Consolidated Financial Results for the FY2019 (IFRS)

February 13, 2020

Company name: Sosei Group Corporation — Listing: Tokyo Stock Exchange
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Scheduled date of annual general meeting: March 25, 2020 — Scheduled date of dividend payments: -
Scheduled date of security report filing: March 25, 2020
Supplementary materials for financial results: Yes
Financial results briefing session: Yes (for institutional investors and analysts)

(Rounded million yen)

1. Consolidated results for 12 months ended December 31, 2019

(1) Consolidated operating results (Percentages are shown as year-on-year changes)

	Revenue		Operating income		Net profit before income taxes		Net profit		Net profit attributable to owners of the parent company		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
12 months ended December 31, 2019	9,726	—	384	—	534	—	1,432	—	1,432	—	2,367	—
9 months ended December 31, 2018	2,872	—	(5,734)	—	(7,243)	—	(5,978)	—	(5,977)	—	(7,619)	—

	Earnings per share – basic	Earnings per share – diluted	Ratio of net income to equity attributable to owners of the parent	Ratio of net income before income taxes to total assets	Ratio of operating income to revenue
	Yen	Yen	%	%	%
12 months ended December 31, 2019	18.70	18.50	3.3	0.9	3.9
9 months ended December 31, 2018	(78.40)	(78.40)	(13.2)	(11.3)	(199.6)

(Note) Investment loss under equity method: 181 million yen for the 12 months ended December 31, 2019; and 488 million yen for 9 months ended December 31, 2018.
(Note) The Company and the Group changed the end of their fiscal year from March 31 to December 31. The % changes have been omitted because FY2019 was for a twelve month period whereas FY2018 was for a nine month period.
(Note) Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. Earnings per share for FY2018 was calculated as if the stock split had occurred at the beginning of the previous consolidated fiscal year.

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent company to total assets	Equity per share-attributable to owners of the parent
	Million yen	Million yen	Million yen	%	Yen
At December 31, 2019	56,680	45,078	45,075	79.5	584.83
At December 31, 2018	58,987	41,580	41,577	70.5	544.89

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	Million yen	Million yen	Million yen	Million yen
12 months ended December 31, 2019	3,441	(246)	(6,964)	15,375
9 months ended December 31, 2018	(3,995)	(2,808)	(2,268)	18,760

2. Dividends

	Dividends per share					Total amount of dividends	Dividend payout ratio (consolidated)	Ratio of dividend to equity attributable to owners of the parent company (consolidated)
	End Q1	End Q2	End Q3	End Q4	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2018	0.00	—	—	0.00	0.00	—	—	—
FY2019	—	0.00	—	0.00	0.00	—	—	—
FY2020 (E)	—	0.00	—	0.00	0.00		—	

(Note) The record date for the interim dividend for the FY2018 is June 30, 2018 (End Q1).

3. Forecast for the twelve month period from January 1, 2020 to December 31, 2020

We have made excellent progress in strengthening our wider business and are well positioned to capitalize on a number of strategic opportunities. Our highly productive platform and drug discovery engine has generated multiple new exciting candidates, and we are now taking steps to increase partnered activity, whilst simultaneously investing in technologies, tools and capabilities to advance an exciting pipeline of next-generation candidates that will form the basis of high value partnerships in the future.

The Group expects to deliver a financial performance in 2020 similar to that of 2019 as we continue to target a sustainable balance of resources and capital as we again look to prioritize the pursuit of profitability:

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

The Group has a strong cash runway into 2022 to fund its drug discovery and early-stage development activities.

* Notes

(1) Changes in the number of significant subsidiaries for the nine month ended December 31, 2018 (changes of specified subsidiaries affecting the scope of consolidation): None

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

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

(3) Number of common shares issued

1) Number of shares issued at period end (including treasury shares)	At December 31, 2019	77,073,136	shares	At December 31, 2018	76,301,936	shares
2) Number of treasury shares at period end	At December 31, 2019	213	shares	At December 31, 2018	104	shares
3) Average number of shares in issue in the period	12 months ended December 31, 2019	76,622,536	shares	9 months ended December 31, 2018	76,256,495	shares

(Note) Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. "Number of shares issued at period end", "Number of treasury shares at period end" and "Average number of shares in issue in the period" are calculated assuming that the stock split had been made at the beginning of the previous consolidated fiscal year.

* The Tanshin, including the consolidated financial statements presented within it, is not subject to audit.

* Explanation regarding the appropriate use of forecast and other points to be noted

(Note concerning forward-looking statements)

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

The Company is scheduled to hold an online conference for analysts on February 13, 2020 (same day).

