuance of new Shares in relation to Restricted Stock Unit Plan	10,178	77,205,928
June 1, 2020 to June 29, 2020	Exercise of stock acquisition rights	64,800	77,270,728

There has been no change in our issued share capital since June 29, 2020 (other than any changes from June 29, 2020 (the latest practicable date) to the date of this Offering Circular relating to exercises of stock acquisition rights and resulting from the offering of the Offered Shares).

In addition to the issued Shares described above, there are stock acquisition rights outstanding as part of our stock option plan, as described in further detail in "Management—Executive Compensation" that entitle the holders to acquire additional Shares from us under certain conditions.

Japanese Stock Market and Price Range of the Shares

Our Shares have been listed on the Mothers Market of the Tokyo Stock Exchange since July 2004 under the securities code "4565". The following table sets forth, for the periods indicated, (i) the highs and lows of the reported trading sales prices of our Shares on the Tokyo Stock Exchange, (ii) the highs and lows of the daily closing Nikkei Stock Average, an index of 225 selected stocks listed on the First Section of the Tokyo Stock Exchange, (iii) the highs and lows of the daily closing Tokyo Stock Price Index (TOPIX), an index of the market value of all Japanese stocks listed on the First Section of the Tokyo Stock Exchange and (iv) the highs and lows of the daily closing Mothers Index, an index of the market value of all Japanese stocks listed on the Mothers Market of the Tokyo Stock Exchange:

	Price per Share		Nikkei Stock Average		TOPIX		Mothers Index	
	High	Low	High	Low	High	Low	High	Low
			(yen)		(points)		(yen)	
2015	¥10,580	¥ 2,851	¥20,868.03	¥16,795.96	1,691.29	1,357.98	¥1,028.38	¥ 708.12
2016	26,180	9,080	19,494.53	14,952.02	1,552.36	1,196.28	1,226.42	667.49
2017	14,580	8,590	22,939.18	18,335.63	1,831.93	1,459.07	1,234.02	955.09
2018								
1st quarter	12,780	8,320	24,124.15	20,617.86	1,911.07	1,664.94	1,355.55	1,137.71
2nd quarter[(1)]	[9,080]	[6,660]	23,002.37	21,292.29	1,815.25	1,703.80	1,205.27	1,067.48
	[1,895]	[1,595]						
3rd quarter	1,855	1,030	24,120.04	21,546.99	1,822.44	1,676.20	1,077.55	942.48
4th quarter	1,368	748	24,270.62	19,155.74	1,824.03	1,415.55	1,074.99	757.02
2019								
1st quarter	1,557	780	21,822.04	19,561.96	1,627.59	1,471.16	967.92	827.33
2nd quarter	2,420	1,372	22,307.58	20,408.54	1,630.68	1,498.96	953.70	871.77
3rd quarter	2,794	2,088	22,098.84	20,261.04	1,623.27	1,478.03	925.93	824.20
4th quarter	2,600	2,137	24,066.12	21,341.74	1,747.20	1,505.21	915.32	836.76
2020								
1st quarter	2,217	1,051	24,083.51	16,552.83	1,744.16	1,236.34	893.27	557.86
2nd quarter	1,877	1,225	23,178.10	17,818.72	1,630.72	1,325.13	1,060.32	593.63

Note:

(1) Effective July 1, 2018, we conducted a stock split at a ratio of four shares per Share. The high and low figures for the closing prices of our Shares in the second quarter of 2018 are shown in two lines above, the first line being the high and low figures before the stock split and the second line being the high and low figures after the stock split.

On June 30, 2020, the last reported closing price of the Shares on the Tokyo Stock Exchange was ¥1,734 per Share and the Nikkei Stock Average and TOPIX closed at ¥22,288.14 and 1,558.77, respectively.

Dividends

Pursuant to our Articles of Incorporation, we may declare and pay fiscal-year-end dividends and interim dividends to shareholders of record as of December 31 and June 30, respectively, based on a resolution reached by our board of directors pursuant to the provisions of Paragraph 1 of Article 459 of the Japanese Companies Act.

We believe, as we focus on our R&D activities, that it is necessary for us to prioritize earnings retention for the time being with a view to harnessing the growth opportunities which are expected to enable greater returns to our shareholders in the future, and therefore do not expect to pay any dividends in the near to medium term.

We believe that it is important for us to continue and expand our investments into our new drug candidate R&D for building a sustainable pipeline for realizing future growth and an increase in revenues. We intend to make decisions as to payments of dividends comprehensively considering the balance between returns of surplus expected by our shareholders and our funding needs for our future growth.

Dividends paid to holders of Shares are subject to Japanese withholding tax. See "Japanese Taxation."

Principal Shareholders and Other Information

The table below shows information about the ownership of our Shares as of December 31, 2019 by our ten largest shareholders, as appearing on our register of shareholders.

Shareholder	Number of Shares held	Percentage of total Shares in issue
	(Shares)	*(Per cent)*
Daisuke Gomi[(1)]	6,270,000	8.14%
SBI SECURITIES Co., Ltd.	2,637,144	3.42
Japan Trustee Services Bank, Ltd. (Trust Account 9)[(2)]	2,269,794	2.94
Taiyo Fund, L.P.	2,215,000	2.87
Pfizer Pharmaceuticals K.K.	1,885,136	2.45
Taiyo Hanei Fund, L.P[(4)]	1,545,800	2.01
The Master Trust Bank of Japan, Ltd. (Trust Account)[(2)]	1,255,996	1.63
Shinichi Tamura[(3)]	1,136,400	1.47
State Street Bank and Trust Company 505227	1,015,800	1.32
Japan Trustee Services Bank, Ltd. (Trust Account)[(2)]	778,700	1.01
Total	21,009,770	27.26%

Notes:

(1) Daisuke Gomi, our largest shareholder, is a passive investor who does not have any relationship with us.
(2) Held by such shareholder in relation to its trust business.
(3) Shinichi Tamura is the chairman of our board of directors.
(4) The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of more than five per cent of the total voting shares of a company that is listed on any Japanese stock exchange to file a report concerning such shareholdings with the Director of the relevant Local Finance Bureau of the Ministry of Finance of Japan, and also require such person to file an amendment concerning any subsequent changes of one per cent or more of the total issued voting shares in such substantial shareholdings or any change in material matters set out in reports previously filed. See "Japanese Foreign Exchange and Certain Other Regulations—Reporting of Substantial Shareholders]".

As of the date of this Offering Circular, we are aware of the following reports in relation to which we were able to confirm beneficial ownership as of December 31, 2019 and which therefore has not been reflected in the shareholders' register or in the above table:

- An amendment report concerning changes in substantial shareholdings filed on February 7, 2020 by Taiyo Fund Management Co. LLC and its joint holders informing of their ownership of Shares amounting to 5,113,600 Shares as at July 16, 2019, as set out below.

Taiyo Fund Management Co. LLC	2,189,400 Shares
Taiyo Hanei GP, Ltd.	1,441,600 Shares
Taiyo Pacific CG LLC	1,326,400 Shares
Taiyo Maki GP, Ltd.	156,200 Shares

- An amendment report concerning changes in substantial shareholdings filed on September 6, 2019 by Capital Research and Management Company and its joint holders informing of their ownership of Shares amounting to 5,242,300 Shares as at August 30, 2019, as set out below.

Capital Research and Management Company	786,600 Shares
Capital International Limited	215,161 Shares
Capital International Inc.	339,980 Shares
Capital International Sarl	390,104 Shares
Capital International K.K.	3,510,455 Shares

The ownership distribution of the Shares by category of shareholders of record as at December 31, 2019 (being the most recent date as at which the information is available) was as follows:

	Number of Shares held[1]	Percentage of total Shares in issue
	(Unit Shares)	*(Per cent)*
Government and municipal bodies	—	—
Japanese financial institutions	62,618	8.13%
Japanese financial instruments business operators	68,486	8.89
Other Japanese corporations	39,488	5.13
Japanese individual investors and others[2]	464,300	60.27
Foreign corporations and individual investors	135,467	17.58
Total	770,359	100.0%

Notes:

(1) 100 Shares constitute one unit of Shares. See "Description of the Shares—Unit Share System".
(2) As at December 31, 2019, we held 213 Shares in treasury, of which 2 units of Shares (200 Shares) were included under the category of "Japanese individual investors and others" and the remaining 13 Shares did not constitute one full unit of Shares and are not shown above.

As at December 31, 2019, the Directors together directly held 1,136,400 Shares, representing 1.5 per cent of total Shares in issue at that date.

As at the date of this Offering Circular, we are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over us.

BUSINESS

Overview

Mission and Vision

Our Mission is to make a significant contribution to improving the quality of life and health of people around the globe through discovering and developing effective medicines for patients worldwide.

Our Vision is to be one of "Japan's leading biotechnology champions with a global reach," ensuring our place amongst the next generation of innovators.

Our Business

We are a science and technology-led, clinical-stage biotechnology company focused on discovering and developing innovative medicines to treat diseases with significant unmet medical needs. We also earn royalty revenues on a portfolio of marketed respiratory drugs manufactured and distributed by Novartis.

Our core scientific focus is to discover and develop new medicines that modulate the activity of G protein-coupled receptors (GPCRs), a superfamily of integral cell membrane proteins that are present on cells and tissues throughout the body, and the largest family of clinically relevant targets in the human genome.

Headquartered in Tokyo, our state-of-the-art research and development facility is in Cambridge, United Kingdom, where we have approximately 130 scientists, of which 76 hold PhDs, applying our proprietary technologies and core capabilities to the discovery and advancement of a broad pipeline of drugs targeting neurological disorders, gastroenterology/immunology, and inflammatory diseases.

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 per cent of currently marketed drugs, and account for around 27 per cent of the global market share of therapeutic drugs, with aggregated sales for 2011-15 of around $890 billion. GPCRs form the largest family of human membrane proteins, 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 difficult and complex. The low thermostability and high conformational plasticity of these integral membrane proteins make them extremely challenging as drug targets. The available structural information for 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 upon isolation, often preventing structure determination. The unstable nature of GPCRs has also hindered the ability to generate stable antigens to raise antibodies.

Our Solution—StaR® Technology and Structure-based Drug Design Platform

Our patent-protected technologies enable unique structural insights into GPCRs as drug targets. As such, we have the ability and the know-how to design new therapeutic agents with optimized pharmacology using Structure-based Drug Design (SBDD). Our approach aims to surpass current pharmaceutical productivity and deliver drug candidates with improved physicochemical properties, enhanced safety and efficacy profiles, and potentially lower clinical attrition rates.

StaR® (Stabilized Receptor) technology forms the backbone of our integrated SBDD platform that enables us to "unlock" the potential of GPCRs through an advanced understanding of their structure and atomic and molecular interactions. Our StaR® technology allows us to 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.

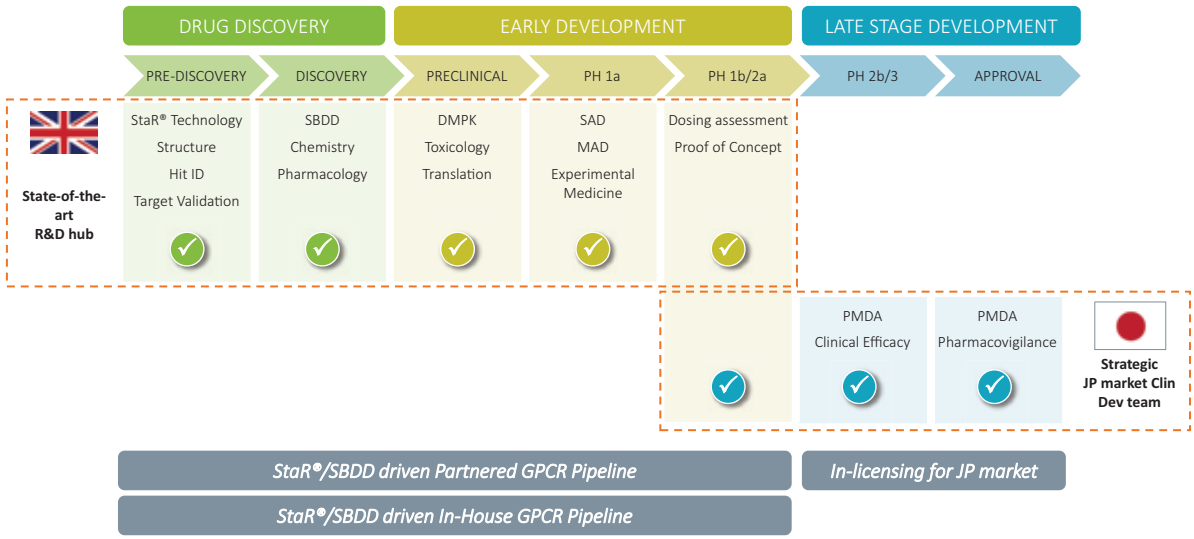
For example, StaR® proteins enable crystallization for detailed X-ray (or other) structure determination, which facilitates the design of innovative medicines with better safety and efficacy profiles and lower preclinical and clinical attrition rates compared to wild-type proteins. StaR® technology also enables the production of stabilized proteins that can be used for biologics discovery, either via in vitro phage screening, or for in vivo immunization.

Our StaR® technology, when combined with our comprehensive Fragment-Based Drug Design (FBDD) and SBDD approaches, enables us to discover and design very selective, high-affinity drug candidates. We have succeeded in elucidating the X-ray crystal structures of more than 28 receptors and have also succeeded in obtaining more than 280 structures in total for these receptors complexed to drug leads, a vital step in a viable SBDD process. Many members of the GPCR family have been difficult to drug with other technologies, but with ours, GPCRs can be used as StaR® proteins to produce drug candidates that have not previously existed.

We are committed to maintaining our leadership advantage in this area and have integrated new, complementary technologies, including artificial intelligence-based drug discovery approaches and cryo-EM structure determination, to augment our discovery and development capabilities.

Our Model

We are a fully integrated and specialized research, drug discovery, preclinical and development organization. In the United Kingdom, we operate a research center that can advance assets from concept, through drug discovery and into early clinical development. In Japan, the world's third largest pharmaceutical market, we operate a strategic clinical development function capable of advancing our own in-house discovered candidates (for example, our M_1 agonist for dementia with Lewy bodies), or candidates in-licensed from others, through late-stage development to Japanese PMDA approval.

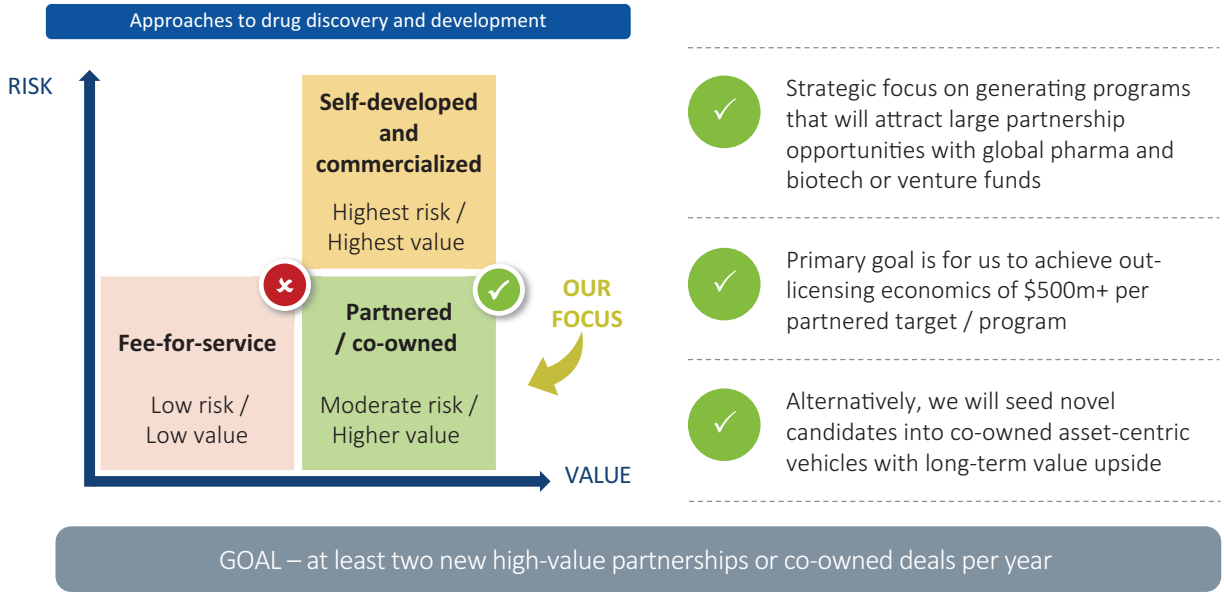


Our business model is focused across three core areas to create value; (i) supporting our existing partnerships with major global pharmaceutical and emerging biotech companies, (ii) generating new seeds and preclinical candidates to feed our growing in-house pipeline, and (iii) executing new high-value partnerships based on successful in-house drug discovery and early-stage development of new candidates.

Our size and operational agility mean we can progress programs from pre-discovery through to a preclinical candidate stage more efficiently than pharmaceutical industry norms. Our discovery process typically results in nominating preclinical candidates from fewer than 500 synthesized compounds. In the last 10 years we have generated 24 preclinical candidates through drug discovery and produced seven IND candidates that have entered human clinical trials. Based on our current drug discovery pipeline, and our plan for further investments in productivity, we aim to deliver at least four new programs through to lead optimization stage every two years and generate on average two new high value preclinical drug candidates every year.

As a result of rising R&D costs and the increased complexity of technologies and tools involved in drug discovery, our specialized GPCR capabilities and productivity have attracted global pharmaceutical and biotech companies seeking to improve the way they discover and develop medicines that target GPCRs of interest to them across multiple therapeutic areas. In particular, the comprehensive nature of our GPCR-focused SBDD platform may reduce the costs and risks associated with challenging GPCR drug discovery and development for these companies.

In the past 12 months, we have executed multi-target GPCR drug discovery and development collaborations worth potentially over $2.5 billion with Takeda, Genentech, and AbbVie, adding to earlier and ongoing partnerships with AstraZeneca and Pfizer, among others. These partnerships validate our technologies, balance our risk, and provide us with a broad source of non-dilutive capital to further expand our pipeline and technology leadership. Our strategy is to pursue and secure further collaborations with pharmaceutical companies around GPCR targets and pipeline assets that we generate. Our goal is to execute at least two new high-value partnerships or co-owned deals per year.



With the significant and growing number of novel drug candidates in our pipeline, it is necessary to employ a balanced approach to pipeline strategy to ensure all assets are progressed with a view to getting medicines to patients faster. All our in-house programs across drug discovery and development target addressable populations with unmet needs that we believe will make for attractive future high-value partnerships or long-term co-owned venture opportunities.

We actively manage our portfolio of in-house programs and reserve the right to choose the discovery and development strategy (in-house progression or partnering) that is most appropriate to drive the best outcome for patients, and value for our shareholders. Our philosophy is to ensure all assets in our pipeline can be partnered before reaching Phase 2b/3, thereby mitigating the excessive costs and risks to us associated with late-stage clinical development. When we choose to collaborate or partner one of our programs, our primary goal is to structure deals with total economics to us that exceed $500 million per target/program.

Our GPCR Pipeline

Our SBDD platform, which is driven by our StaR® technology at its core, has enabled us to discover and develop small molecules, peptides and antigens for antibody discovery, and have created a broad 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 neurology, immunology, gastroenterology and inflammatory diseases. As of June 2020, across both our Partnered and In-house GPCR Pipeline, over 20 programs are advancing through pre-discovery and discovery, 13 programs are advancing through preclinical studies, and at least seven programs are in clinical development.

Our Partnered GPCR Pipeline Programs include clinical candidates out-licensed to leading pharmaceutical and biotechnology companies, including AbbVie and AstraZeneca, and drug candidates for which we have ongoing multi-target discovery and development collaborations, including the recently announced deal with AbbVie for inflammatory diseases, in addition to ongoing programs with Genentech, Takeda, and Pfizer.

Our partners are developing one or more drug candidates that we discovered using our StaR® technology and/or SBDD platform, such as those in our clinical-stage muscarinic or adenosine programs, with both programs having now demonstrated early signals of therapeutic benefit in patients. 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 GPCR Pipeline Programs also include drug candidates that we have co-developed, or which we plan to co-develop with collaboration partners under profit and risk-sharing arrangements. For example, we have entered into strategic co-development agreements with Kymab, for the for the discovery, development and commercialization of certain novel antibody therapeutics, and PeptiDream for the discovery, development and commercialization of certain novel peptides. We have also entered into a structured financing agreement with Medicxi to co-invest in two asset-centric companies, Orexia and Inexia, which have obtained a portfolio of lead compounds and related development rights from us.

Our In-house GPCR Pipeline Programs comprise multiple drug candidates that address patient populations across neurology, gastroenterology/inflammation, immunology, and rare or orphan diseases. We plan to further develop these programs through to points of inflection before seeking high value partnerships with global pharmaceutical and biotech companies.

Our Other Medicines

In addition to our core activities in GPCR medicine design and development, we also have a legacy business that earns us a stable stream of royalties on global sales of Novartis' respiratory disease products Seebri® Breezhaler® and Ultibro® Breezhaler® for COPD (recently launched in China). The royalties provide us with a source of non-dilutive capital to support our strategic objectives. We believe Enerzair® Breezhaler® (QVM149), a novel combination therapy that is licensed to Novartis and recently approved in Japan and recommended for approval in the European Union for treating uncontrolled asthma, will also be a potential revenue source in the future. Enerzair® Breezhaler® (QVM149) has recently completed Phase 3 clinical trials and is expected to be approved in the EU and potentially other markets in the second half of 2020. See "Business—Other Medicines—Partnership with Novartis—Enerzair® Breezhaler® (QVM149)."

Our Intellectual Property

We believe our technologies and SBDD platform are protected by our intellectual property portfolio. Our GPCR technologies and SBDD platform are protected by 540 owned and licensed global patents and patent applications covering major territories, including the U.S., China, Japan and Europe (including over 325 issued patents), protecting our technology and pipeline, including 12 families comprising 120 issued patents and 27 patent applications protecting the StaR® technology platform globally. See "—Intellectual Property."

Our GPCR pipeline also benefits from protections offered by an extensive product patent portfolio. 51 patent families (representing over 390 patents and patent filings) have been or have the potential to be licensed in connection with drug products covering many indications under which we may earn royalties. Those patent families provide patent coverage in significant revenue markets around the world, including the U.S., key European member states including the UK and Germany, and Canada, China, Japan, Brazil and Mexico.

Similarly, our legacy business relating to our licensing agreement with Novartis, also benefits from protections offered by an extensive patent portfolio. 4 patent families (representing over 120 patents and patent filings) are currently licensed in connection with the respiratory disease products under which we currently earn royalties. Those patent families provide patent coverage in significant revenue markets around the world, including the U.S., key European member states including the UK and Germany, and Canada, China, Japan, Brazil and Mexico.

Our Strengths

We believe our core competitive strengths include the following.

Our leading capability in exploiting undruggable or challenging GPCRs, based on our unique and differentiated proprietary StaR® technology and SBDD capabilities that are protected by our intellectual property portfolio

Our unique and differentiated proprietary StaR® technology, when combined with FBDD (as described below) and SBDD, enables us to discover and design very selective, high-affinity drug candidates. Fragment-based drug discovery ("FBDD"), is a drug discovery method based on identifying small chemical fragments, which may bind only weakly to the biological target and extending them chemically to produce a hit or lead compound with higher affinity and desired drug-like properties.

StaR® is currently the only technology that can isolate a GPCR from the cell membrane while retaining its original three-dimensional conformational integrity and enabling co-structure determination with multiple small-molecule drug leads of relatively low affinity.

We believe our technologies and SBDD platform are protected by our intellectual property portfolio; our GPCR technologies and SBDD platform are protected by owned and licensed global patents and patent applications covering major territories, including the U.S., China, Japan and Europe, protecting our technology and pipeline.

We are committed to maintaining our leadership advantage in this area and have integrated new, complementary technologies, including artificial intelligence-based drug discovery approaches and cryo-EM structure determination, to augment our discovery and development capabilities.

We believe our leading capability in exploiting undruggable or challenging GPCRs through our strategically scalable SBDD platform allows us to shorten the lead-time between discovery and candidate nomination and introduce medicines into clinical development faster, with better safety and efficacy profiles and lower levels of attrition rates across a wide range of human diseases. Many members of the GPCR family have been difficult to drug with other technologies, but with ours, GPCRs can be used as StaR® proteins to produce drugs that have not previously existed.

Our partnerships with global pharmaceutical and biotechnology companies on GPCRs, in addition to the significant legacy Novartis royalties that underpin our growth

We have a diverse range of partnerships with global pharmaceutical and biotechnology companies such as AbbVie, AstraZeneca, Genentech, Pfizer and Takeda that validate our technologies, balance our risk, and provide us with a broad source of non-dilutive capital, in relation to our GPCR pipeline.

In addition, we have a significant legacy business that earns us what has been a stable stream of royalties on global sales of Novartis' respiratory disease products Ultibro® Breezhaler® and Seebri® Breezhaler® for COPD, and soon to be launched Enerzair® Breezhaler® for uncontrolled asthma (pending approval), which helps us fund our drug discovery and development activities.

Our strong and emerging in-house pipeline addressing distinct patient populations with unmet needs in neurology, gastroenterology, immunology, and inflammatory diseases, which we expect will become attractive partnering opportunities

We have a strong and emerging in-house pipeline addressing patient populations with high unmet medical need, and we expect our programs will be attractive partnering opportunities ahead of late-stage clinical development. We currently have three clinical candidates at various stages of Phase 1 clinical development. The candidates include: HTL0018318, a muscarinic M_1 receptor agonist for dementia with Lewy bodies in Japan (Phase 1b complete, Phase 2 clinical development voluntarily suspended); HTL0014242, an mGlu5 (metabotropic glutamate receptor 5) negative-allosteric modulator as a potential treatment for Amyotrophic Lateral Sclerosis (ALS) and other neurological disorders (Phase 1 ongoing); HTL0030310 an SSTR5 agonist for endocrine disorders (Phase 1 ongoing). In addition, HTL0022562, a CGRP receptor antagonist for severe migraine and cluster headaches, is at an advanced stage of preclinical development (IND-enabling studies completed).

We have also recently nominated two new candidates to advance towards clinical studies: a H4 receptor antagonist for inflammatory diseases and an EP4 antagonist for immuno-oncology, with further candidate nominations expected by year end 2020.

Our highly productive and sustainable drug discovery process that continues to seed multiple new preclinical candidates into the pipeline

Our scalable SBDD platform enables an efficient drug discovery process that is highly productive and sustainable. Our preclinical candidates are typically discovered from an average of fewer than 500 synthesized compounds, and with the recent addition of tools such as cryo-EM structure determination and Artificial Intelligence to our platform, we are further shortening the lead-time between discovery and candidate nomination, and potentially accelerating the delivery of new treatments to patients. In the last 10 years we have generated 24 preclinical candidates through drug discovery and produced seven IND candidates that have entered human clinical trials.

Based on our current drug discovery pipeline and further investments to accelerate productivity, we aim to deliver at least four new programs through to lead optimization stage every two years and generate two new high-value preclinical drug candidates every year.

Our experienced management team with significant track record in building and identifying value-enhancing investment and M&A opportunities, executing on and integrating these assets and effectively managing a global biotech business with significant presence in both Japan and the United Kingdom.

We are led by an executive management team with significant combined experience in founding, acquiring and growing science and innovation-led companies and developing and applying novel technologies to drug discovery. The acquisition of Arakis, a U.K.-based business, provided the Company with a valuable and long-term revenue stream through products licensed to and subsequently developed and now marketed by Novartis for treating respiratory diseases. The acquisition of Heptares Therapeutics, another U.K.-based business (co-founded by our current Executive Vice Chairman), drove a step-change in scale and enabled us to create a sustainable pipeline of new drug candidates targeting GPCRs in multiple disease areas. In addition, our executive management team has extensive experience in major pharmaceutical and corporate finance firms including Genentech, Takeda, GlaxoSmithKline, Evotec and J.P. Morgan. We are supported by a Board of Directors and a Scientific Advisory Board that provide us with the highest levels of support and guidance to facilitate our growth and development towards our goal of becoming a leading international biotechnology company.

Our Strategies

Building on our strengths, our goal is to be a leading science-led global biotechnology company focused on drug discovery and development of innovative medicines to treat diseases with high unmet medical needs.

Focusing on the significant untapped opportunity to design drugs that target GPCRs

We have built one of the world's leading GPCR medicine discovery, design and development companies. As part of this focus, we have increased the output capacity from our proprietary StaR® and allied technologies and have aligned our operations around the GPCR discovery platform. We will continue to pursue the sizeable opportunity that exists from 56 per cent of the GPCRome (GPCR target family) remaining undrugged—in what is the largest relevant family of clinically relevant drug targets in the human genome.

Building a leading science-led global biotechnology business through leveraging our StaR® technology and integrated SBDD platform and creating a deep and sustainable pipeline of product candidates

We aim to utilize our proprietary StaR® technology, structural determination methods and scalable platform to continuously fuel a sustainable pipeline of new drug candidates, including small molecules and biologics, targeting GPCRs. We aim to do this both for the advancement of our partnered pipeline and for our in-house pipeline of emerging drug candidates. Our investments, together with the expansion of capable scientific personnel, to date have enabled us to significantly increase our annual StaR® structure output to more than 40 per year. We aim to grow this output even further by making investments in technologies and expanding into new drug target areas that leverage our existing SBDD platform infrastructure.

Advancing our partnered pipeline, specifically the lead drug candidates currently in clinical development, and those in various stages of discovery collaborations

We are partnering with leading pharmaceutical companies that have significant development expertise and commercial franchises in key therapeutic areas where GPCR targets have strong scientific and/or clinical validation. For example, we are partnering with AstraZeneca to develop a novel, highly potent, small molecule adenosine A_{2A} receptor antagonist (currently in Phase 2 development) for use in combination with AstraZeneca's checkpoint inhibitor (anti PD-L1 antibody) IMFINZI™ (durvalumab) and other investigational agents to treat patients with metastatic castrate resistant prostate cancer (mCRPC). We are also partnering with AbbVie to develop selective muscarinic receptor agonists (currently in Phase 1 development) designed to deliver innovative symptomatic treatments for cognitive impairment in patients with Alzheimer's disease (and other dementias), as well as for certain neurobehavioral symptoms associated with dementia. These candidates act via different mechanisms of action to available acetyl-cholinesterase inhibitors or antipsychotics. Further, we are partnering with Pfizer, Genentech, Takeda and AbbVie on a number of GPCR-targeted discovery and development collaborations that aim to bring first-in-class medicines to large addressable patient populations across metabolic, immunology and inflammatory diseases.

Through these collaborations, aimed at discovering, developing and commercializing our products, we intend to continue to access complementary technological, financial, marketing, manufacturing and other resources of our partners.

Accelerating our in-house pipeline of GPCR drug candidates through discovery and/or through early clinical studies before seeking strategic development partners

We intend to leverage our experience and productivity in drug discovery and early clinical development to advance multiple in-house GPCR-modulating pipeline candidates. We will look to progressively partner these drug candidates in areas where we can leverage a partner's expertise and strategic capabilities. Our philosophy is to ensure all assets in our pipeline can be partnered before reaching Phase 2b/3, thereby mitigating the excessive costs and risks to us associated with late-stage clinical development.

We currently have three in-house clinical programs at various stages of Phase 1 development across neurological (dementia with Lewy bodies, ALS) and endocrine disorders. Moreover, we are continuing to advance a deep pipeline of GPCR programs and expect to generate multiple new seeds and on average two preclinical candidates per year going forward. We expect these new molecules to underpin multiple new high-value out-licensing deals and/or co-owned asset-centric vehicles with the potential to generate long-term financial upside. As of June 2020, our In-house (unpartnered) GPCR Pipeline has over 10 programs advancing through pre-discovery and discovery, seven programs advancing through preclinical studies and three programs in clinical development in pursuit of first- and best-in-class targets and large addressable patient populations across neurology, immunology, gastroenterology and inflammatory disease areas.

Continuing to extend and protect our patent portfolio that underpins our SBDD approach

Our patent portfolio consists of approximately 540 owned and licensed global patents and patent applications (including approximately 325 issued patents) covering major territories including the U.S., Europe, China and Japan, protecting the SBDD-related technologies, chemistry under development and the pipeline. The patent portfolio includes 12 families representing approximately 120 issued patents and 27 patent applications protecting our StaR® technology platform globally.

Strategically advancing our model by acquiring assets and/or investing in new technologies and tools to enhance our drug discovery capabilities, in addition to expanding into new protein drug target classes

We intend to acquire and/or invest in new technologies, tools and platforms in order to maintain our scientific leadership position and to further accelerate our business of discovering and developing novel medicines against GPCRs and other challenging drug targets. Specific value-enhancing areas we expect to invest in may include: (i) strategic acquisitions, investments, or in-licensing of pre-approved or approved products for development in the Japanese market; (ii) bioinformatics (transcriptomics, genomics) and translational biology to future-proof drug target selection; (iii) screening, artificial intelligence and machine learning technologies etcetera to add to our platform and further accelerate our drug discovery processes; and (iv) expanding into protein target classes beyond GPCRs that also represent validated points for therapeutic intervention in disease, for example Ion-channels and Transporters (transmembrane proteins), as well as Targeted Protein Degraders.

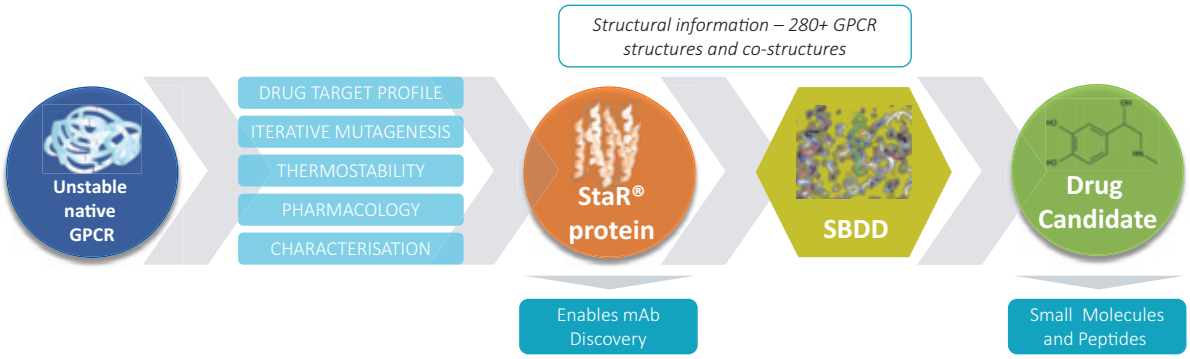
Our History

Sosei was founded in 1990 to support technology transfers and in-licensing from global biopharmaceutical companies into Japan. We transitioned into a drug development company in 2004 with the acquisition of Arakis, a U.K.-based business. Arakis has provided a valuable and long-term revenue stream through products licensed to and subsequently developed and now marketed by Novartis for treating respiratory diseases. In February 2015, we acquired Heptares for an up-front payment of $180 million and potentially up to a maximum of $220 million in contingent payments. See "Business—Other Agreements—Share Purchase Agreement with Former Shareholders of Heptares." The acquisition has enabled us to create a sustainable pipeline of new drug candidates targeting GPCRs in multiple disease areas. Since August 2015, we have executed strategic drug development partnerships and technology collaborations that have not only validated the Heptares GPCR technology but has also provided us with over $250 million in equity, up-front and milestone payments. Importantly, these payments have generated a strong return on the up-front acquisition cost.

Furthermore, in addition to royalties on sales, these deals provide us with the potential to generate around $6 billion in future milestones upon successful development and commercialization of the programs contemplated by our collaborators.

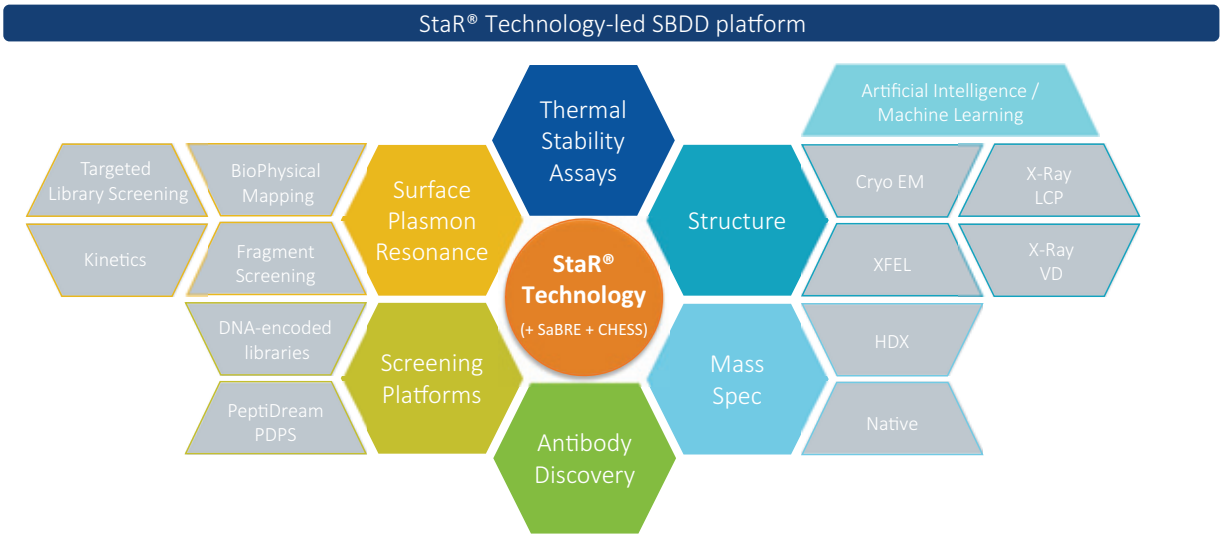
Our StaR® technology and SBDD platform

The following diagram shows the process in which StaR® technology applied to unstable GPCRs can enable small molecule, peptide or antibody discovery.

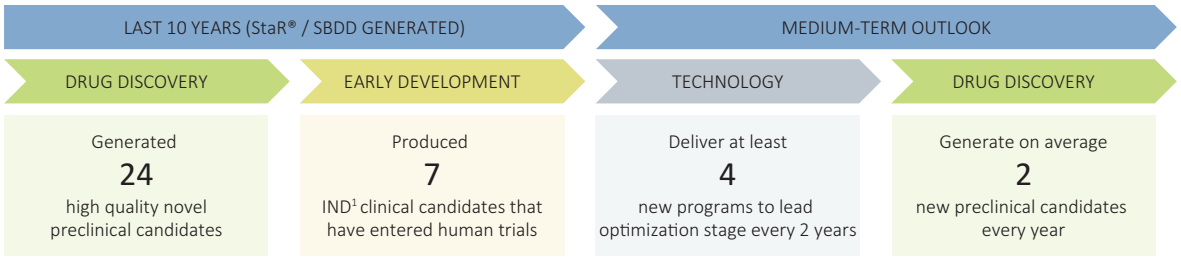


Overview of the SBDD Platform

The following diagram illustrates the StaR® technology at the center, which provides a gateway for unstable GPCRs to enter a portfolio of SBDD technologies to enable novel drug design.



Leveraging our SBDD platform, over the last 10 years we have generated 24 preclinical candidates through drug discovery and produced seven IND candidates that have entered human clinical trials. Based on our current drug discovery pipeline, and further investments to accelerate productivity, we aim to deliver at least four new programs through to lead optimization stage every two years and generate on average two new high value preclinical drug candidates every year.

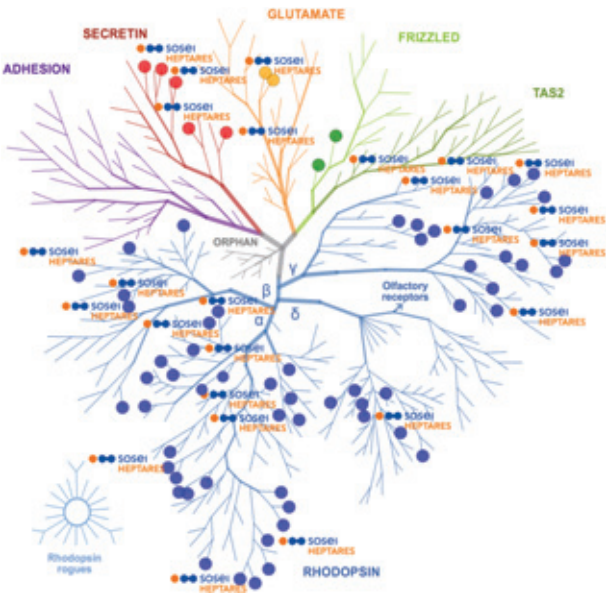


Note: [1] IND = Investigational New Drug

Our StaR® technology, when combined with FBDD and SBDD, enables us to discover and design very selective, high-affinity drug candidates. GPCRs are unstable, thereby requiring large ligands to stabilize and solve the receptor's structure which precludes routine SBDD. StaR® is currently the only technology that can remove the GPCR structure from the cell membrane while retaining its original three-dimensional conformational integrity and enabling co-structure determination with multiple small-molecule drug leads of relatively low affinity. We have succeeded in elucidating the X-ray crystal structures of more than 28 receptors, and have also succeeded in obtaining more than 280 structures in total for these receptors complexed to drug

leads, a vital step in a viable SBDD process. Many members of the GPCR family have been difficult to drug with other technologies, but with ours, GPCRs can be used as StaR® proteins to produce drug candidates that have not previously existed.

GPCRs remain the most clinically relevant family of targets in the human genome, and we are confidently going after the 56 per cent of challenging targets that are as yet undrugged. The diagram below details our leadership across the GPCRome, having solved more GPCR structures than the total publicly disclosed in the protein data bank.



Source: Protein Data Bank (PDB)

RCSB PDB PROTEIN DATA BANK

Structures of **70+** different GPCRs

300+ unique GPCR-ligand complexes

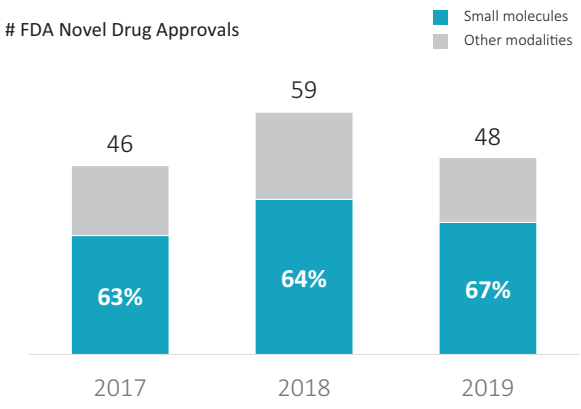
sosei HEPTARES

280+ GPCR structures

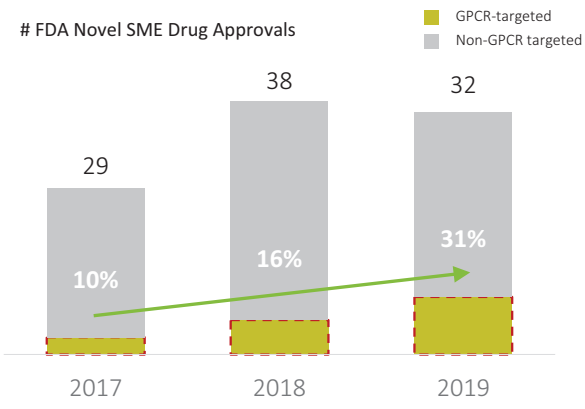
Highest resolution GPCR structure **(1.7Å)**

StaR® technology validated across GPCR-ome

Our StaR® technology is not limited to small molecule compounds, as it can also be applied to the discovery and development of peptide drug candidates. Moreover, StaR® proteins can be used as antigens, making it possible to obtain antibodies against GPCRs, which, to date, has been difficult. We also believe that StaR® technology can be widely applied to other important membrane protein targets such as ion channels and transporters. However, we concentrate our efforts on novel small molecule discovery, as this best aligns with our core capabilities in chemistry as well as relevant trends in FDA drug approvals.



SMEs continue to represent the majority of new FDA drug approvals every year…



… of which an increasing proportion are targeted at GPCRs

Source: US Food and Drug Administration, Chemical & Engineering News (C&EN)

We believe that our approach will improve the chances of discovering safer and more selective drugs targeting GPCRs that may overcome low selectivity and poor pharmacokinetic profiles or toxicity, often present in existing chemotypes identified by other means. Our approach has led to the generation of highly differentiated candidates to multiple challenging or intractable targets, as had been widely documented in scientific literature.

Overview of Technologies

StaR®

Wild-type GPCRs are unstable outside the cell membrane. Any structural changes easily disrupt underlying pharmacology, resulting in distortions in the underlying drug-binding characteristics. Our StaR® technology forms the backbone of our integrated SBDD platform for targeting GPCRs. A StaR® protein is a GPCR with a small number of point mutations that greatly improve its thermostability without disrupting its pharmacology. StaR® technology is transferrable across the GPCR superfamily and allows the selection of stable, functionally relevant, purified conformations of target GPCRs that retain their expected drug-binding characteristics. Whereas unstable wild-type proteins are intractable to structural studies, StaR® proteins allow structure determination and provide the launch pad for an SBDD approach to GPCR drug targets.

StaR®-driven X-ray Crystallography

X-ray crystallography is an important tool in defining the protein structure to bind to drug molecules at the atomic level. A mainstay of SBDD for other target families such as kinases, X-ray crystallography, was previously very challenging for GPCRs because it required stable pure proteins. Our approach provides a solution. StaR® proteins can be readily crystallized together with drug hits and leads, revealing previously unknown binding pockets and opportunities for small-molecule interaction with GPCR proteins. The stability of StaR® proteins permits co-crystal structures of even very weak binding compounds that are usually discovered early on in the lead generation phase of drug discovery. The detailed understanding of how compounds bind to the protein can be used by medicinal chemists to design drug candidates that fit perfectly and selectively into the ligand binding site of the receptor.

Biophysical Mapping™

In addition to X-ray crystallography, we have developed a unique and proprietary surface plasmon resonance, or SPR, based method for 3-D determination of compound-binding modes, called Biophysical Mapping™. This novel approach enables the rapid and timely application of structural information to medicinal chemistry as soon as a StaR® protein is made, in parallel with the initial crystallographic studies and while simultaneously deriving kinetic information. This technique can be used to screen and study fragments, conventional libraries and project compounds. Together with X-ray co-structures, Biophysical Mapping™ provides a powerful technology for GPCR lead discovery and optimization.

StaR® Fragment Screening

Purified StaR® proteins allow the screening of low molecular weight fragment libraries using a variety of biophysical techniques such as SPR, nuclear magnetic resonance (NMR) and capillary zone electrophoresis. We have developed a unique fragment library optimized for GPCRs. Fragments provide an ideal starting point for drug discovery since they can fit efficiently into small pockets within drug-binding sites. Although fragments bind with low affinity, they can be grown by SBDD approaches to high-affinity lead molecules that retain excellent physicochemical properties such as low molecular weight and solubility. We have successfully applied fragment screening to previously intractable receptors across the GPCR superfamily.

