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To the Shareholders

Information Disclosure on the Internet Regarding the Notice of the 30th Ordinary General Meeting of Shareholders

30th Term (January 1, 2019 – December 31, 2019)

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Sosei Group Corporation

The matters listed above are provided to shareholders through postings on the Company's Internet website (https://www.soseiheptares.com/) in accordance with laws and regulations and Article 14 of the Company's Articles of Incorporation.

■ Stock acquisition rights (“stock options”), etc. (as of December 31, 2019)

1. Stock options owned by the Company’s directors and executive officers that were issued as compensation for performance of duties as of the end of the fiscal period under review

		29th Stock Options	30th Stock Options
Date of Board resolution		November 13, 2015	November 13, 2015
Number of stock options		73	593
Number and class of shares for stock options		29,200 shares of common shares	237,200 shares of common shares
Amount of payment for stock options		261 yen per stock option	281 yen per stock option
Value of assets to be provided on exercise of stock options		413,200 yen per stock option (1,033 yen per share)	413,200 yen per stock option (1,033 yen per share)
Exercise period		from July 1, 2017 to June 30, 2020	from July 1, 2018 to June 30, 2021
Terms and conditions for exercise		Note 1, 2 and 4	Note 1, 2 and 4
Holdings by directors and executive officers	Directors and executive officers (excluding external directors)	Number of stock options: 43 Number of shares for stock options: 17,200 Number of holders: 1 (Note 7)	Number of stock options: 593 Number of shares for stock options: 237,200 Number of holders: 3 (Note 7)
	External directors	Number of stock options: 30 Number of shares for stock options: 12,000 Number of holders: 1	—

		31st Stock Options	32nd Stock Options
Date of Board resolution		May 15, 2017	May 15, 2017
Number of stock options		171	7
Number and class of shares for stock options		68,400 shares of common shares	2,800 shares of common shares
Amount of payment for stock options		1,234,900 yen per stock option (Note 5)	7,782.11 yen per stock option (Note 5)
Value of assets to be provided on exercise of stock options		400 yen per stock option (1 yen per share)	1,234,000 yen per stock option (3,085 yen per share)
Exercise period		from July 1, 2020 to April 30, 2027	from July 1, 2020 to April 30, 2027
Terms and conditions for exercise		Notes 3, 4 and 6	Notes 3, 4 and 6
Holdings by directors and executive officers	Directors and executive officers (excluding external directors)	Number of stock options: 141 Number of shares for stock options: 56,400 Number of holders: 3 (Note 7)	Number of stock options: 7 Number of shares for stock options: 2,800 Number of holders: 1 (Note 7)
	External directors	Number of stock options: 30 Number of shares for stock options: 12,000 Number of holders: 2	—

		34th Stock Options
Date of Board resolution		November 21, 2017
Number of stock options		7
Number and class of shares for stock options		2,800 shares of common shares
Amount of payment for stock options		6,214 yen per stock option (Note 8)
Value of assets to be provided on exercise of stock options		1,074,800 yen per stock option (2,687 yen per share)
Exercise period		from December 1, 2020 to October 29, 2027
Terms and conditions for exercise		Notes 3, 4 and 6
Holdings by directors and executive officers	Directors and executive officers (excluding external directors)	Number of stock options: 7 Number of shares for stock options: 2,800 Number of holders: 1 (Note 7)
	External directors	—

(Notes):