The materials for the briefing session and the content will be posted on the Company's website promptly after the conference, along with materials to be used on that day.

The Group changed the end of the fiscal year from March 31 to December 31 at the 28th ordinary general meeting of shareholders and it will continue to have a December fiscal year end. FY2018 is a nine month irregular term.

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

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1. Analysis of Operating Results and Financial Position

(1) Analysis of operating results

The Group is a science and technology-led company, specializing in drug discovery and early-stage drug development. Our mission is to make a significant contribution to improving the quality of life and health of people around the world. Our vision is to become one of Japan's global biotechnology champions.

During the twelve month period ended December 31, 2019, the Group continued to advance its proprietary StaR® ("stabilized receptor") technology, Structure-based Drug Design ("SBDD") platform, and drug discovery and early-stage development pipeline.

Our 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, the Group had more than 15 programs ongoing in discovery, with seven in preclinical development, and nine[4][5] currently in clinical trials.

In the area of existing partnerships with major global pharmaceutical companies , the Group achieved significant milestones, with its lead partnered program entering a Phase 2 clinical study with AstraZeneca UK Limited ("AstraZeneca"), as well as its strategic multi-target drug discovery collaboration with Pfizer Inc. ("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 the Group entered into two new strategic partnerships with Genentech Inc. ("Genentech") and Takeda Pharmaceutical Company Limited ("Takeda") respectively, with both of these new strategic partnerships progressing well.

On January 7, 2019, the Group announced it had been notified by its strategic alliance partner, AstraZeneca, that it had achieved a clinical development milestone with its partnered next-generation immuno-oncology candidate AZD4635, triggering a US$15 million payment from AstraZeneca. The clinical study to date had established the maximum-tolerated dose of AZD4635 as a single agent and in combination with durvalumab. The study had progressed successfully to the point where the therapeutic potential of AZD4635 was being explored in multiple solid tumors. As a result, AstraZeneca moved the trial towards Phase 2, thereby triggering the milestone payment to the Group.

On January 31, 2019, the Group announced its wholly-owned Japanese subsidiary Sosei Co., Ltd. (the "Business") would launch ORAVI® Mucoadhesive Tablets 50mg in Japan on February 4, 2019, for the treatment of oropharyngeal candidiasis. The Business had granted an exclusive license to FUJIFILM Toyama Chemical Co., Ltd. ("FUJIFILM Toyama Chemical") for the commercialization of ORAVI® in Japan. The Business supplies ORAVI® tablets to FUJIFILM Toyama Chemical to sell into the Japanese market and is entitled to receive revenues on sales of the products to FUJIFILM Toyama Chemical and additional payments based on the achievement of sales-based milestones.

On March 22, 2019, the Group announced that Ultibro® Breezhaler® and Seebri®Breezhaler® had been launched in China for the treatment of chronic obstructive pulmonary disease ("COPD"). The Group, together with Vectura Group plc, exclusively licensed key intellectual property integral to the development of both products to Novartis in April 2005 and is eligible for royalties on global product sales. Both products will be promoted in China by Huizheng (Shanghai) Technology Co., Ltd., a group company of Zhejiang Hisun Pharmaceutical Co., Ltd. under license from Beijing Novartis Pharma Co., Ltd and Sandoz (China) Pharmaceutical Co., Ltd, both controlled subsidiaries of Novartis.

On March 31, 2019 and April 2, 2019, AstraZeneca presented new clinical and preclinical data on next-generation immuno-oncology candidate AZD4635 at the 2019 American Association for Cancer Research (AACR) Annual Meeting in Atlanta, USA. The data demonstrated that AZD4635 prevents adenosine-mediated immunosuppression and that early clinical activity was observed with

[4] 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.

[5] Phase 2 trial of HTL0018318 for DLB in Japan remains under voluntary suspension and has been withdrawn. The Group plans to resubmit a new clinical trial notification for HTL0018318 (or another novel M1 agonist) to the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) in the future.

AZD4635 monotherapy or in combination with durvalumab in patients with metastatic castration-resistant prostate cancer. The two posters presented by AstraZeneca were titled "Evidence of immune activation in the first-in-human Phase 1a dose escalation study of the adenosine 2a receptor antagonist, AZD4635, in patients with advanced solid tumors" and "The A2AR antagonist AZD4635 prevents adenosine-mediated immunosuppression of CD103+ dendritic cells." The Group made the abstracts and posters available on its corporate website on April 15, 2019, alongside a summary of AstraZeneca's key findings.