CHESS and SaBRE Technologies

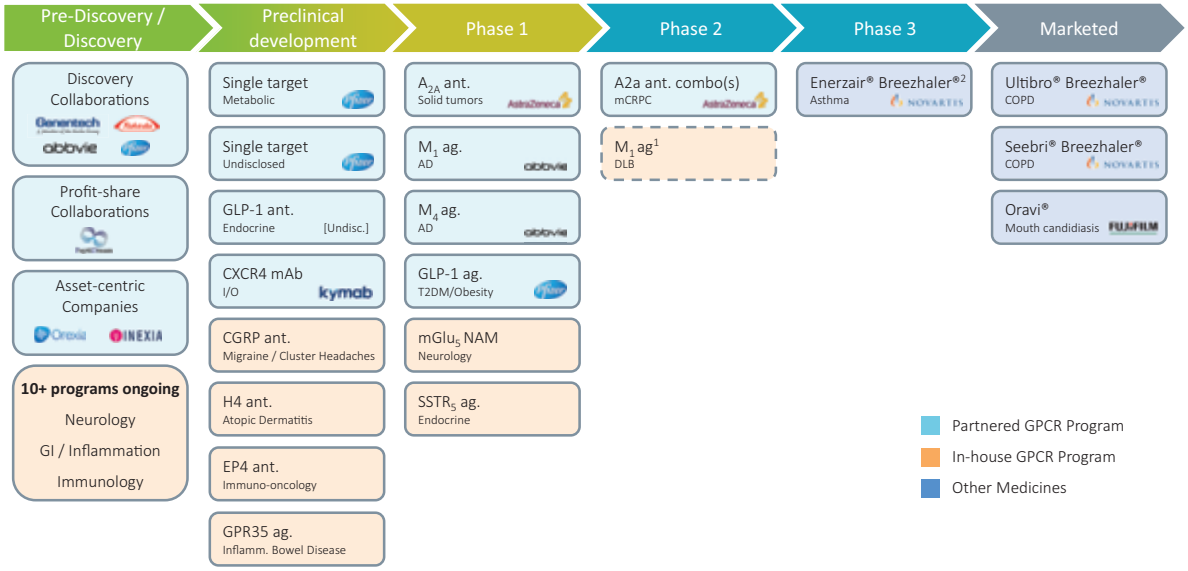
Cellular High-throughput Encapsulation, Solubilization and Screening, or CHESS, and Saccharomyces cerevisiae-Based Receptor Evolution, or SaBRE, technologies employ molecular evolution techniques to rapidly evolve panels of GPCR variants, each closely resembling the original target GPCR, and with enhanced stability and versatility for applying SBDD.

CHESS evolves functional stabilized GPCRs from populations containing hundreds of millions of variants of an ancestor GPCR, ensuring the identification of the best possible variant for downstream drug discovery applications. When applied to an attractive GPCR, CHESS delivers correctly folded GPCRs that can be purified and stored in a ligand-unbound state. These GPCRs can be expressed using inexpensive hosts, such as E. coli, to produce high-quality protein in order to accelerate drug discovery. CHESS delivers GPCR targets that are stable enough to conduct high-throughput drug screening and selection of biologics, as well as various structural and biophysical techniques.

SaBRE expands the directed evolution technology to a eukaryotic host, which allows the generation of improved receptor variants of even the most difficult-to-express members of the GPCR superfamily.

Our Pipeline

Set forth below is a chart showing the overview of our full pipeline, showing the partners (in the case of Partnered GPCR Pipeline, or Other Medicines), indications, and current phase of development:



[1] Phase 2 trial of HTL0018318 for DLB in Japan has been withdrawn. The Group plans to resubmit a new clinical trial notification for HTL0018318 (or another novel M_1 agonist) to the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) in the future.
[2] Enerzair®Breezhaler® approved in Japan and recommended for approval in the EU

Partnered GPCR Pipeline Programs

Product/Program	Modality[1]	Indication	Partner	Discovery	Preclinical	Phase 1	Phase 2	Phase 3	Marketed
Partnered Pipeline (Traditional out-licensing)									
A_{2A} antagonist	SME	mCRPC	AstraZeneca						
A_{2A} antagonist	SME	Solid tumors	AstraZeneca						
M_1 agonist	SME	Alzheimer's disease	abbvie						
M_4 agonist	SME	Alzheimer's disease	abbvie						
GLP-1 agonist	SME	T2DM/Obesity	Pfizer						
Single target	SME	Undisclosed	Pfizer						
Single target	SME	Metabolic and other	Pfizer						
GLP-1 antagonist	Peptide	Endocrine disorders	Undisclosed						
Multiple targets	SME/LME	Multiple indications	Genentech						
Multiple targets	SME/LME	Multiple indications	Takeda						
Single target	SME	Inflammatory diseases	abbvie						
Partnered Pipeline (Co-development/profit share)									
CXCR4 mAb	mAb	Immuno-oncology	kymab						
Single target	Peptide	Inflammation							

[1] Note: SME = small molecule; LME = large molecule; mAb = monoclonal antibody

Our business strategy includes forming collaborations to discover, develop and commercialize our products and, in so doing, access technological, financial, marketing, manufacturing and other resources. For a discussion of certain risks relating to our partnered GPCR pipeline program, see "Risk Factors—Risks Relating to Our Dependence on Third Parties—Our business is dependent on maintaining our existing partnerships and collaborations and developing new ones. If we are unable to establish or maintain such partnerships or collaborations, or if these partnerships or collaborations are not successful, our business could be materially adversely affected." and "Risk Factors—Risks Relating to Our Dependence on Third Parties—We may not have access to all information regarding our product candidates that are being developed or marketed by partners under collaboration and license agreements and our ability to inform our shareholders about the status of such product candidates may be limited."

The diagram below details the publicly disclosed economics to us from our various discovery and development collaboration with partners.

Partner	Program	Potential Total Deal Value[1]	Royalties	Additional Details
AstraZeneca	mCRPC / Immuno-oncology	$500m+	Tiered double-digit	Exclusive global rights to AZD4635
abbvie	Alzheimer's disease	$3.2bn+	Tiered double-digit	$55m R&D funding committed to date
Pfizer	Multi-target Collaboration	$1.8bn+	Tiered	Directed at up to 10 GPCR targets
Genentech A Member of the Roche Group	Multi-target Collaboration	$1.0bn+	Tiered	Exclusive global rights to novel agents
Takeda	Multi-target Collaboration	$1.2bn+	Tiered	Initial focus on GI disorders
abbvie	Discovery Collaboration and Option to License[2]	$400m+	Tiered	Initial focus on inflammatory diseases

[1] Potential option fees, development, regulatory and commercial milestone payments, plus royalties on global commercial sales; [2] AbbVie has the option to expand the collaboration by up to an additional three targets for a total of four targets

The following is a description of some of our major partnered programs.

AZD4635—an adenosine A_{2A} receptor antagonist program (Partnered with AstraZeneca)

	AZD4635 (formerly HTL1071)
Target	Adenosine A_{2A} receptor
Mechanism of Action	A_{2A} antagonist
Lead Indication	Metastatic Castrate-Resistant Prostate Cancer (mCRPC)
Secondary Indication	Other advanced solid malignancies
Function	Inhibit the immunosuppressive effects of adenosine to allow a more robust anti-tumor immune response
Stage of Development	Phase 2
Backup Chemistry	Yes

Introduction

The production of adenosine by tumors is a recently identified mechanism of immune cell evasion. A significant body of data indicates that targeting the adenosine cancer pathway, to either block adenosine or inhibit its production, can promote anti-tumor responses and lead to tumor regression. Adenosine A_{2A} receptor antagonism represents a novel mechanism which could be used as a monotherapy or in combination with a number of immunotherapy approaches to treat cancer. There are currently a number of investigational agents at various stages of clinical development. AZD4635 is an advanced clinical development candidate, having been tested extensively in preclinical studies and in patients, with the most advanced clinical trial current a Phase 2 study in patients with metastatic castration-resistant prostate cancer (mCRPC). In addition to this study, our partner AstraZeneca continues to assess AZD4635 in multiple solid tumor types as part of ongoing Phase 1 studies.

AZD4635 for prostate cancer (mCRPC) and other advanced solid tumors

Background and Market Opportunity

AZD4635 is a novel, potent, small molecule, adenosine A_{2A} receptor antagonist discovered by us using our proprietary StaR® technology and integrated SBDD platform and subsequently licensed to AstraZeneca in 2015. AZD4635 is in a Phase 2 clinical trial for patients with mCRPC. It is being investigated as a single agent and in combination with AstraZeneca's anti-PD-L1 antibody durvalumab (Imfinzi®), as well as in combination with oleclumab, a monoclonal antibody inhibiting the CD73 ectonucleotidase.

There is a continued and significant unmet medical need to develop innovative medicines to treat the spectrum of cancer types. Immunotherapy has emerged as a key treatment platform in oncology over the past few years and involves stimulating the patient's immune system to attack the tumor, resulting in a cascade of beneficial effects. Whilst profound responses have been seen in some patients, including evidence of the potential to cure, the majority of patients do not respond at all, driving a major need for improved efficacy. Several blockbuster treatments have been developed in this area over the past few years, most notably Yervoy®, an anti-CTLA-4 antibody developed by Bristol Myers Squibb, in addition to several anti-PD-1 / anti-PD-L1 antibody therapies, such as Keytruda® (Merck) and potentially *IMFINZI*™ (durvalumab) (AstraZeneca). These products are anticipated by market sources to have potential across multiple tumor types and could generate combined sales of $40 billion by 2025. To improve the efficacy of existing immunotherapies, biotech companies are focused on identifying novel combination therapies in the hope of meaningfully increasing long-term survival for patients. Adenosine A_{2A} receptor antagonists represent a novel mechanism which could combine with a number of immunotherapy approaches in a wide variety of cancers.

Prostate cancer is the second-most common cancer in men, with an estimated 1.3 million new cases diagnosed worldwide in 2018 and is associated with a significant mortality rate. Development of prostate cancer is often driven by male sex hormones called androgens, including testosterone. Metastatic castration-resistant prostate cancer (mCRPC) occurs when prostate cancer grows and spreads to other parts of the body despite the use of androgen-deprivation therapy to block the action of male sex hormones. Approximately 10-20 per cent of men with advanced prostate cancer will develop CRPC within five years, and at least 84 per cent of these will have metastases at the time of CRPC diagnosis. Of men with no metastases at CRPC diagnosis, 33 per cent are likely to develop metastases within two years. Despite an increase in the number of available therapies for men with mCRPC, five-year survival remains low.

Rationale

Adenosine A_{2A} antagonists have potential to increase efficacy of other cancer immunotherapies by blocking tumor cells' ability to use adenosine to evade the immune system. It is well understood from clinical research that tumor cells use a variety of mechanisms to evade the immune system. Targeting these immune 'checkpoint mechanisms' for example through CTLA-4 and PD-1 has been found to be highly effective in certain tumor types.

The production of adenosine by tumors is a recently identified mechanism of immune cell evasion. Adenosine produced by tumors acts on adenosine (purinergic) receptors on immune cells. In particular the adenosine A_{2A} receptor has been shown to play a key role in mediating the effects of adenosine.

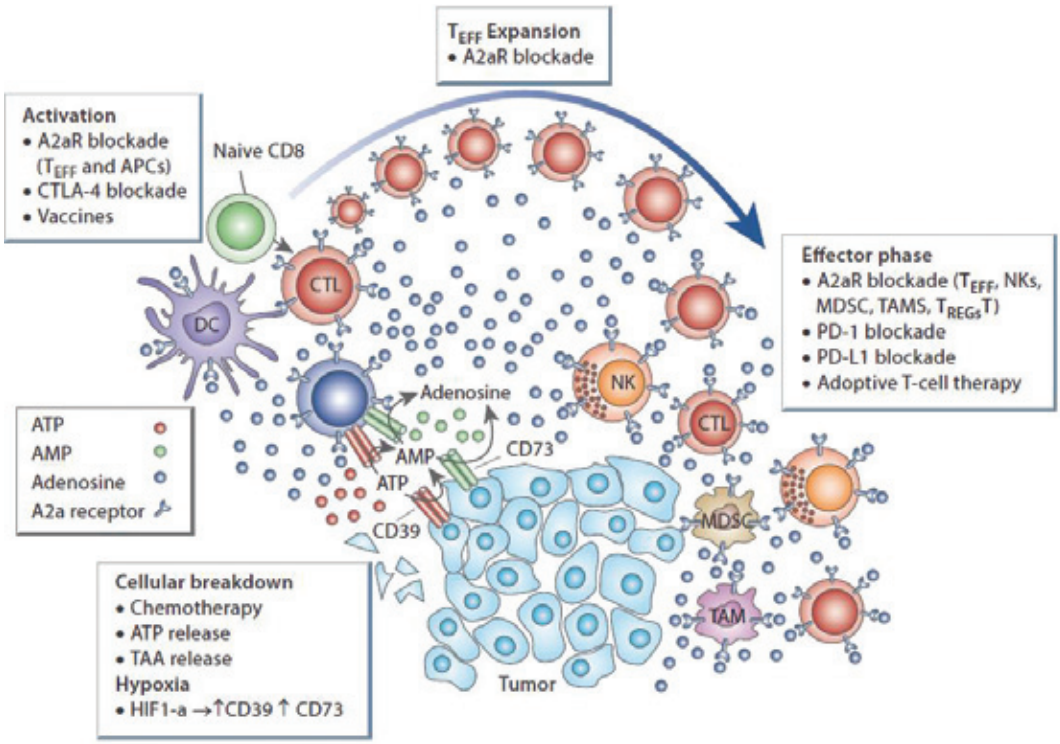
Adenosine is produced by the tumor primarily through the breakdown of ATP. Tumor hypoxia increases the expression of the enzymes CD73 and CD39 which catalyse the breakdown to adenosine. Other pathways for producing adenosine also exist. The adenosine A_{2A} receptor is expressed on a wide variety of immune cells within the tumor micro-environment including regulatory and effector T cells, NK cells and macrophages.

A_{2A} receptor stimulation of effector T cells (Teff) inhibits T cell receptor signaling and impairs effector functions including IFN-γ production and cytotoxicity.

- Adenosine enhances immunoregulatory activity of regulatory T cells (Treg).
- Adenosine can promote proliferation, survival and metastatic activity of cancer cells themselves in a feedback loop.

By blocking these diverse effects, adenosine A_{2A} antagonists have the potential to reduce tumor growth, proliferation and metastasis as well as activate the immune system to attack tumors and potentiate the effects of checkpoint inhibitor drugs.

The diagram below illustrates how lack of oxygen (hypoxia) in tumors leads to the upregulation of enzymes which produce adenosine (CD39/CD73). Adenosine released from tumors regulates the immune environment acting to inhibit the activity of effector T cells and increase the activity of regulatory T cells through adenosine A_{2A} receptors. There is also a feedback loop on some tumors where the adenosine contributes to continued cell survival, metastasis and chemoresistance also through the A_{2A} receptor.



Our approach

AZD4635 is a novel, potent, small molecule, adenosine $_{2A}$ receptor antagonist discovered by us using our proprietary StaR® technology and integrated SBDD platform and subsequently licensed to AstraZeneca in 2015. The most advanced study involving AZD4635 is a Phase 2 clinical trial for patients with mCRPC. It is also being investigated in an ongoing Phase 1 study for patients with advanced solid tumors as a single agent and in combination with AstraZeneca's anti-PD-L1 antibody durvalumab (Imfinzi®), as well as with multiple investigational agents, including oleclumab, a monoclonal antibody inhibiting the CD73 ectonucleotidase.

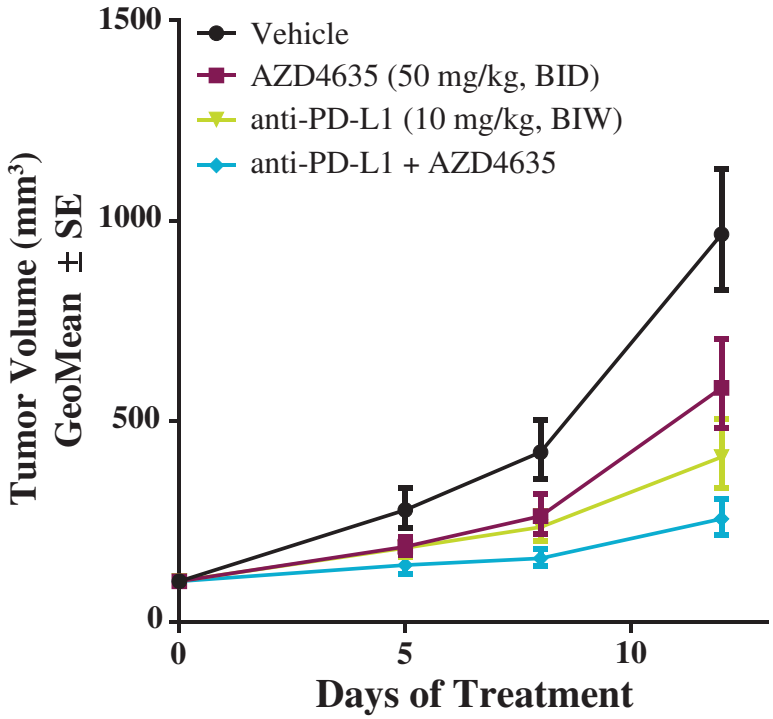
There are other A_{2A} receptor antagonists currently in clinical development at companies including Roche, Novartis and Merck. These A_{2A} receptor antagonists, being assessed as combination agents with checkpoint inhibitors, were discovered and not structurally designed like AZD4635. AZD4635 has a lower molecular weight, higher solubility and overall improved drug like properties coupled with high potency and selectivity, allowing it to be given at very high doses required to overcome the local high concentrations of adenosine. In addition, AZD4635 avoids some potentially toxic chemical groups such as furans seen in a number of previous adenosine receptor antagonists.

Preclinical/Clinical Development Summary

Together with our partner, we completed a preclinical program that demonstrated a clear effect of AZD4635 in reversing adenosine-mediated T-cell suppression and enhancing anti-tumor immunity. Blockade of A_{2A} signaling with AZD4635 was found to reduce tumor growth in a mouse colon adenocarcinoma model alone and in combination with a PD-L1 antibody. In addition, treatment with AZD4635 was associated with an increased expression of genes related to immune activation and an increase expression of co-stimulatory markers on antigen presenting cells.

The following chart sets forth data showing how AZD4635 enhances the anti-tumor activity of checkpoint inhibitors (anti-PD-L1 Ab) in established MC38 syngeneic tumors.

MC38 model – high adenosine ~100 µM (Borodovsky, et al. AACR 2018 Cancer Research 2018)



AZD4635 is now being comprehensively tested in clinical studies, across multiple tumor types and in combination with multiple approved and investigational agents. The table below details all of the publicly disclosed clinical trials where AstraZenenca is currently testing AZD4635.

Trial	Population	Patients	Design	Endpoints	Status
Phase 1 **NCT02740985**	Phase IA: Patients with advanced solid tumors Phase IB: Post-immunotherapy NSCLC Other post-immunotherapy solid tumors Immune checkpoint-naïve mCRPC Immune checkpoint-naïve CRC Other immune checkpoint-naïve solid tumors	3,067	Phase IA—solid tumors or mCPRC - AZD4635 monotherapy - AZD4635 + *Imfinzi* - AZD4635 + abiraterone - AZD4635 + enzalutamide - AZD4635 + *Imfinzi* + oleclumab - AZD4635 + docetaxel Phase IB: AZD4635 monotherapy or AZD4635 + *Imfinzi* dose expansions in NSCLC, mCRPC, CRC and other post-immunotherapy and immune checkpoint-naïve solid tumors Conducted at sites in the US	Primary outcome measure: safety and tolerability Secondary outcome measures: preliminary assessment of anti-tumor activity	FPCD: Q2 2016

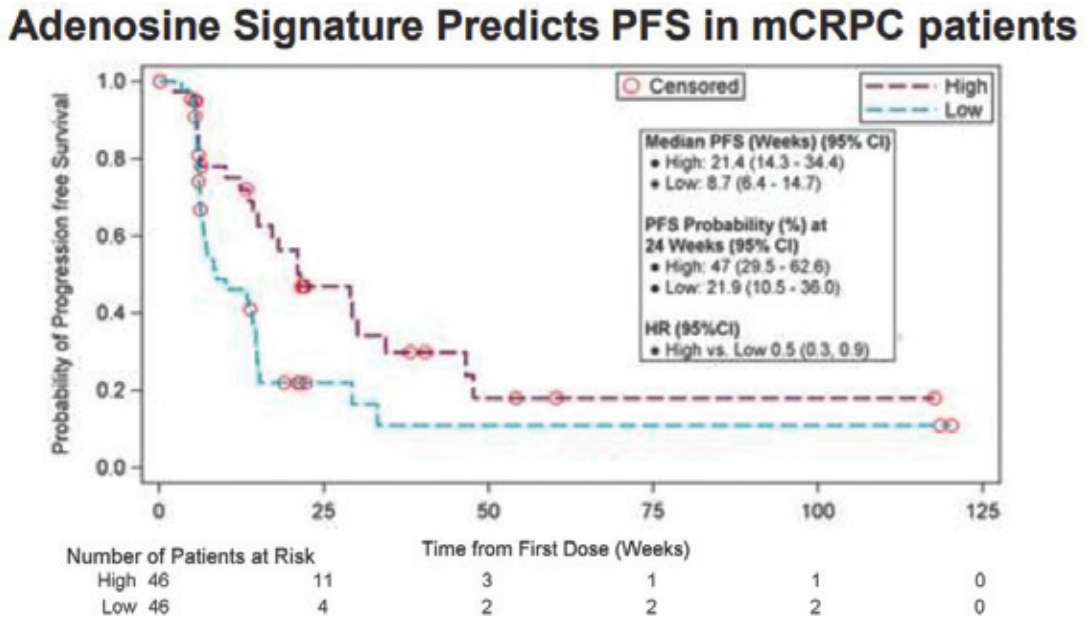
Trial	Population	Patients	Design	Endpoints	Status
Phase 1 **NCT03710434**	Healthy male volunteers	21	Part A: 2 period randomised crossover trial of single doses of AZD4635, nanosuspension or solid oral formulation in fasted state Part B: 4 period, open label, randomized, crossover trial of single doses of AZD4635 in the same subjects from Part A to assess food effect, pH effect and formulation variants Both parts conducted at a site in the UK	Primary outcome measures: Cmax and exposure (AUC) of AZD4635 solid oral formulation and nano suspension	FPCD: Q4 2018 LPCD: Q2 2019
Phase II **NCT04089553**	Prostate cancer	60	ARM 1: AZD4635 + *Imfinzi* ARM 2: AZD4635 + oleclumab Conducted at sites in the US	Primary outcome measure: Efficacy (ORR and PSA response) Secondary outcome measure: Efficacy, PK, safety and tolerability	FPCD: Q3 2019
Phase 1 **NCT03980821**	Japanese patients with advanced solid malignancies	12	AZD4635 dose escalation Conducted at sites in Japan	Primary outcome measure: Safety and tolerability Secondary outcome measure: PK and preliminary anti-tumor activity	FPCD: Q3 2019

Phase 1a/1b clinical trials of AZD4635

In 2016, AstraZeneca initiated a Phase 1 study to assess the safety, pharmacokinetics, and efficacy antitumor activity of AZD4635 both as a monotherapy and in combination in patients with advanced solid malignancies. In May 2020, our partner AstraZeneca presented a poster at the American Society of Clinical Oncology (ASCO) virtual conference and highlighted the most recent data regarding AZD4635 for immune checkpoint-naïve patients with mCRPC (NCT02740985). The key findings were:

- AZD4635 alone or in combination is safe and well tolerated and associated with clinical benefit.
    - At the data cut off (20 June 2019) in the ongoing Phase 1 study, 70 patients were evaluable for response by RECIST v1.1 (monotherapy = 33, combination therapy = 37).
- Confirmed responses occurred in 8 patients: monotherapy = objective response rate 6.1 per cent (2 partial responses) and combination therapy = 16.2 per cent (2 complete responses, 4 partial responses).
- A potentially meaningful effect was clear in a subset of patients with high adenosine gene expression (ADO) signature (N = 46) in peripheral blood, showed a median progression free survival (PFS) of 21.4 weeks v. 8.7 weeks in ADO signature low patients (N = 46).
    - In addition, baseline TCR clonality and diversity were linked with response.

The diagram below details a retrospective analysis of PFS using an independently derived adenosine expression signature for patients with prolonged PFS.



The findings provided encouraging safety and pharmacokinetic data and were associated with clinical benefit to support further clinical development of AZD4635. A mCRPC Phase 2 trial is ongoing with continued exploration of predictors of response to treatment (NCT04089553).

Muscarinic Receptor Agonist Program (Partnered with AbbVie)

	HTL0018318 (AGN242071)	HTL0016878 (AGN242626)
Target	Muscarinic M_1 receptor	Muscarinic M_4 receptor
Mechanism of Action	M_1 agonist	M_4 agonist
Lead Indication	Symptomatic cognitive deficits in AD	Neurobehavioral symptoms associated with AD
Secondary Indication	Dementia with Lewy bodies (DLB)	Schizophrenia
Function	Increase cortical cholinergic function	Increase cortical cholinergic function
Stage of Development	Phase 1b (Clinical Development Voluntarily Suspended)[1]	Phase 1
Backup Chemistry	Yes	Yes

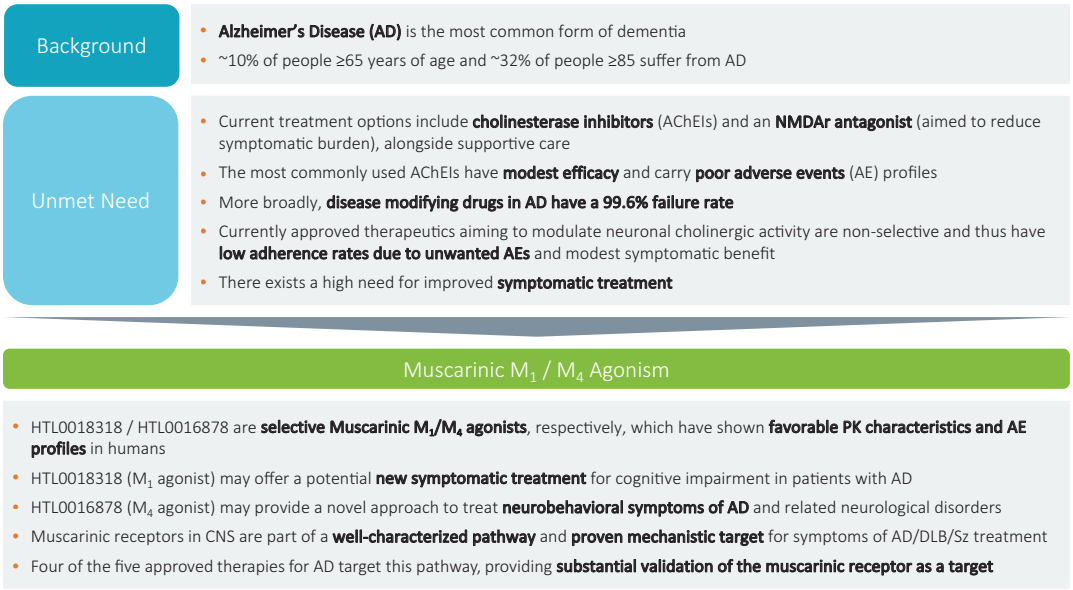
[1]Clinical development has been voluntarily suspended in light of an unexpected toxicology finding in Non-Human Primates (NHP). This is not based on any human findings. HTL0018318 has been investigated in >300 humans. Data available from the human studies have found it to be well tolerated and with no SAEs at the tested doses for up to 28 days.

Introduction

Muscarinic receptors are GPCRs found in multiple tissues. In previous third-party attempts to develop medicines that target M_1 and M_4 receptors in the brain, clinical studies suggested both (i) enhanced cognition, and (ii) decreased psychotic symptoms and related behaviors could be achieved. Despite this, clinical development was ultimately unsuccessful due to side effects caused by the off-target activation of M_2 and M_3 receptors. Therefore, muscarinic receptors M_1 and M_4 remain sought after targets, and selective M_1 and M_4 agonism has the potential to increase cortical function in Alzheimer's disease (AD), DLB, and other CNS disorders such as Schizophrenia. Selective M_1 and M_4 agonism can minimize off-target effects found following treatment with commonly used cholinesterase inhibitors and is expected to address large patient populations that frequently discontinue current treatments.

In April 2016, we entered into a global research, development and licensing partnership with Allergan. Allergan was acquired by AbbVie in May 2020. The agreement covers a portfolio of first-in-class selective small molecule agonists targeting muscarinic M_1 and M_4 receptors, discovered using our proprietary StaR® technology and integrated SBDD platform.

Summary background and opportunity



HTL0018318 Selective Muscarinic M_1 Receptor Agonist for the Treatment of Cognitive Deficits in patients with Alzheimer's disease

HTL0018318 is a first-in-class, selective small molecule muscarinic M_1 receptor agonist being advanced through clinical development as a potential new symptomatic treatment of cognition in neurodegenerative disorders, principally Alzheimer's disease (AD), and works through a different mechanism of action than the available acetyl-cholinesterase inhibitors, or AChEIs.

HTL0018318 completed a Phase 1b patient study conducted and sponsored by us to evaluate its safety, tolerability, pharmacokinetics and pharmacodynamics as an adjunct to standard cholinesterase inhibitor therapy (donepezil) in patients with mild to moderate AD. In September 2018, together with our partner it was jointly decided to voluntarily suspend clinical development in light of an unexpected toxicology finding in non-human primates that continues to be investigated. The finding is not based on any human clinical studies. To date HTL0018318 has been investigated in over 300 humans. Data available from the human studies have found it to be well tolerated and with no serious adverse events during the conduct of these studies at the tested doses for up to 28 days. In addition to HTL0018318, multiple potential back-up M_1 agonist compounds, at both preclinical and clinical stage, are available to be advanced.

Indication and unmet need

There is significant unmet medical need and heavy economic burden across multiple diseases characterized by cognitive impairment and dementia. The total estimated worldwide cost of dementia exceeds $1 trillion, rising to $2 trillion by 2030. Accordingly, new therapies with better and more durable efficacy are urgently needed. AD is the most common cause of dementia among older adults and it has been estimated that 50 million people worldwide are living with AD and other forms of dementia. This number is expected to increase to 82 million by 2030 and to 152 million by 2050. Published studies have suggested that approximately 50 per cent of patients with AD develop psychosis at some point during the course of their disease, commonly consisting of hallucinations, delusions and troublesome behavioral symptoms such as agitation. The diagnosis of AD psychosis is also associated with more rapid cognitive and functional decline and often requires institutionalization.

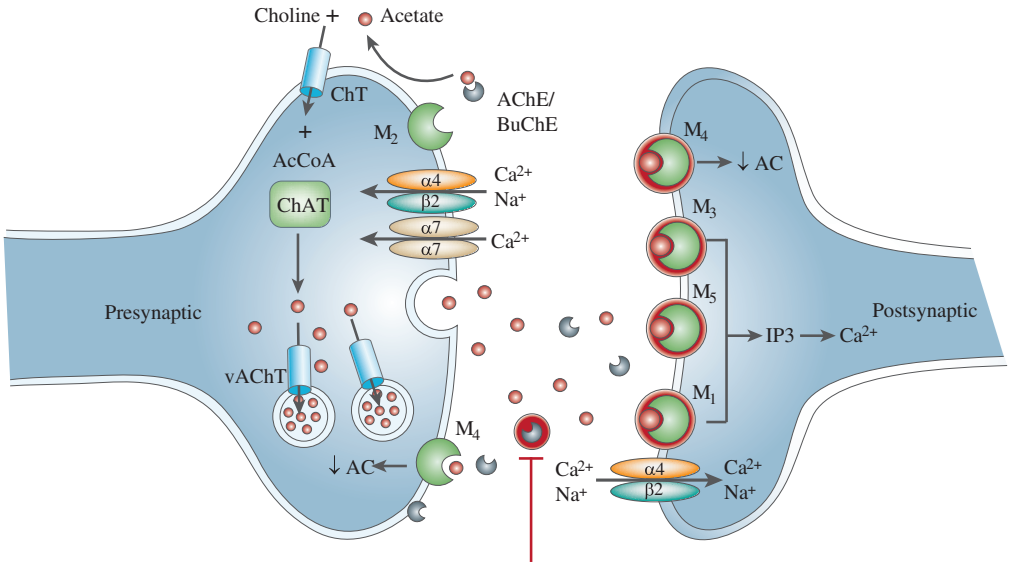
Rationale/validation

Dementia is the loss of cognitive function sufficient to interfere with both social and occupational functioning. AD is the most frequent form of dementia in the elderly accounting for between 60-80 per cent of all

dementias. Loss of cholinergic neurons is understood to be central to the cognitive impairment seen in Alzheimer's disease.

The enhancement of acetylcholine, or ACh, concentrations by AChEIs such as Aricept® (donepezil) has been shown to have clinical effects, although these are limited in extent by the declining levels in ACh as the disease progresses and adverse side effects caused by non-selective effects at other muscarinic receptors subtypes as well as in the CNS.

The diagram below depicts how currently approved AChEIs act by inhibiting ACh thus increasing ACh levels and increasing cholinergic function: however, they increase cholinergic activity across all muscarinic subtypes including those that can cause dose-limiting side effects, particularly M_2 and M_3.



Currently approved cholinsesterase inhibitors act by inhibiting Choloinesterase thus increasing Acetylcholine levels and increasing cortical cholinergic function: however, they increase cholinergic activity across all muscarinic subtypes

A highly selective muscarinic M_1 agonist is intended to specifically activate post-synaptic M_1 receptors, independent of the underlying neurochemical deficit in AD. We believe that a highly selective M_1 compound has the potential to treat symptomatic cognitive deficits in AD patients, with the potential upside of better tolerability and a more pronounced effect compared with available treatments.

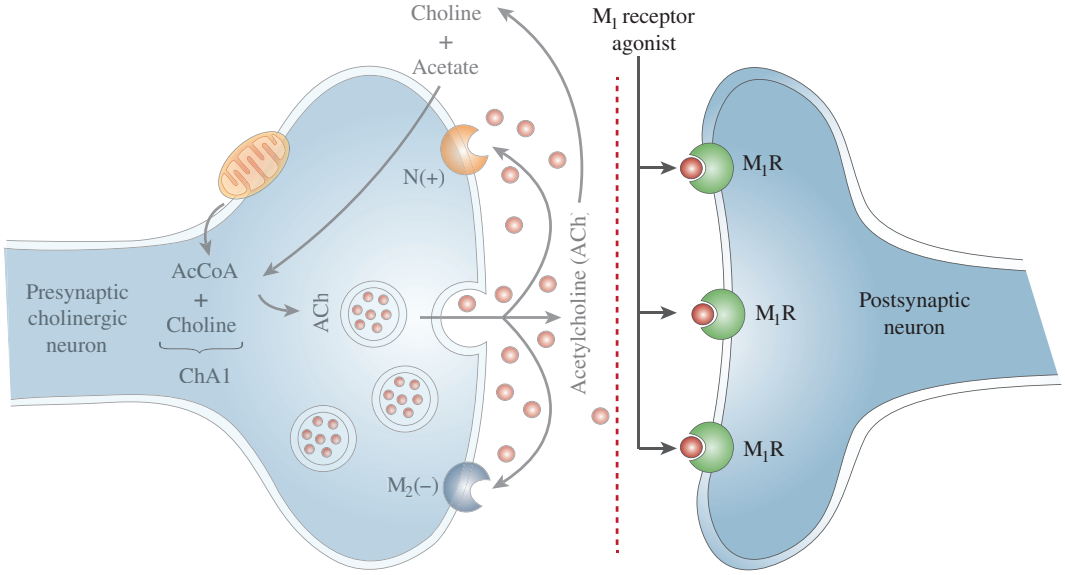
Current treatments

The current standard of care is symptomatic treatment with donepezil. Donepezil is an AchEI that acts by inhibiting the breakdown of ACh in the cholinergic pathway of the brain. Donepezil only offers modest clinical benefit for patients with mild to moderate stages of the disease, and its effects diminish in patients with moderate to severe diseases. Despite these limitations, Aricept® (whose peak sales reportedly reached $3.5 billion, and whose U.S. patent expiry was in 2010) was a blockbuster. Modest benefit is also seen with the glutamatergic (N-methyl-D-aspartate receptor) antagonist Namenda® (memantine) (whose peak sales reportedly reached $1.5 billion, and whose U.S. patent expiry was in 2015), which is generally used in combination with donepezil.

Mechanism of action

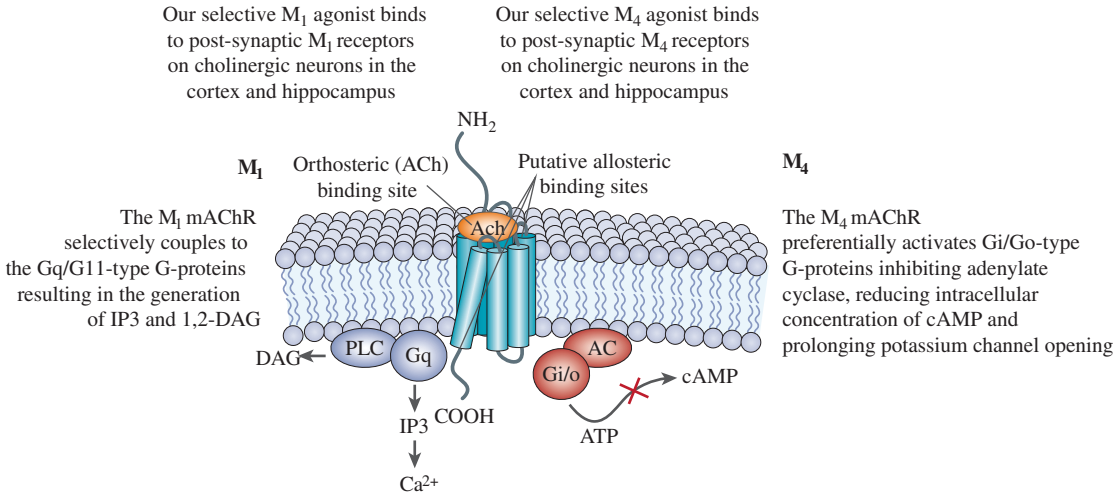
The clinical efficacy of AChEIs and M_1 PAMs is dependent on the baseline level of cholinergic activity in the brain ("tone") and are therefore limited due to depletion of ACh as the disease progresses. Unlike the neurones that produce ACh, muscarinic receptors are relatively well preserved as disease advances. A selective Muscarinic M_1 agonist therefore has the potential to specifically activate M_1 receptors and therefore circumvent the underlying neurochemical deficit in AD.

The following diagram illustrates cholinergic synapse, with released acetylcholine acting on the postsynaptic muscarinic M_1 receptor. A highly selective muscarinic M_1 agonist has the potential to act post-synaptically to circumvent the loss of acetylcholine which is the major neurochemical deficit in AD patients.



Our approach

HTL0018318 is a selective small molecule which we believe may be the only compound in clinical development acting directly and selectively on the M_1 pathway independent of ACh levels, maximizing the potential for improving cognition and minimizing side effects.



Each mAChR subtype is a seven-transmembrane protein, which belongs to two major functional classes on G-protein coupling

HTL0018318 was discovered using our proprietary StaR® technology and integrated SBDD platform. SBDD enabled us to "design out" side effects and off-target binding seen with previous poorly selective muscarinic agonists such as xanomeline.

Development

Pursuant to our agreement with Allergan (since acquired by AbbVie), we granted Allergan exclusive global rights to a broad portfolio of novel subtype-selective muscarinic receptor agonists. We are jointly responsible for advancing the candidates through Phase 2 clinical studies, for which Allergan committed up to $55 million to the R&D costs. Allergan is solely responsible, at its own cost, for the development of licensed compounds upon initiation of Phase 2b studies and for subsequent manufacturing and commercialization of the products.

Phase 1a Clinical Trials of HTL0018318

By 2017, over 300 healthy subjects had been enrolled in numerous completed Phase 1a studies of HTL0018318 that assessed the safety, tolerability and pharmacokinetics, as well as the relative bioavailability and also Japanese-subject pharmacokinetics. The key findings were:

- HTL0018318 was shown to be safe in humans
- HTL0018318 exhibited well characterized pharmacokinetics in young adults and elderly patients following single and multiple doses over 10 days
- HTL0018318 was well tolerated in the dose range studied
    - Initial increases in blood pressure following single doses tended to decline with repeated dosing while increases in heart rate were small relative to baseline

The findings provided encouraging safety and pharmacokinetic data in support of development.

Phase 1b Clinical Trials of HTL0018318

In 2017 to 2018, HTL0018318 completed a Phase 1b study conducted and sponsored by us to evaluate its safety, tolerability, pharmacokinetics and pharmacodynamics (while also evaluating preliminary signs of efficacy (increase in brain activity and effects upon cognitive function) as an adjunct to standard-of-care cholinesterase inhibitor therapy (donepezil) in 60 patients with mild to moderate AD. The results of this study are expected to be published in the future following consultation with our partner (NCT03456349).

While the findings of the above Phase 1b are yet to be disclosed publicly, they provided encouraging data in support of further development, including:

- a further planned Phase 1b study to evaluate the brain metabolic response using Fluorodeoxyglucose Positron Emission Tomography (FDG-PET), safety, tolerability and pharmacokinetics in patients with mild to moderate AD on a stable dose of 10 mg donepezil with or without memantine standard of care (NCT03316898); and
- a planned Phase 2 study in Japan to assess safety, tolerability, and efficacy in patients with dementia with Lewy bodies (NCT03592862) (See "In-House GPCR Pipeline Programs—HTL0018318 muscarinic M_1 receptor agonist for dementia with Lewy bodies (Japan only)").

The above studies were both withdrawn on account of the ongoing investigation into an unexpected toxicology finding in non-human primates. The finding is not based on any human findings. HTL0018318 has been investigated in over 300 humans to date and has been well tolerated.

Phase 1a/1b Clinical Trials of HTL0009936 (a clinical stage potential back-up selective M_1 agonist)

Prior to entering into our agreement with Allergan, we had completed preclinical work on another similar muscarinic M_1 receptor agonist, HTL0009936. We demonstrated HTL0009936 to be highly selective as an M_1 agonist, with 10-fold lower activity at M_4, and no activity at M_2 or M_3. The compound showed superior selectivity in vitro compared to previous clinical candidates and high efficacy in a broad range of animal cognition models.

In June 2015, we reported a positive outcome from our Phase 1a clinical study with HTL0009936. The Phase 1a study assessed the safety, tolerability and pharmacokinetics of HTL0009936 in relation to dose in 108 healthy volunteers, while also evaluating preliminary signs of efficacy (increase in brain activity) (NCT02291783). The key findings were:

- Early evidence of increased brain activity, as measured by electroencephalography, or EEG, was seen after dosing and gave signals similar to those seen with other cognitive enhancing agents, such as donepezil and rivastigmine;
- HTL0009936 was well tolerated at drug levels that result in the increased brain activity observed without side effects evident;
- HTL0009936 demonstrated good penetration into the brain, as indicated by levels found in cerebrospinal fluid; and
- M_1 selectivity was supported by the lack of GI side effects seen with earlier muscarinic agonists and with AChEIs.

The Phase 1a data indicated that the selective M_1 agonist product profile of HTL0009936 predicted from preclinical studies had translated to humans.

Subsequently in February 2016, we announced further positive results from Phase 1b studies with HTL0009936. The first Phase 1b precision medicine study involved 33 elderly subjects with below average cognitive functioning who received different doses of HTL0009936 and was designed to test the effect of the drug on measures of brain activity, while simultaneously monitoring side effects (Toetsing Online Number: NL51371.056.14). HTL0009936 exhibited robust and statistically significant changes in brain electrical activity measured using multiple EEG biomarkers relevant to cognition, including effects on the P300 evoked response potential. These pro-cognitive effects were seen at low doses and low blood concentrations that were safe and well tolerated. M_1 receptor selectivity was also confirmed across the dose range studied through the absence of gastrointestinal side effects (such as diarrhea and vomiting), typically attributed to the stimulation of M_2 and M_3 receptors. Such side effects are dose-limiting in standard-of-care acetylcholinesterase inhibitors, which likely work through non-selective muscarinic receptor stimulation.

In addition to the above study, a second Phase 1b study with HTL0009936 (HTL0009936-103) that utilized functional magnetic resonance imaging (fMRI) and was designed to measure brain activity by detecting changes associated with blood flow. Details of the study are likely to be published later in 2020. In summary, the fMRI study demonstrated hippocampal activation after dosing 63 elderly subjects with HTL0009936 in elderly subjects, and again was found to be safe and well tolerated without any serious adverse events (NCT02546310).

These positive results suggest compelling evidence of a therapeutic window for the selective M_1 agonist mechanism in general, and for progression of our candidates to treat cognitive disorders.

HTL0016878 Selective Muscarinic M_4 Receptor Agonist for the Treatment of neurobehavioral symptoms of Alzheimer's disease and related neurological disorders (such as Schizophrenia)

HTL0016878 is a novel, first-in-class, selective and orally available, small molecule muscarinic M_4 receptor agonist being advanced through clinical development as a potential new treatment for neurobehavioral symptoms (psychoses) associated with Alzheimer's disease (AD) and related neurological disorders (schizophrenia), through a different mechanism of action than available antipsychotics. HTL0016878 is in Phase 1 clinical studies in healthy volunteers.

It is estimated that 30-50 per cent of AD patients suffer from neuropsychiatric problems such as psychosis, agitation and aggression.

Rationale/validation

Almost all people diagnosed with AD develop neuropsychiatric symptoms at some stage during their disease. The M_1/M_4 preferring agonist xanomeline displayed an antipsychotic-like profile, both in non-clinical animal models and in a 6-month, 343 person Phase 2 study in mild-moderate AD with positive effects on both cognition and behavioral symptoms in the study which was conducted by Eli Lilly and Company. It also displayed, however, an intolerable safety profile with respect to cholinergic side effects, including nausea, vomiting and diarrhea. While the positive effects on neuropsychiatric symptoms are thought to be mediated by the M_4 receptor, the dose limiting gastrointestinal and cardiac adverse events are considered to be primarily due to activation of peripheral M_2/M_3 receptors.

Furthermore, in a small four-week pilot study in schizophrenia patients, xanomeline demonstrated significant improvements in neuropsychiatric symptoms (Positive and Negative Syndrome Scale score and Brief Psychiatric Rating Scale scores, or PANSS) and measures of verbal learning and short-term memory functions, thereby providing additional clinical evidence supporting the targeting of muscarinic receptors for the treatment of both neuropsychiatric and cognitive symptoms. In addition, and more recently, a Phase 2 study of KarXT in acute psychosis in patients with schizophrenia demonstrated a statistically significant reduction in total PANSS score compared to placebo. KarXT is an oral coformulation therapy consisting of xanomeline (a muscarinic agonist) and trospium chloride (a muscarinic antagonist).

Current treatments

Currently available therapies, such as second-generation antipsychotics (some used off label), fail to alleviate the broad range of symptoms experienced by patients emphasizing the need for novel, and side effects

have adversely influenced their overall effectiveness and acceptability. Safety data from several clinical studies have raised concerns about an increased risk of cerebrovascular adverse events, such as stroke, leading the U.S. FDA to issue warnings on the use of these drugs in elderly patients with dementia.

Mechanism of action

The dopamine hypothesis has represented the cornerstone of research and treatment of neuropsychiatric diseases since 1963. It is now recognized that multiple routes (genetic, neurodevelopmental, environmental, social) lead to the striatal hyperdopaminergia associated with psychotic-like states. The region of the brain responsible for many of the actions of dopamine on psychosis is the striatum.

M_4 receptors are found in many brain regions including the cortex and hippocampus, but are most prominent in the striatum, where they are localized on cholinergic interneurons and with dopamine D_1 receptors on the major inhibitory striatal GABAergic projection neurons. Preclinical studies suggest the interaction of D_1 and M_4 receptors in this circuitry will exert anti-psychotic effects in hyper-dopaminergic states.

Our approach

HTL0016878 is a novel, first-in-class, selective and orally available, small molecule muscarinic M_4 receptor agonist being advanced through clinical development as a potential new treatment for neurobehavioral symptoms (psychoses) associated with AD, and potentially related neurological disorders (schizophrenia).

As for the M_1 selective agonists HTL0018318 and HTL0009936, HTL0016878 was discovered using our proprietary StaR® technology and integrated SBDD platform. SBDD enabled us to "design out" side effects and off-target binding seen with previous muscarinic agonists such as xanomeline, and we believe this should maximize the clinical potential for improving neurobehavioral symptoms (psychoses) associated with AD and related neurological disorders (schizophrenia) without the poor side effect profile that comes with off-target binding.