1. (1) Stock option holders may exercise stock options when the cumulative total of revenue on the Company's audited Consolidated Statement of Comprehensive Income reported in securities reports submitted by the Company for the fiscal years ended March 2016 and March 2017 is ¥23.0 billion or greater.
   (2) If during the period from the allotment date to the date the stock option exercise period expires, the average closing price for regular trading of the Company's shares of common shares on the Tokyo Stock Exchange ("TSE") for any five consecutive trading days falls below a price that is obtained by multiplying 50% of the exercise price (amounts less than 1 yen rounded off) even one time, stock options may not be exercised even if the conditions of (1) above are met.
2. Stock option holders must be directors, executive officers or employees of the Company or the Company's affiliates when exercising stock options; provided, however, that this does not apply in cases of retirement due to expiration of a term of office or reaching the mandatory retirement age, or when there are other legitimate reasons.
3. Stock option holders must be directors, executive officers or employees of the Company or the Company's subsidiaries when exercising stock options; provided, however, that this does not apply in cases of retirement due to expiration of a term of office or reaching the mandatory retirement age, or when there are other legitimate reasons.
4. (1) Stock options may not be exercised by heirs of stock option holders.
   (2) Stock options may not be exercised if by exercising the options the Company's total number of outstanding shares after exercise would exceed the total number of authorized shares at that time.
   (3) Stock options may not be exercised in fractions of one unit.
5. The fair value of the stock option granted to directors and executive officers of the Company was offset against the same amount of their rights to remuneration effective on the date of allotment.
6. (1) Stock option holders may exercise the options if the closing price of common shares of the Company in the regular trading on the TSE on July 1, 2020 (for 34th stock options, on December 1, 2020) is one hundred and fifteen percent (115%) or more of the base price. For the purpose of these items, the "base price" means the closing price of common shares of the Company in the regular trading on the TSE on the allotment date.
   (2) Notwithstanding the conditions provided in the item (1) above, the options may be exercised in part if certain stipulated conditions are met on the date after one, two or three years from the allotment date.
7. Holdings of the 29th, 30th, 31st, 32nd and 34th Stock Options include the options granted to an employee, a director of a subsidiary and an employee of a subsidiary before his assumption of the office as executive officer.
8. The stock options were granted to executive officers of the Company as incentive remuneration and the grant without payment of cash equivalent to the fair value of the stock option granted does not constitute a particularly favorable condition of issuance.
9. The number of shares for stock options was changed from 100 shares per stock option to 400 shares per stock option following the stock split as of July 1, 2018 and the value of assets to be provided on exercise of stock options was adjusted accordingly.

■ Systems for ensuring the appropriateness of operations and their operating status

The following provides a summary of the systems for ensuring the appropriateness of operations as resolved by the Company's Board of Directors, and of the operating status of these systems.

1. Systems for ensuring the appropriateness of operations

<<Matters required for execution of duties by the Audit Committee>>

(1) Matters related to directors and employees who assist in Audit Committee duties

Employees who assist in the duties of the Audit Committee conduct their duties in coordination with the Internal Audit Department in accordance with the directions of the chairman of the Committee. Evaluations related to the performance of these employees are conducted by the Committee, and transfers of such employees are subject to approval by the Committee.

(2) Systems regarding matters to be reported by directors (excluding directors who are Audit Committee members), executive officers, and employees to the Audit Committee and other matters to be reported to the Audit Committee

- Directors, executive officers and employees of the Company and subsidiaries who learn of facts that may cause material damages to the Company or acts, etc. that are in violation of laws and regulations or Articles of Incorporation shall report them to the Audit Committee, and those who make such reports shall not be treated unfairly for reporting such facts or actions.
- The Internal Audit Department reports timely and properly to the Audit Committee on the implementation status of internal audits as well as the status and content of any whistleblowing communications.

(3) Other systems to ensure that audits are conducted effectively by the Audit Committee

- The Internal Audit Department consults in advance with the Audit Committee regarding internal audit policies and plans, etc. and closely coordinates with the Committee, which includes holding discussions related to audits.
- The Company promptly processes requests by the Audit Committee members for advancement or reimbursement of expenses necessary for the performance of Audit Committee duties.

<<Systems for ensuring that the execution of duties by executive officers conforms with laws and regulations and Articles of Incorporation, and other systems required to ensure the appropriateness of the Company's operations>>

(4) System to ensure the performance of duties by executive officers and employees and by directors and employees of subsidiaries to conform with laws and regulations and Articles of Incorporation

- Compliance with laws and regulations and adherence to corporate ethics are stipulated in the Group's code of corporate conduct, and every effort is made to raise awareness of this among all executive officers and employees, including at subsidiaries. An independent whistle-blower hotline exists and is operated

appropriately.

- The Internal Audit Department conducts internal audits related to performance of duties at the Company and its subsidiaries.

(5) System related to preservation and management of information related to performance of duties by executive officers

Information related to performance of duties by executive officers is appropriately prepared, retained and managed in accordance with internal company rules.