On May 14, 2019, the Group reported encouraging progress from its strategic multi-target drug discovery collaboration with Pfizer, which included the first pre-clinical development candidate nominated by Pfizer under the collaboration – a novel, oral, small molecule modulator of an undisclosed target, which triggered a US$3 million milestone payment to the Group. The research phase of the collaboration has delivered several milestones leading to the advancement of new potential candidate programs against GPCR targets nominated by Pfizer in major disease areas. Further milestone payments are contemplated under the agreement, with potential for royalties also payable provided the criteria under the agreement are satisfied.

On May 22, 2019, Novartis presented key Phase 2 data for QVM149, a potential new inhaled combination therapy for asthma, at the 2019 annual international congress of the American Thoracic Society (ATS) in Dallas, USA. In two Phase 2 clinical studies[6], QVM149 was shown to be superior to the comparators, salmeterol/fluticasone propionate (the standard-of-care treatment) and placebo, separately by demonstrating improvement in lung function in patients with asthma. In one study, QVM149 also demonstrated improvements versus placebo irrespective of administration time of morning or evening. The data from both studies also suggest that QVM149 has a favorable safety and tolerability profile.

On May 24, 2019, the Group announced it had been notified by Novartis that it had submitted a valid Marketing Authorization Application ("MAA") to the European Medicines Agency ("EMA") for QVM149. The MAA filing triggered a US$2.5 million payment to the Group from Novartis. QVM149 was investigated in Phase 3/3b studies (IRIDIUM[7] and ARGON[8]), which have completed in Q3 2019.

On June 10, 2019, the Group announced a second new clinical candidate from its multi-target drug discovery collaboration with Pfizer had been nominated to advance into preclinical development. This triggered a US$3 million milestone payment to the Group.

On July 16, 2019, the Group announced that it entered into a 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 the proprietary GPCR-focused SBDD capabilities at the Group 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 will have exclusive global rights to these agents. The Group is eligible to receive US$26 million (in the form of an upfront payment, and expects early progress payments over the next two to three years). In addition to this, the Group is also eligible to receive future milestone payments that may exceed US$1 billion for achieving pre-specified research, development and commercialization events. The Group is also eligible to receive royalty payments on the net sales of potential future medicines resulting from the collaboration.

On August 5, 2019, the Group announced that it had entered into a strategic multi-target partnership with Takeda, to discover, develop and commercialize novel molecules, including small molecules and biologics, that modulate GPCR targets. Under the terms of the agreement, the partnership will combine the proprietary GPCR-focused structure-based drug design capabilities at the Group 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. The Group is eligible to receive up to $26 million (in the form of an upfront payment, and expects early progress payments over the next two to three years). In addition to this, the Group is also eligible to receive research funding over the term of the agreement, plus future development, commercialization and net sales-based milestone payments that may exceed $1.2 billion. Sosei Heptares is also eligible to receive tiered royalties on net sales of any licensed products by Takeda resulting from the

[6] Phase 2 CQVM149B2208 study (ClinicalTrials.gov Identifier: NCT03063086)
Phase 2 CQVM149B2209 study (ClinicalTrials.gov Identifier: NCT03108027)
[7] Phase 3 CQVM149B2302 study (ClinicalTrials.gov Identifier: NCT02571777)
[8] Phase 3 CQVM149B2306 study (ClinicalTrials.gov Identifier: NCT03158311)

partnership. Takeda receives exclusive global rights to develop and commercialize therapeutic agents for each novel target through specified pharmacological approaches in the collaboration.

On August 13, 2019, the Group reported a periodic update on the status of development activities with its global R&D collaboration with Allergan. The collaboration, which is focused on the development of novel muscarinic agonists in Alzheimer's disease and other neurological disorders, continues to make significant progress. Work continues on the portfolio of selective small molecule M_1, M_4 and dual M_1/M_4 agonists targeting muscarinic receptors in the brain. Multiple compounds with the potential to be new candidates have been discovered and are progressing through early-stage development. Clinical development activities with HTL0018318 (a selective M_1 receptor agonist) remain under voluntary suspension due to the unexpected toxicology findings identified in a non-human study (announced September 2018). A thorough investigation of these findings is still ongoing. While the Group remains committed to continuing its program in Japan focused on developing new therapies for dementia with Lewy bodies ("DLB"), it decided to withdraw the planned Phase 2 trial of HTL0018318 in DLB patients in Japan (NCT#03592862). Start-up activities for this DLB study were underway when development of the HTL0018318 compound was suspended in September 2018 and consequently, studies were put on hold. The Group expects a different clinical trial approach will be required in the future and has taken this decision to minimize unnecessary expenditure on clinical trial activities. 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.