Development

In September 2019, HTL0016878 completed Phase 1a double-blind, randomized first-in-human study that assessed the safety, tolerability and pharmacokinetics in relation to dose in 120 healthy volunteers (NCT03244228).

The findings of the Phase 1a study are yet to be disclosed publicly, however they provided encouraging safety and pharmacokinetic data in support of development in AD or other neurological diseases such as Schizophrenia.

Partnership with Pfizer

In November 2015, we entered into a strategic drug discovery collaboration with Pfizer to develop potential new medicines (small molecules and biologics) directed at up to 10 GPCR targets across multiple disease areas. The GPCR targets nominated by Pfizer have strong clinical and biological validation as key points for therapeutic intervention in their respective diseases, however, have proved challenging to address with conventional discovery approaches, with sub-optimal or no medicines approved to date.

Since the start of the collaboration, we have delivered multiple preclinical milestones (including stabilized receptors, X-ray structures, and lead molecules), as well as new intellectual property, across the eight GPCRs so far nominated by Pfizer.

As of June 2020, Pfizer has internally nominated three distinct clinical candidates that have emerged from the collaboration with us. One of these clinical candidates, which is an oral, small molecule GLP-1 receptor agonist, entered a Phase 1 clinical trial in December 2019. The candidates have resulted from the combined and complementary expertise of drug discovery teams within Pfizer and ourselves. The collaboration has also leveraged our unique StaR® technology and SBDD capabilities to design molecules that modulate different GPCR targets across multiple disease areas.

We are eligible to receive research, development, regulatory and commercial milestone payments of up to $189 million per target, as well as tiered royalties on the net sales of any products that are commercialized by

Pfizer. Additionally, in connection with the partnership, Pfizer took an equity stake in Sosei, and as of March 31, 2020 held 2.44 per cent of the Shares then outstanding.

Partnership with Genentech

In July 2019, we entered into a strategic multi-target research collaboration and license agreement with Genentech, a member of the Roche Group, to discover and develop novel medicines (new small molecules and/or biologics) that modulate GPCR targets of interest to Genentech.

Under the terms of the agreement, the collaboration will combine our proprietary GPCR-focused structure-based drug design capabilities with Genentech's discovery, development and therapeutic area expertise directed towards multiple GPCR targets nominated by Genentech. The nominated targets represent promising new therapeutic intervention points across a range of diseases.

Genentech will be responsible for developing and commercializing potential new medicines for each novel target and have exclusive global rights to these agents.

We are eligible to receive milestone payments that may exceed $1 billion for achieving pre-specified research, development and commercialization events, in addition to royalty payments on future net sales of potential future medicines resulting from the collaboration.

Partnership with Takeda

In August 2019, we entered into a strategic multi-target partnership with Takeda Pharmaceutical to discover, develop and commercialize novel molecules, including small molecules and biologics, that modulate GPCR targets. The collaboration will initially focus on high-priority gastrointestinal targets, but the agreement includes the potential expansion into other therapeutic areas.

Under the terms of the agreement, the partnership will combine our proprietary GPCR-focused structure-based drug design capabilities with Takeda's extensive discovery, development and therapeutic area expertise directed towards multiple GPCR targets nominated by Takeda. The nominated targets represent new therapeutic intervention points across a range of diseases. The collaboration will initially focus on high-priority gastrointestinal targets, but the agreement includes the potential expansion into other therapeutic areas. We are eligible to receive milestone payments that may exceed $1.2 billion for achieving pre-specified research, development and commercialization events, in addition to royalty payments on future net sales of potential future medicines resulting from the collaboration.

Partnership with Undisclosed Partner

In January 2020, we entered into an exclusive option agreement with an undisclosed partner regarding HTL0033097 (a GLP-1 antagonist) and related compounds. HTL0033097 is an advanced preclinical candidate created by us using StaR® technology and SBDD for endocrine diseases. We have agreed to carry out a joint research and development plan to enable the partner to determine if it would like to exercise an exclusive option for an exclusive license in relation to the compounds by the end of 2020. All other terms of the agreement remain undisclosed at this stage.

Partnership with AbbVie

In June 2020, we entered into an exclusive multi-target discovery collaboration and option to license agreement with AbbVie, a research-based global biopharmaceutical company, to discover, develop and commercialize novel medicines that modulate GPCR targets of interest to AbbVie. The collaboration will initially focus on discovery of novel small molecules targeting inflammatory diseases.

We are eligible to receive potential option, development, and commercial milestones of up to $377 million, plus tiered royalties on global commercial sales. AbbVie has the option to select up to three additional targets for a total of four targets, for a potential total transaction value of over $1.0 billion.

Partnered GPCR Pipeline Programs (Asset-centric Companies)

Product/Program	Modality[1]	Indication	Partner	Discovery	Preclinical	Phase 1	Phase 2	Phase 3	Marketed
Asset-centric Companies									
Orexin agonists	SME	Narcolepsy	Orexia						
Orexin agonists	SME	Narcolepsy	INEXIA						

[1] Note: SME = small molecule

In January 2019, we entered into a structured financing agreement with Medicxi, a venture fund dedicated to financing asset-centric companies, to form two independent companies, Orexia Limited ("Orexia") and Inexia Limited ("Inexia"), that aim to develop novel therapies based on agonists of the GPCRs Orexin OX1 and OX2 for neurological diseases. Medicxi will be investing in both companies with an aggregate amount of up to €40 million.

Under the terms of the agreement, Orexia and Inexia obtained a portfolio of lead compounds from us and have the rights to exploit a series of Orexin OX1 and OX2 agonists and products derived therefrom, including dual OX1/OX2 agonists, designed and developed by us, as well as access to our proprietary know-how and development capabilities. Orexia will focus on the development of oral therapies, while Inexia will focus on the development of candidates for intranasal delivery using the Optinose Exhalation Delivery System. We retain a strategic minority shareholding in both companies and will receive R&D payments as well as further payments on the achievement of pre-defined development milestones.

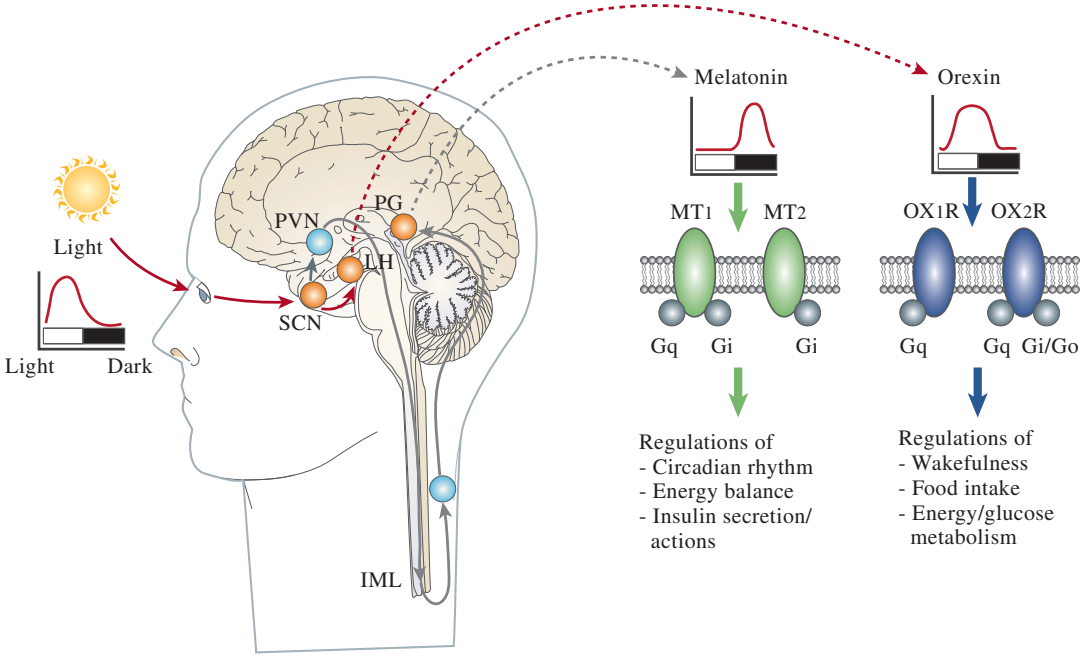
The funding, which is committed by Medicxi, will enable the further development and optimization of lead candidates for oral or intranasal administration into clinical development and through to proof-of-concept, utilizing our platform, discovery and clinical development expertise including extensive experience of neurological disorders. Specific target indications will be determined as the programs advance, and will include narcolepsy, a rare sleep disorder.

Indication and unmet need

Narcolepsy affects about 1 in 2,000 people in the United States and Western Europe. Worldwide, narcolepsy appears to be most common in Japan, where it affects an estimated 1 in 600 people. Onset of symptoms typically occur between the ages of 10 and 30 and impacts men and women equally. The disease is often difficult to diagnose due to its confusion with other sleep and psychological disorders. As a result, the disease is significantly underdiagnosed, with the diagnosis rate typically floating between 25 per cent and 50 per cent.

Mechanism of action

The orexin system is a key regulator of behavioral arousal, wakefulness and sleep. The loss of the orexin neurons has been shown to be strongly linked to multiple neurological conditions including narcolepsy. In this indication, orexin receptors remain intact and functional, providing an opportunity for therapeutic intervention.



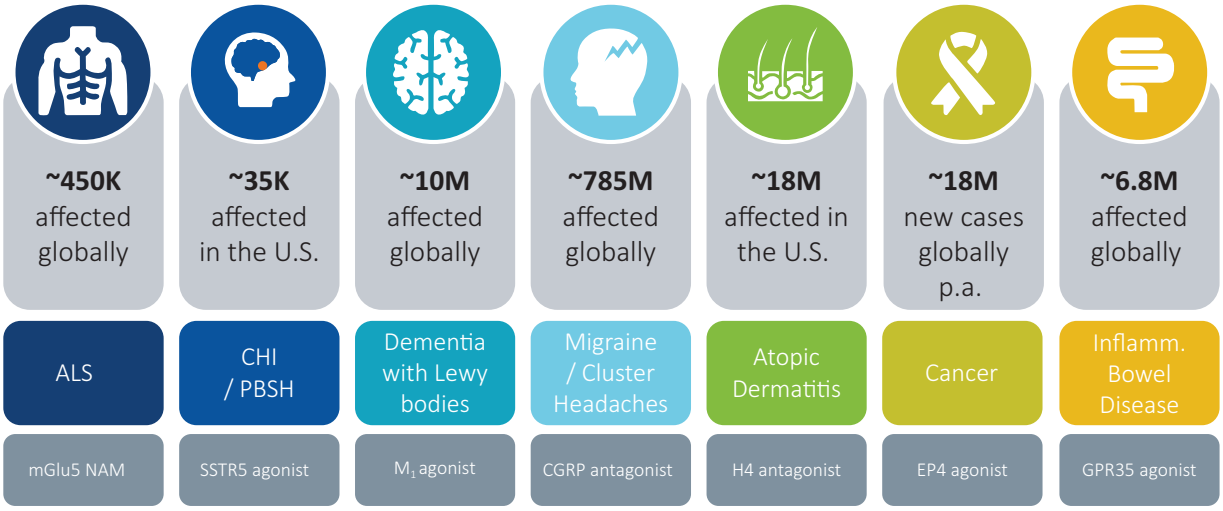
The primary target indication of narcolepsy is characterized by frequent transitions between states of wakefulness and sleep and the inability of maintaining a wakeful state. Narcoleptic patients experience excessive daytime sleepiness (EDS), manifesting as attacks of falling asleep at unpredictable times, as well as often suffering from cataplexy, a sudden debilitating but transient weakening of muscle tone that can cause sufferers to collapse. Narcolepsy is the second most common cause of disabling daytime sleepiness after obstructive sleep apnoea. An orexin agonist will aim to restore orexin signaling in the brain and therefore improve symptoms.

In-house GPCR Pipeline Programs

Product/Program	Modality[1]	Indication	Originator	Discovery	Preclinical	Phase 1	Phase 2
In-house GPCR Pipeline (Non-partnered)							
$mGlu_5$ NAM	SME	ALS / Neurological disorders					
$SSTR_5$ agonist	Peptide	Endocrine disorders					
M_1 agonist[2]	SME	DLB (Japan)					
Emerging In-house GPCR Pipeline (Non-partnered)							
CGRP antagonist	SME	Severe Migraine / Cluster Headache					
H4 antagonist	SME	Atopic dermatitis					
EP4 agonist	SME	Immuno-oncology					
GPR35 agonist	SME	Inflammatory bowel disorders					

[1] Note: SME = small molecule
[2] Phase 2 trial of HTL0018318 for DLB in Japan has been withdrawn. The Group plans to resubmit a new clinical trial notification for HTL0018318 (or another novel M_1 agonist) to the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) in the future

We are advancing an ever-growing In-house GPCR Pipeline of programs for addressable patient populations with certain neurological, gastroenterological/immunological, and inflammatory diseases. We plan to develop these programs through to points of inflection before seeking high value partnerships with global pharmaceutical and biotech companies, to accelerate through later stage clinical studies.



See "Risk Factors—Clinical drug development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and early trials may not be predictive of the results of later-stage clinical trials. If we or our collaboration partners are unable to successfully develop and commercialize our drug candidates or experience significant delays in doing so, our business, results of operations, financial condition and cash flows may be materially adversely affected." Certain representative candidates from our in-house pipeline are set out below.

The following is a description of some of our prioritized in-house clinical pipeline programs.

HTL0014242 mGlu5 NAM for Amyotrophic Lateral Sclerosis and other neurological disorders

	HTL0014242
Target	Metabotropic glutamate receptor 5
Mechanism of Action	mGlu5 Negative Allosteric Modulator
Lead Indication	Amyotrophic Lateral Sclerosis
Secondary Indication	Other neurological disorders
Function	Inhibition of mGlu5 to reduce dysfunctions in glutamatergic signalling
Stage of Development	Phase 1
Backup Chemistry	Yes

We are developing HTL0014242 as a potential first-in-class treatment for ALS.

HTL0014242 has a higher binding affinity and functional potency compared to other clinical agents of the same class, with encouraging profiles, low dose potential and oral availability. HTL0014242 was developed using our StaR® technology and SBDD approach.

Indication and unmet need

ALS has no cure and affects approximately 40,000-60,000 patients in the US and EU-28 combined, with the majority of ALS cases being sporadic (90-95 per cent) with no clearly associated risk factors and no family history of ALS. ALS patients suffer from progressive weakness and muscle atrophies of the limbs and trunk, as well as those that control speech, swallowing and, in the later stages, breathing.

The life expectancy of most ALS patients is 3-5 years from the onset of symptoms, with a key cause of mortality being respiratory failure. A clear unmet need therefore exists for new therapies to treat ALS, in particular to better address the disease progression and improve survival rates.

Besides ALS, the mGlu5 NAM mechanism has potential in multiple CNS areas with unmet need, including but not limited to, Parkinson's disease levodopa-induced dyskinesias (PD-LID), dystonia, stroke, anxiety, depression, migraine and neuropathic pain.

Rationale/validation

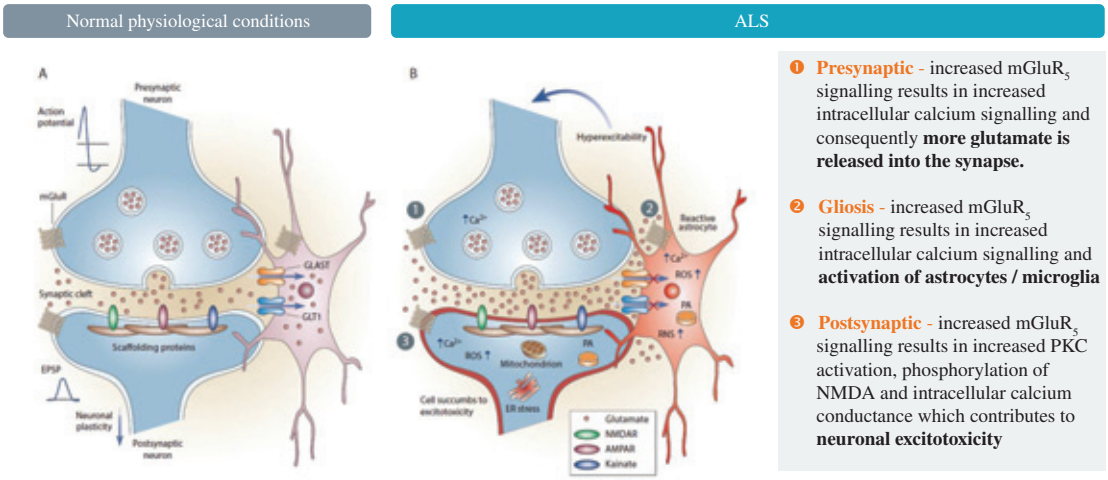
To date, the PD-LID indication has achieved the most clinical validation of the mGlu5 mechanism, with positive effects in Phase 2 studies of two different mGlu5 NAMs, dipraglurant and mavoglurant. Dipraglurant in particular has shown a benefit on the dystonia component of PD-LID patient studies, and several other mGlu5 inhibitors have shown benefit on PD-LID in animal models. In addition to this, there exists supportive preclinical evidence of benefits in ALS.

Current treatments

There are currently only two drugs approved to treat ALS, Sanofi's Rilutek (riluzole, approved 1995) and Mitsubishi Tanabe's IV infusion treatment Radicava (edaravone, approved 2017), both with unknown mechanisms and effects that are limited. Whilst the mechanism of action for riluzole in ALS is unknown, one hypothesis is that it accelerates glutamate clearance from the synapse, thereby preventing glutamate release.

Mechanism of action

Glutamate is the major excitatory neurotransmitter in the CNS. When released, glutamate exerts its effects through ionotropic glutamate receptors and metabotropic glutamate (mGlu) receptors including mGlu5. Dysfunctions in glutamatergic signalling (increased) have been linked to numerous disorders and we believe have the potential to be corrected by inhibition of the mGlu5 receptor.



Our approach

Proprietary StaR® technology was used to identify highly potent (< 1 nM) and selective negative allosteric modulators of the mGlu5 receptor. HTL0014242 is a potent, orally available, selective mGlu5 NAM precision-designed by us using our SBDD platform.

Development

HTL0014242 is currently in a Phase 1 first-in-human double-blind, randomized, oral single ascending dose study in healthy male and female adult subjects. The study is being conducted in the UK and will assess safety, tolerability and pharmacokinetics of HTL0014242 in up to 78 subjects (NCT03785054). Preliminary results are expected in the second half of 2020, however in the cohorts dosed to date there have been no safety findings of clinical significance and pharmacokinetics are consistent with daily oral dosing. We intend to move forward in 2021 into a Phase 1 multiple-ascending dose study in human volunteers, in addition to a PET study to determine the occupancy of HTL0014242 at the CNS mGlu5 receptor which will start in Q3 2020.

HTL0030310 SSTR5 selective somatostatin agonist for Hyperinsulinaemic Hypoglycaemias

	HTL0030310
Target	Somatostatin Receptor 5
Mechanism of Action	Somatostatin agonist
Lead Indication	Hyperinsulinaemic Hypoglycaemias, incl. congenital hyperinsulinism and post bariatric surgery hypoglycaemia
Secondary Indication	Gastro-entero-pancreatic-neuroendocrine tumors (GEP-NETs), and treatment-resistant acromegaly
Function	Suppression of insulin release via selectivity over SSTR5
Stage of Development	Phase 1
Backup Chemistry	Yes

We are developing HTL0030310 as a potential treatment for hyperinsulinemic hypoglycaemias (HH). HTL0030310 in the only clinical stage SSTR5 selective somatostatin agonist. It has a novel profile that we believe clearly differentiates it from octreotide and lanreotide (SSTR2 selective), and pasireotide (non-selective).

Indications and unmet need

HH is an umbrella term for a group of ultra-rare and rare orphan disease indications with high unmet medical needs and a high economic burden and includes diseases such as congenital hyperinsulinism (CHI), and post bariatric surgery hypoglycaemia (PBSH).

We believe CHI represents an attractive ultra-rare orphan indication with clear unmet medical need. CHI results from a primary defect of the pancreatic ß cell leading to inappropriately increased insulin secretion in the absence of glucose elevation. It is caused by genetic defects in key genes responsible for regulating insulin secretion. Permanent neurological damage is common among individuals with CHI. The U.S. incidence of CHI is estimated at 1 in 50,000 live births, resulting in 80-200 new patients per year, however may be up to 1 in 2,500 live births in countries with substantial consanguinity. The total U.S. prevalence is approximately 6,000 patients, of which 3,000 are estimated to be eligible for medical therapy. CHI is most often diagnosed during the neonatal stage or infancy and can progress through to adulthood. During the neonatal period severe hypoglycaemia leads to seizures in an estimated half of cases. While there exists an approved therapy as well as off-label use of other agents, there have been no new approved treatments in over 20 years.

We also believe PBSH represents an attractive indication with clear unmet medical need for an efficacious, safe, and well tolerated pharmacotherapy. Approximately 200,000 bariatric surgery procedures are carried out each year in the U.S. and EU. PBSH is characterised by repeated episodes of symptomatic, postprandial hypoglycaemia, and is mainly associated with the Roux-en-Y gastric bypass procedure, which is approximately 34 per cent of all bariatric surgeries. It is estimated that up to 5 per cent of Roux-en-Y gastric bypass patients develop moderate to severe hyperinsulinemic hypoglycaemia which leads to a high degree of functional disability, and increased risk of severe neuroglycopenia, loss of consciousness, seizure and potentially death. There are currently no approved pharmacotherapies for the treatment of PBSH.

We are also evaluating multiple potential additional indications, including gastro-entero-pancreatic-neuroendocrine tumors (GEP-NETs), and treatment-resistant acromegaly.

Rationale/validation

SSTR5 selective agonism has the potential to suppress insulin release.

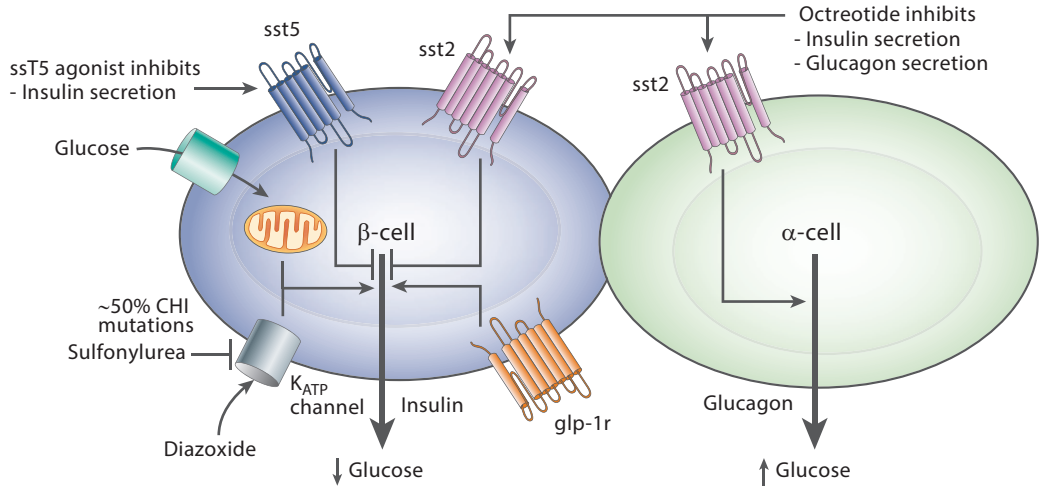
Current treatments

In CHI, oral diazoxide is the only approved first line therapy, which is poorly tolerated and only efficacious in a sub-category of the CHI patient population. Oral diazoxide can cause hypertrichosis and alteration of facial features. Fluid accumulation is common with diazoxide treatment, requiring co-administration of chlorothiazide. In addition, octreotide (+/-dextrose), a somatostatin analogue, is the main second-line medical treatment. However, octreotide has limited efficacy in this setting, with liver toxicity and gastrointestinal side effects. Surgical management is also possible, with partial pancreatectomy having some success in managing focal disease CHI patients, as opposed to diffuse disease CHI patients. Surgical management has a high risk of causing type 1 diabetes in diffuse disease CHI patients.

In PBSH, all current treatments are used off-label and are limited by a lack of efficacy and poor tolerability profiles, with some patients resorting to reversal of bypass surgeries.

Mechanism of Action

Endogenous somatostatin plays a key role in the control of glucose homeostatis. SSTR5 stimulation in the pancreatic beta cells inhibits insulin release independently of the stimulus. The diagram below depicts the mechanism of action.



Our approach

HTL0030310 is a highly potent, highly SSTR5 selective (100-fold selective over SSTR5 versus SSTR2), full agonist developed using our StaR® technology and SBDD platform approach, with good pharmacokinetic properties commensurate with once daily subcutaneous dosing.

Development

HTL0030310 is currently in a Phase 1 first-in-human, three-part single ascending subcutaneous dose study in healthy subjects. The study is being conducted in the UK and will assess safety, tolerability and pharmacokinetics, and pharmacodynamics of HTL0030310 in up to 176 subjects (NCT03847207).

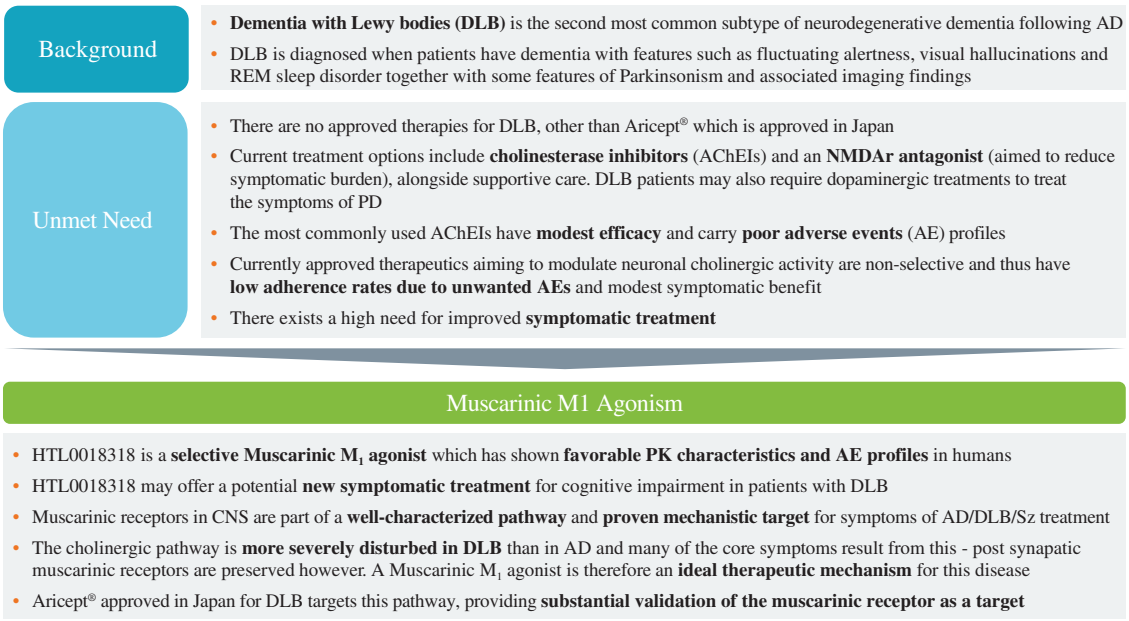
In the cohorts dosed to date, the human pharmacokinetic profile is commensurate with once daily dosing and has demonstrated initial proof of mechanism by suppressing insulin release and increasing plasma glucose in healthy human volunteers. Preliminary results are expected in the second half of 2020.

HTL0018318 muscarinic M_1 receptor agonist for dementia with Lewy bodies (Japan only)

	HTL0018318
Target	Muscarinic M_1 receptor
Mechanism of Action	M_1 agonist
Lead Indication	Symptomatic cognitive deficits in Dementia with Lewy bodies (DLB)
Secondary Indication	Nil
Function	Increase cortical cholinergic function
Stage of Development	Phase 2 (Clinical Development Voluntarily Suspended)[1]
Backup Chemistry	Yes

[1] Clinical development has been voluntarily suspended in light of an unexpected toxicology finding in Non-Human Primates (NHP). This is not based on any human findings. HTL0018318 has been investigated in >300 humans. Data available from the human studies have found it to be well tolerated and with no SAEs at the tested doses for up to 28 days.

We are developing HTL0018318 as a potential first-in-class treatment for DLB in Japan. HTL0018318 is the same compound that is being developed by AbbVie for cognitive decline in Alzheimer's disease (AD) patients and clinical development is currently voluntarily suspended.



As announced on November 9, 2017, we agreed with our partner at the time Allergan (since acquired by AbbVie), to an amendment to our 2016 global research, development and commercialization partnership, in which Allergan gained exclusive rights to our broad portfolio of novel subtype selective muscarinic receptor agonists in development for the treatment of major neurological disorders, including AD.

The amendment provides us with a license to develop and promote HTL0018318, a novel muscarinic M_1 receptor agonist, in Japan as a potential new treatment for patients with DLB. Initially, we plan to undertake a Phase 2 proof of concept monotherapy study, after which our partner has retained the right to develop HTL0018318 in DLB globally outside Japan.

Indication and unmet need

DLB is the second most common form of degenerative dementia after AD and relates to dementia associated with the presence of Lewy bodies (abnormal deposits of a protein called alpha-synuclein) in the brain that affect behavior, cognition and movement. In DLB, loss of presynaptic cholinergic (acetylcholine producing) neurons is thought to be a key driver of disease symptoms. DLB affects up to an estimated 20-30 per cent of all dementia patients. In Japan, this represents approximately 920,000 individuals, and in the U.S. approximately 1.2 million individuals.

Rationale/validation

As in AD, postsynaptic neurons and muscarinic receptors in DLB patients are preserved, which presents an important opportunity for a selective M_1 agonist-based approach. A highly selective muscarinic M_1 agonist is intended to specifically activate post-synaptic M_1 receptors, independent of the underlying neurochemical deficit in DLB patients.

Current treatments

There are no approved therapies for DLB in the U.S. or Europe, while branded donepezil (Aricept®, Eisai) is approved in Japan.

Mechanism of action

See "—Our Pipeline—Muscarinic Receptor Agonist Program (Partnered with AbbVie)—HTL0018318 Selective Muscarinic M_1 Receptor Agonist for the Treatment of Cognitive Deficits in patients with Alzheimer's disease—Mechanism of action" above.

Development

A Phase 2 study of HTL0018318 for DLB in Japan to assess safety, tolerability, and efficacy in patients with DLB was scheduled to commence in late 2018, however has been withdrawn (NCT03592862).

In September 2018, together with our partner it was jointly decided to voluntarily suspend worldwide clinical development of HTL0018318 following an unexpected toxicology finding in non-human primates that continues to be thoroughly investigated. The finding is not based on any human clinical studies. To date HTL0018318 has been investigated in over 300 humans and data available from the human studies have found it to be well tolerated and with no serious adverse events in clinical studies at the tested doses for up to 28 days.

While we remain committed to continuing our program in Japan focused on developing new therapies for DLB, we decided to withdraw the planned Phase 2 trial of HTL0018318 in DLB patients in Japan. We expect a different clinical trial approach will be required in the future and the decision to withdraw was done to minimize unnecessary expenditure on clinical trial activities. In addition to HTL0018318, multiple potential back-up M_1 agonist compounds, at both preclinical and clinical stage, are available to be advanced. We plan to submit a new clinical trial notification for HTL0018318 (or another M_1 agonist) to the Japanese Pharmaceutical and Medical Devices Agency (PMDA) in the future.

Emerging In-house GPCR discovery programs

We have multiple programs targeting large addressable patient populations at various stages of preclinical studies, including an advanced preclinical candidate with IND-enabling studies complete, in addition to two newly promoted programs where candidates have been nominated.

The following is a description of some of our prioritized in-house preclinical pipeline programs.

HTL0022562 CGRP Antagonist Program for Severe Migraine and Cluster Headache

	HTL0022562
Target	Calcitonin gene related peptide
Mechanism of Action	CGRP antagonist
Lead Indication	Severe Migraine, Cluster Headaches
Secondary Indication	Other severe headaches
Function	CGRP receptor blockade to inhibit pain transmission
Stage of Development	Advanced Preclinical (IND-enabling studies completed)
Backup Chemistry	Yes

We are developing HTL0022562 as a potential treatment of debilitating primary headache disorders including severe migraine (SM) and cluster headache (CH).

HTL0022562 is a highly potent, differentiated small molecule calcitonin gene related peptide (CGRP) antagonist developed using our SBDD platform approach. HTL0022562 will utilize subcutaneous route of administration, where there is a clear opportunity for patients who fail to respond or cannot tolerate or are contraindicated to subcutaneous sumatriptan.

We previously licensed the exclusive global rights to develop, manufacture and commercialize novel, small molecule CGRP antagonists discovered using our SBDD platform for the treatment of migraine and other severe headaches to Teva Pharmaceutical Industries Ltd. (“Teva”) in 2015. We regained these worldwide rights back from Teva in 2018 and have since completed IND enabling studies with lead candidate HTL0022562.

Indication and unmet need

There is a significant unmet medical need for symptomatic migraine treatment. Approximately 36 million people in the United States suffer from migraine. Migraine is three times more common in women than in men and affects more than 10 per cent of people worldwide. Migraine is defined as recurring attacks of moderate to severe headache pain. During migraines, people can experience varying characteristics such as being very sensitive to light and sound and may also experience nausea and vomiting.

Migraine attacks can differ in intensity and frequency, with many being highly disabling. More than 90 percent of migraine sufferers are unable to work or function normally during an attack. In the Global Burden of Disease Study, updated in 2015, migraine was ranked as the seventh highest cause worldwide of years lost due to disability. CGRP receptor antagonists represent a novel class of drug candidates for the treatment of migraine and are the first new class specific to the acute treatment of migraine in over 25 years. There is a large unmet need for additional treatment options in the SM setting that are well tolerated and able to provide rapid, and sustained relief in patients who do not respond, or cannot tolerate, subcutaneous sumatriptan.

CH affects about 1 in 1000 people. Sufferers experience excruciating headaches lasting up to 3 hours that can occur several times a day, with bouts of headache days lasting for several weeks. A small number of sufferers have headache most days with minimal gap between bouts. CH has a huge impact on quality of life during a bout, and even between bouts drives sufferers to significantly modify their lifestyle. The debilitating nature of CH is widely acknowledged, with CH pain so severe that up to 55 per cent of patients have had suicidal ideations. Given the limitations of current treatment options, there is a high level of unmet need.

Unique market opportunity

We believe SM represents an attractive market opportunity given the recognized need for non-oral treatment options and the limitations of subcutaneous sumatriptan. It is widely recognized that there is a subgroup of severe migraine patients that require non-oral migraine treatments that are able to offer rapid relief due to early nausea, vomiting, and/or rapid onset of pain—which the recently approved oral -gepants (CGRP antagonists) have not impacted.

Similarly, we believe CH represents an attractive market opportunity given the large unmet need for new treatment options in this debilitating disease. The cluster headache market is also more likely to be receptive to further subcutaneous products, given that this is the established route of administration, and we believe there are currently no oral -gepants being developed in this indication.

Current treatments

Migraine and SM is currently managed through a number of approaches—this may include abortive treatment of attacks, preventative treatments, management of risk factors and lifestyle modifications. There are a number of approaches to the abortive treatment of migraine—with the course taken dependent on the severity of attacks, associated nausea, treatment setting and patient-specific factors.

- For mild-to-moderate attacks, simple analgesics (NSAIDs, acetaminophen) are recommended—they are effective, less expensive, and less likely to cause severe side effects. If patients also experience vomiting or nausea, non-oral migraine-specific medication may be warranted, for example, subcutaneous and intranasal triptans
- For moderate-to-severe migraine not associated with vomiting or nausea, oral migraine-specific agents are the therapeutic option—this includes the well-established oral triptans and, more recently, the new class of oral CGRP antagonists, Ubrelvy™ (ubrogepant) and Nurtec™ ODT (rimegepant), or the serotonin 5-HT1F receptor agonist Reyvow™ (lasmiditan).
    - Regarding the oral, small molecule CGRP antagonists, Ubrelvy™ (ubrogepant) and Nurtec™ ODT (rimegepant), the American Headache Society recommends that these products are used in patients who are contraindicated, or fail to respond or tolerate at least two oral triptans

Acute treatments for individual CH attacks, with the aim of providing immediate relief to patients, may include subcutaneous sumatriptan, high-flow oxygen, and to a lesser extent intranasal zolmitriptan.

- Subcutaneous sumatriptan is an alternative first line therapy and is the only FDA-approved product in this setting. Subcutaneous sumatriptan is generally well tolerated, although side-effects are more common than with other triptan formulations. Most commonly, patients complain of tingling, dizziness/vertigo, warm/hot sensation, burning sensation, feeling of heaviness, pressure sensation, flushing, feeling of tightness, and numbness. Furthermore, the product is contraindicated in patients with cardiovascular disease and the number of doses approved for use each day is limited which is insufficient for some patients

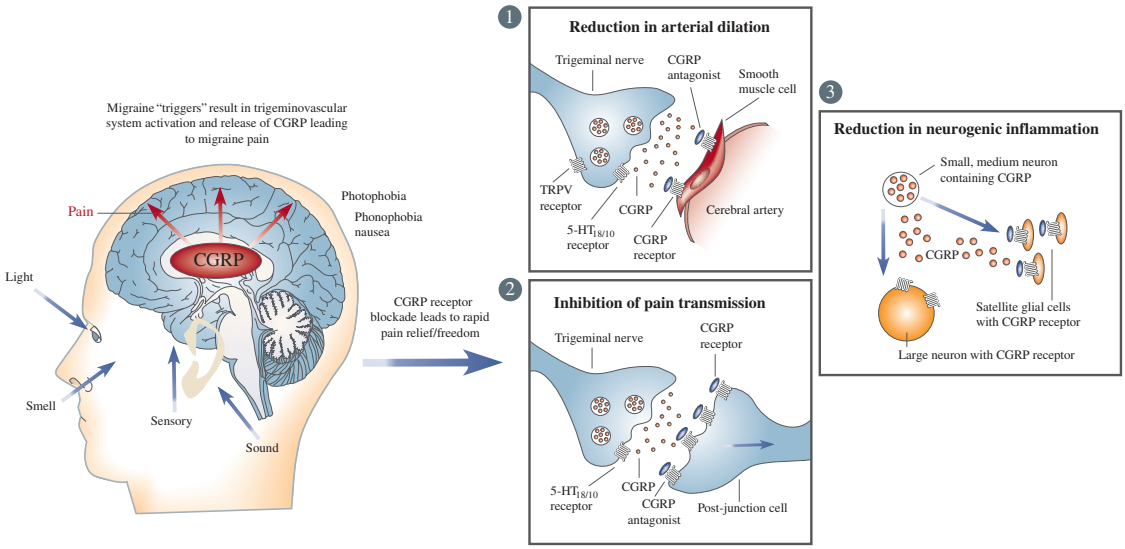
- High-flow oxygen is safe and well tolerated and unlike subcutaneous sumatriptan can be used multiple times per day. However, it is not effective in all patients and can be cumbersome and impractical to administer given the size of a large oxygen tank.

- Intranasal zolmitriptan is referenced in CH treatment guidelines for use off-label for patients that cannot tolerate subcutaneous sumatriptan, or those do not want to be injected/use needles.

Mechanism of action

CGRP receptor antagonists represent a novel class of drug candidates for the treatment of migraine and cluster headache. The CGRP receptor is a member of the G protein-coupled receptor family. The CGRP receptor is located within pain-signalling pathways, intracranial arteries and mast cells and its activation is thought to play a causal role in migraine and cluster headache pathophysiology. For example, research and clinical studies have shown: serum levels of CGRP are elevated during migraine attacks, infusion of intravenous CGRP produces persistent pain in migraine sufferers and will trigger a cluster like headache during a bout of cluster headache. Several monoclonal antibodies that block the action of CGRP are now approved for the prevention of migraine and for the treatment of a bout of cluster headache. More recently, oral small molecule CGRP antagonists have been approved for the acute treatment of migraine.

The unique mode of action of CGRP antagonists appears to be safer and better tolerated and potentially offers an alternative to current treatments for these disorders, particularly for patients who have contraindications to the use of triptans, such as those with underlying cardiovascular diseases. Furthermore, many patients have inadequate or inconsistent response to triptans or are intolerant to them.



Our approach

HTL0022565 was designed using our SBDD platform, which has enabled identification of candidates with highly differentiated molecular properties than those historically identified by competitors. HTL0022562 was nominated from a rigorous Teva candidate selection process, with a highly differentiated profile from other investigational small-molecule CGRP antagonists. Since regaining the worldwide rights from Teva, we have completed IND enabling studies to support progression into clinical development.

HTL0022562 would be the first -gepant utilizing a subcutaneous route of administration, where there is a clear opportunity for patients who fail to respond or cannot tolerate or are contraindicated to subcutaneous sumatriptan. Subcutaneous delivery also provides rapid delivery of drug in patients with poor absorption due to SM and in CH patients with rapidly developing severe headache.

Development

IND enabling studies are now complete, with a Phase 1 safety, tolerability and pharmacokinetic study expected to commence by Q1 2021.

HTL0032547 H4 Antagonist for Atopic Dermatitis and other inflammatory diseases

We are advancing HTL0032547, a novel oral small molecule H4 receptor antagonist, for the treatment of moderate to severe Atopic Dermatitis. The H4 receptor is a clinically validated target in Atopic Dermatitis and pruritis (itch) and our preclinical studies to date with our lead candidate demonstrating efficacy in human primary immune cells and an excellent safety profile in early toxicology studies.

Indication and unmet need

Atopic Dermatitis is the most common type and a more severe type of eczema, with more than 18 million adults affected in the U.S. The condition typically develops in the first six months after birth, and whilst it often disappears with age, some children will have atopic dermatitis flares into adulthood. An estimated 10 per cent of people worldwide are affected by Atopic Dermatitis at some point in their life, with the condition seemingly to be more common in urban areas and developed countries.

There remains an unmet need for an innovative, effective and safe oral treatment for people living with Atopic Dermatitis and Eczema that is suitable for chronic use. The current standard of care primarily involves topical treatment, however the typical body surface area affected in mild to moderate Atopic Dermatitis patients is substantial, therefore topical treatment twice a day is not suitable in the long term. There are biologics under development (e.g. Dupilumab) and recently approved in the U.S. and EU, however it is known to be relatively painful to administer, expensive, not available for children and likely to be conserved only for more severely affected patients. This underscores the need for a new oral Atopic Dermatitis treatment that safely and effectively targets both the inflammatory and anti-pruritic components of this condition. Our target product profile would be a once-daily oral small molecule H4 receptor antagonist, either as a monotherapy or as a combination product.

Rationale / validation

Inhibition of H4 histamine receptor has been clinically validated by small molecule H4 antagonist Adriforant (formerly ZPL-3893787), following positive Phase 2 data in Atopic Dermatitis. Adriforant represents the only H4R antagonist progressed beyond Phase 1 into an Atopic Dermatitis patient study with successful completion. The improvement in inflammatory skin lesions following an 8 week once-daily 30mg oral therapy in adults with moderate-to-severe Atopic Dermatitis has confirmed H4R antagonism as a novel therapeutic option.

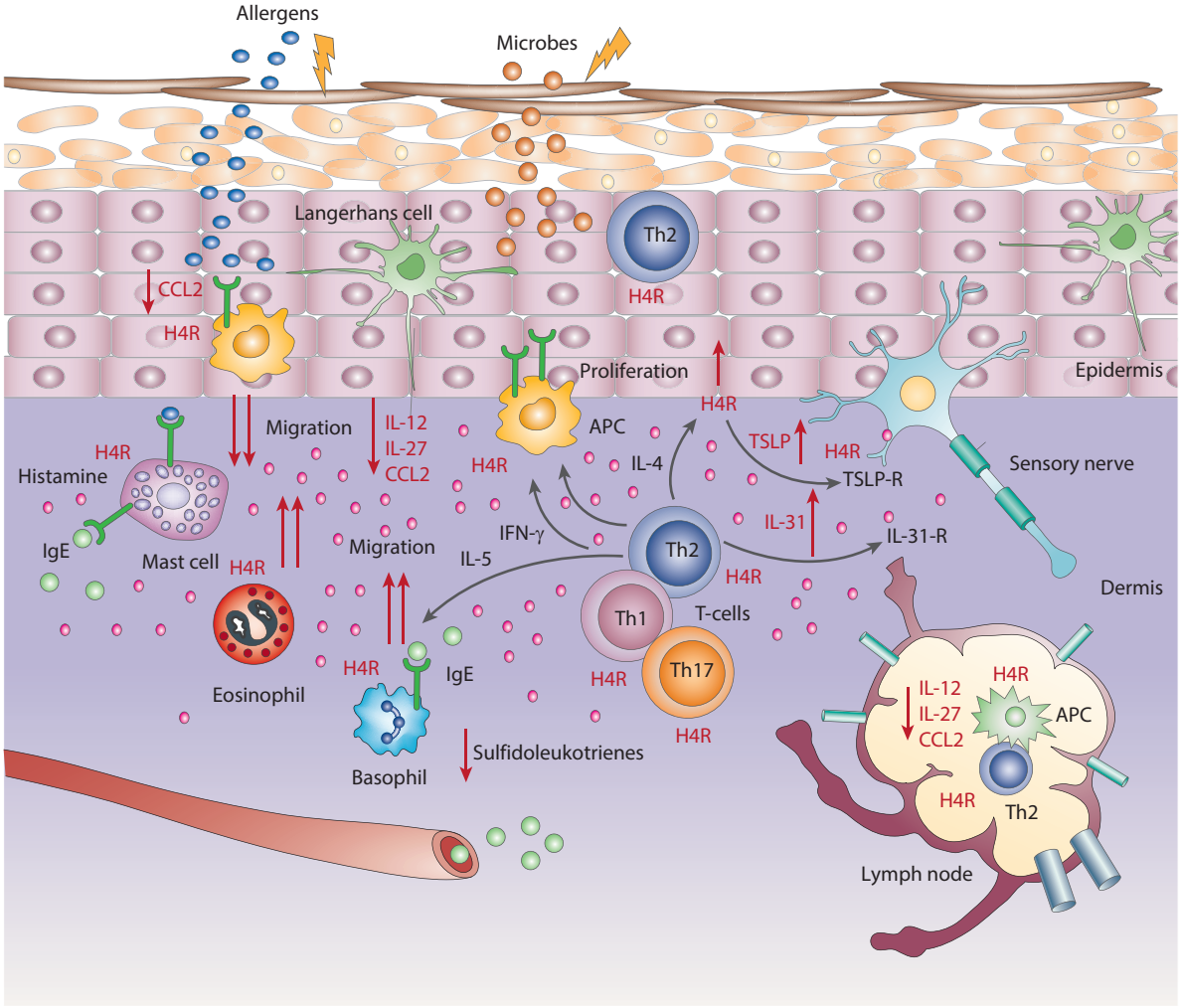
Failure to meet primary goal (itch) coupled with potential cardiovascular flag provides an opportunity to differentiate against Adriforant.

Current treatments

No cure has been found for atopic dermatitis. The main treatments of atopic dermatitis are centered around rehydrating the skin with emollients and topical corticosteroids and modulators to reduce inflammation and redness. Oral antihistamines may also be helpful in breaking the itch-scratch cycle.

Mechanism of Action

Immunological function of the H4R is well established with expression on a number of immune cell types. Agonist activation mediates proinflammatory functions and chemotaxis of mast cells, eosinophils, dendritic cells, T cells and fibroblasts. H4R antagonists reduce the secretion of cytokines, chemokines and other proinflammatory proteins and peptides, resulting in decreased itch and skin inflammation



Our approach

We utilized our proprietary StaR® technology and X-ray crystallography-enabled SBDD platform to precision engineer a series of H4 antagonists that are differentiated from clinical H4 antagonists, both in terms of cardiovascular risk and CNS exposure, in an effort to provide an increased therapeutic margin and an anti-puritic mechanism of action.