(6) Rules and other systems related to management of risk of loss

- Specific policies and measures are determined to deal with risks related to the Group's business operations, and risk management procedures are appropriately conducted at the Company and its subsidiaries.
- Important management decisions are made after adequate deliberation by the Board of Directors, etc. and based on the opinions of outside experts as necessary.

(7) System to ensure that performance of duties by executive officers and directors, etc. of subsidiaries is conducted efficiently

- Operational responsibilities of executive officers and official authority for respective executives and employees of the Company and subsidiaries are clearly stipulated, and reporting on operational performance and deliberations on important matters are conducted with flexibility in accordance with these rules.
- System construction is promoted to improve operational efficiency.

(8) System to ensure the appropriateness of operations at the corporate group consisting of the Company and its subsidiaries

- Reports on operational matters at subsidiaries are received in accordance with internal company rules, and instructions and support relating to the establishment of systems designed to ensure operational appropriateness are provided to subsidiaries.
- The Internal Audit Department provides instructions and recommendations for improvements to subsidiaries based on the findings of internal audits of subsidiaries.
- Efforts are made to ensure the appropriateness of the Group's financial reporting, which is evaluated, maintained, and improved.

2. Operational status of systems for ensuring the appropriateness of operations

(1) Compliance system

The Group has established a code of corporate conduct that applies to the entire Group, and is proceeding with further revisions, which include exhaustive efforts to promote awareness, in order to respond to recent changes in the business environment. In addition, whistle-blowing incidents are handled appropriately through a whistle-blower hotline established externally, and internal audits are conducted by the Internal Audit Department at the Group's companies in accordance with the internal auditing plan.

(2) Information retention and management system

The Company has appropriately created, stored, and managed minutes of meetings of the Board of Directors and committees, etc. and other documents related to the execution of operations in accordance with the rules on document management and other rules.

(3) Risk management system

The Company has conducted sufficient deliberations and made business decisions at meetings of the Board of Directors, by taking into account the opinions of outside experts, etc., regarding the Group's significant investment projects and technical alliances, etc. In addition, the Internal Audit Department has provided guidance on the risk management system of the Company and its subsidiaries based on the results of internal audits.

(4) System for efficient and appropriate execution of duties

The Group stipulates authority levels for executives and employees in accordance with formal authority rules at each company. In order to ensure that operations are carried out efficiently and appropriately the Group requires management of affiliated companies to provide reports to the parent company, provides suitable supervision and guidance, and ensures that rules have been appropriately implemented. In addition, the business performance of subsidiaries is reported at monthly meetings of the Board of Directors. The Internal Audit Department provides guidance on recommended improvements identified through internal audits.

(5) System for execution of duties by the Audit Committee

The Audit Committee and the employees who assist in the performance of duties of the Audit Committee coordinated, as appropriate, with the Internal Audit Department in the execution of their duties. The Audit Committee members attended important meetings, including meetings of the Board of Directors, and requested reports from the directors, executive officers, corporate auditors and employees of the Company and its subsidiaries as necessary. In addition, they receive reports on the handling of any reports made through the whistle-blower process.

■ Basic policy on company control

Not applicable.

Consolidated Statement of Changes in Equity

(Millions of yen)

	Capital	Capital surplus	Treasury stock	Retained earnings	Other elements of shareholders' equity	Total Equity attributable to owners of the parent company
Balance at January 1, 2019	**36,854**	**26,042**	**(0)**	**(13,696)**	**(7,623)**	**41,577**
Profit (loss) for the year	-	-	-	1,432	-	**1,432**
Other comprehensive income (loss)	-	-	-	-	935	**935**
Total comprehensive income (loss)	-	-	-	1,432	935	**2,367**
Issuance of new shares	625	122	-	-	-	**747**
Purchase of treasury stock	-	-	(0)	-	-	**(0)**
Share-based payments	-	384	-	-	-	**384**
Total transactions with owners	625	506	(0)	-	-	**1,131**
Balance at December 31, 2019	**37,479**	**26,548**	**(0)**	**(12,264)**	**(6,688)**	**45,075**