On October 1, 2019, Novartis announced positive results from its Phase 3 IRIDIUM trial. The results showed that the investigational, once-daily, inhaled combination QVM149 (indacaterol acetate, glycopyrronium bromide and mometasone furoate or IND/GLY/MF) achieved a superior improvement in lung function than QMF149 (indacaterol acetate and mometasone furoate or IND/MF) in asthma patients who were uncontrolled on treatment with a long-acting beta agonist/inhaled corticosteroid (LABA /ICS). As stated above, on 24 May 2019 the regulatory submission for QVM149 was accepted for review by the European Medicines Agency. QVM149 was also investigated in the Phase 3b ARGON study, which compared it with a combination of salmeterol/fluticasone and tiotropium. Results from the completed ARGON study will be announced after the data is analyzed. Under the agreement, the Group is entitled to certain development and sales-based milestones, and royalties on net sales upon successful commercialization of QVM149. On September 30 and October 1, 2019, further clinical data from the broader development program of Novartis with QVM149 were presented at the European Respiratory Society (ERS) International Congress 2019.

On October 9, 2019, the Group announced that it had been notified by Genentech of its desire to nominate a new GPCR disease target, which triggered a US$3 million payment to the Group. This US$3 million payment formed part of the US$26 million figure noted by the Group in its announcement on the signing of the collaboration and license agreement.

On October 22, 2019, Novartis included a statement within its Q3 financial results confirming that the regulatory submission for QVM149 has been submitted to the Japanese Pharmaceuticals and Medical Devices Agency (PMDA").

On November 28, 2019, the Group announced that Ultibro® Breezhaler® has been included in the 2019 National Reimbursement Drug List (NRDL) in China for the treatment of COPD.

On December 23, 2019, the Group had been notified by its strategic alliance partner Pfizer that it had dosed the first subject in a clinical trial with a new drug candidate nominated from the multi-target drug discovery collaboration between the two companies. Achievement of this milestone triggered a payment of $5 million to the Group.

On December 24, 2019, the Group had been notified by Pfizer that it had nominated a third clinical candidate from the multi-target drug discovery collaboration between the two companies. Achievement of this milestone triggered a payment of $3 million to the Group. This new candidate is an oral small molecule targeting a GPCR implicated in metabolic and other diseases.

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

On February 4, 2019, the Group announced it had entered into a structured financing agreement with Medicxi, a venture fund dedicated to financing asset-centric companies, to form two independent companies, Orexia Ltd ("Orexia") and Inexia Ltd ("Inexia"), that aim to develop novel therapies based on positive modulators of the GPCRs Orexin OX1 and OX2 for neurological diseases. Medicxi will invest in both companies with an aggregate amount of up to €40 million. Under the terms of the agreement, Orexia and Inexia obtained certain related intellectual property from the Group and have the rights to exploit a series of Orexin OX1 and

OX2 positive modulators and products derived therefrom, including dual OX1/OX2 agonists, designed and developed by the Group, as well as access to 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. The Group will retain an equity holding in both companies and will receive R&D payments as well as further payments on the achievement of pre-defined development milestones. The funding 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 the Group's 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.

In the area of in-house drug discovery and early-stage development of new candidates for future high value partnerships, the Group continued to make the necessary investments in its pipeline, as it advanced multiple discovery candidates through and into early-stage development.

On February 20, 2019, the Group announced that the first healthy subject had been 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. HTL0030310 is a potent and selective agonist of the SSTR5 (somatostatin 5) receptor and the sixth molecule designed by the Group using its GPCR SBDD platform to enter clinical development. The new clinical study with HTL0030310 is a double-blind, randomized, placebo-controlled first-in-human study in which single ascending subcutaneous doses of HTL0030310 will be administered to healthy male and female adult subjects.

The Group's other in-house discovery and early-stage development programs continued to progress well.

In the area of activities related to former wholly-owned subsidiaries, the Group received a milestone related to a program previously created by Activus Pharma Inc. ("Activus").

On July 18, 2019, the Group announced that Formosa Pharmaceuticals, Inc. ("Formosa") had received approval from the US Food and Drug Administration ("FDA") of its Investigational New Drug ("IND") application for APP13007 to commence a first-in-human ("FIH") clinical trial in the United States. APP13007 is a nanoparticle formulation of the corticosteroid clobetasol in development for the treatment of post-operative inflammation of the eye. The milestone triggered a US$2.5 million payment to the Group from Formosa. APP13007 was originally designed and developed at Activus, formerly a wholly owned subsidiary of the Company. Activus was divested in August 2017 to Formosa, a wholly owned subsidiary of Formosa Laboratories, Inc., a leading manufacturer of Active Pharmaceutical Ingredients ("APIs") listed on the Taiwan Stock Exchange. The divestment was part of the Group's redirected growth strategy towards the design and development of new medicines originating from its proprietary GPCR-targeted StaR® technology and SBDD platform capabilities.