Development

Our lead candidate, HTL0032547 was nominated in Q2 2020 to progress into advanced preclinical studies, having emerged from a promising series of candidates. HTL0032547 has shown in preclinical studies that it is fully selective against other histamine receptors H1 to H3 and has been developed to differentiate from Adriforant on hERG inhibition and its potential link to cardiovascular liability.

EP4 antagonist for immuno-oncology

We are advancing a novel, highly selective and potent antagonist of the EP4 receptor to mediate PGE_2 immunosuppression in the tumor microenvironment within oncology.

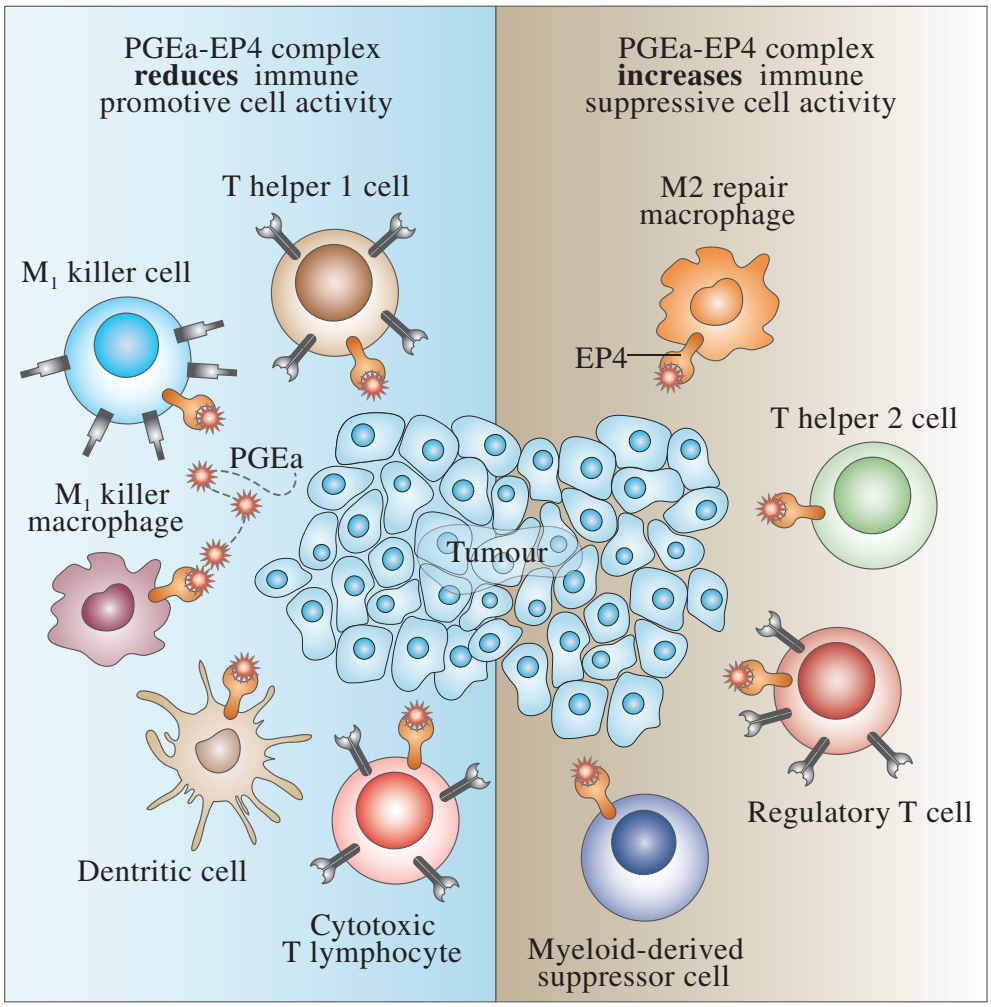
Potential indication

PGE_2 is involved in many of the fundamental mechanisms of cancer such as sustaining proliferative signaling, activating invasion and metastasis, inducing angiogenesis, immune activating and resisting cell death.

These effects are believed to be mediated via the EP4 receptor. We believe there is potential to combine an EP4 receptor antagonist with multiple investigational combination regimens. We believe Advanced Colorectal Cancer represents a promising therapeutic opportunity with clear evidence of PGE_2 over-expression and immunosuppression, as well as other epithelial cancers which have analogous characteristics.

Rationale / validation

PGE_2 induces profound immunosuppression in the tumor microenvironment, primarily acting via the EP4 receptor. EP4 antagonism will relieve PGE2 mediated immunosuppression and switch the tumor microenvironment from tumor tolerant to tumor aware. Recent presented Phase 1 clinical data of AN0025 (E7046), an EP4 receptor antagonist developed by Adlai Nortye and Eisai, supports this hypothesis with suggested improved tumor response in patients with rectal cancer, when added to standard neoadjuvant radio-, or radio- and chemo-, therapy.



Our approach

We have used our SBDD platform to enable the generation of multiple novel, highly potent, selective and efficient oral EP4 antagonists, with a class-matching profile with the current competitors.

Development

Our lead candidate was nominated in Q2 2020 to enter advanced preclinical studies and progress towards clinical development.

GPR35 agonist for inflammatory diseases (inflammatory bowel diseases)

We are developing a novel GPR35 selective agonist for the treatment of inflammatory bowel disease (IBD), a chronic gastrointestinal disease with high unmet needs. The agent displays minimal systemic exposure and is aimed to act locally in the inflamed gut.

Indication and unmet need

Inflammatory Bowel Disease (IBD) is a chronic life-long condition and is characterized by non-infectious chronic inflammation of the gastrointestinal tract, and primarily includes Crohn's disease (which can affect any segment of the gastrointestinal tract from the mouth to the anus), ulcerative colitis (which is limited to the colonic mucosa), and indeterminate colitis. In 2017, it was estimated that there were 6.8 million cases of IBD globally.

The peak of IBD's occurrence, followed by a chronic relapsing pattern, usually happens in the second to fourth decade of life, the most productive time of adulthood. IBD can adversely affect all aspects of an individual's life, and while the cause of IBD is not completely understood, IBD is suggested to be a result of uncontrolled immune response to a certain trigger in genetically prone individuals. The role of environmental factors either as the triggers or causes of the uncontrolled immune response continues to be debated.

Rationale / validation

IBD is associated with mucosal damage caused by persistent inflammation, which results in dysregulated ion transport, impaired barrier function and visceral hypersensitivity. GPR35 is an attractive target for the treatment of IBD due to its (i) rich expression in the GI tract (providing an opportunity to act at multiple points in the gut axis through expression on different cell types); as well as (ii) human genetic association in early onset IBD.

Current treatments

At present, there is no cure for IBD, however anti-inflammatory agents (sulfasalazine, mesalazine), corticosteroids, immunomodulators and biologics, can provide long periods of relief from symptoms. Up to a third of patients do not have satisfactory response to existing therapies and progressive bowel damage eventually leads to need for surgery.

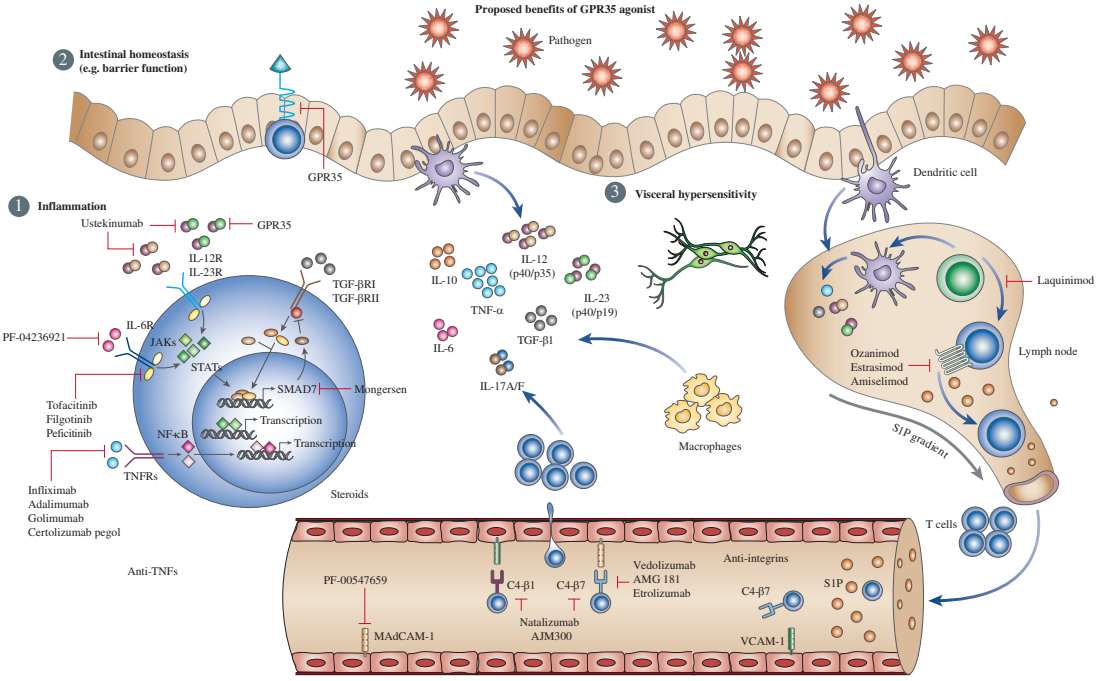
An opportunity exists for a novel, oral small molecule treatment that can be used in earlier stages of the disease ahead of biologics and can promote mucosal healing. There is also a need for agents that can reduce the burden of functional clinical symptoms, such as IBD pain and diarrhoea.

Mechanism of Action

The below diagram explains the target hypothesis for GPR35 in IBD. The potential role of GPR35 in the gut is threefold:

1. Immunomodulatory action—GPR35 may control gut inflammation via action on gut immune cells. GPR35 agonists have been shown to potently inhibit TNF-a release in an *in vivo* LPS challenge model.
2. Intestinal homeostasis—GPR35 may influence barrier function and fluid homeostasis via action on gut epithelial cells.

3. Sensory neuron excitability—GPR35 is richly expressed in gut innervating sensory neurones. GPR35 may reduce neuronal excitability through a direct mechanism of action and may improve clinical symptoms of abdominal pain.



Our approach

Our target product profile is an oral, gut restricted small molecule that can be used ahead of biologics in patients whose disease is not adequately controlled by sulfasalazine/5ASA. It would also have the potential to be used in combination with existing agents to control functional symptoms and inflammation, providing alternative to corticosteroids, thiopurines, calcineurin inhibitors and JAK inhibitors.

We are using our StaR® technology and SBDD platform to design optimizes small molecules that minimize oral absorption. We have successfully identified novel GPR35 agonists with excellent *in vitro* pharmacological activity and selectivity to support minimal systemic exposure profile.

Development

Our GPR35 agonists are advancing through preclinical studies ahead of an expected formal selection of a lead candidate later in 2020.

Other In-house GPCR preclinical/discovery programs

We have multiple other programs in various stages of discovery and early preclinical studies with a focus in neurology, gastro-intestinal, inflammatory and other indications, including but not limited to:

- GLP-2 agonist, initially indicated for intestinal failure or other gastrointestinal disorders;
- GPR52 agonist, initially indicated for schizophrenia or other neurological disorders; and
- PAR2 mAb, initially indicated for atopic dermatitis or other inflammatory diseases.

Other Medicines

Set forth below is a chart showing details of our other medicines pipeline, showing the partners (in the case of partnered pipeline), indications, current phase of development and expected advancement:

Product/Program	Modality[1]	Indication	Partner	Discovery	Preclinical	Phase 1	Phase 2	Phase 3	Marketed
Marketed Products									
Seebri® / Ultibro®Breezhaler®	SME	COPD	NOVARTIS						●
Enerzair® Breezhaler®[2]	SME	Asthma	NOVARTIS					●	
ORAVI®	SME	Oropharyngeal candidiasis	FUJIFILM						●

[1] Note: SME = small molecule
[2] Enerzair®Breezhaler® approved in Japan and recommended for approval in the EU

Partnership with Novartis

Introduction

In addition to our core scientific focus on discovering new medicines targeting GPCRs, we have a legacy business, that earns us, what has been a stable stream of royalties, on global sales of Novartis' respiratory disease products, namely Ultibro® Breezhaler® and Seebri® Breezhaler®, which helps us fund our drug discovery and development activities.

Having identified a new use for glycopyrronium bromide (which had long been used as an injected therapy in other diseases) for COPD, we re-profiled it as an inhaled formulation, and together with Vectura, we licensed exclusive worldwide development and marketing rights to Novartis in April 2005. Under the terms of the agreement with Novartis, we are eligible to receive developmental milestones and fixed-rate royalties on worldwide product sales of any compound containing glycopyrronium bromide, which includes Seebri® Breezhaler® and Ultibro® Breezhaler® and, upon approval, Enerzair® Breezhaler® for uncontrolled asthma in adults.

COPD

COPD is a chronic obstruction of the airways caused by emphysema or chronic bronchitis induced primarily by smoking or air pollution. It includes emphysema, chronic bronchitis and in some cases asthma. It has been estimated that COPD affects 210 million people worldwide and is the third leading cause of death. COPD develops slowly and the symptoms often worsen over time, potentially limiting the ability to perform routine activities. Symptoms of COPD include coughing, wheezing, shortness of breath, excess production of mucus in the lungs, the inability to breathe deeply and the feeling of being unable to breathe. COPD is progressive and can be a life-threatening disease. COPD is often considered to be a disease of later years but estimates suggest that over half of those people with COPD are now younger than 65 years old, resulting in increases in absenteeism, premature retirement and reductions in workforce participation.

Uncontrolled Asthma

Asthma affects an estimated 358 million people worldwide and can cause a significant personal, health and financial burden when not adequately controlled. Despite current therapy, over 40 per cent of patients with asthma at Global Initiative for Asthma (GINA) Step 3, and over 45 per cent at GINA Steps 4 and 5 remain uncontrolled. Patients with uncontrolled asthma may downplay or underestimate the severity of their disease and are at a higher risk of exacerbation, hospitalization or death. Barriers, such as treatment mismatch, safety issues with an oral corticosteroid and ineligibility for biologics, have created an unmet medical need in asthma.

Ultibro® Breezhaler® and Seebri® Breezhaler®

Ultibro® Breezhaler® (indacaterol maleate/glycopyrronium bromide), a first-in-class dual bronchodilator, is approved in over 90 countries, including the EU and Japan. It is a once-daily fixed-dose combination of indacaterol and glycopyrronium bromide, and in the EU is indicated as a maintenance bronchodilator treatment to relieve symptoms in adult patients with COPD. In the U.S., it was approved in October 2015 as a twice-daily inhaled, fixed-dose combination of indacaterol 27.5 mcg and glycopyrrolate 15.6 mcg, for the long-term maintenance treatment of airflow obstruction in patients with COPD, including chronic bronchitis and/or emphysema, under the brand name Utibron™ Neohaler®.

Seebri® Breezhaler® (glycopyrronium bromide), an inhaled long-acting muscarinic antagonist, or LAMA, is approved in over 90 countries and indicated as a once-daily maintenance bronchodilator treatment to relieve symptoms of patients with COPD. In the U.S., it was approved in October 2015 as a twice-daily inhaled monotherapy for the long-term maintenance treatment of airflow obstruction in patients with COPD, including chronic bronchitis and/or emphysema, under the brand name Seebri™ Neohaler® (glycopyrrolate 15.6 mcg). Together with Vectura, we sold an exclusive license to Novartis in April 2005 in respect of glycopyrronium and certain use and formulation intellectual property.

Development

In September 2016, Novartis announced that new analyses from the head-to-head FLAME study (randomized, double-blind, double-dummy, parallel-group, non-inferiority, active-controlled 52-week study involving 3,362 COPD patients and conducted at 356 sites across 43 countries) confirmed that Ultibro®

Breezhaler® is a more effective option for patients at risk of COPD flare-ups than Seretide®, across different patient sub-groups. Novartis reported that in the new analyses, once-daily Ultibro® Breezhaler® 110/50 mcg demonstrated consistent reductions in the rate of all exacerbations (mild, moderate and severe), regardless of age, smoking status, exacerbation history, disease severity, eosinophil levels (a type of white blood cells) and previous inhaled corticosteroid, or ICS, use, as against twice-daily Seretide® 50/500 mcg. Specifically, among patients with the severest forms of COPD, Ultibro® Breezhaler® significantly reduced the rate of exacerbations and improved their health status versus the commonly used ICS/LABA (long-acting beta2-adrenergic agonist) combination. In addition, patients using Ultibro® Breezhaler® needed less rescue medication during the day.

The new analyses reported also showed that, compared to Seretide®, Ultibro® Breezhaler® was associated with fewer systemic effects, namely impairment of adrenal function, which regulates the natural production of hormones. Ultibro® Breezhaler® use has previously shown to be associated with significantly fewer cases of pneumonia than the ICS/LABA combination.

Enerzair® Breezhaler® (formerly QVM149)

Asthma is a chronic disease that affects lung air passages. Asthma is characterized by variable symptoms of wheeze, shortness of breath, chest tightness and/or cough and by variable expiratory airflow limitation. In many patients, symptoms may resolve spontaneously or in response to medication, however continued exposure to allergens may lead to worsening of symptoms. The Global Strategy for Asthma Management and Prevention suggests that persistent symptoms may trigger inflammatory responses in the airways and can deteriorate the condition. Enerzair® Breezhaler® is a fixed dose, once daily combination of the LAMA glycopyrronium bromide, the LABA indacaterol, and the ICS mometasone furoate.

Enerzair® Breezhaler® has completed Phase 3 development by Novartis, and in May 2020 Novartis announced that the European Medicines Agency's Committee for Medicinal Products for Human Use recommended the approval in the EU of Enerzair® Breezhaler® as a maintenance treatment of uncontrolled asthma in adult patients. In June 2020, Novartis K.K. announced that Enerzair® Breezhaler® was approved in Japan. Additional regulatory filings for Enerzair®Breezhaler® are currently underway in multiple countries, including Switzerland and Canada.

As noted above, glycopyrronium bromide was licensed exclusively to Novartis in April 2005. Under the terms of the agreement, we are eligible to receive development, filing and approval milestones. In the event of a successful launch, we will receive royalties on products sales.

Minority Investment in MiNA

In May 2017, we acquired a minority equity share of MiNA (Holdings) Limited (MiNA), a private U.K. biopharmaceutical company and pioneer in RNA activation therapeutics (small activating RNAs, saRNAs). MiNA is expected to continue to develop further and enhance its RNA activation platform and build its pipeline of novel saRNA therapeutics targeting multiple indications. Whilst we remain supportive shareholders of MiNA and maintain a single Non-Executive Director position on MiNA's Board of Directors, we consider our investment to be non-core to our business going forward, and as such do not intend to contribute further investment capital. We expect our current 23.7% shareholding to be diluted over time.

Agreements with Business Partners

Introduction

The terms of our agreements with our business partners are subject to mutual confidentiality obligations. In the event that details and headline financial terms for some agreements have been published through joint press releases, we included those terms below in the descriptions.

Although the specific terms of each business partner agreement are confidential, in the broadest sense the terms of our development and licensing agreements follow industry-expected and industry-familiar general terms and provisions. For example:

- royalty terms tend to be linked to patent duration, regulatory or market exclusivity or a period post-first commercial sale, or a combination of those criteria;
- our partners (but not us) are generally able to terminate the collaboration agreements at will, whereupon exploitation rights to assets arising from the collaboration will generally revert to us, sometimes with a future royalty burden on our subsequent exercise of those rights to reimburse the investment costs of our original (terminating) collaboration partner;

- ownership of new intellectual property rights and improvements to the parties' respective background IP are generally divided between the parties, and the agreements provide for which party may prosecute or enforce IP rights of the other party; and
- exclusivity arrangements pursuant to which we cannot undertake competing research in specific fields or for specific targets.

GPCR Medicines

AstraZeneca

In August 2015, we entered into a licensing agreement with AstraZeneca under which AstraZeneca acquired exclusive global rights to develop, manufacture and commercialize the adenosine A_{2A} receptor antagonist, HTL-1071 (AZD4635), a small molecule immuno-oncology candidate, and potential additional A_{2A} receptor-blocking compounds. AstraZeneca will focus on exploring HTL-1071 (AZD4635) and any additional compounds across a range of cancers, including in combination with its existing portfolio of immunotherapies. Tumor cells have evolved mechanisms to evade the immune system, including through the production of a natural molecule called adenosine. By stimulating A_{2A} receptors, adenosine stops T-cells within the immune system from proliferating and reduces their ability to destroy cancer cells. Blocking A_{2A} receptors can therefore promote the anticancer response of T-cells within in the tumor microenvironment.

Under the terms of the agreement, we granted AstraZeneca an exclusive license to research, develop, manufacture and commercialize HTL-1071 (AZD4635). The companies have also collaborated to discover further A_{2A} receptor-blocking compounds for development in cancer immunotherapy.

We have received an up-front payment of $10 million and we are eligible to receive additional, significant near-term milestone payments based on agreed preclinical and/or clinical events. Subject to successful completion of development and commercialization milestones, we are also eligible to receive more than $500 million (of which we have already received $37 million), as well as up to double-digit tiered royalties on net sales.

Pfizer

In November 2015, we entered into a strategic drug discovery collaboration with Pfizer Inc. to research and develop potential new medicines directed at up to 10 GPCR targets across multiple therapeutic areas. We have used our proprietary GPCR structure-guided platform to help deliver stabilized GPCRs (StaR® proteins), high-resolution crystal structures and other technologies to support the discovery of potential novel agents directed to the GPCR targets selected by Pfizer. Pfizer is responsible for developing and commercializing any potential therapeutic agents (small molecules or biologics derived from StaR® antigens) for each target and will have exclusive global rights to any potential resulting agents. We are eligible to receive potential research, development, regulatory and commercial milestone payments of up to $189 million per target. In addition, we are eligible to receive potential tiered royalties on the net sales of any products that are commercialized by Pfizer.

AbbVie

In April 2016, we and Allergan Pharmaceuticals International Limited, a wholly-owned subsidiary of Allergan plc (since acquired by AbbVie), entered into a definitive agreement under which we granted Allergan an exclusive worldwide rights under a broad portfolio of novel subtype-selective muscarinic receptor agonists in development for the treatment of major neurological disorders, including Alzheimer's disease. Under the terms of the agreement, we received an upfront payment of $125 million and we are eligible to receive contingent milestone payments of up to approximately $665 million (of which we have already received $15 million) associated with the successful Phase 1, 2 and 3 clinical development and launch of the first three licensed compounds for multiple indications and up to approximately $2.5 billion contingent upon achieving certain annual sales thresholds. In addition, we are eligible to receive up to double-digit tiered royalties on net sales of all products resulting from the partnership. Allergan committed up to $50 million to a R&D program to be conducted jointly by Allergan and us aimed at advancing multiple candidates through Phase 2 clinical studies, and this amount was topped up by a further $5 million in 2019. Allergan will be responsible for the development of licensed compounds upon initiation of Phase 2b studies and for subsequent manufacturing and commercialization of the products.

The agreement covers first-in-class selective small molecule agonists targeting muscarinic M_1 and M_4 receptors in the brain, discovered using our proprietary StaR® technology platform. Allergan will receive

exclusive rights to a broad clinical and preclinical portfolio of M_1, M_4 and dual M_1/M_4 agonists, including HTL0009936 and HTL0018318, selective M_1 agonists currently in Phase 1 clinical development. M_1 selective compounds are in development for the potential treatment of symptomatic cognitive deficits in Alzheimer's patients, with the potential upside of better tolerability and a more pronounced effect compared with available treatments. M_4 selective compounds may provide a novel approach to treat the neurobehavioral symptoms (psychoses) associated with Alzheimer's disease and related neurological disorders, through a different mechanism of action than available antipsychotics. Combined, dual M_1/M_4 agonists may be able to treat both cognitive impairment and neurobehavioral symptoms.

As announced on November 9, 2017, we agreed with Allergan to an amendment to our 2016 global R&D and commercialization partnership. The amended agreement provides us with a license to develop and promote HTL0018318 in Japan as a potential new treatment for patients with DLB. HTL0018318 was about to commence a Phase 2 clinical study in Japan. However, in September 2018, we decided to voluntarily suspend clinical development activities with HTL0018318 pending the investigation of an unexpected toxicology finding.

Allergan was acquired by AbbVie in May 2020. We are aware that AbbVie is currently conducting a review of its acquired portfolio, with a decision regarding future development plans for the portfolio of muscarinic assets to be made towards the end of 2020. We have standard protections under the terms of the 2016 global research, development and commercialization agreement, and believe some of the options potentially being considered may include; (i) our partner exercising its rights to sublicense the muscarinic program to a third party on the same terms and economics contained in the 2016 global research, development and commercialization agreement, or (ii) our partner continuing to development the portfolio of muscarinic agonists inline with the plans that were being executed by legacy Allergan prior to the completion of its acquisition by AbbVie, or (iii) termination of the agreement, with all programs and associated intellectual property reverting to us in-line with the reversion rights in the agreement.

Kymab

In April 2016, we entered into a strategic collaboration with Kymab to discover, develop and commercialize novel antibody therapeutics targeting a number of GPCRs with an initial focus on immuno-oncology, an area in the treatment of cancer where the body's immune system is activated to produce an immune response targeted at tumor cells.

Under the agreement, we applied our StaR® platform to create stable antigens based on multiple GPCR targets chosen by the companies. Kymab has applied its Kymouse™ human antibody discovery platform to generate antibodies in response to immunization with these antigens.

To date both companies have jointly conducted and shared the costs of the antibody discovery and development programs in the collaboration. Antibody drug development is outside of our core expertise, and as such we are now seeking to conclude our involvement in the development plans going forward and hand over to our partner Kymab. We will retain an ownership stake in programs that were jointly developed under the agreement, although we expect to be diluted proportionate to Kymab's future investment in the programs (subject to a minimum level of ownership for us).

KY1051 is a program that emerged from the partnership and is advancing through preclinical studies. KY1051 is an antibody that binds CXCR4, a chemokine receptor that plays a key role in modulating the immune system and the tumor microenvironment. KY1051 neutralizes the binding of CXCR4 to its ligand CXCL12, which we believe will allow treatment in combination with immune- checkpoint therapies in a wide range of malignancies.

PeptiDream

In June 2017, we entered into a strategic collaboration with PeptiDream to research and develop therapeutic macrocyclic/constrained peptides targeting a single GPCR with an important role in inflammatory disease.

Each of the parties will use their respective technologies in order to identify promising leads which will be progressed using our respective complementary skills, resources and development capabilities into the clinic. We and PeptiDream will jointly conduct and share the costs of the discovery and development program and will co-own any resulting products.

Medicxi Ventures

In January 2019, we entered into a structured financing agreement with Medicxi to form two independent companies, Orexia Limited (Orexia) and Inexia Limited (Inexia), that aim to develop novel therapies based on positive modulators of the GPCRs Orexin OX1 and OX2 for neurological diseases, initially narcolepsy. Pursuant to the agreements, Heptares granted Orexia and Inexia certain intellectual property and worldwide development and commercialization rights, and in return received a minority shareholding in each of Orexia and Inexia, and is entitled to receive development milestones, plus other potential future proceeds.

Genentech

In July 2019, we entered into a research and collaboration agreement with Genentech, Inc. to jointly develop multiple GPCR targets. Pursuant to the agreement, Heptares granted Genentech exclusive worldwide development, manufacturing and distribution rights for identified exclusive targets and will receive lump sum payments, milestones and royalties in consideration.

Takeda

In August 2019, we entered into a multi-target collaboration agreement with Millennium Pharmaceuticals, Inc., a wholly-owned subsidiary of Takeda Pharmaceutical Co., Ltd. Under this agreement, Heptares granted to Millennium Pharmaceuticals, Inc. exclusive worldwide development, manufacturing and distribution rights for selected GPCR targets and is entitled to receive lump sum payments, milestones and royalties in consideration. The two companies have also agreed to implement a joint research program.

AbbVie

In June 2020, we entered into a discovery collaboration and exclusive license to option agreement with AbbVie Pharmaceutical Ireland Limited., a wholly-owned subsidiary of AbbVie, Inc. Under this agreement, Heptares granted to AbbVie an exclusive option to license to develop and commercialize compounds against a selected GPCR target, and is entitled to receive potential option, development, and commercial milestones, plus royalties on global commercial sales in consideration. AbbVie also has the option to expand the collaboration by nominating up to three additional GPCR targets, for a total of four GPCR targets.

Other Medicines

Novartis

In April 2005 we, Vectura and Novartis entered into a license agreement under which Novartis acquired exclusive global rights to develop, manufacture and commercialize inhalation pharmaceutical products formulated with glycopyrronium bromide. Novartis has since developed, and currently manufactures and commercializes Seebri® Breezhaler® and Ultibro® Breezhaler® under the agreement.

Under the agreement, we and Vectura granted Novartis an exclusive, worldwide, sub-licensable license under certain of our and Vectura's respective intellectual property rights to research, develop, manufacture, and commercialize inhalation products formulated with glycopyrronium bromide.

We received an up-front payment and between us and Vectura are entitled to receive milestone payments up to $375 million as well as royalties on product sales. The full financial details of this agreement remain confidential.

BioAlliance

In May 2011, we entered into a license and commercialization agreement with BioAlliance Pharma SA, or BioAlliance, under which BioAlliance granted us an exclusive license to develop and commercialize Loramyc in Japan for the prevention and/or treatment of orapharyngeal candidiasis in immunocompromised patients.

Under the terms of the agreement, we paid BioAlliance an up-front payment of $3 million and BioAlliance was eligible to receive certain further development and sales-based milestone payments of up to $15.5 million. BioAlliance was also entitled to receive royalties on net sales of Loramyc.

BioAlliance changed its name to Onxeo as of August 1, 2014 as a result of a merger it underwent with TopoTarget. In July 2017, Onxeo sold its rights and assets in Loramyc to Vectans Pharma, including Onxeo's interest in the license and commercialization agreement. Despite the assignment of assets, with respect to the Japanese market Onxeo continued to support Sosei until January 31, 2018 for registration of Loramyc in Japan (which traded under the name Oravi in Japan).

Fujifilm Toyama Chemical

In February 2014, we entered into a distributorship and commercialization agreement with Fujifilm Toyama Chemical Co., Ltd. (formerly Fujifilm Pharma Co., Ltd.), under which we granted Fujifilm Toyama Chemical Co., Ltd. an exclusive sublicense of our right to sell, market or otherwise distribute the pharmaceutical product Loramyc in Japan for the prevention and/or treatment of orapharyngeal candidiasis (see BioAlliance agreement summary above).

In accordance with the terms of the agreement, we received ¥900 million in respect of the initial payment and achievement of certain development and regulatory milestones. Sales of Oravi commenced in Japan in February 2019 and the revenue generated from the supply of Oravi to Fujifilm Toyama Chemical Co., Ltd. is recorded in our financial statements under product supply revenue.

Other Agreements

Share Purchase Agreement with Former Shareholders of Heptares

In February 2015, we entered into a share purchase agreement with the former shareholders of Heptares to acquire all of the issued shares of Heptares for $180 million in cash consideration and up to $220 million in additional consideration contingent upon the successful progression of its pipeline. The contingent consideration is calculated as a percentage of milestone revenue received from collaboration agreements or pre-determined milestone payments on the progression of certain development compounds if the compounds are not partnered.

Intellectual Property

Critical to our business success is the ability to obtain and maintain enforceable intellectual property rights adequate to protect our innovations for candidate drugs and our drug discovery and platform technologies to provide exclusivity and licensable rights. Additionally, our success also depends on operating without infringing or otherwise violating the proprietary rights of others and dissuading others from infringing our own intellectual property.

To meet these objectives, our policy is to develop and secure our proprietary position through investment in innovation, intellectual property protection and competitor intellectual property landscape analysis. Our policy includes seeking patent protection in core territories for our innovations and improvements, a continuous review of our patenting strategies to maximize the value and return from our patent portfolio and in-licensing third party technologies where necessary. In addition to patent protection, we rely upon trade secret protection and confidentiality arrangements to protect our business strategies and those aspects of our technology that are unable to be effectively protected through patents or for which maintaining confidentiality offers the greater benefit.

The market sectors in which we participate are highly competitive and constantly subject to rapid technological changes. We have competitors that we anticipate are engaged in developing and commercializing products and platforms competitive to our own. As part of any business risk, our intellectual property rights may be challenged, invalidated, rendered unenforceable, circumvented, infringed or misappropriated. Similarly, our confidential and proprietary information could cease to be confidential or be superseded by the development of new and improved technologies.

Our current patent portfolio comprises over 66 patent families including approximately 326 issued patents and 214 patent applications, covering key territories, including the U.S., U.K., Germany, France, Canada, China and Japan. Our portfolio comprises patents that we own or license exclusively, or as a consequence from collaborations and historical dealings jointly with third parties.

We have not yet filed for patent protection in all national and regional jurisdictions where such protection may be available. In addition, we may decide to abandon national and regional patent applications before or after they are granted if there are valid business reasons. Finally, the grant proceeding of each national or regional

patent is an independent proceeding which may lead to situations in which applications may, in some jurisdictions, be refused by the relevant registration authorities, while granted by others or granted with a different scope.

The intellectual property portfolio of our StaR® technology platform, our drug candidates and components thereof are summarized below. Some of these portfolios are in very early stages and, with respect to the pending patent applications prosecution has yet to commence in some cases. Prosecution is a lengthy process, during which the scope of the claims initially submitted for examination by the applicable patent office may be narrowed (sometimes significantly) by the time they issue, if they issue at all. We expect this to be the case with respect to our pending patent applications referred to below.

StaR® Technology platform

As of June 9, 2020, the StaR® technology platform patent portfolio included 12 patent families consisting of 120 issued patents and 27 patent applications, in a variety of worldwide jurisdictions, including the U.S., Australia, Canada, China, Europe, Hong Kong, India, the U.K., Japan and Patent Cooperation Treaty, or PCT, applications. Our 12 issued U.S. patents covering our StaR® technology platform are projected to expire between 2028 and 2034, excluding any additional term for patent term adjustments or patent term extensions. The patent portfolio for our StaR® technology platform is directed to compositions of matter for StaR® proteins, as well as methods of using and making StaR® proteins.

GPCR pipeline programs

Muscarinic receptor program

As of June 9, 2020, the muscarinic chemistry program included 16 patent families consisting of 137 issued patents and 132 patent applications, in a variety of worldwide jurisdictions, including, but not limited to, the U.S., Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Egypt, Eurasian Patent Organization, Europe, Hong Kong, India, Indonesia, Israel, U.K., Japan, Korea, Mexico, Malaysia, New Zealand, Philippines, Russia, Saudi Arabia, Singapore, South Africa, Taiwan, Thailand, Ukraine, Vietnam and PCT applications. Our 23 issued U.S. patents covering the muscarinic chemistry program are projected to expire between 2032 and 2038, excluding any additional term for patent term adjustments or patent term extensions.

The patent portfolio for our muscarinic receptor program is directed to compositions of matter for muscarinic receptor agonists, as well as methods of using and making muscarinic receptor agonists.

Other GPCR pipeline programs

As of June 9, 2020, our other GPCR target programs included 34 patent families in a variety of worldwide jurisdictions, including, but not limited to, the U.S., Australia, Brazil, Canada, China, Europe, Hong Kong, India, Japan, Mexico, Russia, Singapore, and PCT applications. The patent portfolios for our other GPCR target programs, both out-licensed and retained, are directed to compositions of matter for GPCR modulators, as well as methods of using and making those GPCR modulators.

COPD and Asthma programs

As of June 9, 2020, the patent portfolio licensed by us to Novartis for its Seebri® Breezhaler®, Ultibro® Breezhaler® and Enerzair® Breezhaler® (QVM149) products comprised 4 patent families, including 112 granted patents in a variety of worldwide jurisdictions, including, but not limited to, the U.S., Australia, Brazil, Canada, China, Europe, India, Japan, Mexico, South Africa. The patent portfolio is directed to the use and formulation of glycopyrronium bromide for the treatment of respiratory disease as well as method claims to crystallization.

General

The term of an individual patent right depends upon the legal term of the patents in the countries in which they are obtained. In most countries in which we file, the patent term is 20 years from the earliest date of filing a non-provisional patent application.

In addition, in certain instances, the term of an issued U.S. patent that covers or claims an FDA approved product can be extended to recapture a portion of the term effectively lost as a result of the FDA regulatory review period, which is called ‘patent term extension’. The restoration period cannot be longer than five years

and the total patent term, including the restoration period, must not exceed 14 years following FDA approval. Similar provisions are available in other jurisdictions (such as supplementary protection certificates in Europe) to extend a monopoly originally afforded by the base patent that covers an approved drug product. In general, only the specific molecule that receives marketing authorization (and the formulation of which is well-described in its patent) can receive extended protection. We cannot provide any assurance that any patent term extension with respect to any patent will be obtained and, if obtained, the duration of such extension. Furthermore, it is likely that any patent term extensions will have greater application to our NCE portfolio of patent rights (covering composition of matter inventions over drug candidates) rather than our platform technologies.

We also rely on trade secrets to protect our technology and confidential and proprietary information. However, trade secrets can be difficult to protect. We seek to protect our proprietary technology and processes, and obtain and maintain ownership of certain technologies, in part, by confidentiality and invention assignment agreements with our employees, consultants, scientific advisors and contractors. We also seek to preserve the integrity and confidentiality of our data and trade secrets by maintaining physical security of our premises and physical and electronic security of our information technology systems. See "Risk Factors—Risks Relating to our intellectual Property" for more details regarding the risks related to our intellectual property portfolio.

Competition

The field of developing and commercializing new drugs is highly competitive and we compete with biotechnology and pharmaceutical companies worldwide. While we believe that our technology, development experience, and scientific knowledge provide us with competitive advantages, we face potential competition from many different sources, including major pharmaceutical, specialty pharmaceutical, and biotechnology companies, academic institutions and governmental agencies, and public and private research institutions. Any product candidates that we successfully develop and commercialize will compete with existing therapies and new therapies that may become available in the future.

Many of our competitors, either alone or with their strategic partners, have substantially greater financial, technical and human resources than we do. Our competitors may be more successful than us in obtaining approval for treatments and achieving widespread market acceptance. Our competitors' treatments may be more effective, or more effectively marketed and sold, than any treatment we may commercialize and may render our treatments obsolete or non-competitive before we can recover the expenses of developing and commercializing any of our treatments.

These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs. Mergers and acquisitions in the pharmaceutical, biotechnology, and gene therapy industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaboration arrangements with large and established companies. We anticipate that we will face intense and increasing competition as new drugs enter the market and advanced technologies become available. We expect any treatments that we develop and commercialize to compete on the basis of, among other things, efficacy, safety, convenience of administration and delivery, price, the level of generic competition and the availability of reimbursement from government and other third party payors.

We believe that our drug discovery platform technologies are protected by effective patent and confidential know-how arrangements which, together with the innovative nature of those platforms and our technical knowledge, we believe makes it difficult for others to compete with, or infringe upon, our technology. Our platform demonstrates our advanced and innovative platform which has application in the GPCR field. The strength and proprietary advantage afforded by this technology is evidenced by the number of high-profile and well-funded collaborations we have secured with industry leading collaborators including AbbVie, AstraZeneca, Pfizer, Genentech and Takeda (see "—Our GPCR Pipeline—Partnered GPCR Pipeline Programs (Traditional Out-license) and Collaboration Projects").

Insurance

We generally maintain insurance policies against potential losses at our facilities.

Sales and Distribution

We have entered into agreements with Novartis with regards to Seebri® Breezhaler®, Ultibro® Breezhaler® and Enerzair® Breezhaler®, and Fujifilm Toyama Chemical Co., Ltd. with respect to Oravi®. We intend to enter

into agreements with third parties to sell significant volumes of our out-licensed products. As such, we do not yet have any concrete plans to develop the capability to conduct such sales and marketing ourselves at a significant scale.

Facilities

The following table sets forth certain information with respect to our principal facilities, as of December 31, 2019:

Name	Location	Principal Uses	Book Value (millions of yen)
Sosei Group Corporation, Head Office	Tokyo, Japan	Group management	¥ 81
Heptares Therapeutics Ltd., Head Office	Cambridge, U.K.	R&D facilities	¥4,012

Employees

As of December 31, 2019, we had 163 employees, as well as an average of 11.2 temporary employees for the fiscal year. Of our full-time employees as of December 31, 2019, 127 are employed by Heptares Therapeutics Ltd. in Cambridge, U.K. None of our employees are members of a labor union. We consider our employee relations to be stable and good.

Legal Proceedings

We are currently not involved in any material legal proceedings. However, we may periodically become subject to legal proceedings and claims arising in connection with ongoing business activities, including being subject to claims or disputes around patents that have been issued or are pending in the field of research and product development we are focused on.

Management

Under the Companies Act, a joint stock corporation in Japan may adopt a corporate governance structure comprising a board of directors and three statutory committees, or the committee system, in lieu of the traditional structure comprising a board of directors and board of corporate auditors or the recently introduced structure comprising a board of directors and an audit committee. The committee system separates the roles of management supervision, which is the responsibility of the board of directors, from business operations, which is the responsibility of the executive officers. We have adopted the committee system to facilitate more flexible and efficient decision-making as well as to improve transparency in our management process.

Pursuant to the committee system, our board of directors establishes our basic management policy and has decision-making authority over certain prescribed matters. Our articles of incorporation provide for no more than 10 directors. As of the date of this Offering Circular, we have six directors, including five who qualify as external directors under the Companies Act. Our directors may not serve concurrently as managers or as any other type of employee of the company outside of their director role. Our directors are elected at a general meeting of shareholders. The normal term of office of directors expires at the close of the ordinary general meeting of shareholders held with respect to the fiscal year ending within one year after their appointment.

In addition, our board of directors must appoint executive officers (*shikko yaku*) and representative executive officers (*daihyo shikko yaku*), who are responsible for conducting all business operations of our company within the scope of authority delegated to them by our board of directors. The normal term of office of our executive officers expires at the close of the first meeting of the board of directors held after the close of the ordinary general meeting of shareholders held with respect to the fiscal year ending within one year after their appointment.

As required by the committee system, we have established three statutory committees: a Nominating Committee, an Audit Committee and a Compensation Committee, each comprised entirely of directors, the majority of which must qualify as external directors. The roles of the Nominating Committee, the Audit Committee and the Compensation Committee are as follows:

- the Nominating Committee, which consists of three directors, including two external directors, determines the contents of proposals for submission to general meetings of shareholders concerning the appointment and dismissal of directors;
- the Audit Committee, which consists of four directors, all of whom are external directors, monitors the execution of duties by directors and executive officers, determines the contents of proposals for submission to general meetings of shareholders concerning the appointment and dismissal of independent auditors and other related matters and approves the compensation for independent auditors as determined by the directors. Members of the Audit Committee may not serve concurrently as our or any of our subsidiaries' executive officers or executive directors, or accounting advisors, managers or any other type of employees of any of our subsidiaries; and
- the Compensation Committee, which consists of four directors, including three external directors, formulates compensation policies for directors and executive officers and determines detailed compensation for each individual.

We are required to appoint and have appointed an independent auditor, who has the statutory duties of examining the financial statements to be submitted to the shareholders by a Representative Executive Officer and preparing its audit report thereon. Ernst & Young ShinNihon LLC is our independent auditor since June 2018.

Directors

The names and titles of our directors as of the date of this Offering Circular are as follows:

Name	Title
Shinichi Tamura	Chairman of the Board, Representative Executive Officer, President and Chief Executive Officer, Chairman of the Nominating Committee
Tomohiro Tohyama(1)	External Director, Chairman of the Audit Committee
Kuniaki Kaga(1)	External Director
David Roblin(1)	External Director, Chairman of the Compensation Committee
Noriaki Nagai(1)	External Director
Rolf Soderstrom(1)	External Director

Note:

(1) Tomohiro Tohyama, Kuniaki Kaga, David Roblin, Noriaki Nagai and Rolf Soderstrom satisfy the requirements for external directors under the Companies Act.

Shinichi Tamura, M.S. has served as our director since he founded us in June 1990 as a technology transfer company, having built up a wealth of experience during his years in the industry. He worked in various positions in Planning and Development at Fujisawa Pharmaceutical Co. Ltd., and was later appointed representative director (CEO) of Genentech Limited (Genentech Inc's Japan subsidiary). He has advised various companies including Genentech, GenPharm, Geron, IDEC, Pharmacyclics, and Vernalis.

Tomohiro Tohyama has served as our external director since June 2011. He is a partner at TMI Associates, which he co-founded in October 1990. Having entered the Legal Training and Research Institute, Supreme Court of Japan in April 1978 and registered with Dai-ichi Tokyo Bar Association in April 1980, he joined Nishimura and Sanada Law Office in April 1980, becoming a partner in August 1985. He has also held positions at law firms Mason & Sloane, LLP, Pollock, Bloom & Dekom and Pryor, Cashman, Sherman & Flynn in the U.S. He has been external corporate auditor of Nippon Shikizai, Inc. since November 1999 and external director and Audit and Supervising Committee Member since May 2016 and external director of Trust Capital Co., Ltd. since May 2016, and was an outside statutory auditor of WOWOW INC. from June 2016 to June 2020.

Kuniaki Kaga has served as our external director since June 2018. He has over 40 years' experience at leading chemical and pharmaceutical companies in Japan. From 1975 to 2009, he held several leadership roles including Executive Officer and Head of Healthcare Strategy Office, and Head of Healthcare Planning at Mitsubishi Chemical Holdings Corporation. He is currently an Adviser to Mitsubishi Chemical Corporation. From 2009, he was at Mitsubishi Tanabe Pharma, serving as board of director and senior executive roles, including Representative Director Senior Managing Executive Officer, General Manager of Research Division and International Business Department. In 2014, he was appointed President and Representative Director of The KAITEKI Institute, Inc.

David Roblin has served as our external director since June 2018. He has previously served as Senior Vice President and Head of R&D for Pfizer in Europe, as well as served as President of R&D at Summit Therapeutics plc, an international clinical-stage company listed on AIM in the UK and NASDAQ in the US from 2017 to January 2020. He also served as the Chief Operating Officer and Director of Scientific Translation at the Francis Crick Institute in London from 2014 to 2017. Prior to this, he was Head of Research and Chief Medical Officer for Europe R&D at Pfizer, Inc. from 2008 to 2011 and was Head of Therapy Area for Anti-infective at Bayer AG from 1997 to 1999. He qualified in Medicine in the UK and is a Fellow of the Royal College of Physicians, Fellow of the Faculty of Pharmaceutical Medicine and a Fellow of the Academy of Medical Sciences, as well as being a professor at several universities in the UK.

Noriaki Nagai has served as our external director since March 2019 and has previously held senior positions at Nomura Holdings Co., Ltd. and Nomura Securities Co., Ltd., most recently as Deputy Chief of Staff, Chief Legal Officer and Senior Corporate Managing Director of both entities. He has also served as a Non-executive Director for Japan Securities Depositary Center, Inc. and Japan Securities Clearing Corporation and is currently a Professor of Law at Doshisha University.

Rolf Soderstrom has served as our external director since March 2020. He served as CFO at BTG plc from 2007 to 2018 helping to transform the company into a fully integrated global manufacturing and sales

organisation focusing on specialist healthcare. Before joining BTG plc, he was Divisional Finance Director of Cobham Plc from 2004 to 2007, as well as Director of Corporate Finance at Cable & Wireless plc. He is a qualified chartered accountant and is currently also serving as Non-executive Director of Ergomed plc.

Management Team

Our executive officers are appointed by our board of directors and have the primary executive responsibility within their appointed business areas and a duty under our internal regulations to report to the board of directors. We currently have six executive officers.