	Non-controlling interest	Total shareholders' equity
Balance at January 1, 2019	**3**	**41,580**
Profit (loss) for the year	(0)	**1,432**
Other comprehensive income (loss)	-	**935**
Total comprehensive income (loss)	(0)	2,367
Issuance of new shares	-	**747**
Purchase of treasury stock	-	**(0)**
Share-based payments	-	**384**
Total transactions with owners	-	**1,131**
Balance at December 31, 2019	3	**45,078**

Note: Amounts less than 1 million yen have been rounded

Notes to the Consolidated Financial Statements

1. Basis of preparation of the consolidated financial statements

(1) Standards for preparation of the consolidated financial statements

The consolidated financial statements have been prepared in conformance with International Financial Reporting Standards (hereinafter "IFRS") based on Paragraph 1, Article 120 of the Corporate Accounting Rules. Some statements and notes required by IFRS have been omitted pursuant to the provisions of the latter part of the Paragraph.

(2) Scope of consolidation

1) Consolidated subsidiaries

i. Number of subsidiaries: 7

ii. Names of principal consolidated subsidiaries:

Sosei Co., Ltd.

Heptares Therapeutics Ltd.

(3) Scope of equity accounting

1) Non-consolidated subsidiaries and affiliates accounted for by the equity method

i. Number of non-consolidated subsidiaries and affiliates accounted for by the equity method: 2

ii. Names of principal companies:

JITSUBO Co., Ltd.

MiNA (Holdings) Ltd.

(4) Accounting policies

1) Valuation standards and methods for significant assets and liabilities

i. Valuation standards and methods for financial assets and liabilities:

Financial assets

Initial recognition and measurement of financial assets

The Group classifies financial assets upon initial recognition as either (i) financial assets measured at amortized cost, or (ii) financial assets measured at fair value through either profit or loss, or other comprehensive income.

A financial asset is measured at amortized cost when both of the following conditions are met:

(a) the financial asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets, except for financial assets measured at amortized cost, are classified as financial assets measured at fair value. Equity instruments held for trading are measured at fair value through profit or loss. The Group irrevocably elected to classify its equity investments other than those held for trading upon initial recognition as financial assets measured at fair value through other comprehensive income.

Financial assets measured at amortized cost, or financial assets except for equity instruments measured at fair value through other comprehensive income, are classified as financial assets measured at fair value through profit or loss.

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.

Subsequent measurement of financial assets

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

(a) Gain or loss on financial assets that are measured at fair value is recognized as the change in the amount of the fair value. Note however that other comprehensive income on equity instruments designated as fair value through other comprehensive income, are recognized as the change in the amount of the fair value. Dividends from a financial asset are recognized as part of financial income in net income (loss) for the current period, except for those portions considered to be part of the cost of investment.

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

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

Financial liabilities

Initial recognition and measurement of financial liabilities

The Group classifies financial liabilities upon initial recognition as financial liabilities subsequently measured at amortized cost or financial liabilities measured at fair value through other comprehensive income.

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

(b) Gain or loss on financial liabilities measured at amortized cost is recognized by the effective interest method.
If the discontinuation of amortization and derecognition using the effective interest method occur, gain or loss is recognized as net 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.

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.

ii. Valuation standards and methods for non-financial assets and liabilities

Property, plant and equipment
Property, plant and equipment is measured at acquisition cost less cumulative depreciation and cumulative impairment. Acquisition cost includes those costs directly related to acquiring the asset and an initial estimate of costs for dismantling, removing and restoring the installation site to its original state.

Goodwill and intangible assets
Goodwill
Goodwill that occurs when a subsidiary is acquired is recorded in “Goodwill” at acquisition cost less cumulative impairment. Upon initial recognition goodwill is measured at the fair value of the transfer consideration, including the amount recognized for non-controlling interests, less the net recognized value (normally, the fair value) of identifiable assets and assumed liabilities at the time of the acquisition. Goodwill is not amortized. It is allocated to cash-generating units and an impairment test is conducted in the same quarter in each fiscal year, or each time there are indications of impairment.

Intangible assets
Intangible assets are measured at cost. Individually acquired intangible assets with estimated useful lives that can be defined are measured at acquisition cost less cumulative amortization and cumulative impairment. Acquisition cost includes those costs directly related to acquiring the asset.