As of December 31, 2019, the Group had a total of 163 employees (a decrease of 6 employees vs. the end of the previous fiscal year FY18).

The Company and the Group changed their fiscal year ends from March 31 to December 31 at the 28th Ordinary General Meeting of Shareholders. The fiscal period ended December 31, 2018 was a transitional one-time only nine-month period from April 1 to December 31, 2018. The comparative figures in the following commentary are provided on a pro forma calendar year basis to enable year-on-year performance comparison.

As a result of the above activities, the Group reported the following financial results for the calendar year ended December 31, 2019. Revenue of JPY 9,726 million (an increase of JPY 6,176 million vs. the prior year), an operating profit of JPY 384 million (an operating loss of JPY 7,931 million in the prior year), a net profit before income taxes of JPY 534 million (a net loss before income taxes of JPY 9,046 million in the prior year), a net profit of JPY 1,432 million (a net loss of JPY 6,919 million in the prior year).

	Reported		Proforma	
	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m	**12 months ended December 31, 2019 ¥m**	12 months ended December 31, 2018 ¥m
Revenue	**9,726**	2,872	**9,726**	3,550
Cost of sales	**(851)**	(335)	**(851)**	(492)
Research and development expenses	**(4,292)**	(5,384)	**(4,292)**	(6,711)
Selling, general and administrative expenses	**(3,614)**	(2,704)	**(3,614)**	(3,968)
Other net income (expenses)	**(585)**	(183)	**(585)**	(310)
Operating profit (loss)	**384**	(5,734)	**384**	(7,931)
Net finance income (costs)	**331**	(955)	**331**	(480)
Share of loss of associates	**(181)**	(488)	**(181)**	(569)
Impairment loss on associates	**—**	(66)	**—**	(66)
Net profit (loss) before income taxes	**534**	(7,243)	**534**	(9,046)
Net profit (loss)	**1,432**	(5,978)	**1,432**	(6,919)

The Group operates as a single business segment and, therefore, segmental information has been omitted. Further explanation of the Group's financial performance is detailed below.

Revenue

	Proforma		
	12 months ended December 31, 2019 ¥m	12 months ended December 31, 2018 ¥m	Change
Milestone fees and upfront fees	**6,013**	397	5,616
Royalty income	**2,406**	2,612	(206)
Product supply revenue	**276**	—	276
Other	**1,031**	541	490
	9,726	3,550	6,176

Revenue in the year under review totaled JPY 9,726 million (an increase of JPY 6,176 million vs. the prior year).

Revenue related to milestones and upfront fees in the year under review totaled JPY 6,013 million (an increase of JPY 5,616 million vs. the prior year). The increase was due to the occurrence of milestone events in the year under review plus the commencement of new collaborations with Medicxi, Genentech and Takeda. Milestone income included a US$15m receipt from AstraZeneca, receipts totaling US$14m from Pfizer, and receipts from Novartis and FUJIFILM. The prior year did not contain any upfront payments related to new partnerships, or major milestone payments from existing discovery and development partnerships. The Group classifies a "major" milestone payment as any single payment greater than or equal to approximately USD 5 million.

Revenue related to royalties in the year under review totaled JPY 2,406 million (a decrease of JPY 206 million vs. the prior year). The majority of the Group's royalty revenue relates to sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis[9].

On January 29, 2020, our partner Novartis reported Q4 2019 sales for its Ultibro® Breezhaler® and Seebri® Breezhaler® products of USD 142 million (a decrease of USD 17 million). The breakdown of Novartis' (calendar) Q4 2019 sales by product was as follows:

- Ultibro® Breezhaler® USD 114 million (-5% compared to Q4 2018[10]) an inhaled LABA/LAMA, sales declined mainly due to competition.
- Seebri® Breezhaler® USD 28 million (-20% compared to Q4 2018[11]) an inhaled LAMA, declined mainly due to competition.

Ultibro® Breezhaler® remains 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 the Group's out-licensed compound glycopyrronium bromide. Novartis disclosed a regulatory decision is expected to be made in 2020 for QVM 149. 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. The Group is eligible to receive further royalties on net sales of this product once commercialized.