The names and titles of our executive officers as of the date of this Offering Circular are as follows:

Name	Title
Shinichi Tamura	Chairman of the Board, Representative Executive Officer, Chairman, President and Chief Executive Officer
Malcolm Weir	Executive Vice Chairman
Chris Cargill	Executive Vice President, Chief Financial Officer
Tim Tasker	Executive Vice President, Chief Medical Officer
Kazuhiko Yoshizumi	Executive Vice President, Group Chief Compliance Officer
Tadayoshi Yasui	Executive Vice President

Set out below are biographies of our management team. Biographies for members of the management team who are also directors are set forth above under "—Directors".

Malcolm Weir joined us in June 2015. He has a BSc and PhD in biochemistry and biophysics from Imperial College, London. He was Head of the Biomolecular Structure Department and then the Molecular Sciences Division of GlaxoWellcome (now GlaxoSmithkline plc) with responsibility for 300 people engaged in target validation and lead discovery. During this time he led the application of structural biology and modeling to drug discovery, resulting in the advancement of clinical candidates to a wide range of diseases. He joined the structural bioinformatics and drug discovery company Inpharmatica Ltd as CEO in 2000, growing it from the spin-out stage to a 100-person company. Inpharmatica was sold to Galapagos NV in 2006. He joined MRC Technology in 2006 in order to establish Heptares Therapeutics Ltd in July 2007, as Co-Founder and CEO. Malcolm was elected Visiting Professor of Biochemistry in 1997 and is on the Chemical Biology Advisory Board at Imperial College, London. He served on the U.K. Biotechnology and Biological Sciences Research Council from 2004-2011. Malcolm received the Malcolm Campbell Memorial Prize 2015, awarded by the U.K. Royal Society of Chemistry's Biological and Medicinal Chemistry Sector, in recognition of his contribution to GPCR drug discovery. In 2016, he received an honorary DSc from the University of Hertfordshire for services to research.

Chris Cargill joined us in September 2017 as Head of Investor Relations and Communications and was appointed as Executive Vice President, Chief Financial Officer in November 2018. He has experience in the global financial services sector and prior to joining us, he has worked at the Corporate Finance Division of KPMG, before working in Investment Banking at J.P. Morgan, most recently focusing on the UK healthcare sector.

Tim Tasker joined us in January 2014. Tim is a physician and clinical pharmacologist with more than 30 years of industry experience from both large pharmaceutical and small biotechnology companies. He spent over 20 years at GlaxoSmithKline and led all of its Phase 1 Clinical Research Units (in the U.S., U.K., Europe and Australia), which supported the Centres of Excellence in Drug Discovery across all therapeutic areas. After GSK, he joined Evotec as Executive VP of Clinical Development, at which he was instrumental in advancing novel compounds to Phase 2 proof of concept studies. Dr. Tasker then set up his own consulting firm providing high-level, early drug development expertise to companies in Europe, Australia and Japan. Dr. Tasker qualified in Medicine in the UK and is a Fellow of the U.K. Royal College of Physicians and of the U.K. Faculty of Pharmaceutical Medicine.

Kazuhiko Yoshizumi joined us in April 2015 and has more than 40 years' of experience at corporate legal departments in the field of corporate transactions including M&A, offering and private placement of equity and debt securities, restructuring of group companies, compliance with the listing regulations of the stock exchanges in Japan and other countries, secretariat of the Board of Directors, corporate governance and risk management. Prior to joining us, he was the Associate Senior Vice President and General Manager of NEC Fielding Co., Ltd.

Tadayoshi Yasui has served as our Executive Vice President since March 2019, and is also serving as Representative Director and President of Sosei Co., Ltd. since February 2017. Prior to joining us, he has experience in managerial positions in the area of research coordination, clinical research, licensing & partnering, and product management of drug development at Japan Tobacco Inc. and Novartis Pharma Kabushiki Kaisha.

Executive Compensation

The aggregate compensation, including stock-based compensation, provided to our directors and executive officers in the twelve-month period ended December 31, 2019 was ¥201 million to our external directors and ¥230 million to our executive officers.

Directors' remuneration consists of base salary (annual salary) and a stock-based compensation. During the twelve-month period ended December 31, 2019, we introduced a Restricted Stock Unit (RSU) system for directors as stock-based compensation in place of stock-options, for the purpose of retaining talented global individuals. Directors are not paid bonuses nor any performance related remuneration. The level of base salary is determined with reference to the payments made by other companies. The number of RSUs granted (which are delivered as Shares at the end of each predefined performance period) is determined based on the base salary. A director who also serves as an executive officer is not paid remuneration as a director.

Executive officers' remuneration consists of base salary (annual salary) determined by the individual roles and performance of the previous year, bonuses paid according to the level of achievement of objectives and stock-based compensation. During the twelve-month period ended December 31, 2019, we introduced a Restricted Stock Unit (RSU) plan and a Performance Share Unit (PSU) plan for executive officers in place of a stock options. Base salary is determined based on the performance of the previous fiscal year and other contributions to the Company by taking into account the remuneration level of peer companies in the country of residence with reference to data available from external research institutes. Bonuses are paid according to the level of achievement of objectives, using the amount of base salary (annual pay) multiplied by a bonus percentage. The Compensation Committee evaluates the performance of each executive officer by taking into account the opinion of the representative executive officer, and decides the amount of remuneration. The basic number of units of RSUs and PSUs to be granted (which are delivered as Shares at the end of each predefined performance period) is determined based on the base salary and certain percentages pre-determined for each person.

We also have a stock option plan (comprising the issue of stock acquisition rights) that provide our directors, executive officers and employees options to acquire Shares. The following table shows the outstanding stock acquisition rights as of December 31, 2019 that we have granted as part of our stock option plan.

Date of Board Resolution of the Grant	Number of Stock Acquisition Rights still outstanding as of December 31, 2019	Number of Shares represented by each Stock Acquisition Right	Exercise Price per Share	Grantees[1]	Exercise period
September 6, 2010 . . .	10	4,000	¥ 162	2 executive officers, 10 employees, 2 directors of our subsidiaries and 10 employees of our subsidiaries	September 7, 2012 to September 6, 2020
November 13, 2015 . . .	293	117,200	¥1,033	2 directors, 1 executive officer, 5 employees, 2 directors of our subsidiaries and 10 employees of our subsidiaries	July 1, 2017 to June 30, 2020

Date of Board Resolution of the Grant	Number of Stock Acquisition Rights still outstanding as of December 31, 2019	Number of Shares represented by each Stock Acquisition Right	Exercise Price per Share	Grantees[1]	Exercise period
November 13, 2015 . . .	1,511	604,400	¥1,033	3 directors, 2 executive officers, 2 employees, 2 directors of our subsidiaries and 79 employees of our subsidiaries	July 1 2018 to June 30, 2021
May 15, 2017	671	268,400	¥ 1	5 directors, 3 executive officers and 4 employees of our subsidiaries	July 1, 2020 to April 30, 2027
May 15, 2017	64	25,600	¥3,085	7 employees, 2 directors of our subsidiaries and 7 employees of our subsidiaries	July 1, 2020 to April 30, 2027
May 15, 2017	173	69,200	¥3,085	1 employee and 102 employees of our subsidiaries	July 1, 2020 to April 30, 2027
November 21, 2017 . . .	8	3,200	¥2,687	3 employees	December 1, 2020 to October 29, 2027
November 21, 2017 . . .	10	4,000	¥2,687	9 employees of our subsidiaries	December 1, 2020 to October 29, 2027

Note:

(1) Denotes status at the time of the grant.

The number of underlying shares and exercise price per share are subject to adjustment based on stock splits or certain other events. Options to purchase our Shares are subject to vesting requirements as set forth in each stock option agreement, and the vested portion of options to purchase our Shares may not be transferred except with the approval of our board of directors.

The stock options are subject to conditions on exercise, as set forth in each stock option conditions, including limitation to the period to exercise the options, the lapsing of the options in any case where at any time after the granting of the relevant option and the end of the exercise period, the closing price of our Shares on the Tokyo Stock Exchange being over certain prices, and reported revenues being over certain amounts, among others.

Limitation of Liability of Directors

Our articles of incorporation provide that we may enter into liability limitation agreements with any of the directors (excluding those who are executive directors, etc.) to limit the maximum amount of damages arising in connection with their failure to execute their duties in good faith and without gross negligence to the total amount stipulated in Article 425, Paragraph 1 of the Companies Act. We have entered into a liability limitation agreement with each external director which limits the maximum amount of their liability to that amount.

SUBSIDIARIES AND AFFILIATES

We conduct our business together with our subsidiaries and affiliates. As of March 31, 2020, we had seven consolidated subsidiaries and two equity method affiliates. The following table sets forth information with respect to our principal subsidiaries as of March 31, 2020.

Name	Location	Main business	Issued capital (Millions of yen, unless otherwise indicated)	Percentage of voting rights held by us
Consolidated subsidiaries:				
Sosei Co. Ltd.	Tokyo, Japan	Drug development and sales, business development in Japan	¥ 90	100.0%
Heptares Therapeutics Ltd.	Hertfordshire, United Kingdom	Drug discovery and development based on targeting of GPCRs by using the structure-based drug design platform	£416 thousand	100.0
Sosei CVC Ltd.(1)	Tokyo, Japan	Managing Sosei RMF1 (Regenerative Medicine Fund)	¥ 35	90.0

Note:

(1) On June 19, 2020, we disposed of our 90 per cent holding in Sosei CVC Ltd. We have retained a 15 per cent interest in Sosei RMF1 Limited Partnership for Investment, the fund managed by Sosei CVC Ltd. This disposal did not have a material impact on our Consolidated Statement of Profit or Loss and Other Comprehensive Income, and therefore did not warrant public disclosure.

JAPANESE FOREIGN EXCHANGE AND CERTAIN OTHER REGULATIONS

Japanese Foreign Exchange Controls

The Foreign Exchange and Foreign Trade Act of Japan (Act No. 228 of 1949, as amended) ("FEFTA") and related cabinet orders and ministerial ordinances, which we refer to collectively as the Foreign Exchange Regulations, govern certain aspects relating to the acquisition and holding of shares by "exchange non-residents" and by "foreign investors" (as these terms are defined below). In general, the Foreign Exchange Regulations currently in effect do not affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange residents are defined in the Foreign Exchange Regulations as:

(i) individuals who reside within Japan; or

(ii) corporations whose principal offices are located within Japan.

Exchange non-residents are defined in the Foreign Exchange Regulations as:

(i) individuals who do not reside in Japan; or

(ii) corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations located within Japan are regarded as exchange residents. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are defined in the Foreign Exchange Regulations as:

(i) individuals who do not reside in Japan;

(ii) corporations or other entities organized under the laws of foreign countries or whose principal offices are located outside Japan;

(iii) corporations of which 50 per cent or more of the total voting rights are held, directly or indirectly, by individuals and/or corporations falling within (i) and/or (ii) above;

(iv) general partnerships or limited partnerships under Japanese law or any similar partnerships under non-Japanese laws, where either: (A) 50 per cent or more of the capital contributions to those entities are made by individuals who do not reside in Japan or certain other foreign investors or (B) a majority of the general partners of such entities are individuals who do not reside in Japan or certain other foreign investors; or

(v) corporations or other entities of which a majority of either (A) directors or other persons equivalent thereto or (B) directors or other persons equivalent thereto having the power of representation who are non-resident individuals.

Acquisition of Shares

Acquisition by an exchange non-resident of shares of a Japanese corporation from an exchange resident including our shares to be acquired upon exercise of the Stock Acquisition Rights requires post facto reporting by the exchange resident to the Minister of Finance of Japan through the Bank of Japan. No such reporting requirement is imposed, however, if:

(i) the aggregate purchase price of the relevant shares is ¥100 million or less;

(ii) the acquisition is effected through any bank, financial instruments business operator or other entity prescribed by the Foreign Exchange Regulations acting as an agent or intermediary; or

(iii) the acquisition constitutes an "inward direct investment" described below.

Inward Direct Investment in Shares of Listed Corporations

Inward Direct Investment

If a foreign investor acquires shares or voting rights of a Japanese corporation that is listed on a Japanese stock exchange, including our shares to be acquired upon exercise of the Stock Acquisition Rights, or that is

traded on an over-the-counter market in Japan and, as a result of the acquisition, the foreign investor, in combination with any existing holdings and holdings of its closely-related persons, directly or indirectly holds 1 per cent or more of (i) the issued shares or (ii) the total voting rights of the relevant corporation (shares and voting rights of the relevant corporation to be acquired are referred to as the "Inward Direct Investment Shares"), such acquisition constitutes an "inward direct investment" under the FEFTA .

Prior Notification

In general, a prior notification in connection with the acquisition of the Inward Direct Investment Shares is not required unless any of the business conducted by the investee Japanese corporation falls within any business sectors designated under the Foreign Exchange Regulations (*Shitei-Gyoshu*) (our businesses do not falls within these sectors). However, in limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification is required to be made to the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese corporation, who may then modify or prohibit the proposed acquisition.

Foreign investors acquiring the Inward Direct Investment Shares by way of a stock split are not subject to these notification requirements.

Post Transaction Report

If a foreign investor acquires the Inward Direct Investment Shares which is not subject to the prior notification as stated in the "Prior Notification" above and, as a result of the acquisition, the foreign investor, in combination with any existing holdings and holdings of its closely-related persons, directly or indirectly holds 10 per cent or more, the foreign investor in general is required to file a post transaction report (the "Post Transaction Report") with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese corporation by the 45th day of the month immediately following the month to which the date of such acquisition belongs.

Foreign investors acquiring the Inward Direct Investment Shares by way of a stock split are not subject to the Post Transaction Report requirements.

Dividends and Proceeds of Sale

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds from sales in Japan of, shares held by exchange non-residents may generally be converted into any foreign currency and repatriated abroad.

Reporting of Substantial Shareholdings

The FIEA and its related regulations require any person, regardless of residence, who has become beneficially, solely or jointly, a holder of more than 5 per cent of the total issued shares of common stock of a corporation that is listed on a Japanese stock exchange, or that is traded on an over-the-counter market in Japan, to file with the Director of the relevant Local Finance Bureau of the Ministry of Finance, within five business days, a report concerning such shareholdings. With certain exceptions, a similar report must also be filed in respect of any subsequent change of 1 per cent or more in any such holdings or any change in material matters set out in reports previously filed. For this purpose, shares issuable to such person upon the exchange of exchangeable securities, conversion of convertible securities or exercise of warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by the holder and the total issued shares.

DESCRIPTION OF THE SHARES

General

The Company is a joint stock corporation under the Companies Act. The rights of shareholders of a joint stock corporation are represented by shares of capital stock in the corporation and shareholders' liability is limited to the amount of subscription for shares of such capital stock. The Company's authorised share capital is 149,376,000 Shares, of which 77,270,728 Shares were issued as of June 29, 2020. All issued Shares are fully paid and non-assessable.

The Japanese book-entry transfer system for listed shares of Japanese companies under the Book-Entry Act applies to the Shares. Under this system, shares of all Japanese companies listed on any Japanese stock exchange are dematerialized. Under the system, in order for any person to hold, sell or otherwise dispose of listed shares of Japanese companies, they must have an account at an account management institution unless such person has an account at JASDEC. "Account management institutions" are financial instruments business operators (i.e., securities firms), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Act, and only those financial institutions that meet further stringent requirements of the Book-Entry Act can open accounts directly at JASDEC.

For the purpose of the description under "—General", the Company assumes that the relevant person has no account at JASDEC. Under the Book-Entry Act, any transfer of shares is effected through book entry, and the title to the shares passes to the transferee at the time when the transferred number of shares is recorded in the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act, in order to assert shareholders' rights against the Company, the transferee must have its name and address registered in the Company's register of shareholders, except in limited circumstances. Under the book-entry transfer system, such registration is generally made upon an all shareholders notice (as described in "—Register of Shareholders") from JASDEC. For this purpose, shareholders are required to file their names and addresses with the Company's transfer agent through the account management institution and JASDEC. See "—Register of Shareholders" for more information.

Non-resident shareholders are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each such shareholder must give notice of their standing proxy or a mailing address to the relevant account management institution. Such notice will be forwarded to the Company's transfer agent through JASDEC. Japanese securities firms and commercial banks customarily act as standing proxies and provide related services for standard fees. Notices from the Company to non-resident shareholders are delivered to the standing proxies or such mailing addresses.

Distribution of Surplus

General

Under the Companies Act, the distribution of dividends takes the form of distribution of Surplus (as described in "—Restriction on Distribution of Surplus"), and a distribution of Surplus may be made in cash and/or in kind, with no restrictions on the timing and frequency of such distributions. The Companies Act generally requires a joint stock corporation to make distributions of Surplus authorised by a resolution of a general meeting of shareholders. However, the Board of Directors may decide to make distributions of Surplus, if all of the following requirements are met:

(a) the Company's Articles of Incorporation provide that the Board of Directors has the authority to decide to make distributions of Surplus;

(b) the Company has (i) an independent auditor and (ii) an audit and supervisory board, or an audit and supervisory committee, or nominating committee, etc. under the Companies Act, as the case may be;

(c) the normal term of office of the Company's Directors terminates on or prior to the date of close of the general meeting of shareholders relating to the last fiscal year ending within one year from the election of the Director; and

(d) non-consolidated annual financial statements and certain documents for the latest fiscal year fairly present the Company's assets and profits and losses, as required by the ordinances of the Ministry of Justice.

As of the date of this Offering Circular, the requirements described above are met in respect of the Company.

Distributions of Surplus may be made in cash or in kind in proportion to the number of Shares held by each shareholder. A resolution of a general meeting of shareholders or the Board of Directors, as the case may be, authorising a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of the assets to shareholders and the effective date of the distribution. If a distribution of Surplus is to be made in kind, the Company may grant a right to shareholders to require the Company to make the distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a general meeting of shareholders. See "—Voting Rights" for more details regarding a special resolution. In addition, under the Companies Act, a joint stock corporation which has a Board of Directors is able to make distributions of interim dividends by a resolution of the Board of Directors once a fiscal year if it is provided in its articles of incorporation. The Company's Articles of Incorporation provide that the Company may, by the resolution of the Board of Directors, distribute interim dividends to the shareholders whose names have been recorded in the latest register of shareholders as of June 30 of each year.

The Company's Articles of Incorporation provide that the Company is relieved of its obligation to make any distributions of annual dividends and interim dividends in cash that go unclaimed for three years after the date they first become payable.

Restriction on Distribution of Surplus

When the Company makes a distribution of Surplus, the Company must, until the aggregate amount of its capital surplus reserve and earned surplus reserve reaches one quarter of its capital stock, set aside in its capital surplus reserve and/or earned surplus reserve the smaller of (i) an amount equal to one-tenth of the amount of Surplus so distributed, or (ii) an amount equal to one quarter of its capital stock less the aggregate amount of its capital surplus reserve and earned surplus reserve as at the date of such distribution.

Under the Companies Act, the Company may distribute Surplus up to the excess of the aggregate of (a) and (b) below, less the aggregate of (c) through (f) below, as at the effective date of the distribution, if its net assets are not less than ¥3,000,000:

(a) the amount of Surplus, as described below;

(b) in the event that extraordinary financial statements as of, or for a period from the beginning of the fiscal year to, the specified date are approved, the aggregate amount of (i) the aggregate amount as provided for by an ordinance of the Ministry of Justice as the net income for such period described in the statement of income constituting the extraordinary financial statements, and (ii) the amount of consideration that the Company received for the treasury stock that it disposed of during such period;

(c) the book value of the Company's treasury stock;

(d) in the event that the Company disposed of treasury stock after the end of the last fiscal year, the amount of consideration that it received for such treasury stock;

(e) in the event described in (b) in this paragraph, the aggregate amount as provided for by an ordinance of the Ministry of Justice as the net loss for such period described in the statement of income constituting the extraordinary financial statements; and

(f) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of the Company's goodwill and deferred assets exceeds the total of the Company's capital stock, capital surplus reserve and earned surplus reserve, each such amount as it appears on the balance sheet as at the end of the last fiscal year) all or a part of such excess amount as calculated in accordance with the ordinances of the Ministry of Justice.

For the purposes of this section, "amount of Surplus" is the excess of the aggregate of I. through IV. below, less the aggregate of V. through VII. below:

I the aggregate of other additional paid-in capital and other retained earnings at the end of the last fiscal year;

II in the event that the Company disposed of treasury stock after the end of the last fiscal year, the consideration that the Company received for such treasury stock less the book value thereof;

III in the event that the Company reduced its capital stock after the end of the last fiscal year, the amount of such reduction less the portion thereof that has been transferred to capital surplus reserve and/or earned surplus reserve (if any);

IV in the event that the Company reduced its capital surplus reserve and/or earned surplus reserve after the end of the last fiscal year, the amount of such reduction less the portion thereof that has been transferred to capital stock (if any);

V in the event that the Company cancelled treasury stock after the end of the last fiscal year, the book value of such treasury stock;

VI in the event that the Company distributed Surplus after the end of the last fiscal year, the aggregate of the following amounts:

(i) the aggregate amount of the book value of the distributed assets, excluding the book value of such assets that would be distributed to shareholders but for their exercise of the right to receive dividends in cash instead of dividends in kind;

(ii) the aggregate amount of cash distributed to shareholders who exercised the right to receive a distribution in cash instead of a distribution in kind; and

(iii) the aggregate amount of cash paid to shareholders holding fewer Shares than Shares that were required in order to receive a distribution in kind;

VII the aggregate amounts of (i) through (iv) below, less (v) and (vi) below:

(i) in the event that the amount of Surplus was reduced and transferred to capital surplus reserve, earned surplus reserve and/or capital stock after the end of the last fiscal year, the amount so transferred;

(ii) in the event that the Company distributed Surplus after the end of the last fiscal year, the amount set aside in the Company's reserve;

(iii) in the event that the Company disposed of treasury stock in the process of (x) a merger in which the Company acquired all rights and obligations of a company, (y) a corporate split in which the Company acquired all or a part of the rights and obligations of a split company or (z) a share exchange in which the Company acquired all shares of a company after the end of the last fiscal year, the consideration that the Company received for such treasury stock less the book value thereof;

(iv) in the event that the amount of Surplus was reduced in the process of a corporate split in which the Company transferred all or a part of its rights and obligations after the end of the last fiscal year, the amount so reduced;

(v) in the event of (x) a merger in which the Company acquired all rights and obligations of a company, (y) a corporate split in which the Company acquired all or a part of the rights and obligations of a split company or (z) a share exchange in which the Company acquired all shares of a company after the end of the last fiscal year, the aggregate amount of (i) the amount of the Company's other additional paid-in capital after such merger, corporate split or share exchange, less the amount of the Company's other additional paid-in capital before such merger, corporate split or share exchange, and (ii) the amount of the Company's other retained earnings after such merger, corporate split or share exchange, less the amount of the Company's other retained earnings before such merger, corporate split or share exchange; and

(vi) in the event that an obligation to cover a deficiency, such as the obligation of a person who subscribed for newly issued Shares with an unfair amount to be paid in, was fulfilled after the end of the last fiscal year, the amount of other additional paid-in capital increased by such payment.

In Japan, the "ex-dividend" date and the record date for any distribution of Surplus come before the date a company determines the amount of distribution of Surplus to be paid. For information as to Japanese taxes on dividends, see "Japanese Taxation".

Capital and Reserves

Under the Companies Act, the paid-in amount of any newly issued shares is required to be accounted for as capital stock. The Company, however, may account for an amount not exceeding one-half of such paid-in amount

as capital surplus reserve. The Company may generally reduce capital surplus reserve and/or earned surplus reserve by resolution of a general meeting of shareholders, subject to completion of protection procedures for creditors in accordance with the Companies Act, and, if so decided by the same resolution, the Company may account for the whole or any part of the amount of such reduction as capital stock. The Company may also transfer all or any part of Surplus as described in "—Distribution of Surplus" above to capital stock, capital surplus reserve or earned surplus reserve by resolution of a general meeting of shareholders, subject to certain restrictions. The Company may generally reduce its capital stock by a special resolution of a general meeting of shareholders, subject to completion of protection procedures for creditors in accordance with the Companies Act, and, if so decided by the same resolution, the Company may account for the whole or any part of the amount of such reduction as capital surplus reserve or earned surplus reserve.

Stock Splits

The Company may at any time split the Shares on issue into a greater number of the same class of shares by a resolution of the Board of Directors. A company that has issued only one class of shares may amend its Articles of Incorporation to increase the number of the authorized shares to be issued up to a number in proportion to the stock split by resolution of the Board of Directors, rather than a special resolution of a general meeting of shareholders, which is otherwise required for amending the articles of incorporation. When a stock split is to be made, the Company must give public notice of the stock split, specifying the record date therefor, at least two weeks prior to the record date.

Under the book-entry transfer system, on the effective date of the stock split, the numbers of Shares recorded in all accounts held by the Company's shareholders at account management institutions will be increased in accordance with the applicable ratio.

Gratuitous Allocation

Under the Companies Act, the Company may allot any class of shares to its existing shareholders without any additional contribution by resolution of the Board of Directors, or gratuitous allocation; provided that, although treasury stock may be allotted to shareholders, any such gratuitous allocation will not accrue to any shares held as treasury stock.

When a gratuitous allocation is to be made and the Company sets a record date for the gratuitous allocation, the Company must give public notice of the gratuitous allocation, specifying the record date therefor, at least two weeks prior to the record date.

On the effective date of the gratuitous allocation, the number of Shares registered in accounts held by the Company's shareholders at account management institutions will be increased in accordance with a notice from the Company to JASDEC.

Consolidation of Shares

The Company may at any time consolidate Shares into a smaller number of shares by a special resolution of the general meeting of shareholders. The Company must disclose the reason for the consolidation at the general meeting of shareholders. When a consolidation is to be made, the Company must give public notice of the consolidation, at least two weeks (or, in certain cases where any fractions of Shares are left as a result of the consolidation, 20 days) prior to the effective date of the consolidation.

Under the book-entry transfer system, on the effective date of the consolidation, the numbers of Shares recorded in all accounts held by the Company's shareholders at account management institutions will be decreased in accordance with the applicable ratio.

Unit Share System

General

The Company's Articles of Incorporation currently provide that 100 Shares constitute one "unit". The Companies Act permits a company, by resolution of the Board of Directors, to reduce the number of shares which constitutes one unit or abolish the unit share system, and amend its articles of incorporation to this effect without the approval of a general meeting of shareholders, with public notice after the effective date.

Transferability of Shares Constituting Less Than One Unit

Under the book-entry transfer system, shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges.

Voting Rights of a Holder of Shares Constituting Less Than One Unit

A holder of shares constituting less than one unit cannot exercise any voting rights pertaining to those shares. In calculating the quorum for various voting purposes, the aggregate number of shares constituting less than one unit will be excluded from the number of outstanding shares. A holder of shares representing one or more whole units will have one vote for each whole unit represented.

A holder of shares constituting less than one unit does not have any rights related to voting, such as the right to participate in a demand for the resignation of a Director, the right to participate in a request for the convocation of a general meeting of shareholders and the right to join with other shareholders to propose a matter to be included in the agenda of a general meeting of shareholders.

In accordance with the Companies Act, the Company's Articles of Incorporation provide that a holder of Shares constituting less than one unit does not have any other rights of a shareholder in respect of those shares, other than those provided by the Company's Articles of Incorporation including the following rights:

- to receive dividends;
- to receive cash or other assets in the case of the consolidation of Shares or stock split, exchange or transfer of Shares or merger;
- to be allotted Shares and stock acquisition rights, without any additional contribution, when such rights are granted to shareholders; and
- to participate in any distribution of surplus assets upon liquidation.

Rights of a Holder of Shares Constituting Less Than One Unit to Require the Company to Purchase Its Shares and to Sell Shares

Under the Companies Act, a holder of Shares constituting less than one unit may at any time request that the Company purchase its Shares. In addition, a holder of Shares constituting less than one unit may at any time request that the Company sell to it such number of Shares as may be necessary to raise its share ownership to a whole unit in accordance with the Company's Articles of Incorporation. Under the book-entry transfer system, such request must be made to the Company through the relevant account management institution.

The price at which Shares constituting less than one unit will be purchased or sold by the Company pursuant to such a request will be equal to (a) the closing price of Shares reported by the Tokyo Stock Exchange on the day when the request is received by the Company's transfer agent or (b) if no sale takes place on the Tokyo Stock Exchange on that day, the price at which the sale of Shares is executed on such stock exchange immediately thereafter.

General Meetings of Shareholders

The Company's annual general meeting of shareholders is usually held every March in Tokyo, Japan. The record date for an annual general meeting of shareholders is December 31 of each year. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice to shareholders.

Notice of convocation of a general meeting of shareholders setting forth the time, place, purpose thereof and certain other matters set forth in the Companies Act and relevant ordinances must be mailed to each shareholder having voting rights (or, in the case of a non-resident shareholder, to his or her standing proxy or mailing address in Japan) at least two weeks prior to the date set for such meeting. Such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders.

Any shareholder or group of shareholders holding at least three per cent of the Company's total voting rights for a period of six months or more may request, with an individual shareholder notice (as described in

"—Register of Shareholders"), the convocation of a general meeting of shareholders for a particular purpose. Unless such general meeting of shareholders is convened without delay or a convocation notice of a meeting which is to be held not later than eight weeks from the day of such request is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such general meeting of shareholders.

Any shareholder or group of shareholders holding at least 300 voting rights or one per cent of the Company's total voting rights for a period of six months or more may propose a matter to be included in the agenda of a general meeting of shareholders, and may propose to describe such matter together with a summary of the proposal to be submitted by such shareholder in a notice to the Company's shareholders, by submitting a request to a Director at least eight weeks prior to the date set for such meeting, with an individual shareholder notice.

The Companies Act enables a company to amend its articles of incorporation in order to lower the requirements for the number of shares held and shareholding period, as well as the period required for dispatching a convocation notice or submission of requests, all of which are required for any shareholder or group of shareholders to request the convocation of a general meeting of shareholders or to propose a matter to be included in the agenda of a general meeting of shareholders. The Company's Articles of Incorporation have not been amended to include standards lower than those otherwise required by the Companies Act.

Voting Rights

A shareholder of record is entitled to one vote per one unit, except that neither the Company nor any corporation, partnership or other similar entity no less than one-quarter of the voting rights of which are directly or indirectly owned by the Company shall have voting rights in respect of shares held by the Company or such entity. Except as otherwise provided by law or by the Company's Articles of Incorporation, a resolution can be adopted at a general meeting of the Company's shareholders by a majority of the voting rights represented at the meeting. Shareholders may also exercise their voting rights through proxies, provided that the proxy is granted to one of the Company's shareholders having voting rights. The Companies Act and the Company's Articles of Incorporation provide that the quorum for the election of Directors is one-third of the total number of voting rights. The Company's Articles of Incorporation provide that Shares may not be voted cumulatively for the election of Directors. The Company's shareholders may exercise voting rights in writing, or electronically in accordance with a resolution of the Board of Directors.

The Companies Act provides that a special resolution of the general meeting of shareholders is required for certain significant corporate transactions, including:

- any amendment to the Company's Articles of Incorporation (except for amendments that may be authorised solely by the Board of Directors under the Companies Act);
- a reduction of capital stock, subject to certain exceptions, such as a reduction of capital stock for the purpose of replenishing capital deficiencies;
- a dissolution, merger or consolidation, subject to certain exceptions under which a shareholders' resolution is not required;
- the transfer of the whole or a substantial part of the Company's business, subject to certain exceptions under which a shareholders' resolution is not required;
- the transfer of the whole or a part of the equity interests in any of the Company's subsidiaries requiring shareholders' approval;
- the taking over of the whole of the business of any other corporation, subject to certain exceptions under which a shareholders' resolution is not required;
- a corporate split, subject to certain exceptions under which a shareholders' resolution is not required;
- a share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*) for the purpose of establishing 100 per cent parent-subsidiary relationships, subject to certain exceptions under which a shareholders' resolution is not required;
- any issuance of new Shares or transfer of existing Shares held by the Company as treasury stock at a "specially favorable" price and any issuance of stock acquisition rights or bonds with stock acquisition rights at a "specially favorable" price or on "specially favorable" conditions to any persons other than shareholders;

- any acquisition by the Company of its own Shares from specific persons other than the Company's subsidiaries; or
- a consolidation of Shares.

Except as otherwise provided by law or in the Company's Articles of Incorporation, a special resolution requires the approval of the holders of at least two-thirds of the voting rights of all shareholders present or represented at the meeting where a quorum is present. The Company's Articles of Incorporation provide that a quorum exists when one-third of the total number of voting rights is present or represented.

Liquidation Rights

If the Company is liquidated, the assets remaining after payment of all taxes, liquidation expenses and debts will be distributed among the Company's shareholders in proportion to the number of Shares they hold.

Rights to Allotment of Shares

Holders of Shares have no pre-emptive rights. Authorised but unissued Shares may be issued at such times and on such terms as the Board of Directors may determine, so long as the limitations described in "—Voting Rights" with respect to the issuance of new Shares at "specially favorable" prices are observed. The Board of Directors may, however, determine that shareholders shall be given rights to allotment regarding a particular issue of new Shares, in which case the rights must be given on uniform terms to all holders of Shares as of a record date for which not less than two weeks' prior public notice must be given. Each of the shareholders to whom the rights are given must also be given notice of the expiration date thereof at least two weeks prior to the date on which the rights expire. The rights to allotment of new Shares may not be transferred. However, the Companies Act enables the Company to allot stock acquisition rights to the Company's shareholders without consideration therefor, and such stock acquisition rights are transferable. See "—Stock Acquisition Rights".

In cases where a particular issuance of new Shares violates laws and regulations or the Company's Articles of Incorporation or will be performed in a manner that is materially unfair, and shareholders may suffer disadvantages therefrom, shareholders may file an injunction with a court of law to enjoin the issuance.

Stock Acquisition Rights

Subject to certain conditions and to the limitations on issuances at a "specially favorable" price or on "specially favorable" conditions described in "—Voting Rights", the Company may issue stock acquisition rights (*shinkabu yoyakuken*) and bonds with stock acquisition rights (*shinkabu yoyakuken-tsuki shasai*) by a resolution of the Board of Directors. Holders of stock acquisition rights may exercise their rights to acquire a certain number of Shares within the exercise period as set forth in the terms of their stock acquisition rights. Upon exercise of stock acquisition rights, the Company will be obligated either to issue the relevant number of new Shares or, alternatively, to transfer the necessary number of shares of treasury stock held by the Company.

Register of Shareholders

The registration of names, addresses and other information of shareholders in the Company's register of shareholders will be made by the Company upon the receipt of the all shareholders notice (*soukabunushi tsuchi*) (with the exception that in the event of the issuance of new Shares, the Company will register the names, addresses and other information of shareholders in the Company's register of shareholders without the all shareholders notice from JASDEC) given to the Company by JASDEC, which will give the Company such all shareholders notice based on information provided by the account management institutions. Such all shareholders notice will be made only in cases prescribed under the Book-Entry Act such as the cases when the Company fixes the record date and the case when the Company makes request to JASDEC with any justifiable reason. Therefore, the shareholder may not assert shareholders' rights against the Company immediately after such shareholder acquires the Shares, unless such shareholder name and address are registered in the Company's register of shareholders upon receipt of the all shareholders notice; provided, however, that, in respect of the exercise of rights of minority shareholders defined under the Book-Entry Act, the shareholder may exercise such rights upon giving the Company an individual shareholder notice (*kobetsukabunushi tsuchi*) through JASDEC only during a certain period prescribed under the Book-Entry Act.

Record Date

The record date for annual dividends and the determination of shareholders entitled to vote at annual general meetings of the Company's shareholders is December 31. The record date for interim dividends is June 30. In

addition, by a resolution of the Board of Directors, the Company may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks' prior public notice. Under rules of JASDEC, the Company is required to give notice of each record date to JASDEC promptly after the resolution of the Company's Board of Directors determining such record date. JASDEC is required to promptly give the Company notice of the names and addresses of the Company's shareholders holding Shares, the number of Shares held by them and other relevant information as at each record date.

Purchase by the Company of Its Own Shares

The Company may acquire Shares:

- by purchase on any stock exchange on which the Company's Shares are listed or by way of tender offer, pursuant to a resolution of the Company's Board of Directors;
- by purchase from a specific party other than any of the Company's subsidiaries, pursuant to a special resolution of a general meeting of shareholders; or
- by purchase from any of the Company's subsidiaries, pursuant to a resolution of the Board of Directors.

If the Company acquires Shares from a specific party other than any of the Company's subsidiaries as specified above at a price higher than the greater of (i)(a) the closing price of Shares reported by the Tokyo Stock Exchange on the day immediately preceding the day on which such resolution is made or (b) if no sale takes place on the Tokyo Stock Exchange on that day, the price at which the sale of Shares is executed on the Tokyo Stock Exchange immediately thereafter and (ii) in the event that such Shares are subject to a tender offer, the price set in the contract regarding such tender offer on such date, any shareholder may request that the Company include him or her as the seller of his or her Shares in the proposed purchase. Any such acquisition of Shares must satisfy certain requirements, such as that the Company may only acquire its own Shares in an aggregate amount up to the amount that the Company may distribute as Surplus. See "—Distribution of Surplus" for more details regarding this amount.

The Company's Shares acquired by the Company may be held by the Company as treasury stock for any period or may be cancelled by resolution of the Board of Directors. The Company may also transfer Shares held by it to any person, subject to a resolution of the Board of Directors, and subject also to other requirements similar to those applicable to the issuance of new Shares, as described in "—Rights to Allotment of Shares". The Company may also utilise its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange, or corporate split through exchange of treasury stock for shares or assets of the acquired company.

Request by Controlling Shareholder to Sell All Shares

A shareholder holding 90 per cent or more of the Company's voting rights, directly or through the wholly controlling subsidiary, shall have a right to request that all other shareholders other than the Company (and all other holders of stock acquisition rights other than the Company, as the case may be) should sell all Shares (and all stock acquisition rights, as the case may be) held by them with the Company's approval, which must be made by a resolution of the Board of Directors (*kabushiki tou uriwatashi seikyu*). In order to make this request, such shareholder will be required to issue a prior notice to the Company. If the Company approve such request, the Company will be required to make a public notice to all holders and registered pledgees of shares (and stock acquisition rights, as the case may be) not later than 20 days before the effective date of such sales.

Sales of Shares Held by Shareholders Whose Addresses are Unknown

The Company is not required to send a notice to a shareholder if notices to such shareholder fail to arrive for a continuous period of five or more years at the registered address of such shareholder in the Company's register of shareholders or at the address otherwise notified to the Company.

In addition, the Company may sell or otherwise dispose of or acquire Shares held by a shareholder whose location is unknown. Generally, if:

- notices to a shareholder fail to arrive for a continuous period of five or more years at the shareholder's registered address in the Company's register of shareholders or at the address otherwise notified to the Company; and

- the shareholder fails to receive dividends on the shares for a continuous period of five or more years at the address registered in the Company's register of shareholders or at the address otherwise notified to the Company,

the Company may sell or otherwise dispose of or acquire the shareholder's Shares at the market price, after giving at least three months' prior public and individual notice, and hold or deposit the proceeds of such sale, disposal or acquisition for the shareholder.

CLEARANCE AND SETTLEMENT OF THE OFFERED SHARES

JASDEC

The central book-entry transfer system of shares of Japanese listed companies under the Book-Entry Act will apply to Offered Shares. Under this system, any transfer of Shares is effected through entry in the records maintained by JASDEC and the account management institutions. See "Description of the Shares—General".

Euroclear and Clearstream

Book-entry interests in the Offered Shares may be held through Euroclear or Clearstream, Luxembourg and, if so, the relevant purchasers must deliver their Shares to the nominee in Japan for the relevant clearing system which will hold the Offered Shares in JASDEC. Settlement for the purchasers of the Offered Shares will be made only through accounts of participating institutions having a clearing account with JASDEC.

The aggregate holdings of book-entry interests in the Offered Shares in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts for each institution. Euroclear or Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the Offered Shares, will be responsible for establishing and maintaining accounts for their respective participants and clients having interests in the book-entry interests in the Offered Shares.

Fees

We will not impose any fees in respect of the Offered Shares except in certain extraordinary cases. However, holders of book-entry interest in the Offered Shares through Euroclear and Clearstream, Luxembourg may incur fees normally payable for the maintenance and operation of accounts in Euroclear or Clearstream, Luxembourg. In addition, a Japanese securities firm or commercial bank acting as standing proxy will charge certain standard fees. See "Description of the Shares—General".

Settlement Procedures—Secondary Market Trading

Secondary market sales of book-entry interests in the Offered Shares held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Offered Shares through Euroclear and Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg. Any transfer of interests in the Offered Shares out of Euroclear and Clearstream, Luxembourg will be effected in accordance with the rules of Euroclear or Clearstream, Luxembourg, as applicable, and the Book-Entry Act, the JASDEC rules and our Share Handling Regulations. Secondary market sales and transfers of the Offered Shares held outside of Euroclear and Clearstream, Luxembourg will also be conducted in accordance with our Share Handling Regulations, the Book-Entry Act, any applicable JASDEC rules and the rules of the Tokyo Stock Exchange applicable to listed securities.

Settlement of transactions concerning Shares listed on any stock exchanges in Japan will normally be effected on the third dealing day from and including the transaction date. Settlement in Japan is made through JASDEC as described above.

Daily Price Fluctuation Limits under the Rules of the Tokyo Stock Exchange

Share prices on the Tokyo Stock Exchange are determined on a real-time basis by the equilibrium between bids and offers. The Tokyo Stock Exchange sets daily price limits, which limit the maximum range of fluctuation within a single trading day. Daily price limits are set according to the previous day's closing price or special quote. Although transactions may continue at the upward and downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his or her Shares at such price on a particular trading day, or at all.

JAPANESE TAXATION

The following is a summary of the principal Japanese tax consequences to Bondholders and Shareholders, who are non-resident individuals of Japan or non-Japanese corporations, in either case having no permanent establishment in Japan ("Non-resident Holders"). The statements regarding Japanese tax laws set out below are based on the laws in force and interpreted by the Japanese taxation authorities as of the date hereof and are subject to changes in the applicable Japanese laws or tax treaties, conventions or agreements or in the interpretation thereof after that date.

This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the Bonds and/or the Shares, including, specifically, the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty, convention or agreement between Japan and their country of residence, by consulting their own tax advisers.

Shares

Generally, a non-resident holder will be subject to Japanese income tax collected by way of withholding on dividends (meaning in this section distributions made from the Company's retained earnings for the Companies Act purposes) the Company pays with respect to shares of the Company's common stock and such tax will be withheld prior to payment of dividends. Stock splits generally are not subject to Japanese income or corporation taxes.

In the absence of any applicable tax treaty, convention or agreement reducing the maximum rate of withholding tax or allowing exemption from Japanese withholding tax, the rate of the Japanese withholding tax applicable to dividends paid by Japanese corporations on their shares of stock to non-resident holders is generally 20.42 per cent (or 20 per cent for dividends due and payable on or after January 1, 2038) under Japanese tax law. However, with respect to dividends paid on listed shares issued by a Japanese corporation to non-resident holders, other than any individual shareholder who holds 3 per cent or more of the total number of shares issued by the relevant Japanese corporation (to whom the aforementioned withholding tax rate will still apply), the aforementioned withholding tax rate is reduced to (i) 15.315 per cent for dividends due and payable up to and including December 31, 2037 and (ii) 15 per cent for dividends due and payable on or after January 1, 2038. The withholding tax rates described above include the special reconstruction surtax (2.1 per cent multiplied by the original applicable withholding tax rate, i.e., 15 per cent or 20 per cent, as the case may be), which is imposed during the period from and including January 1, 2013 to and including December 31, 2037, to fund the reconstruction from the Great East Japan Earthquake.

If distributions were made from the Company's capital surplus, rather than retained earnings, for the Companies Act purposes, the portion of such distributions in excess of the amount corresponding to a pro rata portion of return of capital as determined under Japanese tax laws would be deemed dividends for Japanese tax purposes, while the rest would be treated as return of capital for Japanese tax purposes. The deemed dividend portion, if any, would generally be subject to the same tax treatment as dividends as described above, and the return of capital portion would generally be treated as proceeds derived from the sale of shares and subject to the same tax treatment as sale of shares of the Company's common stock as described below. Distributions made in consideration of repurchase by the Company of the Company's own shares or in connection with certain reorganization transactions will be treated substantially in the same manner.

Japan has income tax treaties whereby the withholding tax rate (including the special reconstruction surtax) may be reduced, generally to 15 per cent, for portfolio investors, with, among others, Canada, Denmark, Finland, Germany, Iceland, Ireland, Italy, Luxembourg, New Zealand, Norway, Singapore and Spain, while the income tax treaties with, among others, Australia, Austria, Belgium, Estonia, France, Hong Kong, Latvia, Lithuania, the Netherlands, Portugal, Russia, Sweden, Switzerland, the United Arab Emirates, the United Kingdom and the United States generally reduce the withholding tax rate to 10 per cent for portfolio investors, and the income tax treaty with, among others, Slovenia generally reduces the withholding tax rate to 5 per cent for portfolio investors. In addition, under the income tax treaty between Japan and the United States, dividends paid to pension funds which are qualified United States residents eligible to enjoy treaty benefits are exempt from Japanese income taxation by way of withholding or otherwise unless the dividends are derived from the carrying on of a business, directly or indirectly, by the pension funds. Similar treatment is applicable to dividends paid to pension funds under the income tax treaties between Japan and, among others, Austria, Belgium, Denmark, Iceland, the Netherlands, Russia, Switzerland and the United Kingdom. Under Japanese tax law, any reduced

maximum rate applicable under a tax treaty shall be available when such maximum rate is below the rate otherwise applicable under the Japanese tax law referred to in the second preceding paragraph with respect to the dividends to be paid by us on shares of the Company's common stock.

Non-resident holders who are entitled under an applicable tax treaty to a reduced rate of, or exemption from, Japanese withholding tax on any dividends on shares of the Company's common stock, in general, are required to submit, through the withholding agent to the relevant tax authority prior to the payment of dividends, an Application Form for Income Tax Convention regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends together with any required forms and documents. A standing proxy for a non-resident holder may be used in order to submit the application on a non-resident holder's behalf. In this regard, a certain simplified special filing procedure is available for non-resident holders to claim treaty benefits of reduction of or exemption from Japanese withholding tax by submitting a Special Application Form for Income Tax Convention regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends of Listed Stocks together with any required forms and documents. Non-resident holders who are entitled, under any applicable tax treaty, to a reduced rate of Japanese withholding tax below the rate otherwise applicable under Japanese tax law, or exemption therefrom, as the case may be, but fail to submit the required application in advance may nevertheless be entitled to claim a refund from the relevant Japanese tax authority of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident holders are entitled to a reduced treaty rate under the applicable tax treaty) or the full amount of tax withheld (if such non-resident holders are entitled to an exemption under the applicable tax treaty), as the case may be, by complying with a certain subsequent filing procedure. The Company does not assume any responsibility to ensure withholding at the reduced treaty rate, or exemption therefrom, for shareholders who would be eligible under an applicable tax treaty but who do not follow the required procedures as stated above.

Gains derived from the sale of shares of the Company's common stock outside Japan by a non-resident holder that is a portfolio investor will generally not be subject to Japanese income or corporation taxes.

Japanese inheritance and gift taxes, at progressive rates, may be payable by an individual who has acquired from another individual shares of the Company's common stock as a legatee, heir or donee, even if none of the acquiring individual, the decedent or the donor is a Japanese resident.

Bonds

Receipts of premium (if any) upon redemption of the Bonds are subject to Japanese income tax (including corporate income tax) but are not subject to any withholding tax. If the recipient is a resident or a corporation of a country with which Japan has an income tax treaty, Japanese tax treatment may be modified by any applicable provisions of such income tax treaty. Bondholders are advised to consult with their legal, accounting or other professional advisers as to the applicable tax treatment.