Development assets
Expenditure on research activities is recognized as a cost in the period in which it occurs. Internally generated intangible assets that occur at the development stage are recognized only when all of the following criteria can be substantiated:
・Technical feasibility of completing an intangible asset that can be used or sold
・Intention to complete the intangible asset and then use it or sell it
・Ability to use or sell the intangible asset
・Method by which the intangible asset will create future economic benefit with strong potential
・Possibility of using financial or other resources that will be necessary to complete the intangible asset and use it or sell it
・Ability to reliably measure expenditure required to develop the intangible asset
The amount initially recognized for internally generated intangible assets is the total of costs incurred from the date that the intangible asset initially met the above recognition standards. When an internally generated intangible asset cannot be recognized, development outlays are expensed in the period they occur. Intangible assets generated after initial recognition are stated at acquisition cost less cumulative amortization and cumulative impairment. Intangible assets acquired through business combinations and recognized separately from goodwill are stated at acquisition cost less cumulative amortization and cumulative impairment after initial recognition at fair value as of the acquisition date.

Lease (as a lessee)
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. 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 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 Interim Condensed Consolidated Balance Sheet, the Group presents right-of-use assets in "Property, plant and equipment" and lease liabilities in "Interest-bearing debt". In the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Group presents interest expenses calculated to be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability in "Financial costs".

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 Leases (issued in January 2016, hereinafter, "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.

Impairment of non-financial assets
The book values of non-financial assets are assessed at each reporting date by searching for the existence of indications of impairment. If signs of impairment exist, the asset's recoverable value is estimated. For goodwill and intangible assets with indeterminate useful economic lives or assets that cannot yet be used, the recoverable value is estimated in the same quarter in each fiscal year. The recoverable value of assets or cash-generating units is the higher of value in use and 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 independent cash flows.

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 so when there are indications of impairment in corporate assets the recoverable value of the cash-generating unit to which the corporate asset belongs is calculated. 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 net income/loss when the book value of the asset or cash-generating unit exceeds the recoverable value. 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 permanent. In respect of impairment loss 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 signs of a reversal of impairment and the estimate used for determining the recoverable value has changed, the impairment loss is reversed. The impairment loss is reversed up to the amount of the book value after deducting necessary depreciation or amortization costs.

2) Depreciation methods for significant depreciable assets

i. Property, plant and equipment
Depreciation is recorded to write off the cost over the expected useful life of an asset using the straight-line method. The normal expected useful lives used in calculating depreciation are as follows:

Buildings and structures: 6-18 years
Machinery and equipment: 5-6 years
Furniture and fixtures: 3-10 years
Right-of-use assets: 3-16 years
Expected useful lives and residual values are reviewed at the end of each fiscal year and adjusted as required.

ii. Intangible assets

Amortization is calculated to write off the cost over the expected useful life of an asset using the straight-line method. Expected useful lives and residual values are reviewed at the end of each fiscal year and adjusted as required. The normal expected useful lives used in calculating amortization are as follows.
Core technology: 12-20 years
Customer-related assets: 20 years
Intangible assets with indefinite useful lives and intangible assets that are not yet usable and therefore not yet amortized, are tested for impairment in the same quarter in each fiscal year and whenever there are indications of impairment.

3) Accounting standards for significant income and expenditure

i. Royalty revenue, milestone revenue and upfront payments

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

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

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

The promise to grant a license under a contract is a promise to provide a right to access intellectual property if all of the following criteria are met:
(a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights;
(b) the rights granted by the license directly expose the customer to any positive or negative effects of the entity's activities identified in (a); and
(c) those activities do not result in the transfer of a good or a service to the customer as those activities occur.
Where the above criteria are met the promise to grant a license is accounted for as a performance obligation satisfied over time. Where these criteria are not met the promise to grant a license is accounted for as a performance obligation satisfied at a point in time.

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

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

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

ii. Cost of sales

Cost of sales comprises (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.