[9] Glycopyrronium bromide and certain use and formulation intellectual property were exclusively licensed to Novartis in April 2005 by Sosei and Vectura.
[10] At constant currency rates
[11] At constant currency rates

Operating expenses

	Proforma		
	12 months ended December 31, 2019 ¥m	12 months ended December 31, 2018 ¥m	Change
Cost of sales	**851**	492	359
Research and development	**4,292**	6,711	(2,419)
Cash expenses	**3,937**	6,487	(2,550)
Non-cash expenses	**355**	224	131
General and administrative expenses	**3,614**	3,968	(354)
Cash expenses	**2,164**	2,479	(315)
Non-cash expenses	**1,450**	1,489	(39)

Cost of sales

Cost of sales in the year under review totaled JPY 851 million (an increase of JPY 359 million vs. the prior year). Cost of sales 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 an allocated share of depreciation of lab equipment) and (ii) the costs directly associated with ORAVI® product supply which launched in February 2019.

Research and development cash expenses

Cash research and development ("R&D") expenses in the year under review totaled JPY 3,937 million yen (a decrease of JPY 2,550 million vs. the prior year). The decrease in R&D spend primarily related to the voluntary suspension of the Phase 2a MATILDA study for DLB patients in Japan, and the result of a more focused approach to in-house drug discovery. In the year under review, 96 % of R&D spend related to our UK operations.

General and administrative cash expenses

Cash general and administrative ("G&A") expenses in the year under review totaled JPY 2,164 million (a decrease of JPY 315 million vs. the prior year). This decrease was primarily due to 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. Non-cash expenses in the year under review were JPY 1,805 million (an increase of JPY 92 million vs. the prior year). Depreciation amounted to JPY 412 million (an increase of JPY 153 million vs. the prior year) due to the Group's investment in its 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 property costs. Amortization for the year under review totaled JPY 1,009 million (an increase of JPY 137 million vs. the prior year). The stock-based compensation expense for the year was JPY 384 million (a decrease of JPY 198 million vs. the prior year). During the year under review, a new long-term incentive plan was approved which awards restricted stock units and performance share units to eligible employees.

Other net income (expenses)

Other net expenses totaled JPY 585 million, an increase of JPY 275 million vs. the prior year. This was due to a JPY 606 million intangible asset impairment charge associated with a reduction in ORAVI® sales and profitability forecasts vs. a JPY 515 million impairment charge in the prior year related to development programs recognised as intangible assets at the time of the acquisition of Heptares that were subsequently discontinued. In addition, there was a reduction in grant income vs. the prior year.

Operating profit

Operating profit in the year under review totaled JPY 384 million (an increase of JPY 8,315 million vs. the year). The main reason for the improvement in operating profit was due to the increase in revenue (for the reasons stated above), and the decrease in R&D expense (for the reasons stated above) during the year under review vs. the prior year.

Net finance income (costs)

Net finance income in the year under review totaled JPY 331 million (an increase of JPY 811 million vs. the prior year). The increase

was primarily due to a loss of JPY 1,121 million recorded in the prior year arising from the Group's decision not to exercise its option to acquire more shares in its associate, MiNA (Holdings) Limited.

Net profit

The net profit in the year under review totaled JPY 1,432 million (an increase of JPY 8,351 million vs. the prior year). The main reason for the net profit was due to the increase in revenue (for the reasons stated above) and the decrease in R&D expense (for the reasons stated above) during the year under review vs. the prior year.

(2) Analysis of financial position

Assets

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

Liabilities

Total liabilities at December 31, 2019 were JPY 11,602 million (a decrease of JPY 5,805 million vs. the end of the previous fiscal year). The main reasons for the decrease are the repayment of JPY 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 JPY 1,817 million to interest bearing debt at the start of the year), and the inclusion in other current and non-current liabilities of JPY1,235 million of deferred revenue on new contracts signed during the year.

Equity

Total equity at December 31, 2019 was JPY 45,078 million (an increase of JPY 3,498 million vs. the end of the previous fiscal year). This increase was primarily due to the net profit for the period of JPY 1,432 million, other comprehensive income of JPY 935 million, and the issuance of new shares of JPY 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%, 3.3% and 79.5%, respectively.

(3) Analysis of cash flows

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

Cash flows from operating activities

Net cash provided by operating activities for the year under review totaled JPY 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 JPY 886 million.

Cash flows from investing activities

Net cash used in investing activities for the year under review totaled JPY 246 million. This was primarily due to an additional RMF1 investment of JPY 250 million and expenditure on property, plant and equipment of JPY 271 million less contingent consideration receipts of JPY 264 million.

Cash flows from financing activities

Net cash used in financing activities for the year under review totaled JPY 6,964 million. This was primarily due to repayment of long-term interest-bearing debt of JPY 7,061 million arising from the early repayment of syndicated loans.