Gains derived from the sale of Bonds, whether within or outside Japan by a Non-resident Holder thereof, are, in general, not subject to Japanese income tax.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual, who has acquired Bonds as legatee, heir or donee even if the individual is not a Japanese resident.

Interest payments on the Bonds to an individual resident of Japan or a Japanese corporation (except for (i) a Japanese financial institution or a Japanese financial instruments business operator designated by the Cabinet Order pursuant to Article 6, Paragraph (9) of the Special Taxation Measures Act, which has complied with the requirement for tax exemption under that paragraph, and (ii) a public corporation, a financial institution or a financial instruments business operator, etc. described in Article 3-3, Paragraph (6) of the Special Taxation Measures Act which receives interest payments on the Bonds through a Japanese payment handling agent as described in Paragraph (1) of said article and which has complied with the requirement for tax exemption under that Paragraph (6) of said article), or an individual non-resident of Japan or a non-Japanese corporation who is a specially-related person of the issuer or fails to comply with procedures for establishing its eligibility for exemption from the imposition of Japanese income tax as described below, will be subject to withholding tax pursuant to the Income Tax Act of Japan (Act No. 33 of 1965, as amended) and other applicable tax laws, or collectively, the Income Tax Law, at a rate of 15.315 per cent until December 31, 2037 and 15 per cent thereafter on the amount of such interest.

Interest payments on the Bonds to a Japanese corporation will be included in the recipient's income that is subject to Japanese corporate tax (which includes surtax, if applicable) under the Corporate Tax Act of Japan

(Act No. 34 of 1965, as amended) and other applicable Japanese tax law, or collectively, the Corporate Tax Law, provided that the amount of Japanese income tax (which includes surtax, if applicable) withheld under the Income Tax Law will generally be credited against the amount of Japanese corporate tax due. Interest payments on the Bonds to an individual non-resident of Japan or a non-Japanese corporation that is a specially-related person of the issuer and has any kind of permanent establishment in Japan to which such interest is attributable will be included in the recipient's income that is subject to Japanese income tax or corporate tax, as appropriate, payable other than by way of withholding tax, with any necessary adjustment pursuant to the Income Tax Law or the Corporate Tax Law, as appropriate, in consideration of the amount of the Japanese income tax withheld under the Income Tax Law.

Under the Special Taxation Measures Act, payment of interest on the Bonds outside Japan to a beneficial owner that is an individual non-resident of Japan or a non-Japanese corporation, other than a specially-related person of the issuer, will not be subject to Japanese withholding tax, provided that the beneficial owner complies with procedures for establishing its eligibility for exemption from the imposition of Japanese income tax, including withholding tax, pursuant to the Special Taxation Measures Act, as summarized below:

(1) if the Bonds are deposited with an agent which handles the interest payments on the Bonds as defined in the Cabinet Order, or the payment handling agent, in accordance with the Cabinet Order, (A) the recipient of the interest provides such payment handling agent which holds the Bonds in its custody, or the payment handling custodian, with information including, inter alia, its name and address, and proves to the payment handling custodian the correctness of such information by presenting certain documentary or other evidence to such payment handling custodian; (B) such payment handling custodian notifies us of the interest recipient information, or the Interest Recipient Information (providing, inter alia, (i) that all recipients are individual non-residents of Japan or non-Japanese corporations other than specially-related persons of the issuer (if applicable); or (ii) the amount of the interest payable to the recipients which are individual non-residents of Japan or non-Japanese corporations other than specially-related persons of the issuer), which is prepared by such payment handling custodian based on the information provided by the recipient, or (if the Bonds are further sub-deposited with another payment handling agent including a clearing organization, or the sub-depositary, by such payment handling custodian) notifies us of the Interest Recipient Information through the sub-depositary, at the latest one day prior to the date on which such payment handling custodian receives from us the amount of the interest for the payment to the recipients; and (C) we prepare an interest recipient confirmation based upon Interest Recipient Information and submit it to the relevant Japanese tax authority; or

(2) if the Bonds are held otherwise than through a payment handling custodian, upon each payment of interest on the Bonds the recipient files a claim for exemption from taxation, or a Claim for Exemption from Taxation (providing, inter alia, the name and address of the recipient), with the relevant Japanese tax authority through us or (if payment of interest is made through the payment handling agent) through the payment handling agent and us.

If the recipient of interest on the Bonds is an individual non-resident of Japan or a non-Japanese corporation other than a specially-related person of the issuer, failure by such individual non-resident of Japan or non-Japanese corporation to comply with the above requirements will result in the withholding of Japanese income tax. The above exemption from the withholding of Japanese income tax also applies to any Japanese financial institution or Japanese financial instruments business operator designated by Article 3-2-2, paragraph (29) of the Cabinet Order pursuant to Article 6, paragraph (9) of the Special Taxation Measures Act, which receives the interest on the Bonds otherwise than through the payment handling agent in Japan.

If the recipient of interest on the Bonds is an individual non-resident of Japan or a non-Japanese corporation other than a specially-related person of the issuer that complies with the above requirements, and such recipient has a permanent establishment in Japan to which the receipt of interest is attributable, such interest will be subject to Japanese income tax or corporate tax, as appropriate, payable other than by way of withholding.

If the recipient of redemption gain (i.e., the difference between the acquisition price of the Bonds and the amount received upon redemption of the Bonds), if any, is an individual non-resident of Japan or a non-Japanese corporation other than a specially-related person of the issuer having no permanent establishment within Japan or having a permanent establishment within Japan but the receipt of such redemption gain is not attributable to such permanent establishment, no income tax or corporate tax is payable with respect to the redemption gain. If the receipt of such redemption gain is attributable to a permanent establishment in Japan of any such individual non-resident of Japan or non-Japanese corporation other than a specially-related person of the issuer, such redemption

gain will be subject to Japanese income tax or corporate tax, as appropriate, payable other than by way of withholding. If the recipient of the redemption gain is an individual non-resident of Japan or a non-Japanese corporation that is a specially-related person of the issuer, income tax or corporate tax, as appropriate, other than by way of withholding, may be payable with respect to such redemption gain.

Gains derived from the sale of Bonds outside Japan by an individual non-resident of Japan or a non-Japanese corporation having no permanent establishment within Japan are, in general, not subject to Japanese income tax or corporate tax

No stamp, issue, registration or similar taxes or duties are payable in Japan by Bondholders in connection with the issue of the Bonds or a subsequent transfer of the Bonds if such transfer takes place outside of Japan.

Japanese inheritance tax or gift tax at progressive rates may be payable by an individual, wherever resident, who has acquired the Bonds from another individual as legatee, heir or donee.

Representation of Gross Recipient Status upon Initial Distribution

BY SUBSCRIBING FOR THE BONDS, AN INVESTOR WILL BE DEEMED TO HAVE REPRESENTED THAT IT IS A "GROSS RECIPIENT," i.e., (i) a beneficial owner that is, for Japanese tax purposes, neither (x) an individual resident of Japan or a Japanese corporation, nor (y) an individual non-resident of Japan or a non-Japanese corporation that in either case is a person having a special relationship with us as described in Article 6, Paragraph (4) of the Special Taxation Measures Act, (ii) a Japanese financial institution or a Japanese financial instruments business operator, designated in Article 3-2-2, Paragraph (29) of the Cabinet Order that will hold the Bonds for its own proprietary account or (iii) any other excluded category of persons, corporations or other entities under the Special Taxation Measures Act.

SUBSCRIPTION AND SALE

Merrill Lynch International (the "Lead Manager") and Mizuho International plc and Nomura International plc (together with the Lead Manager, the "Managers") have entered into a subscription and purchase agreement with us dated June 30, 2020 in respect of the Offered Shares and the Bonds (the "Subscription and Purchase Agreement").

We have agreed to reimburse the Managers certain costs in connection with the issue and offering of the Offered Shares and Bonds. The Managers are entitled to be released and discharged from its obligation under the Subscription and Purchase Agreement, or to terminate the Subscription and Purchase Agreement, in certain circumstances prior to making payment to us as set out therein. We have agreed to indemnify the Managers against certain liabilities in connection with its obligations.

Share Offering

Pursuant to the Subscription and Purchase Agreement, subject to the satisfaction of certain conditions set out therein, we have agreed to sell to the Managers, the Offered Shares and each of the Managers has agreed, severally and not jointly, to purchase the number of Offered Shares set forth opposite its name below at a purchase price of ¥1,595 per Share.

Managers	Number of Offered Shares to be purchased
Merrill Lynch International	2,641,200
Mizuho International plc	330,100
Nomura International plc	330,100
Total	3,301,400

The Managers will initially offer the Offered Shares at the offer price per Share set forth on the cover page of this Offering Circular. After the initial offering of the Offered Shares, the offer price and other selling terms may from time to time be varied by the Managers.

No selling concession, management commission or underwriting commission will be payable by us with respect to the Share Offering. The difference between the offer price and the purchase price in respect of the Offered Shares will be allocated to the Managers in the manner agreed by them.

The Offered Shares are being offered by the Managers in offshore transactions outside the United States and Japan in reliance on Regulation S.

It is expected that payment for the Offered Shares will be made in yen for value on or about July 16, 2020 (Tokyo time) and delivered to investors through the facilities of JASDEC in Tokyo on July 17, 2020 (Tokyo time), or on such other date as we and the Lead Manager may agree.

Bond Offering

In addition, under the Subscription and Purchase Agreement, subject to the satisfaction of certain conditions set out therein, each of the Managers has agreed, severally but not jointly, to subscribe for the Bonds in the principal amount set forth opposite its name below at the issue price of 100.0 per cent of the principal amount of the Bonds.

Managers	Principal amount of Bonds to be subscribed
Merrill Lynch International	¥12,800,000,000
Mizuho International plc	1,600,000,000
Nomura International plc	1,600,000,000
Total	¥16,000,000,000

No selling concession or combined management and underwriting commission will be payable by us with respect to the Bond Offering. The difference between the offer price in respect of the Bonds (as stated on the cover page of this Offering Circular) and the issue price in respect of the Bonds will be allocated to the Managers in the manner agreed by them.

The Bonds are being offered by the Managers in offshore transactions outside the United States and Japan in reliance on Regulation S.

It is expected that the Bonds will be deposited with and registered in the name of, or a nominee for, a common depositary for each of Euroclear and Clearstream, Luxembourg on or about 16 July 2020 for the accounts of their respective accountholders.

Lock-up

In connection with the Offerings, we have agreed not to, and not to direct any entities or any persons acting at our direction to, (i) offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase, purchase any option or contract to issue or sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, or file any registration statement under the FIEA or with the Commission under the Securities Act relating to, any Shares or any securities convertible into or exercisable or exchangeable for Shares, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of the Shares or any such other securities, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise, in each case, for a period beginning on the date of the Subscription and Purchase Agreement and ending on the date 90 calendar days after the closing date of the Offerings without the prior written consent of the Lead Manager, other than: (a) the issue and sale by us of the Bonds, the Offered Shares or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights, (b) the issue or transfer by us of Shares upon the exercise of any stock acquisition rights issued and outstanding as at the date of this Offering Circular and referred to in this Offering Circular, (c) the issue or transfer by us of the Shares to any of our or our subsidiaries' employees, officers or directors pursuant to the restricted share units plan and the performance share units plan described in the Offering Circular and the grant or issue by us of stock acquisition rights to any of our or our subsidiaries' employees, officers or directors pursuant to the stock option plans described in this Offering Circular, provided that such total number of Shares and stock acquisitions rights shall not exceed the number that, assuming all such stock acquisition rights are exercised, would result in the issuance of shares exceeding 0.2 per cent of the total number of issued and outstanding shares (excluding treasury shares) as of 31 March 2020, (d) the sale of Shares by us to any holder of Shares constituting less than one unit for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute one full unit of Shares, and (e) any other issue or sale of Shares required by applicable Japanese laws and regulations.

In connection with the Offerings, each of Shinichi Tamura (Chairman of the Board, Representative Executive Officer, President and Chief Executive Officer of the Company) and Chris Cargill (Executive Vice President and Chief Financial Officer of the Company) has agreed not to (i) offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Shares or any securities convertible into or exercisable or exchangeable for Shares (including without limitation, Shares or such other securities which may be deemed to be beneficially owned by the undersigned in accordance with the rules and regulations of the U.S. Securities and Exchange Commission and securities which may be issued upon exercise of a stock option or warrant), or publicly disclose the intention to make any such offer, sale, pledge, lending or disposition, (ii) enter into any derivatives agreement or any other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Shares or any such other securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise, or (iii) make any demand for or exercise any right with respect to the registration of any Shares or any security convertible into or exercisable or exchangeable for Shares, in each case, for a period beginning on the date hereof and ending on the date 90 calendar days after the closing date of the Offerings without the prior written consent of the Lead Manager.

Other Relationships

Each of the Managers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, each of the Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Each of the Managers and their respective affiliates may also make investment recommendations

and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Shares or the Bonds or the possession, circulation or distribution of this Offering Circular or any other material relating to us, the Shares or the Bonds where action for such purpose is required. Accordingly, neither the Shares nor any Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Shares or the Bonds may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Neither we nor any of the Managers represent that the Shares or the Bonds may at any time lawfully be sold in the secondary market in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to an exemption available thereunder, or assume any responsibility for facilitating such sales.

United States

The Shares and the Bonds are being offered and sold outside of the United States in reliance on Regulation S. Neither the Shares nor the Bonds have been or will be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. In addition, until 40 days after the commencement of the offering, an offer or sale of the Shares or the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Japan

The Offered Shares have not been and will not be registered under the FIEA and may not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan (including any person resident in Japan or any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of the FIEA and otherwise in compliance with any applicable laws, regulations and governmental guidelines in Japan.

The Bonds have not been and will not be registered under the FIEA, and are subject to the Special Taxation Measures Act. The Bonds may not be offered or sold in Japan or to, or for the benefit of, any person resident in Japan, or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a person resident in Japan for Japanese securities law purposes (including any corporation or other entity organized under the laws of Japan) except pursuant to an exemption from the registration requirements of the FIEA and otherwise in compliance with any applicable laws, regulations and governmental guidelines of Japan. In addition, the Bonds are not, as part of the initial distribution by the underwriters at any time, to be directly or indirectly offered or sold to, or for the benefit of, any person other than a Gross Recipient or to others for re-offering or resale, directly or indirectly, to, or for the benefit of, any person other than a Gross Recipient, except as specifically permitted under the Special Taxation Measures Act. A Gross Recipient for this purpose is (i) a beneficial owner that is, for Japanese tax purposes, neither an individual resident of Japan or a Japanese corporation, nor an individual non-resident of Japan or a non-Japanese corporation that in either case is a person having a special relationship with the issuer of the Bonds as described in Article 6, Paragraph (4) of the Special Taxation Measures Act, or a specially-related person of the issuer, (ii) a Japanese financial institution or a Japanese financial instruments business operator, designated in Article 3-2-2, Paragraph (29) of the Cabinet Order, or the Cabinet Order, relating to the Special Taxation Measures Act that will hold the Notes for its own proprietary account or (iii) any other excluded category of persons, corporations or other entities under the Special Taxation Measures Act.

Prohibition of Sales to EEA and UK Retail Investors

The Shares and the Bonds which are the subject of the offering contemplated by this Offering Circular are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made

available to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in the Prospectus Regulation; and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer, the Shares and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Shares or the Bonds.

United Kingdom

In the United Kingdom this Offering Circular is being distributed only to, and is directed only at (i) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") or (ii) entities falling within Article 49(2)(a) to (e) of the Order (all such persons together being referred to as "relevant persons"). This Offering Circular must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this Offering Circular relates is only available to, and will be engaged in with, relevant persons.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the "MAS"). Accordingly, the Shares and the Bonds have not been offered or sold, or caused to be made the subject of an invitation for subscription or purchase and will not be offered or sold or caused to be made the subject of an invitation for subscription or purchase, and neither this Offering Circular nor any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Shares or the Bonds has not been circulated or distributed, nor will it be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Shares or the Bonds are subscribed for or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Shares or the Bonds pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), we have determined, and hereby notify all relevant persons (as defined in Section 309A(1) of the SFA), that the Shares and the Bonds are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Hong Kong

The Shares and the Bonds have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong ("C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

No advertisement, invitation or document relating to the Shares or the Bonds has been issued, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares or the Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Shares or the Bonds described herein. The Shares and the Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Shares or the Bonds constitutes a prospectus as such term is understood pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Offering Circular nor any other offering or marketing material relating to the Shares or the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the offering, nor us nor the Shares or the Bonds have been or will be filed with or approved by any Swiss regulatory authority. The Shares and the Bonds are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority FINMA, and investors in the Shares and the Bonds will not benefit from protection or supervision by such authority.

GENERAL INFORMATION

(1) We have obtained all necessary consents, approvals and authorizations in Japan in connection with the issue of the Offered Shares and the issue and performance of the Bonds. The issue of the offered Shares and the Bonds was authorized by resolutions of our Board of Directors dated June 30, 2020.

(2) The Legal Entity Identifier (LEI) for the Company is 2138004M62BFNJMR2Z82.

(3) The International Security Identification Number (ISIN) for the Shares is JP3431300007.

(4) The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The International Securities Identification Number (ISIN) and the Common Code for the Bonds are XS2198851219 and 219885121, respectively.

(5) There has been no significant change in the financial or trading position of the Group and no material adverse change in the financial position or prospects of the Group since March 31, 2020.

(6) There are no, nor have there been any, governmental, legal arbitration, administrative or other proceedings involving us or any of our subsidiaries or affiliates which may have or have had during the 12 months immediately preceding the date of this Offering Circular a significant effect on our financial position or profitability and, so far as we are aware, there are no such proceedings pending or threatened involving (whether as defendant or otherwise).

(7) Our consolidated financial statements as at and for the fiscal periods ended December 31, 2018 and 2019, included in this Offering Circular have been audited by Ernst & Young ShinNihon LLC, independent auditor, as stated in its reports appearing in this Offering Circular.

(8) Our unaudited interim condensed consolidated financial statements as at and for the three-month period ended March 31, 2020 included in this Offering Circular, have been reviewed by Ernst & Young ShinNihon LLC, independent auditor, as stated in its review report appearing in this Offering Circular. However, as stated in their review report, they did not audit and they do no express an opinion on such unaudited condensed interim consolidated financial statements. Accordingly, the degree of reliance on their report on such unaudited condensed interim consolidated financial statements should be restricted in light of the limited nature of the review procedures applied.

(9) Application will be made to the SGX-ST for the listing and quotation for the Bonds on the Official List of the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Certificate is exchanged for definitive certificates, we will appoint and maintain a paying agent in Singapore, where the definitive certificates in respect of such Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive certificates, an announcement of such exchange will be made by us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.

(10) Copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified offices of each of the Agents during normal business hours, so long as any of the Bonds is outstanding.

(11) Except to the extent provided in Bond Condition 6, the Bond Conditions do not provide for participating rights in the event of a takeover of the Company.

(12) The Trustee is entitled under the Trust Deed to rely without liability to Bondholders on any certificate or report prepared by the independent auditor or any independent financial advisor, whether or not addressed to it and whether or not the same are subject to any limitation on the liability, whether by reference to a monetary cap or otherwise.

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Effective from the fiscal period ended December 31, 2018, we changed the fiscal year end from March 31 to December 31 in order to align our financial year end to our peer group including the major pharmaceutical companies that we partner and collaborate with on a global basis. As a result, the financial results for the fiscal period ended December 31, 2018 cover a nine-month period from April 1, 2018 to December 31, 2018.

As of June 22, 2018, we changed our auditors from Deloitte Touche Tohmatsu LLC to Ernst & Young ShinNihon LLC. Our consolidated financial statements in Japanese as at and for the twelve-month period ended March 31, 2018 were audited by Deloitte Touche Tohmatsu LLC and the consolidated financial statements in English as at and for the twelve-month period ended March 31, 2018 included elsewhere in this Offering Circular as the comparative information to the consolidated financial statements as at and for the nine-month period ended December 31, 2018 are derived from such financial statements. Our consolidated financial statements as at and for the nine-month period ended December 31, 2018 and as at and for the twelve-month period ended December 31, 2019 were audited by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, Paragraph 1 of the FIEA.

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Building a better working world

Independent Auditor's Report

The Board of Directors
Sosei Group Corporation.

We have audited the accompanying consolidated financial statements of Sosei Group Corporation, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sosei Group Corporation as at December 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Ernst & Young ShinNihon LLC

March 25, 2020
Tokyo, Japan

Sosei Group Corporation

Financial Statements
Consolidated Statement of Financial Position as at December 31, 2019

	Note	**December 31, 2019 ¥m**	December 31, 2018 ¥m
Assets			
Non-current assets			
Property, plant and equipment	2,10,12	**4,120**	2,715
Goodwill	11	**14,365**	14,177
Intangible assets	11	**12,999**	14,367
Investments accounted for using the equity method	6,26	**3,539**	3,644
Other financial assets	6,7,8,9	**2,053**	1,515
Other non-current assets		**41**	285
Total non-current assets	6	**37,117**	36,703
Current assets			
Trade and other receivables	9,14,19	**1,924**	987
Income tax receivable	27	**1,765**	2,057
Other current assets		**499**	480
Cash and cash equivalents	9,13	**15,375**	18,760
Total current assets		**19,563**	22,284
Total assets	9	**56,680**	58,987
Liabilities and Equity			
Liabilities			
Non-current liabilities			
Deferred tax liabilities	27	**2,008**	2,542
Contingent consideration in business combinations	9,15,29	**3,203**	4,180
Interest-bearing debt	2,9,12, 17,29	**1,704**	3,970
Other financial liabilities	9,29	**1,489**	1,179
Other non-current liabilities	19	**895**	87
Total non-current liabilities		**9,299**	11,958
Current liabilities			
Trade and other payables	9,16	**1,211**	2,080
Income taxes payable	27	**162**	24
Interest-bearing debt	2,9,12, 17,29	**175**	2,994
Other current liabilities	19	**755**	351
Total current liabilities		**2,303**	5,449
Total liabilities		**11,602**	17,407
Equity			
Capital stock	18	**37,479**	36,854
Capital surplus	18	**26,548**	26,042
Treasury stocks	18	**(0)**	(0)
Retained earnings	18	**(12,264)**	(13,696)
Other components of equity	7,18	**(6,688)**	(7,623)
Equity attributable to owners of the parent		**45,075**	41,577
Non-controlling interests		**3**	3
Total equity	9	**45,078**	41,580
Total liabilities and equity		**56,680**	58,987

Sosei Group Corporation

Financial Statements
Consolidated Statement of Profit or Loss and Other Comprehensive Income
Twelve month period ended December 31, 2019

	Note	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Revenue	**6,7,19**	**9,726**	2,872
Cost of sales	**10,20**	**(851)**	(335)
Gross profit		**8,875**	2,537
Research and development expenses	**10,11,12,20**	**(4,292)**	(5,384)
Selling, general and administrative expenses	**10,11,20,21,22**	**(3,614)**	(2,704)
Other income	**23**	**37**	140
Other expenses	**11,24**	**(622)**	(323)
Operating profit (loss)		**384**	(5,734)
Finance income	**9,25**	**824**	434
Finance costs	**2,8,9,12,25**	**(493)**	(1,389)
Share of loss of associates accounted for using the equity method	**26**	**(181)**	(488)
Impairment loss on investments accounted for using the equity method	**26**	**–**	(66)
Profit (loss) before income taxes		**534**	(7,243)
Income tax benefit	**27**	**898**	1,265
Profit (loss) for the period		**1,432**	(5,978)
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Net change in fair value of equity investments designated as measured at fair value through other comprehensive income	**7,9,18**	**84**	–
Total items that will not be reclassified subsequently to profit or loss		**84**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	**9,10,11,18**	**851**	(1,641)
Total items that may be reclassified subsequently to profit or loss		**851**	(1,641)
Total other comprehensive income (loss)		**935**	(1,641)
Total comprehensive income (loss) for the period		**2,367**	(7,619)
Profit (loss) for the period attributable to:			
Owners of the parent		**1,432**	(5,977)
Non-controlling interests		**(0)**	(1)
		1,432	(5,978)
Total comprehensive income (loss) for the period attributable to:			
Owners of the parent		**2,367**	(7,618)
Non-controlling interests		**(0)**	(1)
		2,367	(7,619)
Earnings per share (yen)			
Basic earnings (loss) per share	**28**	**18.70**	(78.40)
Diluted earnings (loss) per share	**28**	**18.50**	(78.40)

Sosei Group Corporation

Financial Statements
Consolidated Statement of Changes in Equity
Twelve month period ended December 31, 2019

	Note	Capital stock ¥m	Capital surplus ¥m	Treasury stocks ¥m	Retained earnings ¥m	Other components of equity ¥m	**Equity attributable to owners of the parent ¥m**	Non-controlling interests ¥m	**Total equity ¥m**
Balance at April 1, 2018		36,783	25,608	(0)	(7,527)	(5,982)	**48,882**	4	**48,886**
Change in accounting policies		-	-	-	(192)	-	**(192)**	-	**(192)**
Balance after restatement		36,783	25,608	(0)	(7,719)	(5,982)	**48,690**	4	**48,694**
Loss for the period		-	-	-	(5,977)	-	**(5,977)**	(1)	**(5,978)**
Other comprehensive loss	18	-	-	-	-	(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	21	-	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**
Profit (loss) for the year		-	-	-	1,432	-	**1,432**	(0)	**1,432**
Other comprehensive income	7,18	-	-	-	-	935	**935**	-	**935**
Total comprehensive income (loss) for the year		-	-	-	1,432	935	**2,367**	(0)	**2,367**
Issuance of new shares	18	625	122	-	-	-	**747**	-	**747**
Purchase of treasury stocks	18	-	-	(0)	-	-	**(0)**	-	**(0)**
Share-based payments	21	-	384	-	-	-	**384**	-	**384**
Total transactions with owners		625	506	(0)	-	-	**1,131**	-	**1,131**
Balance at December 31, 2019		**37,479**	**26,548**	**(0)**	**(12,264)**	**(6,688)**	**45,075**	**3**	**45,078**

Sosei Group Corporation

Financial Statements
Consolidated Statement of Cash Flows
Twelve month period ended December 31, 2019

	Note	**12 months ended December 31, 2019 ¥m**	9 months ended December 31, 2018 ¥m
Cash flows from operating activities			
Profit (loss) before income taxes		**534**	(7,243)
Adjustments for:			
Receipt of non-cash consideration from customer	7	**(252)**	–
Depreciation and amortization	10,11	**1,489**	879
Share-based payments	21	**384**	421
Impairment loss	11	**613**	319
Loss (gain) on investment in securities at fair value through profit or loss	9,25	**126**	(187)
Loss on lapse of option to purchase shares	8,25	**–**	1,121
(Gain) loss on revaluation of investment in capital	9,25	**(185)**	105
Change in fair value of contingent consideration	9,15,25	**(576)**	(216)
Net foreign exchange gain		**(93)**	(47)
Interest expenses	12,25	**219**	162
Share of loss of associates accounted for using the equity method	26	**181**	488
Impairment loss on investments accounted for using the equity method	26	**–**	66
Increase in trade and other receivables		**(880)**	(243)
(Increase) decrease in other accounts receivables		**(43)**	224
Decrease (increase) in long-term prepaid expenses		**241**	(286)
(Decrease) increase in trade and other payables		**(258)**	210
Increase in deferred revenue		**1,198**	**–**
Other		**(54)**	165
Subtotal		**2,644**	(4,062)
Grants received		**45**	154
Interest and dividends received		**62**	16
Interest paid	12	**(103)**	(99)
Income taxes paid		**(93)**	(23)
Income tax refunded		**886**	19
Net cash provided by (used in) operating activities		**3,441**	(3,995)
Cash flows from investing activities			
Purchase of property, plant and equipment	10	**(271)**	(1,807)
Purchase of intangible assets	11	**(9)**	(352)
Payments for purchase of investment securities	9	**(250)**	(650)
Proceeds from contingent consideration receivable	9	**264**	–
Other		**20**	1
Net cash used in investing activities		**(246)**	(2,808)
Cash flows from financing activities			
Repayments of interest-bearing debt	12,29	**(7,061)**	(2,255)
Payments for finance arrangement and commitment fees		**(95)**	–
Payment for settlement of contingent consideration	9,15,29,30	**(1,050)**	(97)
Proceeds from issuance of new shares	18	**747**	84
Proceeds from contributions from limited partners	9,29	**495**	–
Other		**(0)**	–
Net cash used in financing activities		**(6,964)**	(2,268)
Effects of exchange rate changes on cash and cash equivalents		**384**	(450)
Net decrease in cash and cash equivalents		**(3,385)**	(9,521)
Cash and cash equivalents at the beginning of the period		**18,760**	28,281
Cash and cash equivalents at the end of the period	13	**15,375**	18,760

Sosei Group Corporation

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 consolidated 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, 2019 and for the twelve month period then ended. 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 25, 2020.

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 up or down 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 twelve month period ended December 31, 2019 are consistent with those applied to the consolidated financial statements for the nine month period ended December 31, 2018, except for the amendment required by IFRS 16 *Leases*, which became effective for the Group from January 1, 2019.

IFRS		Summary of change
IFRS 16	Leases	Amendment to the accounting treatment of lease contracts

The Group transitioned to IFRS 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted. As a practical expedient the Group applied this standard to contracts that were previously identified as leases applying IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*, upon transition.

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application of IFRS 16 were the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

2. Basis of preparation (continued)

2.4 Changes in accounting policies (continued)

The Group recognizes right-of-use assets and lease liabilities at the date of initial application of IFRS 16 for leases previously classified as an operating lease under IAS 17, except short-term leases and leases for which the underlying asset is of low value. The right-of-use assets were measured at an amount equal to the lease liability adjusted by the amount of any accrued lease payments and asset retirement obligations relating to that lease. The lease liabilities were discounted at the lessee's incremental borrowing rate as of January 1, 2019. The weighted average discount rate was 2.9%.

As part of the initial application of IFRS 16, the Group chose to apply the following practical expedients:

1) not to apply the new guidance to leases whose term will end within 12 months of the date of initial application. In such cases, the leases are being accounted for as short-term leases.

2) to exclude initial direct costs from the measurement of the right-of-use assets.

The following reconciliation to the opening balance for the lease liabilities as of January 1, 2019 is based on the operating lease obligations as of December 31, 2018:

IFRS 16 Reconciliation	**Amount ¥m**
Operating lease disclosed at December 31, 2018	2,323
IFRS 16 discounting adjustment	(458)
Other	(48)
Additional lease liabilities as a result of the initial application of IFRS 16 as of January 1, 2019	**1,817**

In the context of the transition to IFRS 16, right-of-use assets included in "Property, plant and equipment" of JPY 1,730 million and additional lease liabilities included in "Interest-bearing debt" of JPY 1,817 million were recognized as well as a decrease in accrued lease payments within "Other non-current liabilities" of JPY 87 million as of January 1, 2019.

In addition, from the commencement of the application of IFRS 16, the Group has assessed whether any new contracts include a lease. There were no new significant lease transactions in the twelve month period ended December 31, 2019.

The right-of-use asset is depreciated using the straight-line method over the shorter of the lease term or the useful life. In the consolidated statement of financial position the right-of-use asset is included in "Property, plant and equipment" and the lease liability is included in "Interest-bearing debt". "Finance costs" includes interest expense on the lease liability. The interest expense represents the amount that

2. Basis of preparation (continued)

2.4 Changes in accounting policies (continued)

produces a constant periodic rate of interest on the remaining balance of the lease liability. The lease liability is reduced by lease payments net of the interest expense.

For low-value asset leases and short-term leases with lease terms of 12 months or less, the Group has adopted the exemption provisions of IFRS 16 and has elected not to recognize right-of-use assets and lease liabilities. The Group recognizes lease payments for these leases as expenses over the lease term using the straight-line method.

2.5 Changes in fiscal year end

The Company and the Group changed their fiscal year end from March 31 to December 31 at the 28th ordinary general meeting of shareholders held on June 22, 2018. The 29th term was therefore a nine month period from April 1, 2018 to December 31, 2018. Comparative disclosures are therefore for the nine month period ended December 31, 2018, being the most recent period for which audited accounts exist.

3. Significant accounting policies

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.

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

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.

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 entities.

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 statement of financial position. 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 no more than 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

3. Significant accounting policies (continued)

3.2 Business combinations (continued)

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.

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 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 retranslated into the functional currency of each Group company using the exchange rates 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 finance income or finance costs in the period incurred. Exchange differences resulting from the translation of financial assets measured through other comprehensive income 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 statement of financial position.

3. Significant accounting policies (continued)

3.3 Foreign currency translations (continued)

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 statement of financial position.

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 expected useful life of each asset.

The normal expected useful lives of major asset categories are as follows:

Buildings and structures:	6 to 18 years
Machinery and equipment:	5 to 6 years
Furniture and fixtures:	3 to 10 years

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

3.5 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 annual impairment test is conducted at the same time 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. Significant accounting policies (continued)

3.6 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 expected useful life of each asset. The amortization method, expected 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.

Expected useful lives of major asset categories are as follows:

Product-related assets: 20 years
Core technology: 12-20 years
Customer-related assets: 20 years

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

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.

3. Significant accounting policies (continued)

3.6 Intangible assets (continued)

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.

3.7 Leases (as a lessee)

Twelve month period ended December 31, 2019

The Group has assessed whether any new contracts include a lease at inception of a contract. If a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is, or contains, a lease.

Initial recognition and measurement

At the commencement date of the contract, a right-of-use asset is measured at an amount equal to the initial measurement of the lease liability, adjusted by an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset itself, plus the amount of any accrued lease payments. The lease liability is measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the commencement date.

Subsequent measurement

A right-of-use asset is depreciated using the straight-line method over the shorter of the lease term or the useful life of the right-of-use asset. The expected useful life used in calculating depreciation is 3 to 16 years. Interest on the lease liability is calculated to be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The lease liability is reduced by lease payments net of the interest expense.

Presentation

In the consolidated statement of financial position, the Group presents right-of-use assets in "Property, plant and equipment" and lease liabilities in "Interest-bearing debt".

Short-term leases and leases of low-value assets

For low-value asset leases and short-term leases with lease terms of 12 months or less, the Group has adopted the exemption provisions of IFRS 16 and has elected not to recognize right-of-use assets and lease liabilities. The Group recognizes lease payments for these leases as expenses over the lease term using the straight-line method.

Nine month period ended December 31, 2018

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 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

3. Significant accounting policies (continued)

3.7 Leases (as a lessee) (continued)

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.

3.8 Impairment of non-financial assets

The book values of non-financial assets are reviewed for indications of impairment at each reporting date. If any such indications exist, the asset's recoverable amount is estimated. For goodwill and intangible assets with indefinite useful lives or intangible assets not yet available for use, the recoverable amount is estimated at the same time in each fiscal year. The recoverable amount of assets or cash-generating units is the higher of value in use or fair value less disposal costs. In the calculation of value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects the time value of money and risks inherent to the asset. In respect of cash-generating units, assets are grouped into the smallest units generating largely independent cash flows from other assets or units through continued usage.

In respect of cash-generating units for goodwill, goodwill is assessed based on those business units defined for the purposes of internal reporting. In principle, a cash-generating unit is classified as a type of business and geographical region. Corporate assets do not generate independent cash inflows. Therefore, when there are indications of impairment in corporate assets the recoverable amount of the cash-generating unit to which the corporate asset belongs is calculated for the impairment test. Assets 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 book value of the asset or cash-generating unit exceeds the recoverable amount. Impairment loss recognized in connection with cash-generating units is allocated first to reduce the book value of goodwill relating to that cash-generating unit. Any additional impairment required is allocated next to reduce the book values of other assets within the cash-generating unit proportionally.

Impairment losses related to goodwill are not reversed. In respect of impairment losses on other assets recognized in the past, the existence of indications showing that the loss has decreased or been eliminated is assessed on each reporting date. If there are indications of a reversal of impairment and the estimate used for determining the recoverable amount has changed, 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. Significant accounting policies (continued)

3.9 Financial assets

Initial recognition and measurement of financial assets

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.

At the time of initial recognition, the classification of financial assets is determined as follows:

Debt instruments

Financial assets measured at amortized cost

A financial asset is classified as a financial asset 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.

Financial assets measured at fair value through profit or loss are debt instruments other than those defined above.

Equity instruments

Financial assets measured at fair value through other comprehensive income

The Group may irrevocably elect to classify equity investments, other than those held for trading, upon initial recognition as financial assets measured at fair value through other comprehensive income.

Equity financial assets measured at fair value through profit or loss are equity instruments other than those defined above.

Subsequent measurement of financial assets

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

(a) a financial asset measured at fair value through profit or loss: a change in fair value is recognized in profit or loss.

(b) a financial asset measured at fair value through other comprehensive income: a change in fair value is recognized in other comprehensive income. Dividends from a financial asset are recognized as part of finance income in profit or loss for the current period, except for those portions considered to be part of the cost of investment.

(c) a financial asset measured at amortized cost: the amortized cost is recognized by using 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 the Group recognizes a loss allowance for expected credit losses. 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 twelve-month expected 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 to determine whether the credit risk has increased significantly. 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, such as late payment or financial information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. Regardless of a significant increase 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 or delinquency of the borrower, or if the Group, for economic or contractual reasons relating to the borrower's financial difficulty, grants to the borrower an extension of payment period that the Group would not otherwise have granted, or when other factors occur, such as the indication of a bankruptcy of the borrower or the issuing company or 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 and multiplied by the weighted average of each asset's probability of a default risk. The Group directly reduces the value of a credit impaired-financial asset when all, 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 loss allowance) is reversed in profit or loss. The

3. Significant accounting policies (continued)

3.9 Financial assets (continued)

impairment loss is reversed up to the value of the amortization at the time the impairment loss was recognized had no impairment loss been recognized for the asset in prior years.

3.10 Financial liabilities

Initial recognition and measurement of financial liabilities

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

Subsequent measurement of financial liabilities

After initial recognition, the Group measures a financial liability as follows:
(a) a financial liability measured at fair value through profit or loss: a change in fair value is recognized in profit or loss.
(b) a financial liability measured at amortized cost: the amortized cost is recognized by using the effective interest method.
If the discontinuation of amortization and derecognition using the effective interest method occur, gain or loss is recognized in profit or loss for the current period as part of finance costs.

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

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

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

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 allocated 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. Revenue excludes amounts collected on behalf of tax authorities (for example, sales taxes and value added taxes).

The promise to grant a license is regarded as a distinct performance obligation 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.

3. Significant accounting policies (continued)

3.15 Revenue recognition (continued)

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 Group 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 Group'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 and revenue is recognized over time accordingly. Where these criteria are not met the promise to grant a license is determined to provide a right-to-use intellectual property accounted for as a performance obligation satisfied at a point in time.

3.16 Cost of sales

Cost of sales represents (i) the fully loaded cost of those employees providing research and development services for specific customers under contracts (including other costs directly associated with these activities such as lab consumables and an allocated share of depreciation of lab equipment) and (ii) the costs directly associated with product supply.

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 a Stock Option Plan, Restricted Stock Unit Plan, and Performance Share Unit Plan as incentive plans for its officers and employees. These incentive plans 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 a valuation model, such as 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 to the tax authorities (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 statement of financial position 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.

3.21 Earnings per share

Basic earnings per share are calculated by dividing profit for the period 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

3. Significant accounting policies (continued)

3.21 Earnings per share (continued)

concerned. Diluted earnings per share are calculated by adjusting profit for the period and the weighted-average number of common shares outstanding, net of 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 due to their nature.

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 relating to property, plant and equipment, goodwill, and intangible assets (Notes 10. *Property, plant and equipment* and 11. *Goodwill and intangible assets*).
- Recoverability of deferred tax assets (Note 27. *Income tax*).

5. New standards and new interpretations not yet adopted

There were no accounting standards that were newly established or amended by the approval date of the consolidated financial statements that are expected to have a significant effect on the Group.

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:

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Milestone income and upfront fees	**6,013**	340
Royalty income	**2,406**	2,104
Product supply revenue	**276**	–
Other	**1,031**	428
	9,726	2,872

6. Operating segments (continued)

6.3 Geographical information

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

Revenues from external customers

Country	**12 months ended December 31, 2019 ¥m**	9 months ended December 31, 2018 ¥m
Japan	**982**	594
USA	**3,584**	66
Switzerland	**2,644**	2,035
UK	**2,285**	–
Ireland	**231**	177
	9,726	2,872

Note: Revenues from external customers are attributed to areas based on the customers' location.

Non-current assets

	As at December 31, 2019 ¥m	As at December 31, 2018 ¥m
Japan	**324**	967
UK	**30,874**	28,984
Other	**327**	1,593
	31,525	31,544

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	**12 months ended December 31, 2019 ¥m**	9 months ended December 31, 2018 ¥m
Novartis International AG	**2,644**	2,035
AstraZeneca UK Limited	**1,616**	–
Pfizer Inc.	**1,511**	–
Takeda Pharmaceutical Company Limited	**1,155**	–
Genentech, Inc.	**1,001**	–
Daiichi Sankyo Company, Limited	**391**	294
Allergan Pharmaceuticals International Limited	**231**	177

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

7 Transaction with Medicxi

Twelve months ended December 31, 2019

During Q1 2019, Heptares Therapeutics Limited, a wholly owned subsidiary of the Group, entered into a structured financing agreement with Medicxi, a VC fund dedicated to financing asset-centric companies, to form two independent companies, Orexia Limited ("Orexia") and Inexia Limited ("Inexia"), that aim to develop novel therapies based on positive modulators of the GPCR Orexin OX1 and OX2 for neurological diseases. Under the terms of the agreement, Orexia and Inexia obtained certain related intellectual property from the Group as well as access to proprietary know-how and development capabilities, and the Group received an assignment fee plus equity interests in Orexia and Inexia. Under IFRS 15, the license of proprietary know-how is treated as a right to use license of JPY 252 million. The assignment fee and the fair value of the equity investments received have been included in revenue within milestone income and upfront fees. The receipt of shares in Orexia and Inexia appear in the consolidated statement of cash flows on the line "receipt of non-cash consideration from customer". The initial fair value of the shares was calculated by adding together the reproduction cost of assets contributed and the present value of probability adjusted funding inflows, and then applying a lack of control discount. The investments in Orexia and Inexia are accounted for as investments under IFRS 9 as management has determined that it does not have the ability to use its power to exercise control or significant influence over the companies and, accordingly, they do not fall within the scope of IFRS 10 *Consolidated Financial Statements* or IAS 28 *Accounting for Associates and Joint Ventures*. Management has elected to take fair value movements relating to Orexia and Inexia through Other Comprehensive Income because management believes the treatment adopted best reflects the expected long term nature of the investment.

The fair values of Orexia and Inexia at December 31, 2019 are JPY 195 million and JPY 185 million, respectively.

Nine months ended December 31, 2018

Not applicable.

8 Purchase of shares of associates

Twelve months ended December 31, 2019

Not applicable.

Nine months ended December 31, 2018

Not applicable. In the nine month period ended December 31, 2018, the Company decided not to exercise its option rights to acquire the entire MiNA (Holdings) Limited business.

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.

9 Financial instruments (continued)

9.1 Capital management (continued)

Financial covenants are attached to the Group's commitment line. The covenants require the Group to maintain a certain level of net assets. Please refer to Note 17. *Interest-bearing debt* for the details of the commitment line.

The capital structure of the Group is as follows:

	As at December 31, 2019		As at December 31, 2018	
	Amount (¥m)	**Ratio to total asset (%)**	Amount (¥m)	Ratio to total asset (%)
Cash and cash equivalents	**15,375**	**27.1**	18,760	31.8
Interest–bearing debt	**1,879**	**3.3**	6,964	11.8
Total equity	**45,078**	**79.5**	41,580	70.5
Total assets	**56,680**	**100.0**	58,987	100.0
Ratio of cash and cash equivalents to interest-bearing debt (%)		**818.0**		269.4

9.2 Classification of financial instruments

The breakdown of financial instruments is as follows:

	As at December 31, 2019 ¥m	As at December 31, 2018 ¥m
Financial assets		
Financial assets measured at fair value through profit or loss:		
Other financial assets	**1,615**	1,457
Financial assets measured at fair value through other comprehensive income:		
Other financial assets	**380**	–
Financial assets measured at amortized cost:		
Other financial assets	**58**	58
Trade and other receivables	**1,924**	987
Financial liabilities		
Financial liabilities measured at fair value through profit or loss:		
Contingent consideration in business combinations	**3,203**	4,180
Other financial liabilities	**1,489**	1,179
Financial liabilities measured at amortized cost:		
Interest-bearing debt	**1,879**	6,964
Trade and other payables	**1,211**	2,080

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:

As at December 31, 2019

	GBP	**USD**	**EUR**	**CHF**
Net exposure (¥m)	704	5,291	533	1
Net exposure (In thousands of local currency units)	4,907	48,300	4,355	5

As at 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)

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 currencies 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.

	As at December 31, 2019 ¥m	As at December 31, 2018 ¥m
GBP	**(7)**	(1)
USD	**(53)**	27
EUR	**(5)**	(3)
CHF	**(0)**	0

9 Financial instruments (continued)

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. Interest rates on the commitment line will be at variable and fixed interest rates. The variable rate at the end of December 2019 was under 0.1%, therefore the impact of interest rate risk is insignificant. There were no borrowings under the commitment line as at December 31, 2019. 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, 2019, 75% of the Group's trade and other receivables balance related to trade receivables from one company and totaled JPY 876 million. There are no past-due receivables or significant expected credit losses. Therefore, no impairment or allowance for doubtful accounts has been recorded.

9 Financial instruments (continued)

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 "Interest-bearing debt," "Other financial liabilities," and "Trade and other payables" 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:

Non-derivative financial liabilities

As at December 31, 2019

	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	3,203	3,324	293	2,651	380
Interest-bearing debt	1,879	2,293	193	812	1,288
Other financial liabilities	1,489	1,489	-	1,489	-
Trade and other payables	1,211	1,211	1,211	-	-
	7,782	**8,317**	**1,697**	**4,952**	**1,668**

Note: Interest bearing debt at December 31, 2019 relates to lease liabilities only.

As at 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**

Derivative financial liabilities
Not applicable.

9 Financial instruments (continued)

9.8 Fair value

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 unlisted securities and contingent consideration receivable relating to business disposals; all are categorized as level 3 of the fair value hierarchy.

The fair values of RMF1 unlisted securities and contingent consideration receivable are assessed using risk adjusted discounted cashflow models when there is an indication of a movement in fair value during the period. Significant unobservable inputs used in the cash flow models include the projected cashflows and discount rates (ranging from 3.0%-13.0%). Changes in fair value during the period are recorded in "Finance income" or "Finance costs" as a gain or loss on revaluation.

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

Contingent consideration in business combinations
Such consideration is calculated by discounting the estimated amount payable after taking into account the probability of occurrence of future cash outflows. The contingent consideration arising in business combinations is categorized within level 3 of the fair value hierarchy. Significant unobservable inputs used in the cashflow model include the probabilities of success of assets progressing to the next milestone event and discount rates (ranging from 3.2%-4.9%). 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 RMF1 which move in line with changes in the value of the underlying investments (which are valued using significant unobservable inputs as explained above). Changes in fair value during the period are recorded in "Finance income (Gain on revaluation of investment in capital" or "Finance costs (Loss on revaluation of investment in capital".

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

Analysis of financial instruments measured at fair value

As at December 31, 2019

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial assets:				
Other financial assets	-	-	1,995	1,995
	-	**-**	**1,995**	**1,995**
Financial liabilities:				
Contingent consideration in business combinations	-	-	3,203	3,203
Other financial liabilities	-	-	1,489	1,489
	-	**-**	**4,692**	**4,692**

As 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)

Reconciliation of movements of level 3 financial instruments

Twelve month period ended December 31, 2019

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the year	1,457	5,359
Increase through the acquisition of unlisted securities (Note 1)	510	—
Increase through contribution from limited partners	—	495
Net gains or losses (unrealized) (Note 2)	181	(472)
Other comprehensive income (Note 3)	121	—
Settlements during the year (Note 4,5)	(274)	(690)
Balance at the end of the period	**1,995**	**4,692**

Note 1: Included in RMF1 unlisted securities and securities in Orexia and Inexia. Please refer to Note 7 *Transaction with Medicxi* for details of securities in Orexia and Inexia.