4) Standards for conversion of significant foreign-denominated assets and liabilities to Japanese currency

i. Foreign-denominated transactions

Foreign-denominated transactions are converted to the functional currencies of Group companies at prevailing exchange rates on the transaction date. Foreign-denominated monetary assets and liabilities at the period-end are reconverted to the functional currency at the exchange rate on the period-end date. Foreign-denominated monetary assets and liabilities measured at fair value are reconverted to the functional currency at the exchange rate on the date fair value is calculated. Non-monetary items carried at acquisition cost are calculated using the exchange rate on the transaction date. Exchange differences resulting from reconversion or settlement are recognized in the finance income or finance costs for the period.

ii. Financial statements of foreign operations

The assets and liabilities of foreign operations (overseas subsidiaries, etc.) are converted to Japanese yen at the exchange rate on the period end date, and their income and expenses are converted to Japanese yen at the average exchange rate as long as there is no significant exchange rate fluctuation. Foreign exchange differences resulting from conversion of the financial statements of foreign operations are recognized in “Other comprehensive income”, and the cumulative difference is stated in “Other components of equity” in the consolidated statement of financial position.

5) Business combinations

Business combinations are accounted for using the acquisition method. Consideration is measured as the total value of assets transferred and liabilities assumed in exchange for control of the acquired business, and the fair value on the transaction date of any equity instruments issued by the Company. If the acquisition value exceeds the fair value of identifiable assets and liabilities, the difference is recorded as goodwill in the consolidated balance sheet. Conversely, if the difference is lower, it is directly recorded as income in the consolidated statement of comprehensive income. If accounting for a business combination is not completed by the end of the period in which the business combination occurred, provisional amounts are used to record the transaction, and the provisional amounts are revised within one year of the acquisition date. Acquisition costs are accounted for as expenses.

2. Changes in accounting policies

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 amendments to 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 of 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 Interim Condensed Consolidated Balance Sheet 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.

3. Notes to consolidated statement of financial position

Cumulative depreciation on property, plant and equipment was 1,069 million yen.

4. Notes to the consolidated statement of changes in equity

(1) Total shares outstanding

Share class	**Shares at beginning of consolidated fiscal period**	**Increase in shares during consolidated fiscal period**	**Decrease in shares during consolidated fiscal period**	**Shares at end of consolidated fiscal period**
Common shares	76,301,936	771,200	-	77,073,136

Note: The increase in common shares outstanding is due to the exercise of stock options (771,200 shares).

(2) Subscription warrants, etc. at the end of the consolidated fiscal period under review

Type and number of shares for subscription warrants at the end of the consolidated fiscal period under review (excluding

warrants prior to the first day of their exercise period): Common shares 725,600

5. Notes on financial instruments

(1) Financial instruments

1) Policies for management of financial instruments

The Group limits its investments to short-term instruments with minimal risk and does not engage in speculative transactions. Funds are primarily procured through issuing new stock and borrowing from banks.

2) Financial instrument content and their risks, and risk management framework

Trade and other receivables are exposed to customer credit risk. To mitigate this risk payment deadlines and balances are monitored for each customer. Trade and other payables have payment deadlines of less than one year. The Group limits its investments to short-term deposits to reduce risk.

(2) Fair value of financial instruments

Amounts stated in the consolidated statement of financial position at December 31, 2019, their corresponding fair values and the differences between these amounts are as follows:

	Amount stated in consolidated statement of financial position	Fair value	Difference
	¥m	¥m	¥m
Other financial assets	2,053	2,053	-
Trade and other receivables	1,924	1,924	-
Cash and cash equivalents	15,375	15,375	-
Contingent consideration related to corporate acquisition	(3,203)	(3,203)	-
Interest-bearing liabilities	(1,879)	(1,879)	-
Other financial liabilities	(1,489)	(1,489)	-
Trade and other payables	(1,211)	(1,211)	-

Notes: Valuation methodology for financial instruments

1. Cash and cash equivalents, trade and other receivables and trade and other payables

These are settled over short time periods so fair values approximate book values.

2. Interest-bearing liabilities

Borrowings are valued at amortized cost. The fair value of lease liabilities is calculated at the present value of the total of remaining lease payments, discounted at an assumed interest rate on a new similar lease transaction.

3. Interest-bearing liabilities scheduled for repayment after the date of the consolidated financial statements.

	Due within 1 year	Due more than 1 year and less than 5 years	Due more than 5 years
	¥m	¥m	¥m
Interest-bearing liabilities (including long-term)	175	440	1,264

4. Contingent consideration related to corporate acquisitions

Such consideration is calculated by discounting the estimated payable after taking into account the probability of occurrence of future cash outflows.