(4) Earnings forecast

We have made excellent progress in strengthening our wider business and are well positioned to capitalize on a number of strategic opportunities. Our highly productive platform and drug discovery engine has generated multiple new exciting candidates, and we are now taking steps to increase partnered activity, whilst simultaneously investing in technologies, tools and capabilities to advance an exciting pipeline of next-generation candidates that will form the basis of high value partnerships in the future.

The Group expects to deliver a financial performance in 2020 similar to that of 2019 as we continue to target a sustainable balance of resources and capital as we again look to prioritize the pursuit of profitability:

- Forecast cash R&D expenses in the range of JPY 4,200 to JPY 4,700 million[12].
- Forecast cash G&A expenses in the range of JPY 1,800 to JPY 2,300 million[13].
- We expect to receive upfront payments related to new partnerships.
- We expect to receive milestone payments from existing drug discovery and development partnerships.
- We will continue to invest in technologies, tools and capabilities to advance next-generation candidates; while strongly managing our cost base.

The Group has a strong cash runway into 2022 to fund its drug discovery and early-stage development activities.

2. Basic policy on selection of accounting standards

The Group has applied International Financial Reporting Standards since the year ended March 2014.

[12] The assumed FX rate of USD:JPY 110
[13] The assumed FX rate of USD:JPY 110

3. Consolidated financial statements and primary notes (IFRS)

1) Consolidated statement of financial position

	December 31, 2019 ¥m	December 31, 2018 ¥m
Assets		
Non-current assets		
Property, plant and equipment	4,120	2,715
Goodwill	14,365	14,177
Intangible assets	12,999	14,367
Investments accounted for using the equity method	3,539	3,644
Other financial assets	2,053	1,515
Other non-current assets	41	285
Total non-current assets	37,117	36,703
Current assets		
Trade and other receivables	1,924	987
Income tax receivable	1,765	2,057
Other current assets	499	480
Cash and cash equivalents	15,375	18,760
Total current assets	19,563	22,284
Total assets	56,680	58,987
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred tax liabilities	2,008	2,542
Contingent consideration in business combinations	3,203	4,180
Interest-bearing debt	1,704	3,970
Other financial liabilities	1,489	1,179
Other non-current liabilities	895	87
Total non-current liabilities	9,299	11,958
Current liabilities		
Trade and other payables	1,211	2,080
Income taxes payable	162	24
Interest-bearing debt	175	2,994
Other current liabilities	755	351
Total current liabilities	2,303	5,449
Total liabilities	11,602	17,407
Equity		
Capital stock	37,479	36,854
Capital surplus	26,548	26,042
Treasury stock	(0)	(0)
Retained earnings	(12,264)	(13,696)
Other components of equity	(6,688)	(7,623)
Equity attributable to owners of the parent	45,075	41,577
Non-controlling interests	3	3
Total equity	45,078	41,580
Total liabilities and equity	56,680	58,987

2) Consolidated statement of comprehensive income

	12 months ended December 31, 2019 ¥m	9 months ended December 31, 2018 ¥m
Revenue	**9,726**	2,872
Cost of sales	**(851)**	(335)
Gross profit	**8,875**	2,537
Research and development expenses	**(4,292)**	(5,384)
Selling, general and administrative expenses	**(3,614)**	(2,704)
Other income	**37**	140
Other expenses	**(622)**	(323)
Operating income (loss)	**384**	(5,734)
Finance income	**824**	434
Finance costs	**(493)**	(1,389)
Share of loss of associates accounted for using the equity method	**(181)**	(488)
Impairment loss on investments accounted for using the equity method	**—**	(66)
Profit (loss) before income taxes	**534**	(7,243)
Income tax benefit	**898**	1,265
Net profit (loss)	**1,432**	(5,978)
Other comprehensive income:		
Items that may not be reclassified subsequently to profit or loss:		
Financial assets measured at fair value through other comprehensive income	**84**	—
Total items that may 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	**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 year	**2,367**	(7,619)
Net profit (loss) 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 year 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	**18.70**	(78.40)
Diluted earnings (loss) per share	**18.50**	(78.40)