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

Note 3: Included in ”Exchange differences on translating foreign operations” and “Net change in fair value of equity investments designated as measured at fair value through other comprehensive income” in the consolidated statement of profit or loss and other comprehensive income.

Note 4: The amount of right satisfied in “Contingent consideration receivable relating to business disposals” has been transferred from “Other financial assets” to “Trade and other receivables”. The Group received JPY 264 million in the twelve month period ended December 31, 2019.

Note 5: The amount of obligation satisfied in “Contingent consideration in business combinations” has been transferred to “Trade and other payables”. The Group paid JPY 1,050 million in the twelve month period ended December 31, 2019.

9 Financial instruments (continued)

9.8 Fair value (continued)

Nine months ended December 31, 2018

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the year	1,562	5,707
Increase in investment of unlisted 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 "Finance income" and "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.

Note 3: Included in "Exchange differences on translating foreign operations" in the consolidated statement of profit or loss and other comprehensive income.

Note 4: The amount of obligation satisfied in "Contingent consideration in business combinations" has been transferred to "Trade and other payables". The Group paid JPY 97 million in the nine month period ended December 31, 2018.

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, 2019 ¥m	(Increase) decrease in Fair value of contingent consideration December 31, 2018 ¥m
Amount of milestones or royalties received increases by 5%	**(160)**	(209)
Amount of milestones or royalties received decreases by 5%	**160**	209
Interest rate increases by 0.5%	**37**	42
Interest rate decreases by 0.5%	**(38)**	(42)

Fair value of financial assets measured at amortized cost

Since the carrying amounts of financial assets measured at amortized cost at December 31, 2019 and December 31, 2018 approximate their fair values, disclosure of the fair values has been omitted.

10 Property, plant and equipment

Changes in acquisition cost, accumulated depreciation and accumulated impairment losses of property, plant and equipment are shown below.

10.1 Acquisition cost

	Buildings & structures ¥m	Machinery & equipment ¥m	Furniture & fixtures ¥m	Right-of-use assets (Buildings & structures) ¥m	Right-of-use assets (Furniture & fixtures) ¥m	Construction in progress ¥m	Total ¥m
Balance at April 1, 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**
Change in accounting policies	-	-	-	1,730	-	-	**1,730**
Balance after Restatement	1,590	1,022	227	1,730	43	252	**4,864**
Additions	25	55	37	-	-	52	**169**
Disposals or sales	(0)	(86)	(18)	-	(1)	-	**(105)**
Transfers	220	(4)	4	82	-	(302)	**-**
Other	(71)	(10)	-	-	-	-	**(81)**
Exchange differences on translation	41	20	6	39	-	(2)	**104**
Balance at December 31, 2019	**1,805**	**997**	**256**	**1,851**	**42**	**-**	**4,951**

10.2 Accumulated depreciation and accumulated impairment losses

	Buildings & structures ¥m	Machinery & equipment ¥m	Furniture & fixtures ¥m	Right-of-use assets (Buildings & structures) ¥m	Right-of-use assets (Furniture & fixtures) ¥m	Construction in progress ¥m	Total ¥m
Balance at April 1, 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)**
Depreciation expense	(103)	(144)	(64)	(162)	(7)	-	**(480)**
Disposals or sales	-	73	14	-	-	-	**87**
Other	1	-	-	(2)	-		**(1)**
Exchange differences on translation	(4)	(8)	(3)	(3)	-	-	**(18)**
Balance at December 31, 2019	**(143)**	**(368)**	**(137)**	**(167)**	**(16)**	**-**	**(831)**

10 Property, plant and equipment (continued)

10.3 Carrying amount

	Buildings & structures	Machinery & equipment	Furniture & fixtures	Right-of-use assets (Buildings & structures)	Right-of-use assets (Furniture & fixtures)	Construction in progress	Total
	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at April 1, 2018	**46**	**377**	**56**	**-**	**40**	**637**	**1,156**
Balance at December 31, 2018	**1,553**	**733**	**143**	**-**	**34**	**252**	**2,715**
Balance at December 31, 2019	**1,662**	**629**	**119**	**1,684**	**26**	**-**	**4,120**

Note 1: Depreciation expense is recorded in "Cost of sales", "Research and development expenses" and "Selling, general and administrative expenses".
Note 2: The amount of Right-of-use assets (Furniture & fixtures) as at April 1, 2018 and December 31, 2018, represents finance lease assets under IAS 17.
Note 3: Contractual commitments for the acquisition of property, plant and equipment total zero and JPY 106 million as at December 31, 2019 and December 31, 2018, respectively.

11 Goodwill and intangible assets

Changes in acquisition cost, accumulated amortization and accumulated impairment losses of goodwill and intangible assets are shown below.

11.1 Acquisition cost

	Goodwill	Intangible assets					Total
		Product-related assets	In-process research & development costs	Core technology	Customer-related assets	Other	
	¥m	¥m	¥m	¥m	¥m	¥m	¥m
Balance at April 1, 2018	**14,685**	**1,495**	**-**	**12,871**	**4,632**	**49**	**19,047**
Changes in accounting policy	-	(780)	-	-	-	-	**(780)**
Balance after restatement	14,685	715	-	12,871	4,632	49	**18,267**
Additions	-	338	-	-	-	14	**352**
Transfers	-	-	376	-	(376)	-	**-**
Impairment losses	-	-	(355)	-	-	-	**(355)**
Other	-	-	-	-	-	13	**13**
Exchange differences on translation	(508)	-	(21)	(648)	(136)	(1)	**(806)**
Balance at December 31, 2018	**14,177**	**1,053**	**-**	**12,223**	**4,120**	**75**	**17,471**
Additions	-	-	-	-	-	9	**9**
Disposals	-	-	-	-	-	(8)	**(8)**
Exchange differences on translation	188	-	-	243	92	1	**336**
Balance at December 31, 2019	**14,365**	**1,053**	**-**	**12,466**	**4,212**	**77**	**17,808**

11 Goodwill and intangible assets (continued)

11.2 Accumulated amortization and accumulated impairment losses

	Goodwill	Intangible assets					Total
	¥m	Product-related assets ¥m	In-process research & development costs ¥m	Core technology ¥m	Customer-related assets ¥m	Other ¥m	¥m
Balance at April 1, 2018	**-**	**-**	**-**	**(1,866)**	**(485)**	**(26)**	**(2,377)**
Changes in accounting policy	-	(143)	-	-	-	-	**(143)**
Balance after restatement	-	(143)	-	(1,866)	(485)	(26)	**(2,520)**
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)**
Amortization expense	-	(58)	-	(741)	(199)	(11)	**(1,009)**
Disposals	-	-	-	-	-	8	**8**
Impairment losses	-	(605)	-	-	-	(7)	**(612)**
Exchange differences on translation	-	-	-	(69)	(21)	(2)	**(92)**
Balance at December 31, 2019	**-**	**(840)**	**-**	**(3,028)**	**(881)**	**(60)**	**(4,809)**

11.3 Carrying amount

	Goodwill	Intangible assets					Total
	¥m	Product-related assets ¥m	In-process research & development costs ¥m	Core technology ¥m	Customer-related assets ¥m	Other ¥m	¥m
Balance at April 1, 2018	14,685	1,495	–	**11,005**	**4,147**	**23**	**16,670**
Balance at December 31, 2018	14,177	876	–	**10,005**	**3,459**	**27**	**14,367**
Balance at December 31, 2019	14,365	213	–	**9,438**	**3,331**	**17**	**12,999**

Amortization expense relating to ‘product-related assets’ and parts of ‘other’ is recorded in “Research and development expenses”. Other amortization expense is recorded in “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. As at December 31, 2019, goodwill allocated to each cash-generating unit was: JPY 5,426 million for Sosei R&D and JPY 8,939 million for Heptares and Heptares Zurich combined. As at December 31, 2018, goodwill allocated to each cash-generating unit was: JPY 5,426 million for Sosei R&D and JPY 8,751 million 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. Assumptions used in business plans used for future cash flows include product launches and patent life. In making these assumptions, the Group considers experience, external sources, knowledge of the activities of competitors, and industry trends.

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, 2019 and December 31, 2018.

Goodwill relating to the Sosei R&D Ltd. acquisition

Estimate of future cash flows:
Future cash flows have been estimated based on Sosei R&D's past performance and its sixteen year business plan.

Post-tax discount rate:
The discount rates used were 8.4% and 9.6% for the fiscal period ended December 31, 2019 and December 31, 2018, respectively, based on the weighted-average cost of capital of Sosei R&D 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)

Estimate of future cash flows:
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.

Post-tax discount rate:
The discount rates used were 8.4% and 9.6% for the fiscal period ended December 31, 2019 and December 31, 2018, respectively, based on the weighted-average cost of capital of Heptares as appraised by external professional consultants.

11 Goodwill and intangible assets (continued)

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, 2019 and December 31, 2018 include internally-generated intangible assets of JPY 88 million and JPY 361 million, respectively, and other intangible assets of JPY 125 million and JPY 515 million, respectively. These assets are being amortized using the straight-line method over a useful life of 20 years. The remaining amortization period is 14 years for Oravi®.

Core technology

This represents the assessed value of core technology of Heptares and Heptares Zurich. These assets are being amortized using the straight-line method over their useful lives 12-20 years. The remaining amortization periods are 9-16 years.

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. 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, 2019, an impairment assessment was performed as follows:
An impairment loss was recorded in product-related assets relating to Oravi®, an agent for the treatment of oropharyngeal candidiasis, for which Sosei Co., Ltd. has received marketing approval. The Group recorded an impairment loss of JPY 606 million in “Other expenses” in the accompanying consolidated statement of profit or loss and other comprehensive income for the twelve month period ended December 31, 2019, as a result of a decline in forecasted sales and profitability. The recoverable amounts have been assessed using a fair value less costs of disposal model utilizing future cash flows from the latest business plan that have been discounted based on a weighted-average cost of capital of 10%. The latest business plan is calculated by estimating the sales volume and selling price.

At December 31, 2018, an impairment assessment was performed as follows:
The Group recorded an impairment loss of JPY 319 million 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.

11 Goodwill and intangible assets (continued)

11.7 Contractual commitments

There were no contractual commitments relating to the acquisition of intangible assets at December 31, 2019 and December 31, 2018. Additional milestone payments and royalty payments may become payable depending on sales revenue.

12 Lease transactions

Twelve months ended December 31, 2019

The Group has principally entered into lease agreements for facilities and buildings. These contracts do not impose any significant restrictions on decision-making by the Group, such as those concerning dividends, additional debt and further leasing.

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.

The breakdown of lease gain or loss (except depreciation) and cash out flow are as follows:

	Twelve months ended December 31, 2019 ¥m
Gain or loss on leases	
Interest expense on lease liabilities	**(54)**
Short term lease expenses	**(2)**
Low value asset lease expenses	**(1)**
Payment for lease liabilities	**(61)**
Total cash outflows related to leases	**(118)**

Please refer to Section 10. *Property, plant and equipment* for details of additions, depreciation expense and carrying amount of right-of-use assets.
Please refer to Section 9.7 *Liquidity risk* for details of the balance of lease liabilities by due date.

Nine month period ended December 31, 2018

12.1 Finance leases

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

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, such as those concerning dividends, additional debt and further leasing.

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.

The minimum lease payments recognized in profit or loss for the nine month period ended December 31, 2018 was JPY 86 million.

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

	As at December 31, 2018 ¥m
Within 1 year	63
Greater than 1 year and less than 5 years	619
Greater than 5 years	1,641
	2,323

13 Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

	As at December 31, 2019 ¥m	As at December 31, 2018 ¥m
Cash and bank deposits	**15,375**	18,760

14 Trade and other receivables

The breakdown of trade and other receivables is as follows:

	As at December 31, 2019 ¥m	As at December 31, 2018 ¥m
Trade receivables	**1,169**	306
Accrued income	**755**	681
	1,924	987

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

15 Contingent consideration in business combinations (continued)

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 (JPY 24,400m) of which US$75m (JPY 8,017m) 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:

	As at December 31, 2019 ¥m	As at December 31, 2018 ¥m
Accounts payable	**474**	1,931
Accrued expenses	**737**	149
	1,211	2,080

17 Interest-bearing debt

The breakdown of interest-bearing debt is as follows:

	As at December 31, 2019 ¥m	As at December 31, 2018 ¥m	Average rate	Term
Non-current liabilities:				
Long-term borrowings (Note 1)	**—**	3,940	—	—
Long-term lease obligations	**1,704**	30	—	FY2021-FY2034
	1,704	3,970		
Current liabilities:				
Current portion of long-term borrowings (Note 1)	**—**	2,987	—	**—**
Current portion of long-term lease obligations (Note 2)	**175**	7	—	**—**
	175	2,994		
	1,879	6,964		

Note 1: The Company repaid its syndicated term loans (JPY 4,000 million) on December 30, 2019 and replaced them with a (JPY 5,000 million) commitment line ("the Facility") with Mizuho Bank and others.

17 Interest-bearing debt (continued)

The Facility covenants require Sosei Group to maintain net assets not less than 75% of the immediately preceding period as at the end of the second quarter and fiscal year end. Under the Facility the Company has the following rights:
(i) to extend the maturity of the Facility by one year at the end of Year One (ending December 30, 2021) and by another period of one year at the end of Year Two 2 (ending December 30, 2022).
(ii) to convert, at any time during the commitment period, the Facility to a four year amortizing term loan.

Note 2: As stated in "Changes in accounting policies", the Group has adopted IFRS 16 since the beginning of the current fiscal year. This resulted in an increase of JPY 1,759 million and JPY 58 million in long term lease obligations and lease obligations due within one year, respectively at the beginning of the year, compared to when the previous accounting standards were adopted.

Please refer to Note 9. *Financial instruments* for the management of liquidity and interest-rate risks on interest-bearing debt.

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, 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
Increase in the number of shares through exercise of subscription rights to shares	-	771,200	-
Increase in the number of shares through purchase of shares of less than one unit	-	-	109
Balance at December 31, 2019	**149,376,000**	**77,073,136**	**213**

Note 1: Common shares with no par value
Note 2: Effective July 1, 2018, the Company executed a stock 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 Equity and other components of equity (continued)

18.4 Other components of equity

1. 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.

2. Financial assets measured at fair value through other comprehensive income

The account includes changes in the financial assets measured at fair value through other comprehensive income.

3. Other components of equity

	Items that will not be reclassified subsequently to profit or loss ¥m	**Items that may be reclassified subsequently to profit or loss** ¥m	**Total** ¥m
	Financial assets measured at fair value through other comprehensive income ¥m	**Exchange differences on translating foreign operations** ¥m	
Balance at April 1, 2018	-	(5,982)	(5,982)
Amount accrued during the current period			
Before tax effect	-	(1,641)	(1,641)
Amount of tax effect	-	-	-
Net of tax effect	-	(1,641)	(1,641)
Other comprehensive income – net of tax effect	-	(1,641)	(1,641)
Balance at December 31, 2018	-	(7,623)	(7,623)
Amount accrued during the current period			
Before tax effect	121	851	972
Amount of tax effect	(37)	-	(37)
Net of tax effect	84	851	935
Other comprehensive income – net of tax effect	84	851	935
Balance at December 31, 2019	**84**	**(6,772)**	**(6,688)**

18.5 Dividends

Not applicable

19 Revenue

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

Types of revenue classified by purpose:

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

Types of revenue classified by performance obligation:

Grant of Licenses

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

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

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

Not applicable.

Research and Development services

Consideration for upfront fees and development milestone income allocated to performance obligations other than the license

Consideration relating to performance obligations that are not satisfied at a point in time is initially recorded at the value of the contract liability when the Group receives consideration before the performance obligations are satisfied. Revenue from contracted research and development services is recognized over time from the contract date to the achievement of development milestones, such as regulatory filings, as contractually agreed with a customer based on the progress of the development because the Group's performance enhances the value of the license that the customer controls as the customer earns benefit from it. However, development milestone income is only recognized when it is determined that milestones agreed between the parties, such as regulatory filings, have been reached, taking into consideration the probability of a subsequent significant reversal of revenue.

19 Revenue (continued)

FTE revenue

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

Product supply revenue

Product supply revenue is recognized upon the customer's acceptance.
The transaction prices for the grant of licenses and revenue earned from contracted research and development services are allocated to each performance obligation based on the relative stand-alone selling prices. The stand-alone selling prices are calculated using the adjusted market assessment approach or the expected cost plus a margin approach. The consideration is the amount receivable within one year from fulfillment of the performance obligations or fulfillment of contractual terms and conditions.

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

- Variable payment terms relate specifically to the entity's effort to satisfy the performance obligation or transfer the distinct good or service.
- Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service, considering all of the performance obligations and payment terms in the contract, is consistent with the following allocation objective: an entity should allocate the transaction price to each performance obligation or distinct good or service in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

If the consideration in the contract with the customer includes variable consideration, revenue is only recognized to the extent that 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.

Sales royalty income included in the grant of license for intellectual property is recognized when the later of (i) the subsequent sale or usage occurs, or (ii) the performance obligation in relation to the sales-based royalty has been satisfied.

There are no significant financing components included in any contracts.

19 Revenue (continued)

19.1 Breakdown of revenue

Relationship between types of revenue by purpose and performance obligations:

Twelve month period ended December 31, 2019

	performance obligations			
Types of Revenue	Grant of Licenses ¥m	Research and Development services ¥m	Product supply revenue ¥m	**Total ¥m**
Milestone income and upfront fees	5,741	272	**-**	**6,013**
Royalty income	2,406	-	**-**	**2,406**
Product supply revenue	-	-	276	**276**
Other	-	1,031	-	**1,031**
	8,147	1,303	276	**9,726**

Performance obligations satisfied in past periods amounting to JPY 6,055 million are included in revenue for twelve month period ended December 31, 2019.

Nine month period ended December 31, 2018

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

The full amount of the Grant of Licenses is in respect of performance obligations satisfied in past periods.

19.2 Contract balances

The opening and closing balances of receivables

The balance of receivables from contracts with customers is shown as "*Trade and other receivables*" in the accompanying consolidated statement of financial position.

19 Revenue (continued)

19.2 Contract balances (continued)

The opening and closing balances of contract liabilities from contracts with customers

The balances of contract liabilities amounting to JPY 796 million and JPY 439 million are included in "Other non-current liabilities" and "Other current liabilities," respectively, in the accompanying consolidated statement of financial position as at December 31, 2019.

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Beginning balance	–	32
Of the beginning balance, the amount recognized as revenue	–	(32)
Amount newly recognized as contract liability and carried forward to the next period (Note)	1,235	–
Ending Balance	1,235	–

Note: The amount newly recognized as a contract liability and carried forward to the next period comprises an upfront fee and milestone income received in connection with a new alliance with Genentech which was allocated to development services and in respect of which the performance obligations have not yet been satisfied in the current fiscal year.

19.3 Transaction price allocated to the remaining performance obligations

Milestone income allocated to research and development services is not included in the transaction price allocated to the remaining performance obligations because it is expected that the uncertainty of reaching the agreed milestone, such as a regulatory filing, would not be resolved until the achievement of the milestone.

The disclosure of 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 directly with the value to the customer of the Group'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

	Reported in respect of December 31, 2019 (Notes) ¥m	Reported in respect of December 31, 2018 (Notes) ¥m
Amount of plan assets	**157,064**	531,844
Total of actuarial benefit obligations for pension financing calculations and minimum actuarial reserve	**151,841**	512,770
Difference (Notes)	**5,223**	19,074

20 Employee benefits (continued)

20.1 Post-employment benefits (continued)

Notes:

The funding status of the plan as at December 31, 2019 and December 31, 2018 is not available. The funding status calculations shown in the above table are as at March 31, 2019 and March 31, 2018, being the latest data available at the time of reporting.

Major factors for the difference reported in the current accounting period: Difference is JPY 13,594 million of past service liability for the pension based on a financing calculation less a total negative surplus of JPY 136,644 million and general reserve of JPY 155,461 million.

Major factors for the difference reported in the comparative accounting period: Difference is JPY 23,254 million of past service liability for the pension based on a financing calculation less a total positive surplus of JPY 11,381 million and general reserve of JPY 30,947 million.

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

	Reported in respect of December 31, 2019	Reported in respect of December 31, 2018
Contribution percentage (Notes)	**0.06%**	0.05%

Notes:

Contribution percentage in the current accounting period: The contribution percentage is determined by dividing the Group's contribution of JPY 0 million in the month of March 2019 by the total contributions of JPY 504 million paid into the fund in that month.

Contribution percentage in the comparative accounting period: The contribution percentage is determined by dividing the Group's contribution of JPY 0 million in the month of March 2018 by the total contributions of JPY 517 million paid into the fund in that month.

Supplemental explanation

The Group recorded contributions of JPY 4 million for the twelve month period ended December 31, 2019 as an expense in "Selling, general and administrative expenses."

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

Contributions for the fiscal year ending December 31, 2020 are estimated to be approximately JPY 4 million.

20 Employee benefits (continued)

20.2 Other employment benefits

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Remuneration and bonuses	**2,301**	1,896
Share-based compensation	**384**	421
Retirement	**17**	139
	2,702	2,456

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 Company introduced the Stock Option Plan, Restricted Stock Unit ("RSU") Plan, and Performance Share Unit ("PSU") Plan with the intention to increase the motivation and drive of the Directors, the Executive Officers and the Eligible Employees of the Company and its wholly owned subsidiaries ("Executives and Employees") to energetically realize the Company's vision and strategy. These Plans will also promote the sharing of benefits and risks of share price fluctuations with shareholders, and further encourage the Executives and Employees to actively contribute to an increase in share price and enhance the Company's corporate value. The Stock Options, RSUs and PSUs are granted by a resolution at the Company's Board of Directors meeting.

21.1 Stock Options

Details of stock options

Sosei Group Corporation has granted stock options to Directors, Executive Officers and eligible employees of the Company and its wholly owned subsidiaries. Shares granted through the execution of stock options are shares issued by Sosei Group Corporation.

	26th Subscription Rights to Shares	**29th Subscription Rights to Shares**	**30th Subscription Rights to Shares**
Date of board resolution	September 6, 2010	November 13, 2015	November 13, 2015
Number of subscription rights to shares	10	293	1,511
Number and class of shares underlying subscription rights to shares	4,000 common shares	117,200 common shares	604,400 common shares
Exercise price	162 yen	1,033 yen	1,033 yen
Exercise period	From September 7, 2012 to September 6, 2020	From July 1, 2017 to June 30, 2020	From July 1, 2018 to June 30, 2021
Settlement method	Share-based payment	Share-based payment	Share-based payment

21 Share-based compensation (continued)

21.1 Stock Options (continued)

Details of stock options (continued)

	26th Subscription Rights to Shares	29th Subscription Rights to Shares	30th Subscription Rights to Shares
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).	Notes 3 to 7	Notes 3 to 7

	31st Subscription Rights to Shares	32nd Subscription Rights to Shares	33rd Subscription Rights to Shares
Date of board resolution	May 15, 2017	May 15, 2017	May 15, 2017
Number of subscription rights to shares	671	64	173
Number and class of shares underlying subscription rights to shares	268,400 common shares	25,600 common shares	69,200 common shares
Exercise price	1 yen	3,085 yen	3,085 yen
Exercise period	From July 1, 2020 to April 30, 2027	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	Note 8	Note 8	Note 8

	34th Subscription Rights to Shares	35th Subscription Rights to Shares
Date of board resolution	November 21, 2017	November 21, 2017
Number of subscription rights to shares	8	10
Number and class of shares underlying subscription rights to shares	3,200 common shares	4,000 common shares
Exercise price	2,687 yen	2,687 yen
Exercise period	From December 1, 2020 to October 29, 2027	From December 1, 2020 to October 29, 2027
Settlement method	Share-based payment	Share-based payment
Exercising conditions	Note 9	Note 9

21 Share-based compensation (continued)

21.1 Stock Options (continued)

Details of stock options (continued)

Notes 1. Effective April 1, 2013, the Company executed a stock split at a ratio of 100 shares per common share. "Number and class of shares underlying subscription rights to shares" and "Exercise price" have been adjusted in accordance with the stock split.

2. Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. "Number and class of shares underlying subscription rights to shares" and "Exercise price" have been adjusted in accordance with the stock split.

3. 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 JPY 23 billion or greater.

4. 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 3. is met.

5. 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.

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

7. 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.

8. (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 (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

21 Share-based compensation (continued)

21.1 Stock Options (continued)

Details of stock options (continued)

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

9. (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.
(2) Notwithstanding the conditions provided in 9 (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,

21 Share-based compensation (continued)

21.1 Stock Options (continued)

Details of stock options (continued)

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.

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

	12 months ended December 31, 2019			9 months ended December 31, 2018		
	Number of shares (Shares)	**Weighted-average exercise price (¥)**	**Weighted-average remaining contractual life (Years)**	Number of shares (Shares)	Weighted-average exercise price (¥)	Weighted-average remaining contractual life (Years)
Balance at the beginning of the period	**1,942,400**	**998**	3.6	2,264,000	967	4.5
Granted during the period	**-**	**-**	-	-	-	-
Forfeited during the period	**75,200**	**1,807**	-	239,600	691	-
Exercised during the period	**771,200**	**967**	-	82,000	1,033	-
Balance at the end of the period	**1,096,000**	**965**	3.4	1,942,400	998	3.6
Exercise price range (¥)						
Up to 2,000	**994,000**	**751**	3.0	1,811,200	850	3.3
2,001 to 3,085	**102,000**	**3,057**	7.4	131,200	3,049	8.4
Exercisable balance at the end of the period	**725,600**	**1,028**	-	1,542,800	998	-

Note: 1. The weighted-average share price on the exercise date of the stock options exercised during the fiscal year ended December 31, 2019 was JPY 2,301 (in the fiscal period ended December 31, 2018, it was JPY 1,575).

2. Following a resolution of the Board of Directors meeting held on May 10, 2018, the Company executed a stock split at a ratio of 4 shares per common share, effective July 1, 2018. The number of shares, the weighted-average exercise price, the exercise price of the stock options outstanding, and the share price at the date of exercise of the stock options exercised during the twelve month period ended December 31, 2019 have been calculated as if the stock split had occurred at the beginning of the previous fiscal year.

21 Share-based compensation (continued)

21.2 Restricted Stock Units (RSUs) and Performance Share Units (PSUs)

At the Board of Directors meeting held on April 17, 2019, the Company resolved to introduce a Restricted Stock Unit (RSU) Plan and Performance Share Unit (PSU) Plan ("the Plans) for the Directors, the Executive Officers and the Eligible Employees of the Company and its wholly owned subsidiaries ("Executives and Employees").

Restricted Stock Units (RSUs)

a. Conditions of Allotment

The Company will allot shares of the Company to Executives and Employees according to the predefined manner on the condition that they hold the position of Executive or Employee during the specified performance period.

b. Maximum number of Shares to be issued under the Plan

The number of shares to be issued under the plan, together with the number of shares to be issued under other stock-based compensation scheme, shall not exceed 10% of the total number of outstanding shares of the Company.

c. Relevant Performance Period and Number of Allotted Shares

(i) Directors (Excluding director serving concurrently as Executive Officer):

The Performance Period is one year, and after the end of the Performance Period, the number of shares calculated by dividing the base salary amount by the share price at the time of granting the unit will be allocated.

However, Performance Periods for newly appointed directors shall be one, two and three years from the first day of the Performance Period, and after the end of each Performance Period, one-third each of the number of the shares calculated by dividing the twice the amount of the base salary by the stock price at the start of the Performance Period shall be allocated.

(ii) Director serving concurrently as Executive Officer, Executive Officers and Eligible Employees:

Performance Periods shall be two and three years from the first day of the Performance Period, and after the end of each Performance Period, one half of the number of shares calculated by dividing the amount obtained by multiplying the base salary by certain percentages determined for each individual by the stock price from the start of the Performance Period shall be allocated.

d. Board of Directors meeting concerning Issuance or Disposition

The Board of Directors meeting for issuance or disposition of shares to be allotted shall in principle, be held within one month after the date of the Ordinary General Meeting of Shareholders for the most recent business year during which the Performance Period ends; provided, however, that if there are exceptional circumstances, the date of the Board of Directors meeting for issuance or disposition may be changed.

21 Share-based compensation (continued)

21.2 Restricted Stock Units (RSUs) and Performance Share Units (PSUs) (continued)

Restricted Stock Units (RSUs) (continued)

e. Method to deliver the Company's shares

Under the Plan, the Company will deliver the shares of the Company's common stock to Executives and Employees following the end of the predefined Performance Period against the provision as contribution in-kind of monetary compensation claims provided to the Executives and Employees to whom the shares are allotted. The amount of monetary compensation claims to be provided to each individual will be the amount obtained by multiplying the number of Allotted Shares determined as set out in item (c) above with the payment amount per share of Allotted Shares to be determined by the Board of Directors for issuance or disposition.

f. Grounds for Forfeiture

If during the Performance Period an Executive or Employee falls under certain specified circumstances, such as being subject to criminal punishment equivalent to or more severe than imprisonment, being subject to a filing for the commencement of insolvency proceedings or civil rehabilitation proceedings, etc., the Executive or Employee will not obtain any right to be allotted the shares of the Company under the Plan and the rights to receive Company's shares shall lapse at the time such circumstances in question occurs.

g. Treatment in Cases of Reorganization or Change of Control Transactions

If during the Performance Period, a transaction involving a reorganization or a change of control such as a merger agreement in which the Company becomes a dissolved entity, or a share exchange/transfer agreement under which the Company becomes a wholly owned subsidiary is approved by a general meeting of shareholders, etc. of the Company and that transaction becomes effective before the completion of the Performance Period, the Company will, by resolution of the Board of Directors, allot the maximum number of shares to be allotted under the Plan prior to the reorganization transaction coming into effect.

Performance Share Units (PSUs)

a. Conditions of Allotment

The Company will allot shares of the Company to the Executives and Eligible Employees according to a predefined method, on the condition that they hold the position of Executive or Employee during the three-year performance period.

b. Maximum number of our shares to be issued under the Plan

The number of shares to be issued under the plan, together with the number of shares to be issued under other stock-based compensation scheme, shall not exceed 10% of the total number of outstanding shares of the Company.

21 Share-based compensation (continued)

21.2 Restricted Stock Units (RSUs) and Performance Share Units (PSUs) (continued)

Performance Share Units (PSUs) (continued)

c. Number of Allotted Shares

The number of the Company's shares allotted to each person (Allotted Shares) will be calculated for each person by setting the base number of shares at the start of the Performance Period and multiplying the base number of shares by certain coefficients after the Performance Period has elapsed.

(i) Base number of shares

The base number of shares shall be determined by dividing the amount obtained from multiplying the base salary by certain percentage determined for each individual by the stock price at the start of the Performance Period.

(ii) The number of shares to be allocated will be determined by multiplying the sum of the following figures by the base number of shares.

50% of the number between 25% to 100 % to be determined based on the coefficients according to the Relative Total Shareholder Return ("TSR") Achievement level measured against agreed peer group at the end of the Performance Period where such TSR is above the median:

50% of the number between 50% to 150% to be determined based on the coefficients according to the Absolute TSR of the Company Achievement Level where Absolute TSR at the end of the Performance Period increases by 25% or more.

For Relative TSR the Company has selected multiple domestic competitors based on market capitalization and R & D expense ratio. The above coefficients are subject to change in the future.

As described above, Total Return on Shareholders (TSR) ratio is selected as an indicator for Performance Share Units (PSUs). To increase competition awareness with other competitors, to share the benefits and risks of stock price fluctuations with shareholders, and to actively contribute to the rise of stock prices and corporate value, we adopt figures based on the Company's TSR growth rate at the end of the Relevant Calculation Period (Absolute TSR), and the average of figures based on percentiles (Relative TSR) compared to TSRs of multiple domestic peers. The actual performance of certain coefficients (which are indicators for the PSU) of the current fiscal year is 90%.

d. Board of Directors meeting for issuance or disposition

The Board of Directors meeting for issuance or disposition of shares to be allotted shall in principle, be held within one month after the date of the Ordinary General Meeting of Shareholders for the most recent business year during which the

21 Share-based compensation (continued)

21.2 Restricted Stock Units (RSUs) and Performance Share Units (PSUs) (continued)

Performance Share Units (PSUs) (continued)

d. Board of Directors meeting for issuance or disposition—(Continued)

Performance Period ends; provided, however, that if there are exceptional circumstances, the date of the Board of Directors meeting for issuance or disposition may be changed.

e. Method to deliver the Company's shares

Under the Plan, the Company will deliver the shares of the Company's common stock to Executives and Employees following the end of the predefined Performance Period against the provision as contribution in-kind of monetary compensation claims to be provided to the Executives and Employees to whom the shares are allotted.

The amount of monetary compensation claims to be provided to each individual will be the amount obtained by multiplying the number of Allotted Shares determined as set out in item (c) above with the payment amount per share of Allotted Shares to be determined by the Board of Directors for issuance or disposition.

f. Grounds for Forfeiture

If during the Performance Period an Executive or Employee falls under certain specified circumstances such as being subject to criminal punishment equivalent to or more severe than imprisonment, being subject to a filing for the commencement of insolvency proceedings or civil rehabilitation proceedings, etc., the Executive or Employee will not obtain any right to be allotted Company shares under the Plan and the rights to receive Company's shares shall lapse at the time such circumstances in question occurs.

g. Treatment in Cases of Reorganization or Change of Control Transactions

If during the Performance Period, a transaction involving a reorganization or a change of control such as a merger agreement in which the Company becomes a dissolved entity, or a share exchange/transfer agreement under which the Company becomes a wholly owned subsidiary is approved by a general meeting of shareholders, etc. of the Company and that transaction becomes effective before the completion of the Performance Period, the Company will, by resolution of the Board of Directors, allot the maximum number of shares to be allotted under the Plan prior to the reorganization transaction coming into effect.

21 Share-based compensation (continued)

21.2 Restricted Stock Units (RSUs) and Performance Share Units (PSUs) (continued)

Number of granted RSUs and PSUs and fair values at the date of grant

The number of units granted and the weighted-average fair value are as follows. Fair value at the date of grant of RSUs is the closing price of the Company's shares at the grant date. Fair value at the date of grant of PSUs has been calculated by Monte Carlo simulation adjusting the market value of the Company's shares, taking into account the expected volatilities, the expected dividends etc.

	12 months ended December 31, 2019	9 months ended December 31, 2018
RSU		
Number of units granted	**424,266**	-
Weighted-average fair value at the date of grant (yen)	**1,444**	-
PSU		
Number of units granted	**167,080**	-
Weighted-average fair value at the date of grant (yen)	**1,033**	-

21.3 Expenses related to share-based compensation transactions

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Stock options	**118**	421
RSU	**227**	-
PSU	**39**	-
	384	421

Note: Share-based compensation expenses are accounted for as equity-settled share-based compensation expenses and are included in "Selling, general and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income for the twelve months ended December 31, 2019 and 9 months ended December 31, 2018.

22 Selling, general and administrative expenses

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

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Personnel expenses	**1,547**	1,101
Depreciation expenses	**1,066**	673
Outsourcing expenses	**565**	524
Other	**436**	406
	3,614	2,704

23 Other income

The breakdown of other income is as follows:

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Grant income	**37**	128
Other	**0**	12
	37	140

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

24 Other expenses

The breakdown of other expenses is as follows:

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Impairment losses	**613**	319
Other	**9**	4
	622	323

Note: Please refer to Note 11. *Goodwill and intangible assets* for the detail of impairment losses.

25 Finance income and finance costs

The breakdown of finance income is as follows:

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Changes in fair value of contingent consideration	**576**	216
Gains on revaluation of investments in capital	**185**	-
Interest income	**63**	16
Gain on investment in securities at fair value through profit or loss	**-**	187
Foreign exchange gains	**-**	15
	824	434

The breakdown of finance costs is as follows:

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Interest expenses		
Financial assets measured at amortized cost	**165**	125
Lease liabilities	**54**	0
Loss on investment in securities at fair value through profit or loss	**126**	-
Cost of borrowing funds	**104**	38
Foreign exchange losses	**44**	-
Loss on lapse of option to purchase shares	**-**	1,121
Loss on revaluation of investments in capital	**-**	105
	493	1,389

26 Investments accounted for using the equity method

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

	As at December 31, 2019 ¥m	As at December 31, 2018 ¥m
Total carrying amount	**3,539**	3,644

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

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Share of loss of associates accounted for using the equity method	**(181)**	(488)
Impairment loss on investments accounted for using the equity method	**-**	(66)
Loss from continuing operations	**(181)**	(554)
Total comprehensive loss	**(181)**	(554)

27 Income taxes

27.1 Income tax benefit / expense

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

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Current tax expenses		
Tax (benefit) expense on net profit or loss	**(123)**	(1,160)
Tax (benefit) expense on net profit or loss in prior year	**(157)**	28
Total current tax (benefit) expense	**(280)**	(1,132)
Deferred tax expenses		
Loss carried forward or temporary differences	**(618)**	(133)
Total deferred tax (benefit) expense	**(618)**	(133)
	(898)	(1,265)

27 Income taxes (continued)

27.1 Income tax benefit / expense (continued)

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

	12 months ended December 31, 2019 (%)	9 months ended December 31, 2018 (%)
Statutory effective tax rate	**30.6**	30.6
Items not deductible permanently	**(15.9)**	(3.7)
Items not taxable permanently	**(7.9)**	0.1
Effect of differences in tax rates of foreign subsidiaries	**(30.1)**	(10.2)
Effect of differences in tax rates of Japanese subsidiaries	**(5.7)**	(0.0)
Effect of unrecognized tax losses carried forward or temporary differences	**43.2**	(5.3)
Utilization of tax losses carried forward	**(5.5)**	–
Tax (benefit) expense on net profit or loss in prior year	**(29.4)**	(0.4)
Tax deduction on research and development expenditure	**(149.2)**	5.6
Other	**1.7**	0.8
Actual tax rate	**(168.2)**	17.5

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% for the fiscal periods ended December 31, 2019 and 2018, respectively. However, foreign subsidiaries are subject to corporate tax and other taxes in their jurisdictions.

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:

Twelve months ended December 31, 2019

	As at January 1, 2019 ¥m	Amounts recognized in profit or loss ¥m	Amounts recognized in other comprehensive income ¥m	Other ¥m	**As at December 31, 2019 ¥m**
Deferred tax assets					
Tax loss carried forward	–	–	–	–	**–**
Other	–	–	–	–	**–**
Total deferred tax assets	–	–	–	–	**–**
Deferred tax liabilities					
Intangible assets	(2,459)	541	–	–	**(1,918)**
Other	(83)	77	(37)	(47)	**(90)**
Total deferred tax liabilities	(2,542)	618	(37)	(47)	**(2,008)**

Note: Other comprises exchange differences on translating deferred tax liabilities of foreign entities.

27 Income taxes (continued)

27.2 Deferred tax assets and liabilities (continued)

Nine months ended December 31, 2018

	As at April 1, 2018 ¥m	Amounts recognized in profit or loss ¥m	Amounts recognized in other comprehensive income ¥m	Other ¥m	As at December 31, 2018 ¥m
Deferred tax assets					
Tax loss carried forward	–	–	–	–	–
Other	6	(6)	–	–	–
Total deferred tax assets	6	(6)	–	–	–
Deferred tax liabilities					
Intangible assets	(3,060)	601	–	–	(2,459)
Other	(17)	(468)	–	402	(83)
Total deferred tax liabilities	(3,077)	133	–	402	(2,542)

Note: Other comprises exchange differences on translating deferred tax liabilities of foreign entities.

Amounts of deductible temporary differences and tax losses carried forward for which no deferred tax asset is recognized are as follows:

	As at December 31, 2019 ¥m	As at December 31, 2018 ¥m
Deductible temporary differences	**10,947**	9,462
Tax losses carried forward	**8,220**	6,034
	19,167	15,496

The expiration of tax losses carried forward for which no deferred tax asset has been recognized is as follows:

	As at December 31, 2019 ¥m	As at December 31, 2018 ¥m
Year 1	**74**	264
Year 2	**276**	75
Year 3	**–**	277
Year 4	**462**	-
Year 5 or later	**7,408**	5,418
	8,220	6,034

28 Earnings per share

If the stock split on July 1, 2018, based on a resolution of the Board of Directors held on May 10, 2018, had occurred at the beginning of the previous fiscal period, the basic earnings (loss) per share and the diluted earnings (loss) per share for the twelve months ended December 31, 2019 and for the 9 month period ended December 31, 2018 would have been as follows:

28.1 Basic earnings per share

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

	12 months ended December 31, 2019	9 months ended December 31, 2018
Profit (loss) for the period attributable to owners of the parent (¥m)	**1,432**	(5,977)
Weighted-average number of common shares outstanding (Shares)	**76,622,536**	76,256,495
Basic earnings (loss) per share (¥)	**18.70**	(78.40)

28.2 Diluted earnings per share

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

	12 months ended December 31, 2019	9 months ended December 31, 2018
Profit (loss) for the period attributable to owners of the parent	**1,432**	(5,977)
Adjustment to profit (loss) used in the calculation of diluted earnings per share (¥m)	**–**	–
Profit (loss) for the period used in the calculation of diluted earnings per share (¥m)	**1,432**	(5,977)
Weighted-average number of common shares outstanding (Shares)	**76,622,536**	76,256,495
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)	**860,324**	–
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	**77,482,860**	76,256,495
Diluted earnings (loss) per share (¥)	**18.50**	(78.40)

In the twelve months ended December 31, 2019, the 32nd-35th series of stock options totaling 102,000 shares are excluded from the calculation of diluted earnings

28 Earnings per share (continued)

28.2 Diluted earnings per share (continued)

per share as there is no dilutive effect. Also, in the nine months ended December 31, 2018, there is no dilutive effect from potential common shares as partial conversion of stock options reduced the loss per share.

29 Reconciliation of Liabilities from Financial Activities

Changes of liabilities on financial activities

Twelve months ended December 31, 2019

	January 1, 2019	Adjustment due to the application of IFRS16	January 1, 2019 (Adjusted)	Non-cash changes			**December 31, 2019**
				Cash flows	Fair value change	Other	
Contingent consideration	4,180	-	4,180	(1,050)	(287)	360	**3,203**
Long-term interest-bearing debt	6,927	-	6,927	(7,000)	-	73	**-**
Lease liabilities	37	1,817	1,854	(61)	-	86	**1,879**
Other financial liabilities	1,179	-	1,179	495	(185)	-	**1,489**
	12,323	1,817	14,140	(7,616)	(472)	519	**6,571**

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

Nine months ended December 31, 2018

	April 1, 2018	Non-cash changes			**December 31, 2018**
		Cash flows	Fair value change	Other	
Contingent consideration	4,634	-	(86)	(368)	**4,180**
Long-term interest-bearing debt	9,129	(2,250)	-	48	**6,927**
Lease liabilities	44	(5)	-	(2)	**37**
Other financial liabilities	1,073	-	106	-	**1,179**
	14,880	(2,255)	20	(322)	**12,323**

Non-cash transactions

There were no non-cash transactions during the fiscal periods ended December 31, 2019 and 2018.

30 Related parties

30.1 Transactions with related parties

Twelve months ended December 31, 2019:

Officers and major individual shareholders

Type	Name	Description of transaction	Transaction amount (¥m)	Ending balance (¥m)
Officer	Tomohiro Tohyama	Legal advice	2	-
Officer	Noriaki Nagai	Remuneration as an external committee member	1	-
Officer	Malcolm Weir	Payment of contingent consideration	37	-
		Exercise of stock options	93	-
Officer	Tim Tasker	Payment of contingent consideration	8	-
		Exercise of stock options	46	-

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.
3. The remuneration of Mr. Noriaki Nagai (Director) were in respect of his membership of the Unfair Trading Prevention Committee before assuming the position of Director of the Company.
4. The exercise of stock options by Mr. Weir and Mr. Tasker in the current fiscal year relates to the 30th stock acquisition rights approved by the Board of Directors on November 13, 2015.

Associates

Not applicable.

Nine months 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.

30 Related parties (continued)

30.1 Transactions with related parties (continued)

Associates

Not applicable.

30.2 Remuneration of key management personnel

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Remuneration and bonuses	**607**	290
Share-based compensation	**233**	327
Retirement	**-**	134
	840	751

31 Significant subsidiaries

The major subsidiaries of the Company are as follows:

Company name	**Location**	**Share of voting rights held (%)**	
		As at December 31, 2019	As at December 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 CVC 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
Heptares Therapeutics Ireland Limited	Ireland	**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. Heptares Therapeutics Zurich AG is also in the process of being liquidated.

32 Significant subsequent events

Not applicable.

Sosei Group Corporation

Financial Statements
Notes to the Consolidated Financial Statements

33 Quarterly results

Quarterly information for the twelve month period ended December 31, 2019

Cumulative period	First quarter	Second quarter	Third quarter	Current fiscal period
Revenue (¥m)	3,136	5,056	7,770	9,726
Profit before income taxes (¥m)	929	292	1,142	534
Net profit attributable to owners of the parent company (¥m)	1,018	395	1,461	1,432
Basic earnings per share (Yen)	13.34	5.19	19.11	18.70

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings (loss) per share (Yen)	13.34	(8.14)	13.88	(0.37)

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Building a better working world

Independent Auditor's Report

The Board of Directors
Sosei Group Corporation.

We have audited the accompanying consolidated financial statements of Sosei Group Corporation, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the nine-month period then ended and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sosei Group Corporation as at December 31, 2018, and their consolidated financial performance and cash flows for the nine-month period then ended in conformity with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Sosei Group Corporation in Japanese as at and for the year ended March 31, 2018, were audited by other auditor who expressed an unmodified opinion on those statements on June 22, 2018. The consolidated financial statements in English as at and for the year ended March 31, 2018, included in the accompanying consolidated financial statements, are derived from such financial statements.

Ernst & Young ShinNihon LLC

March 28, 2019
Tokyo, Japan

Sosei Group Corporation

Financial Statements
Consolidated Statement of Financial Position as at December 31, 2018

	Note	**December 31, 2018** **¥m**	(Unaudited) 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 stocks	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

Sosei Group Corporation

Financial Statements
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the nine month period ended December 31, 2018

	Note	9 months ended December 31, 2018 ¥m	(Unaudited) 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
Loss for the period		**(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 (loss) income		**(1,641)**	1,427
Total comprehensive loss for the period		**(7,619)**	(1,227)
Loss for the period attributable to:			
Owners of the parent		**(5,977)**	(2,654)
Non-controlling interests		**(1)**	(0)
		(5,978)	(2,654)
Total comprehensive loss 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

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

	Note	Capital stock ¥m	Capital surplus ¥m	Treasury stocks ¥m	Retained earnings ¥m	Other components of equity ¥m	**Equity attributable to owners of the parent ¥m**	Non-controlling interests ¥m	**Total equity ¥m**
Balance at April 1, 2017 (Unaudited)		26,004	14,632	-	(4,873)	(7,409)	28,354	4	28,359
Loss for the year		-	-	-	(2,654)	-	(2,654)	(0)	(2,654)
Exchange differences on translation		-	-	-	-	1,427	1,427	-	1,427
Total comprehensive loss 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 stocks	18	-	-	(0)	-	-	(0)	-	(0)
Total transactions with owners		10,779	10,976	(0)	-	-	21,755	-	21,755
Balance at March 31, 2018 (Unaudited)		**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**
Loss for the period		-	-	-	(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

Financial Statements
Consolidated Statement of Cash Flows
For the nine month period ended December 31, 2018

	Note	**9 months ended December 31, 2018 ¥m**	(Unaudited) 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 divestment of subsidiary	7	**-**	(326)
Loss on revaluation of investment in capital		**105**	-
Gain on investment in securities at fair value through profit or loss		**(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 the equity method	26	**488**	276
Impairment loss on investments accounted for using the 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 refunded		**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 divestment of subsidiary resulting in loss of control	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 new shares		**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

Sosei Group Corporation

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 consolidated 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 and for the nine month period then ended. 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 28, 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 up or down 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 required by IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, which became effective for the Group from April 1, 2018.