5. Other financial assets and other financial liabilities

Fair value of financial instruments that are traded in an active financial market is determined based on market prices. Where an active market does not exist, the fair value is measured using an appropriate valuation method.

6. Notes on per-share information

	¥
Equity attributable to owners of parent company per share	584.83
Basic earnings per share	18.70

7. Other notes

(1) Interest-bearing debt

The Company repaid its syndicated term loans (JPY 4,000 million) on 30 Dec 2019 and replaced them with a (JPY 5,000 million) commitment line ("the Facility") with Mizuho Bank and others.
The Facility covenants require Sosei Group to maintain net assets not less than 75% of the immediately preceding period.
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 30 Dec 2021) and by another period of one year at the end of Year Two 2 (ending 30 Dec 2022).
(ii) to convert, at any time during the commitment period, the Facility to a four year amortising term loan.

(2) 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 (¥24,400m) of which US$75m (¥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.

(3) Impairment

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" during the 12 month period under review 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%.

(4) Transaction with Medicxi

During the current fiscal year, 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 Ltd ("Orexia") and Inexia Ltd ("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 Revenue from Contracts with Customers (issued in May 2014), the license of proprietary know-how is treated as a right to use license. In the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the assignment fee and the fair value of the equity investments received have been included in revenue within milestone fees and lump-sum payments. 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 they do not 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 through Other Comprehensive Income.

Non-Consolidated Statement of Changes in Equity

(Millions of yen)

	Shareholders' equity				
	Capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
		Capital reserve	Other retained earnings		
			Retained earnings brought forward		
Balance at January 1, 2019	**36,854**	**24,971**	**(5,911)**	**(0)**	**55,914**
Changes of items during period					
Issuance of new shares	625	625	-	-	**1,250**
Net loss for the year	-	-	(504)	-	**(504)**
Purchase of treasury stock	-	-	-	(0)	**(0)**
Net changes of items other than shareholders' equity	-	-	-	-	**-**
Total changes of items during period	625	625	(504)	(0)	**746**
Balance at December 31, 2019	**37,479**	**25,596**	**(6,415)**	**(0)**	**56,660**

	Subscription rights to shares	Total net assets
Balance at January 1, 2019	**1,833**	**57,747**
Changes of items during period		
Issuance of new shares	-	**1,250**
Net loss for the year	-	**(504)**
Purchase of treasury stock	-	**(0)**
Net changes of items other than shareholders' equity	(404)	**(404)**
Total changes of items during period	(404)	**342**
Balance at December 31, 2019	**(1,429)**	**58,089**

Note: Amounts less than 1 million yen have been rounded

Notes to the Non-Consolidated Financial Statements

1. Significant accounting policies

(1) Asset valuation standards and methods

1) Marketable securities

Subsidiary stock and affiliated company stock: Recorded at cost determined by the moving-average method

(2) Fixed asset depreciation methods

1)Property, plant and equipment (except lease assets)*:*

The declining balance method is used. However, the straight-line method is used for facilities attached to buildings and acquired on or after April 1, 2016. The normal estimated useful lives are as follows:

Buildings (facilities attached to buildings): 6-18 years

Tools, furniture and fixtures: 5-10 years

2)Intangible fixed assets (except lease assets) *:*

The straight-line method is used.

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

3)Lease assets: Finance lease transactions without a transfer of ownership

The straight-line method is used over the term of the lease with a residual value of zero.

(3) Accounting for deferred assets

Share issuance cost: Expensed in full at the time of payment.

(4) Recognition standards for allowances

1)Allowance for doubtful accounts

Allowance is made for credit losses on accounts receivable and other accounts. An estimate of unrecoverable amounts is set aside based on historical credit loss rates for ordinary receivables and based on individual considerations for other receivables regarded as doubtful.

2)Allowance for bonuses

Allowance is made during the fiscal year for the payment of employee bonuses.

3)Allowance for stock-based compensation

Allowance is made during the fiscal year for the RSU and the PSU. The Group estimates the allowance based on monetary compensation claim to be contributed for the issuance of new shares to be issued to the board of directors, executive officers and eligible employees.