3) Consolidated statement of changes in equity

	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity: ¥m	**Equity attributable to owners of the parent ¥m**	Non-controlling interests ¥m	**Total equity ¥m**
Balance at 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**
Net loss	-	-	-	(5,977)	-	**(5,977)**	(1)	**(5,978)**
Other comprehensive income	-	-	-	-	(1,641)	**(1,641)**	-	**(1,641)**
Total comprehensive loss for the year	-	-	-	(5,977)	(1,641)	**(7,618)**	(1)	**(7,619)**
Issuance of new shares	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**
Net profit (loss)	-	-	-	1,432	-	**1,432**	(0)	**1,432**
Other comprehensive income	-	-	-	-	935	**935**	-	**935**
Total comprehensive income (loss) for the year	-	-	-	1,432	935	**2,367**	(0)	**2,367**
Issuance of new shares	625	122	-	-	-	**747**	-	**747**
Purchase of treasury stock	-	-	(0)	-	-	**(0)**	-	**(0)**
Share-based payments	-	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**

4) Consolidated statement of cash flow

	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	**(252)**	—
Depreciation and amortization	**1,489**	879
Share-based payments	**384**	421
Impairment loss	**613**	319
Loss (gain) on investment in securities	**126**	(187)
Loss on lapse of option to purchase shares	**—**	1,121
(Gain) loss on investment in capital	**(185)**	105
Change in fair value of contingent consideration	**(576)**	(216)
Net foreign exchange gain	**(93)**	(47)
Interest expenses	**219**	162
Share of loss of associates accounted for using the equity method	**181**	488
Impairment loss on investments accounted for using equity method	**—**	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**	(273)
(Decrease) increase in trade and other payables	**(258)**	210
Increase in deferred revenue	**1,198**	—
Other	**(54)**	152
Subtotal	**2,644**	(4,062)
Grants received	**45**	154
Interest and dividends received	**62**	16
Interest paid	**(103)**	(99)
Income taxes paid	**(93)**	(23)
Income tax refund	**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	**(271)**	(1,807)
Purchase of intangible assets	**(9)**	(352)
Payments for purchase of investment securities	**(250)**	(650)
Proceeds from contingent consideration receivable	**264**	—
Other	**20**	1
Net cash (used in) investing activities	**(246)**	(2,808)
Cash flows from financing activities		
Repayments of interest-bearing debt	**(7,061)**	(2,255)
Payments for finance arrangement and commitment fees	**(95)**	—
Payment for settlement of contingent consideration	**(1,050)**	(97)
Proceeds from issuance of common stock	**747**	84
Proceeds from contributions from limited partners	**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	**15,375**	18,760

5) Notes to the consolidated financial statements

5.1 Notes related to going concern assumptions

Not applicable.

5.2 Change in accounting policy

The significant accounting policies applied to the Group's interim condensed consolidated financial statements for the twelve month period ended December 31, 2019 are consistent with those applied to the consolidated financial statements for the 9 month period ended December 31, 2018, except for changes due to the adoption of IFRS 16 *Leases*, which became effective for the Group from January 1, 2019.

IFRS		Summary of change
IFRS 16	Leases	Amendment to the classification, measurement and recognition of financial instruments

The Group transitioned to IFRS 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted. 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*.

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.

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 borrowing rate as of 1 January 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 payments within "Other non-current liabilities" of JPY 87 million as of 1 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 of the right-of-use asset. 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 cost" includes interest expense on the lease liability. The

interest expense represents 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.

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.

5.3 Operating segments

Overview of reportable segments

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

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 fees and upfront fees	**6,013**	340
Royalty income	**2,406**	2,104
Product supply revenue	**276**	—
Other	**1,031**	428
	9,726	2,872

Geographical information

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

Revenues from external customers

Country	**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

Non-current assets

	At December 31, 2019 ¥m	At December 31, 2018 ¥m
Japan	**324**	967
UK	**30,874**	28,984
Other	**327**	1,593
	31,525	31,544

Note: Non-current assets do not include investments accounted for using the equity method and other financial assets.

Information about major customers

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

5.4 Earnings per share

Basic and diluted earnings per share are shown below. If the stock split on July 1, 2018 had occurred at the beginning of the previous fiscal year, the basic loss per share and the diluted loss per share for the nine month period ended December 31, 2018 would have been as shown below.

Basic earnings per share

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

	12 months ended December 31, 2019	9 months ended December 31, 2018
Net profit (loss) 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)

Diluted earnings per share

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

	12 months ended December 31, 2019	9 months ended December 31, 2018
Net profit (loss)	**1,432**	(5,977)
Adjustment to net profit used in the calculation of diluted earnings per share (¥m)	—	—
Net profit (loss) 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 year ended December 31, 2019, the 32nd-35th series of stock options totalling 102,000 shares are excluded from the calculation of diluted earnings per share as there is no dilutive effect. Also, in the nine month period ended December 31, 2018, there is no dilutive effect from potential common shares as partial conversion of stock options reduced the loss per share.

5.5 Subsequent events

Not applicable