2. Basis of preparation (continued)

2.4 Changes in accounting policies (continued)

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 except for interest and dividend income accounted under IFRS 9: • 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 has 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 allocated 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 contract liabilities (deferred revenue) of JPY 468 million (included in trade and other payables) and a corresponding decrease in retained earnings of JPY 192 million as at April 1, 2018. Some of the revenue that had been recorded as deferred revenue in accordance with International Accounting Standard ("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 the grant of the license. 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.

2. Basis of preparation (continued)

2.4 Changes in accounting policies (continued)

In accordance with the requirements of IFRS 9, 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 IFRS 9. The adoption of IFRS 9 has not had a material impact on the balances as at April 1, 2018.

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 held on June 22, 2018. 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. Significant accounting policies

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 entities.

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 statement of financial position. 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 no more than 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 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 retranslated into the functional currency of each Group company using the exchange rates 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 rates on the transaction date.

Exchange differences resulting from retranslation or settlement are recognized in "Finance income" or "Finance costs" 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 statement of financial position.

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 expected useful life of each asset.

The normal expected 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 assets:	life of lease (5 years)

The expected useful lives, residual values and depreciation methods are reviewed at the end of each fiscal year, and 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 expected useful life of each asset. The amortization method, expected 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.

Expected 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 available for use and therefore not amortized are tested for impairment at the same time in each fiscal year and whenever there is an indication of impairment.

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;

3. Significant accounting policies (continued)

3.5 Intangible assets (continued)

- 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 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.

3.7 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 annual impairment test is conducted at the same time 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. Significant accounting policies (continued)

3.8 Impairment of non-financial assets

The book values of non-financial assets are reviewed for indications of impairment at each reporting date. If any such indications exist, the asset's recoverable amount is estimated. For goodwill and intangible assets with indefinite useful lives or intangible assets not yet available for use, the recoverable amount is estimated at the same time in each fiscal year. The recoverable amount of assets or cash-generating units is the higher of value in use or fair value less disposal costs. In the calculation of value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects the time value of money and risks inherent to the asset. In respect of cash-generating units, assets are grouped into the smallest units generating largely independent cash flows from other assets or units through continued usage.

In respect of cash-generating units for goodwill, goodwill is assessed based on those business units defined for the purposes of internal reporting. In principle, a cash-generating unit is classified as a type of business and geographical region. Corporate assets do not generate independent cash inflows. Therefore, when there are indications of impairment in corporate assets the recoverable amount of the cash-generating unit to which the corporate asset belongs is calculated for the impairment test. Assets 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 book value of the asset or cash-generating unit exceeds the recoverable amount. Impairment loss recognized in connection with cash-generating units is allocated first to reduce the book value of goodwill relating to that cash-generating unit. Any additional impairment required is allocated next to reduce the book values of other assets within the cash-generating unit proportionally.

Impairment losses related to goodwill are not reversed. In respect of impairment losses on other assets recognized in the past, the existence of indications showing that the loss has decreased or been eliminated is assessed on each reporting date. If there are indications of a reversal of impairment and the estimate used for determining the recoverable amount has changed, 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 profit or loss. 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.

3. Significant accounting policies (continued)

3.9 Financial assets (continued)

A financial asset is classified as a financial asset 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 a financial asset measured at fair value through profit or loss: a change in fair value is recognized in profit or loss.

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

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 the Group recognizes a loss allowance for expected credit losses. At each reporting date, the Group assesses whether the credit risk on a financial asset has increased significantly since initial recognition. The Group measures the loss allowance for a financial asset at an amount equal to the twelve-month expected 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 asset at an amount equal to the lifetime expected credit loss if the credit risk on that financial asset has increased significantly since initial recognition. The Group uses the change in risk of a default occurring over the expected life of the financial asset to determine whether the credit risk has increased significantly. To make this assessment, the Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition and considers reasonable and supportable information, such as late payment or financial information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. Regardless of a significant increase in credit risk since initial recognition, the Group

3. Significant accounting policies (continued)

3.9 Financial assets (continued)

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 asset has not increased significantly since initial recognition if the financial asset 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 or delinquency of the borrower, or if the Group, for economic or contractual reasons relating to the borrower's financial difficulty, grants to the borrower an extension of the payment period that the Group would not otherwise have granted, or when other factors occur, such as the indication of a bankruptcy of the borrower or the issuing company or 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 and multiplied by the weighted average of each asset's probability of a default risk. The Group directly reduces the value of a credit impaired-financial asset when all, 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 loss allowance) 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, had no impairment loss been recognized for the asset in prior years.

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) A financial liability measured at fair value through profit or loss: a change in fair value is recognized in profit or loss.

(b) A financial liability measured at amortized cost: the amortized cost is recognized by using the effective interest method.

If the discontinuation of amortization and derecognition using the effective interest method occur, gain or loss is recognized as profit or loss for the current period as part of finance costs.

3. Significant accounting policies (continued)

3.10 Financial liabilities (continued)

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, 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 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

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

Types of revenue classified by purpose:

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

3. Significant accounting policies (continued)

3.15 Revenue recognition (continued)

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 allocated 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. Revenue excludes amounts collected on behalf of tax authorities (for example, sales taxes and value added taxes).

The promise to grant a license is regarded as a distinct performance obligation 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.

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 Group 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 Group'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 and revenue is recognized over time accordingly. Where these criteria are not met the promise to grant a license is determined to provide a right to use intellectual property and is accounted for as a performance obligation satisfied at a point in time.

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

3. Significant accounting policies (continued)

3.17 Employee benefits (continued)

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 a valuation model, such as the Black-Scholes model, taking into account the terms and conditions of the options.

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 to the tax authorities (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 statement of financial position 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.

3. Significant accounting policies (continued)

3.20 Income taxes (continued)

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.

3.21 Earnings per share

Basic earnings (loss) per share are calculated by dividing profit for the period 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 (loss) per share are calculated by adjusting profit for the period and the weighted-average number of common shares outstanding, net of 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 due to their nature.

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 assets (Note 27. *Income tax*)

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, the lessee can elect to apply it either retrospectively 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 JPY 1.8 billion and an increase in total liabilities of approximately JPY 1.7 billion in the consolidated statement of financial position. The impact on the consolidated statement of profit or loss and other comprehensive income is expected to be immaterial.

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 from external customers is as follows:

	9 months ended December 31, 2018 ¥m	(unaudited) 12 months ended March 31, 2018 ¥m
Royalty income	**2,104**	2,561
Milestone income and upfront fees	**340**	3,840
Other	**428**	554
	2,872	6,955

6. Operating segments (continued)

6.3 Geographical information

The following table provides the Group's revenues 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	(unaudited) 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

Note: Revenues from external customers are attributed to areas based on the customers' location.

Non-current assets

	As at December 31, 2018 ¥m	(unaudited) As 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 and other comprehensive income are as follows:

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

7 Loss of control of subsidiaries

Nine month period ended December 31, 2018

Not applicable.

7 Loss of control of subsidiaries (continued)

Twelve month period ended March 31, 2018 (unaudited)

Loss of control of Activus Pharma Co. Ltd. due to divestment of subsidiary.

Summary of divestment of subsidiary

The Company resolved at the meeting of the Board of Directors held on August 4, 2017, to divest all shares of 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.

Consideration received, Assets and liabilities over which control was lost

	As 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 divestment of the subsidiary is recorded in Other income.

Change in cash and cash equivalents due to disposal

	As 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 divestment of the subsidiary	**378**

8 Purchase shares of associates

Nine months ended December 31, 2018

Not applicable. In October 2018 the Company decided that it would not exercise its option to acquire additional shares in MiNA (Holdings) Limited ("MiNA"). On the 29th November 2018 Sosei R&D Limited transferred its entire holding in MiNA to Heptares Therapeutics Ltd.

Twelve months ended March 31, 2018 (unaudited)

The Group acquired its interest (including an option) in MiNA during the financial 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 and an option to acquire all of the remaining shares of MiNA, the parent

8 Purchase shares of associates (continued)

company of UK-based bio-pharmaceutical company, MiNA Therapeutics Limited. As a result of this transaction, MiNA became an associated undertaking of the Group accounted for by the equity method.

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 JPY 5,057 million (£35m) for a 25.6% interest in MiNA plus an option to acquire the remaining share capital. The value ascribed to the option was JPY 1,084 (£ 7.5m) and is included in Other financial assets. The contract included a contingent consideration clause and should Sosei R&D Ltd. exercise its option to acquire the remaining share capital for £140m (JPY 20,842 million) 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 the submission date of the annual security report for the fiscal period ended December 31, 2018 due to two consecutive periods of loss. However, the Company received notification from the

9 Financial instruments (continued)

9.1 Capital management (continued)

banks participating in the Company's syndicated loans that they had agreed not to exercise their rights to make the loans immediately due and payable until the submission date of the annual security report for the fiscal year ending December 31, 2019. Please refer to note 32 *Significant subsequent events*.

The capital structure of the Group is as follows:

	December 31, 2018		(unaudited) 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

9.2 Classification of financial instruments

The breakdown of financial instruments is as follows:

	December 31, 2018 ¥m	(unaudited) 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

9.3 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 Financial instruments (continued)

9.4 Foreign exchange risk

The Group operates globally and is exposed to foreign exchange 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 foreign exchange 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 (unaudited)

	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 exchange sensitivity analysis

A sensitivity analysis of the Group's exposures to foreign exchange 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 currencies 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.

	December 31, 2018 ¥m	(unaudited) 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. 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 Financial instruments (continued)

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's trade and other receivables balance related to trade receivables from one company and totaled JPY 536 million (JPY 595 million 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:

Non-derivative financial liabilities

As at December 31, 2018

	Book value	Cash flow on contract	Within 1 year	Greater than 1 year and within 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**

9 Financial instruments (continued)

9.7 Liquidity risk (continued)

March 31, 2018 (unaudited)

	Book value	Cash flow on contract	Within 1 year	Greater than 1 year and within 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.

9.8 Fair value

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, an option to acquire MiNA shares and contingent consideration receivable relating to business disposals; all are categorized as level 3 of the fair value hierarchy. 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 risk adjusted projected cashflows and the discount rates (ranging from 3.6% - 3.8%). 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. Accordingly, the fair value of the option was reduced to nil and a loss on the lapse of the option in the amount of JPY 1,121 million has been recorded in "Finance costs".

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

9 Financial instruments (continued)

9.8 Fair value (continued)

milestone event and the discount rates (ranging from 4.1% - 4.9%). 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 RMF1 which move in line with changes in the value of the underlying investments (which are valued using significant unobservable inputs as explained above). Changes in fair value during the period are recorded in "Finance income (Gain on revaluation of investment in capital" or "Finance costs (Loss on revaluation of investment in capital".

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

Analysis of financial assets and liabilities measured at fair value on a recurring basis categorized by level of the fair value hierarchy

As 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)

As at March 31, 2018 (unaudited)

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial assets:				
Other financial assets	**-**	**57**	**1,562**	**1,619**
	-	**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 from opening balance to closing balance

Nine months ended December 31, 2018

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the year	1,562	5,707
Increase in investment in unlisted 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: Included in “Exchange differences on translating foreign operations” in the consolidated statement of profit or loss and other comprehensive income.

Note 4: JPY 368 million of the settlement amount during the period is unpaid at the end of this consolidated fiscal year and is included in “Trade and other payables”.

9 Financial instruments (continued)

9.8 Fair value (continued)

Twelve months ended March 31, 2018 (unaudited)

	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 in unlisted securities	490	–
Increase through contribution from limited partners	–	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 "Finance income" and "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.

Note 2 Included in "Exchange differences on translating foreign operations" in the consolidated statement of profit or loss and other comprehensive income.

Note 3 JPY 94 million of the settlement amount during the period is unpaid at the end of this consolidated fiscal year and is included in "Trade and other payables".

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**	(unaudited) (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 assets measured at amortized cost

Since the carrying amounts of financial assets measured at amortized cost as at December 31, 2018 and March 31, 2018 approximates their fair values, disclosure of the fair value has been omitted.

10 Property, plant and equipment

Changes in acquisition cost, accumulated depreciation and accumulated impairment losses of property, plant and equipment are shown below.

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 (unaudited)	**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 (unaudited)	**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 Accumulated 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 (unaudited)	**(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 (unaudited)	**(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	Machinery and equipment	Furniture and fixtures	Leased assets	Construction in progress	Total
	¥m	¥m	¥m	¥m	¥m	¥m
Balance at April 1, 2017 (unaudited)	**26**	**303**	**34**	**–**	**58**	**422**
Balance at March 31, 2018 (unaudited)	**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 JPY 106 million and JPY 1,271 million as of December 31, 2018 and March 31, 2018, respectively.

11 Goodwill and intangible assets

Changes in acquisition cost, accumulated amortization and accumulated impairment losses of goodwill and intangible assets are shown below.

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 (unaudited)	**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 (unaudited)	**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

		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 (unaudited)	**-**	**-**	**-**	**(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 (unaudited)	**-**	**-**	**-**	**(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

		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 (unaudited)	14,154	1,407	–	**11,039**	**4,507**	**16**	**31,125**
Balance at March 31, 2018 (unaudited)	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: JPY 5,426 million for Sosei R&D and JPY 8,751 million for Heptares and Heptares Zurich combined. In the fiscal year ended March 31, 2018, goodwill allocated to each cash-generating unit was: JPY 5,426 million for Sosei R&D and JPY 9,259 million 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.

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.

Goodwill relating to the Sosei R&D Ltd. acquisition
Estimate of future cash flows:
Future cash flows have been estimated based on Sosei R&D Ltd.'s past performance and its twenty year business plan.

Post-tax discount rate:
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)
Estimate of future cash flows:
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.

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 Goodwill and intangible assets (continued)

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 JPY 361 million and JPY 1,253 million, respectively, and other intangible assets of JPY 515 million and JPY 242 million, 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 JPY 10,005 million and JPY 11,005 million, respectively. These assets are being amortized using the straight-line method over a useful life of 20 years. The remaining amortization period is 16-18 years.

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 JPY 3,459 million and JPY 4,147 million, 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 JPY 319 million 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.

At March 31, 2018, an impairment assessment was performed as follows:
Impairment losses of JPY 390 million were as recognized during the 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 Goodwill and intangible assets (continued)

11.7 Contractual commitments

Contractual commitments relating to the acquisition of intangible assets existing at the periods ended December 31, 2018 and March 31, 2018 were zero and JPY 319 million, respectively. The commitments relate to milestone payments which are dependent on successful development.

12 Lease transactions

12.1 Finance leases

	Total minimum lease payments		**Present value of total minimum lease payments**	
	December 31, 2018 ¥m	(unaudited) March 31, 2018 ¥m	**December 31, 2018 ¥m**	(unaudited) March 31, 2018 ¥m
Within 1 year	8	8	7	8
Greater than 1 year and within 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		

12.2 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, such as those concerning dividends, additional debt and further leasing.

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.

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 JPY 86 million and JPY 201 million, respectively.

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

	As at December 31, 2018 ¥m	(unaudited) As at 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:

	As at December 31, 2018 ¥m	(unaudited) As at 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:

	As at December 31, 2018 ¥m	(unaudited) As at March 31, 2018 ¥m
Trade receivables	**306**	103
Accrued income	**681**	650
	987	753

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 (JPY 24,400m) of which US$66m (JPY 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:

	As at December 31, 2018 ¥m	(unaudited) As at 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:

	As at December 31, 2018 ¥m	(unaudited) As at March 31, 2018 ¥m	Average interest rate %	Repayment Term
Non-current liabilities:				
Long-term borrowings (Notes 1,2)	**3,940**	6,142	1.57%	FY2020-FY2022
Long-term lease obligations	**30**	36	-	FY2020-FY2022
	3,970	6,178		
Current liabilities:				
Current portion of long-term borrowings (Notes 1,2)	**2,987**	2,987	1.57%	-
Current portion of long-term lease obligations	**7**	8	-	-
	2,994	2,995		
	6,964	9,173		

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 JPY 10,000 million

(ii) Repayment date
Starting from the last day of December 2015, JPY 500 million 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 18, 2017, the Company entered into a syndicated loan agreement with Mizuho Bank, Ltd. acting as the arranger and agent.

(i) Amount borrowed JPY 5,000 million

(ii) Repayment date
Starting from the last day of July 2017, JPY 250 million 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.

17 Interest-bearing debt (continued)

Note 3:Financial covenants apply to the Company's bank borrowings and the Company actively monitors compliance with them. The company was in technical breach of the financial covenants as at the submission date of the annual security report for the fiscal year ending December 31, 2018 due to two consecutive periods of loss. However, the Company received notification from the banks participating in the Company's syndicated loans that they had agreed not to exercise their rights to make the loans immediately due and payable until the submission date of the annual security report for the fiscal year ending December 31, 2019. Please refer to Note 32 *Significant subsequent events*.

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 (unaudited)	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 one unit	-	-	26
Balance at March 31, 2018 (unaudited)	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 stock 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 Equity and other components of equity (continued)

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

Types of revenue classified by purpose:

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

Types of revenue classified by performance obligation:

Grant of Licenses

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

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

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

Not applicable.

19 Revenue (continued)

Research and Development services

Consideration for upfront fees and development milestone income allocated to performance obligations other than the license

Consideration relating to performance obligations that are not satisfied at a point in time is initially recorded at the value of the contract liability when the Group receives consideration before the performance obligations are satisfied.

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

FTE revenue

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

Product supply revenue

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

The transaction prices for the grant of licenses and revenue earned from the contracted research and development services are allocated to each performance obligation based on the relative stand-alone selling prices. The stand-alone selling prices are calculated using the adjusted market assessment approach or the expected cost plus a margin approach. The consideration is the amount receivable within one year from fulfillment of the performance obligations or fulfillment of contractual terms and conditions.

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

- Variable payment terms relate specifically to the entity's effort to satisfy the performance obligation or transfer the distinct good or service.
- Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service, considering all of the performance obligations and payment terms in the contract, is consistent with the following allocation objective: an entity should allocate the transaction price to each performance obligation or distinct good or service in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

19 Revenue (continued)

If the consideration in the contract with the customer includes variable consideration, revenue is only recognized to the extent that 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.
Sales royalty income included in the grant of license for intellectual property is recognized when the later of (i) the subsequent sale or usage occurs, or (ii) the performance obligation in relation to the sales-based royalty has been satisfied.

There are no significant financing components included in any contracts.

19.1 Breakdown of revenue

Relationship between types of revenue by purpose and performance obligations:

Nine month period ended December 31, 2018

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

Twelve month period ended March 31, 2018 (unaudited)

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

Note: IAS 18 “Revenue” is applied on the twelve month period ended March 31, 2018.

19.2 Contract balances

The opening and closing balances of receivables and contract liabilities from contracts with customers are as follows:

	As at December 31, 2018 ¥m	**(unaudited) As at April 1, 2018 ¥m**
Receivables from contracts with customers	**987**	753
Contract liabilities from contracts with customers	**-**	32

In the context of the transition to IFRS 15 *Revenue from contracts with customers*, deferred revenue amounting to JPY 32 million as at April 1,2018 and included in the “Trade and other payables” in the consolidated statement of financial position is presented as “contract liabilities from contracts with customers” in the above table.

19 Revenue (continued)

19.2 Contract balances (continued)

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

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

Note 1: The performance obligations satisfied in the previous period related to the grant of certain licenses.

19.3 Transaction price allocated to the remaining performance obligations

Milestone income / lump-sum payments allocated to research and development services is not included in the transaction price allocated to the remaining performance obligations because it is expected that the uncertainty of reaching the agreed milestone, such as a regulatory filing, would not be resolved until the achievement of the milestone.

The disclosure of 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 directly with the value to the customer of the Group'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

	Reported in respect of December 31, 2018 (Notes) ¥m	(unaudited) Reported in respect of March 31, 2018 (Notes) ¥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 (Notes)	**19,074**	2,074

20 Employee Benefits (continued)

20.1 Post-employment benefits (continued)

Notes:
The funding status of the plan as at December 31, 2018 is not available. The funding status calculations shown in the above table are as at March 31, 2018 and March 31, 2017, being the latest data available at the time of reporting.

Major factors for the difference reported in the current accounting period: Difference is JPY 23,254 million of past service liability for the pension based on a financing calculation less a total positive surplus of JPY 11,381 million and general reserve of JPY 30,947 million.

Major factors for the difference reported in the comparative accounting period: Difference is JPY 28,873 million of past service liability for the pension based on a financing calculation less a total positive surplus of JPY 2,650 million and general reserve of JPY 28,297 million.

The past service liabilities under the plan are amortized using the straight-line method for the sum of the principal and interest components.

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

	Reported in respect of December 31, 2018	(unaudited) Reported in respect of March 31, 2018
Contribution percentage (Note)	**0.05%**	0.05%

Note:
Contribution percentage in the current accounting period: The contribution percentage is determined by dividing the Group's contribution of JPY 0 million in the month of March 2018 by the total contributions of JPY 517 million paid into the fund in that month.

Contribution percentage in the comparative accounting period: The contribution percentage was determined by dividing the Group's contribution of JPY 0 million in the month of March 2017 by the total contributions of JPY 733 million paid into the fund in that month.

Supplemental explanation
The Group recorded contributions of JPY 3 million for the nine month period ended December 31, 2018 as an expense in "Selling, general and administrative expenses." The Group recorded contributions of JPY 4 million for the twelve months ended March 31, 2018 as an expense in "Selling, general and administrative expenses."

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

20 Employee Benefits (continued)

20.2 Other employment benefits

	Nine months ended December 31, 2018 ¥m	(unaudited) Twelve months 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 Directors, Executive Officers and eligible employees of the Company and its wholly owned subsidiaries 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 3 to 7

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 3 to 7	Notes 8	Notes 8

	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 8	Notes 9	Notes 9

Notes 1. Effective April 1, 2013, the Company executed a stock split at a ratio of 100 shares per common share. “Number and class of shares underlying subscription rights to shares” and “Exercise price” have been adjusted in accordance with the stock split.

2. Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. “Number and class of shares underlying subscription rights to shares” and “Exercise price” have been adjusted in accordance with the stock split.

3. 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 JPY 23 billion or greater.

4. 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

21 Share based compensation (continued)

21.1 Details of stock options (continued)

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.

5. 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.

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

7. 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.

8. (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.

(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.

21 Share based compensation (continued)

21.1 Details of stock options (continued)

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

9. (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.
(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

	Nine month period from April 1 to December 31, 2018		(unaudited) Twelve months 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	**1,942,400**	**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 JPY 1 to JPY 3,085 (in the fiscal year ended March 31 2018, from JPY 1 to JPY 3,085), and the weighted-average remaining contractual life was 3.6 years (in the fiscal year ended March 31 2018, it was 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 JPY 1,575 (in the fiscal year ended March 31 2018, it was JPY 2,802).

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, (unaudited) 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 Share based compensation (continued)

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.

	31st Subscription Rights to Shares	32nd and 33rd 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)

Note: 1. Expected volatilities are calculated based on the recent stock price trend corresponding with the expected remaining life.
2. Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. Fair value, share price, and exercise price at grant date have been calculated as if the stock split had occurred at the beginning of the previous fiscal year.

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 nine months ended December 31, 2018 and twelve months ended March 31, 2018, was JPY 421 million and JPY 597 million, respectively.

23 Selling, general and administrative expenses

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

	9 months ended December 31, 2018 ¥m	(unaudited) 12 months ended 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:

	9 months ended December 31, 2018 ¥m	(unaudited) 12 months ended March 31, 2018 ¥m
Grant income	**128**	235
Gain on divestment 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:

	9 months ended December 31, 2018 ¥m	(unaudited) 12 months ended March 31, 2018 ¥m
Impairment losses	**319**	390
Other	**4**	4
	323	394

25 Finance income and finance costs

The breakdown of finance income is as follows:

	9 months ended December 31, 2018 ¥m	(unaudited) 12 months ended March 31, 2018 ¥m
Changes in fair value of contingent consideration	**216**	-
Gain on investment in securities measured at fair value through profit or loss	**187**	-
Interest income	**16**	12
Foreign exchange gains	**15**	-
Gains on revaluation of investment in capital	**-**	47
Gain on option valuation	**-**	45
	434	104

25 Finance income and finance costs (continued)

The breakdown of finance costs is as follows:

	9 months ended December 31, 2018 ¥m	(unaudited) 12 months ended March 31, 2018 ¥m
Loss on lapse of option to purchase shares	**1,121**	-
Interest expenses	**163**	260
Loss on revaluation of 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:

	As at December 31, 2018 ¥m	(unaudited) As 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:

	9 months ended December 31, 2018 ¥m	(unaudited) 12 months ended 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:

	9 months ended December 31, 2018 ¥m	(unaudited) 12 months 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 carried forward or temporary differences	**(133)**	(274)
Total deferred tax (benefit) expense	**(133)**	(274)
	(1,265)	(1,048)

27 Income taxes (continued)

27.1 Income tax benefit / expense (continued)

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

	9 months ended December 31, 2018 (%)	(unaudited) 12 months ended March 31, 2018 (%)
Statutory effective tax rate	**30.6**	30.9
Items not deductible permanently	**(3.7)**	(20.8)
Items not taxable permanently	**0.1**	37.9
Effect of differences in tax rates of foreign subsidiaries	**(10.2)**	(6.4)
Effect of unrecognized tax loss carried forward 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 jurisdictions.

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 months ended December 31, 2018

	As at April 1, 2018 ¥m	Amounts recognized in profit or loss etc. ¥m	**As at December 31, 2018 ¥m**
Deferred tax assets			
Tax loss carried forward	-	-	**-**
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)**

27 Income taxes (continued)

27.2 Deferred tax assets and liabilities (continued)

Twelve months ended March 31, 2018 (unaudited)

	As at April 1, 2017 ¥m	Amounts recognized in profit or loss etc. ¥m	As at March 31, 2018 ¥m
Deferred tax assets			
Tax loss carried forward	–	–	–
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 carried forward for which no deferred tax asset is recognized are as follows:

	As at December 31, 2018 ¥m	(unaudited) As at March 31, 2018 ¥m
Deductible temporary differences	**9,462**	7,465
Tax loss carried forward	**6,034**	4,626
	15,496	12,091

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

	As at December 31, 2018 ¥m	(unaudited) As 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

28 Earnings per share

If the stock split on July 1, 2018, based on a resolution of the Board of Directors held on May 10, 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 months ended December 31, 2018 and for the twelve months 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.

	Nine months ended December 31, 2018	(unaudited) Twelve months 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.

	Nine months ended December 31, 2018	(Unaudited) Twelve months 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 twelve months 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.

29 Reconciliation of Liabilities from Financial Activities

Changes of liabilities on financial activities

Nine months ended December 31, 2018

			Non-cash changes		
	April 1, 2018	Cash flows	Fair value change	Other	**December 31, 2018**
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**
Other financial liabilities	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

Twelve months ended March 31, 2018 (unaudited)

			Non-cash changes			
	April 1, 2017	Cash flows	Fair value change	Acquisition of finance lease assets	Other	March 31, 2018
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
Other financial liabilities	625	495	-	-	(47)	1,073
	12,755	1,474	655	49	(53)	14,880

Non-cash transactions

Fixed assets acquired through finance leases totaled JPY 45 million in the twelve months ended March 31, 2018.

30 Related parties

30.1 Transactions with related parties

Nine months 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.

Twelve months ended March 31, 2018 (unaudited):

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	-

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.

30 Related parties (continued)

30.1 Transactions with related parties (continued)

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 months ended December 31, 2018 ¥m	(unaudited) Twelve months 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 (%)	
		As at December 31, 2018	As 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, Heptares Therapeutics Ltd., a wholly-owned subsidiary of the Group was notified by AstraZeneca that it had reached a clinical development milestone with its partnered next generation immuno-oncology candidate AZD4635.

32 Significant subsequent events (continued)

32.1 Milestone income (continued)

As a result, Heptares Therapeutics Ltd. received a US$15 million payment from AstraZeneca on March 8, 2019. 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 have agreed not to exercise their rights to make the following loans immediately due and payable.

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

The Company is required to comply with the following loan covenants:

i) The balance of net assets in the consolidated statement of financial position as at December 31 and June 30 of each year must be at least 75% of the balance 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)

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Building a better working world

Independent Auditor's Interim Review Report

The Board of Directors
Sosei Group Corporation.

We have reviewed the accompanying interim condensed consolidated financial statements of Sosei Group Corporation, which comprise the interim condensed consolidated statement of financial position as at March 31, 2020, and the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended and the note to the interim condensed consolidated financial statements.

Management's Responsibility for the Interim Condensed Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the interim condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. We conducted our review in accordance with review standards for quarterly financial statements generally accepted in Japan.

A review of interim condensed consolidated financial statements consists of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our review conclusion.

Auditor's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of Sosei Group Corporation as at March 31, 2020 and their consolidated financial performance and cash flows for the three-month period then ended in conformity with International Accounting Standard 34, Interim Financial Reporting.

Ernst & Young ShinNihon LLC

May 13, 2020
Tokyo, Japan

Sosei Group Corporation

Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statement of Financial Position as at March 31, 2020

	Notes	(Unaudited) March 31, 2020 ¥m	December 31, 2019 ¥m
Assets			
Non-current assets			
Property, plant and equipment		**3,752**	4,120
Goodwill		**13,766**	14,365
Intangible assets		**11,871**	12,999
Investments accounted for using the equity method		**3,232**	3,539
Other financial assets	6	**1,809**	2,053
Other non-current assets		**36**	41
Total non-current assets		**34,466**	37,117
Current assets			
Trade and other receivables		**1,052**	1,924
Income tax receivable		**577**	1,765
Other current assets		**434**	499
Cash and cash equivalents		**16,335**	15,375
Total current assets		**18,398**	19,563
Total assets		**52,864**	56,680
Liabilities and Equity			
Liabilities			
Non-current liabilities			
Deferred tax liabilities		**2,069**	2,008
Contingent consideration in business combinations	6	**3,111**	3,203
Lease liabilities		**1,553**	1,704
Other financial liabilities	6	**1,457**	1,489
Other non-current liabilities		**712**	895
Total non-current liabilities		**8,902**	9,299
Current liabilities			
Trade and other payables	6	**809**	1,211
Income taxes payable		**162**	162
Lease liabilities		**152**	175
Other current liabilities		**614**	755
Total current liabilities		**1,737**	2,303
Total liabilities		**10,639**	11,602
Equity			
Capital stock	7	**37,518**	37,479
Capital surplus	7	**26,675**	26,548
Treasury stocks		**(0)**	(0)
Retained earnings		**(13,010)**	(12,264)
Other components of equity		**(8,961)**	(6,688)
Equity attributable to owners of the parent		**42,222**	45,075
Non-controlling interests		**3**	3
Total equity		**42,225**	45,078
Total liabilities and equity		**52,864**	56,680

Sosei Group Corporation

Interim Condensed Consolidated Financial Statements

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

For the three month period ended March 31, 2020

	Notes	**(Unaudited) Three month period ended March 31, 2020 ¥m**	(Unaudited) Three month period ended March 31, 2019 ¥m
Revenue	8	**1,162**	3,136
Cost of sales		**(175)**	(213)
Gross profit		**987**	2,923
Research and development expenses		**(668)**	(1,024)
Selling, general and administrative expenses	9	**(783)**	(841)
Other income		**19**	11
Other expenses		**(0)**	(8)
Operating (loss) profit		**(445)**	1,061
Finance income	6	**214**	310
Finance costs	6	**(207)**	(374)
Share of loss of associates accounted for using the equity method		**(62)**	(68)
(Loss) profit before income taxes		**(500)**	929
Income tax (expense) benefit		**(246)**	89
(Loss) profit for the period		**(746)**	**1,018**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Net change in fair value of equity investments designated as measured at fair value through other comprehensive income	6	**30**	(30)
Total items that will not be reclassified subsequently to profit or loss		**30**	(30)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	6	**(2,303)**	956
Total items that may be reclassified subsequently to profit or loss		**(2,303)**	956
Total other comprehensive (loss) income		**(2,273)**	926
Total comprehensive (loss) income for the period		**(3,019)**	1,944
(Loss) profit for the period attributable to:			
Owners of the parent		**(746)**	1,018
Non-controlling interests		**(0)**	(0)
		(746)	1,018
Total comprehensive (loss) income for the period attributable to:			
Owners of the parent		**(3,019)**	1,944
Non-controlling interests		**(0)**	(0)
		(3,019)	1,944
Earnings per share (yen)			
Basic (loss) earnings per share	10	**(9.69)**	13.34
Diluted (loss) earnings per share	10	**(9.69)**	13.30

Sosei Group Corporation

Interim Condensed Consolidated Financial Statements
Interim Condensed Consolidated Statement of Changes in Equity
For the three month period ended March 31, 2020

	Notes	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity: ¥m	**Equity attributable to owners of the parent ¥m**	Non-controlling interests ¥m	**Total equity** ¥m
Balance at January 1, 2020		**37,479**	**26,548**	(0)	**(12,264)**	**(6,688)**	**45,075**	**3**	**45,078**
(Loss) for the period		-	-	-	(746)	-	**(746)**	(0)	**(746)**
Other comprehensive loss		-	-	-	-	(2,273)	**(2,273)**	-	**(2,273)**
Total comprehensive loss for the period		-	-	-	(746)	(2,273)	**(3,019)**	(0)	**(3,019)**
Issuance of new shares	7	39	(29)	-	-	-	**10**	-	**10**
Share-based payments		-	156	-	-	-	**156**	-	**156**
Total transactions with owners		39	127	-	-	-	**166**	-	**166**
Balance at March 31, 2020 (Unaudited)		**37,518**	**26,675**	(0)	**(13,010)**	**(8,961)**	**42,222**	**3**	**42,225**
Balance at January 1, 2019		36,854	26,042	(0)	(13,696)	(7,623)	41,577	3	41,580
Profit (loss) for the period		-	-	-	1,018	-	1,018	(0)	1,018
Other comprehensive income		-	-	-	-	926	926	-	926
Total comprehensive income (loss) for the period		-	-	-	1,018	926	1,944	(0)	1,944
Issuance of new shares		64	13	-	-	-	77	-	77
Share-based payments		-	31	-	-	-	31	-	31
Total transactions with owners		64	44	-	-	-	108	-	108
Balance at March 31, 2019 (Unaudited)		36,918	26,086	(0)	(12,678)	(6,697)	43,629	3	43,632

Sosei Group Corporation

Interim Condensed Consolidated Financial Statements
Interim Condensed Consolidated Statement of Cash Flows
For the three month period ended March 31, 2020

	Notes	**Three month period ended March 31, 2020 (Unaudited) ¥m**	Three month period ended March 31, 2019 (Unaudited) ¥m
Cash flows from operating activities			
(Loss) profit before income taxes		**(500)**	929
Adjustments for:			
Receipt of non-cash consideration from customer		**-**	(260)
Depreciation and amortization		**340**	340
Share-based payments		**117**	31
(Gain) on investment in securities at fair value through profit or loss		**(45)**	(229)
Loss on sale of investment securities		**73**	-
(Gain) loss on revaluation of investment in capital		**(32)**	189
Change in fair value of contingent consideration		**115**	(74)
Net foreign exchange loss		**25**	12
Interest income		**(24)**	(7)
Interest expenses		**15**	69
Share of loss of associates accounted for using the equity method		**62**	68
Decrease in trade and other receivables		**766**	76
Increase in other accounts receivables		**(34)**	(75)
Decrease in trade payables		**(379)**	(516)
Decrease in deferred revenues		**(73)**	-
Other		**(89)**	(188)
Subtotal		**337**	365
Grants received		**-**	31
Interest and dividends received		**24**	7
Interest paid		**(2)**	(37)
Income taxes refunded		**1,114**	-
Income taxes paid		**(4)**	(7)
Net cash provided by operating activities		**1,469**	359
Cash flows from investing activities			
Purchase of property, plant and equipment		**(34)**	(131)
Purchase of intangible assets		**(6)**	-
Payments for purchase of investment securities		**-**	(100)
Proceeds from sale on investment securities		**238**	-
Other		**-**	20
Net cash provided by (used in) investing activities		**198**	(211)
Cash flows from financing activities			
Repayments of lease obligations		**(62)**	(17)
Repayments of interest-bearing debt		**-**	(750)
Payment for settlement of contingent consideration	6	**(159)**	(252)
Proceeds from contributions from limited partners		**-**	495
Proceeds from issuance of new shares		**10**	77
Net cash used in financing activities		**(211)**	(447)
Effects of exchange rate changes on cash and cash equivalents		**(496)**	44
Net increase (decrease) in cash and cash equivalents		**960**	(255)
Cash and cash equivalents at the beginning of the period		**15,375**	18,760
Cash and cash equivalents at the end of the period		**16,335**	18,505

Sosei Group Corporation

Interim Condensed Consolidated Financial Statements
Notes to the Interim Condensed Consolidated Financial Statements

1. Reporting entity

Sosei Group Corporation (the "Company") is a joint-stock company located in Japan. The address of its registered head office and principal place of business is available on the Company's website (URL: https://www.soseiheptares.com). The interim condensed consolidated financial statements reflect the balances and transactions of the Company and its subsidiaries (the "Group") and its interest in affiliated companies as at March 31, 2020 and for the three month period then ended. The Group is engaged in the pharmaceutical business.

2. Basis of preparation

The interim condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the fiscal year ended December 31, 2019. The Group's interim condensed consolidated financial statements were approved by the Board of Directors on May 13, 2020.

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

3. Significant accounting policies

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

4. Use of significant estimates and judgements

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

5. Operating segments

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

6 Financial instruments

6.1 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 unlisted securities and contingent consideration receivable relating to business disposals; all are categorized as level 3.

The fair values of RMF1 unlisted securities and contingent consideration receivable are assessed using risk adjusted discounted cashflow models when there is an indication of a movement in fair value during the period. Significant unobservable inputs used in the cash flow models include the projected cashflows and discount rates (ranging from 1.9% - 13.0%). Changes in fair value during the period are recorded in "Finance income" or "Finance costs" as a gain or loss on revaluation.

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

Contingent consideration in business combinations
Such consideration is calculated by discounting the estimated amount payable after taking into account the probability of occurrence of future cash outflows. The contingent consideration arising in business combinations is categorized within Level 3 of the fair value hierarchy. Significant unobservable inputs used in the cashflow model include the probabilities of success of assets progressing to the next milestone event and discount rates (ranging from 1.6% - 4.9%). 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 RMF1 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 "Finance income (Gain on revaluation of investment in capital)" or "Finance costs (Loss on revaluation of investment in capital)".

6 Financial instruments (continued)

6.2 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

Analysis of financial instruments measured at fair value
As at March 31, 2020

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial assets:				
Financial assets measured at fair value through profit or loss				
Other financial assets	-	-	1,353	**1,353**
Financial assets measured at fair value through other comprehensive income				
Other financial assets	-	-	398	**398**
	-	-	1,751	**1,751**
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Contingent consideration in business combinations	-	-	3,111	**3,111**
Other financial liabilities	-	-	1,457	**1,457**
	-	**-**	4,568	**4,568**

6.2 Fair value hierarchy

As at December 31, 2019

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

6 Financial instruments (continued)

Reconciliation of movements of level 3 financial instruments

Three month period ended March 31, 2020

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the period	1,995	4,692
Decrease through the sale of equity investments	(238)	-
Net gains or losses (realized) (Note 1)	(73)	-
Net gains or losses (unrealized) (Note 1)	49	68
Other comprehensive income (Note 2)	18	-
Transfer (Note 3)	-	(192)
Balance at the end of the period	**1,751**	**4,568**

Note 1: Realized / unrealized gains or losses are included in "Finance income" and "Finance costs" in the interim condensed consolidated statement of profit or loss and other comprehensive income.
Note 2: Other comprehensive income is included in "Net change in fair value of equity investments designated as measured at fair value through other comprehensive income" and "Exchange differences on translating foreign operations" in the interim condensed consolidated statement of profit or loss and other comprehensive income.
Note 3: The amount of obligation satisfied in "Contingent consideration in business combinations" is transferred to "Trade and other payables". The settlement amount after the transfer was JPY 159 million in the first quarter of the current consolidated cumulative period.

6.2 Fair value hierarchy

Three month period ended March 31, 2019

	Financial assets ¥m	Financial liabilities ¥m
Balance at the beginning of the period	1,457	5,359
Increase through the acquisition of unlisted securities	360	-
Increase through contribution from limited partners	-	495
Net gains or losses (unrealized) (Note 1)	230	116
Other comprehensive income (Note 2)	(27)	-
Transfer (Note 3)	-	(586)
Balance at the end of the period	2,020	5,384

Note 1: Unrealized gains or losses are included in "Finance income" and "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.
Note 2: Other comprehensive income is included in "Net change in fair value of equity investments designated as measured at fair value through other comprehensive income" and "Exchange differences on translating foreign operations" in the interim condensed consolidated statement of profit or loss and other comprehensive income.
Note 3: The amount of obligation satisfied in "Contingent consideration in business combinations" is transferred to "Trade and other payables". The settlement amount after the transfer was JPY 252 million in the first quarter of the previous consolidated cumulative period.

6.3 Fair value of financial assets and financial liabilities measured at amortized cost

Since the carrying amounts of financial assets measured at amortized cost in the consolidated statement of financial position approximate their fair values disclosure of the fair values has been omitted.

7. Capital and other capital items

Due to the allotment of Restricted Stock Units ("RSUs") (26,590 shares) during the three month period ended March 31, 2020, capital stock has increased by JPY 29 million and capital surplus has decreased by JPY 29 million.

8. Revenue

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

8.1 Types of revenue classified by purpose

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

8.2 Types of revenue classified by performance obligation:

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

When a license is distinct from other goods or services and evaluated as a right to access license
Not applicable.

Research and Development services
Consideration for upfront fees and development milestone income allocated to performance obligations other than the license
Consideration relating to performance obligations that are not satisfied at a point in time is initially recorded at the value of the contract liability when the Group receives consideration before the performance obligations are satisfied.
Revenue from contracted research and development services is recognized over time from the contract date to the achievement of development milestones, such as regulatory filings, as contractually agreed with a customer based on the progress of the development because the Group's performance enhances the value of the license that the customer controls as the customer earns benefit from it. However, development milestone income is only recognized

8. Revenue (continued)

when it is determined that milestones agreed between the parties, such as regulatory filings, have been reached, taking into consideration the probability of a subsequent significant reversal of revenue.

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

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

8.3 Breakdown of revenue

Three month period ended March 31, 2020

	performance obligations			
Types of Revenue	Grant of Licenses ¥m	Research and Development services ¥m	Product supply revenue ¥m	**Total ¥m**
Royalty income	619	-	-	**619**
Milestone income and upfront fees	160	73	-	**233**
Product supply revenue	-	-	-	**-**
Other	-	310	-	**310**
	779	**383**	**-**	**1,162**

Three month period ended March 31, 2019

	performance obligations			
Types of Revenue	Grant of Licenses ¥m	Research and Development services ¥m	Product supply revenue ¥m	Total ¥m
Royalty income	576	-	-	576
Milestone income and upfront fees	2,072	185	-	2,257
Product supply revenue	-	-	65	65
Other	-	238	-	238
	2,648	423	65	3,136

8. Revenue (continued)

8.4 Geographical information

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

Country	**Three month period ended March 31, 2020 ¥m**	Three month period ended March 31, 2019 ¥m
Japan	**330**	420
Switzerland	**615**	553
UK	**107**	2,098
United States	**73**	-
Ireland	**37**	65
	1,162	3,136

9. Selling, general and administrative expenses

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

	Three month period ended March 31, 2020 ¥m	Three month period ended March 31, 2019 ¥m
Personnel expenses	**302**	365
Depreciation expenses	**229**	253
Outsourcing expenses	**134**	125
Other	**118**	98
	783	841

10. Earnings per share

10.1 Basic earnings per share

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

	Three month period ended March 31, 2020	Three month period ended March 31, 2019
(Loss) profit for the period attributable to owners of the parent (¥m)	**(746)**	1,018
Weighted-average number of common shares outstanding (Shares)	**77,106,576**	76,310,108
Basic (loss) earnings per share (¥)	**(9.69)**	13.34

10. Earnings per share (continued)

10.2 Diluted earnings per share

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

	Three month period ended March 31, 2020	Three month period ended March 31, 2019
(Loss) profit for the period attributable to owners of the parent (¥m)	(746)	1,018
Adjustment to (loss) profit for the period used in the calculation of diluted earnings per share (¥m)	-	-
(Loss) profit for the period used in the calculation of diluted earnings per share (¥m)	(746)	1,018
Weighted-average number of common shares outstanding (Shares)	77,106,576	76,310,108
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)	-	238,904
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	77,106,576	76,549,012
Diluted (loss) earnings per share (¥)	(9.69)	13.30

In the three month period ended March 31, 2020, there is no dilutive effect from potential common shares as partial conversion of stock options reduced the loss per share.

11. Impact of COVID-19

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

The Directors believe the Group retains enough liquidity to continue to pursue its stated business strategy and, accordingly, it is appropriate to use the going-concern basis of preparation. This assessment did not identify any adjustments necessary to the underlying carrying amounts of assets and liabilities carried at cost / at amortized cost (including goodwill and intangible assets), but the indirect impact COVID-19 has had on exchange rates has impacted their carrying amounts in the Japanese yen denominated consolidated statement of financial position. The carrying amounts of assets and liabilities carried at fair value (see Note 6) have also been impacted by the recent volatility in foreign exchange rates and interest rates. The assessment did not identify any adjustments necessary to the underlying values of revenues and expenditures recorded in the period. In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, foreign exchange gains and losses and exchange differences on translating foreign operations continue to be recorded in the interim condensed statement of profit or loss and other comprehensive income in line with normal procedures.

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

12. Significant subsequent event

Issuance of New Shares under Restricted Stock Unit Plan
In FY2019, The Company introduced the Restricted Stock Unit ("RSU") Plan with the intention to increase the motivation and drive of the Directors, the Executive Officers and the Eligible Employees of the Company and its wholly owned subsidiaries ("Executives and Employees") to energetically realize the Company's vision and strategy. The Plan will also promote the sharing of benefits and risks of share price fluctuations with shareholders, and further encourage the Executives and Employees of the Company and its wholly owned subsidiaries to actively contribute to the increase of the share price and enhance the Company's corporate value.

On April 16, 2020 the Board of Directors adopted a resolution to issue new shares under the Restricted Stock Unit Plan as described below.

Details of Issuance

	7th RSU	8th RSU	9th RSU
1 Payment date	April 9, 2021	May 19, 2022	May 18, 2023
2 Type and number of shares to be issued	Common shares 39,780 shares	Common shares 224,881 shares (planned)	Common shares 224,881 shares (planned)
3 Payment amount (Note)	1,426 Yen per share	Representative Executive Officer will decide the payment amount hereafter	Representative Executive Officer will decide the payment amount hereafter
4 Total issue value	56,726,280 yen	Representative Executive Officer will decide the total issue value hereafter	Representative Executive Officer will decide the total issue value hereafter
5 Planned Allottees	39,780 shares will be allotted among 5 Directors of the Company	7 Directors and Executive Officers of the Company 61 Directors of subsidiaries of the Company and employees of the Company and its subsidiaries. 224,881 shares to be allotted (planned)	7 Directors and Executive Officers of the Company 61 Directors of subsidiaries of the Company and employees of the Company and its subsidiaries. 224,881 shares to be allotted (planned)

(Note) Delivered in return for provision as contribution in kind of monetary compensation claims against the Company granted to the Executives and Employees of the Company and its wholly owned subsidiaries as the Planned Allottees.

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