(5) Standards for conversion of significant foreign-denominated assets and liabilities to Japanese currency

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

(6) Basis of preparation of the financial statements

Consumption taxes are accounted for using the tax-exclusion method.

2. Notes to the balance sheet

	¥m
(1) Cumulative depreciation on property, plant and equipment	42
(2) Monetary claims and obligations to subsidiaries and affiliates (other than the ones shown separately in the balance sheet)	
Monetary obligations to subsidiaries and affiliates	482
(3) Monetary claims and obligations to directors and officers	
Monetary obligations	58

(4) Guarantee liabilities

Debt guarantees totaling 1,567 million yen have been provided in relation to a building lease agreement and building contract signed by the Company's subsidiary, Heptares Therapeutics Ltd.

3. Notes to the statement of profit or loss

Operating transactions with subsidiaries and affiliates totaled 688 million yen.

Non-operating transactions with subsidiaries and affiliates totaled 188 million yen.

4. Notes to the statement of changes in equity

Share class	Shares at beginning of fiscal year	Increase in shares during fiscal year	Decrease in shares during fiscal year	Shares at end of fiscal year
Common shares	104	109	–	213

Notes: The increase in treasury shares is due to the purchase of fractional shares (109 shares).

5. Tax

The main factors giving rise to deferred tax assets are as follows:

	¥m
Tax loss carried forward	822
Stock in subsidiaries and affiliates	3,554
Allowance for doubtful debts	526
Other	268
Deferred tax assets subtotal	5,170
Valuation allowance	(5,170)
Total deferred tax assets	**-**

6. Related party transactions

(1) Subsidiaries

Type	Name of company	Share of voting rights holding (held)		Transaction type	Transaction amount ¥m	Account	Ending balance ¥m
Subsidiary	Sosei Co., Ltd.	Direct holding	100%	Loan to subsidiary	-	Long-term loans to subsidiaries and affiliates	1,718
Subsidiary	Heptares Therapeutics Ltd.	Direct holding	100%	Provision of management services to subsidiary	603	Accounts payable	368
				Loan to subsidiary	(839)	Short-term loans to subsidiaries and affiliates	4,087
				Debt guarantees	1,567	-	-
				Receipt of interest income	95	Accounts receivable-subsidiaries and affiliates	-
				Loan from subsidiary	(917)	Short-term loans from subsidiaries and affiliates	-

Notes:

1. Transaction amounts do not include consumption taxes, etc.; term-end balances include consumption taxes, etc.
2. Prices and other transaction terms are determined upon discussion and agreement by the two parties on terms equivalent to other parties unrelated to the Company.
3. Intercompany receivables and interest are collected based on the available cash position of each company
4. Loans to Sosei Co., Ltd. and Heptares Therapeutics Ltd., and loans from Heptares Therapeutics Ltd. are made at market interest rates. Collateral has not been requested.
5. At the end of the fiscal year under review, 1,718 million yen was set aside as an allowance for doubtful debts in respect of long-term loan receivable from a subsidiary company, Sosei Co., Ltd.
6. The amounts received for the provision of management services to Heptares Therapeutics Limited contain a year end adjustment.
7. Debt guarantees have been provided in relation to a building lease agreement and building contract signed by the Company's subsidiary, Heptares Therapeutics Ltd. No fee for the provision of the guarantees has been charged to the subsidiary

Officers and major individual shareholders

Type	Name	Share of voting rights holding (held)		Relationship with related parties	Transaction type	Transaction amount ¥m	Account	Ending balance ¥m
Company co-founded by Officer	Tomohiro Tohyama	Directly held	-	Director	Legal advice	2	-	-
Officer	Noriaki Nagai	Directly held	-	Director	Remuneration of the external committee member	1	-	-
Officer	Malcolm Weir	Directly held	-	Executive Officer and Executive Vice President	Payment of contingent consideration	37	-	-
					Exercise of stock options	93	-	-
Officer	Tim Tasker	Directly held	-	Executive Officer and Executive Vice President	Payment of contingent consideration	8	-	-
					Exercise of stock options	46	-	-

Notes:

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 the external committee member for Mr. Noriaki Nagai, Director, refers to the remuneration he received as a member 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.

7.Notes on per-share information

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

	¥
(1) Net assets per share	735.13
(2) Net (loss) per share	(6.57)