Consolidated Financial Results for the Six Months Ended June 30, 2022 (IFRS)

August 10, 2022

Company name: Sosei Group Corporation — Listing: Tokyo Stock Exchange
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Scheduled date of Quarterly Securities Report filing: August 10, 2022 — Scheduled date of dividend payments: -
Supplementary materials for financial results: Yes
Financial results briefing session: Yes

(Rounded million yen)

1. Consolidated Results for 6 month period ended June 30, 2022 (from January 1, 2022 to June 30, 2022)

(1) Consolidated Operating Results (cumulative) (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	%
6 month period ended June 30, 2022	2,457	(21.3)	(3,804)	-	(4,282)	-	(3,538)	-	(3,538)	-	(1,494)	-
6 month period ended June 30, 2021	3,123	24.1	(1,849)	-	(1,393)	-	(2,297)	-	(2,297)	-	2,442	-

	Earnings per share – basic	Earnings per share – diluted
	Yen	Yen
6 month period ended June 30, 2022	(43.33)	(43.33)
6 month period ended June 31, 2021	(28.38)	(28.38)

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets
	Million yen	Million yen	Million yen	%
At June 30, 2022	91,232	56,366	56,366	61.8
At December 31, 2021	96,985	57,468	57,468	59.3

2. Dividends

	Dividends per share				
	End Q1	End Q2	End Q3	End Q4	Total
	Yen	Yen	Yen	Yen	Yen
FY2021	-	0.00	-	0.00	0.00
FY2022	-	0.00			
FY2022 (E)			-	0.00	0.00

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

3. Forecast for the year from January 1, 2022 to December 31, 2022

We continue to focus on expanding our drug discovery business and remain well positioned to capitalize on both organic and inorganic growth opportunities. Our SBDD platform and highly productive drug discovery engine has generated multiple new exciting drug candidates for in-house progression into early clinical development, and we will continue to take steps to maintain partnered and co-investment activity to ensure programs are advanced in a capital efficient

manner. At the same time, we will invest in new technologies, tools and capabilities to maintain our competitive edge and bring forward an exciting pipeline of next-generation programs in areas of high unmet medical need.

The Group expects 2022 to be a year of continued incremental investment in strategic growth initiatives, including seeking an acquisition of a revenue-generating business to support our medium-term plan for corporate expansion.

As in 2021, in our underlying drug discovery business we will continue to target a sustainable balance of resources and capital in the pursuit of growth in corporate value:

- Forecast R&D expenses in the range of JPY 6,750 to JPY 7,750 million[1] (an increase from the previously guided range of JPY 5,750 to JPY 6,750 million).
    - The change to the guided range reflects (i) foreign exchange rate movements (ii) cost inflation, which is currently running at circa 9% in the UK (iii) the reclassification of stock based compensation costs relating to scientists to the R&D expenses line from the G&A expenses line as this is regarded as a better presentation of that spend.
- Forecast G&A expenses in the range of JPY 3,750 to JPY 4,250 million[5] (no change from the previously guided range).
    - The impact of foreign exchange rate movements and cost inflation has been largely offset by the reclassification of stock based compensation costs relating to scientists from the G&A expenses line to the R&D expenses line.
- We will carefully review these forecasts again at Q3 in view of the prevailing inflation and foreign exchange rates at that time.
- 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 that complement and future-proof our drug discovery platform, as well as advance next-generation candidates; all while strongly managing our cost base.
- We will seek out a potentially transformative acquisition to secure long-term revenue growth.
- We will expand our drug candidate discovery and early development capabilities into new target classes.
- We will seek out late-stage clinical assets to in-license and develop for the Japanese market.

The Group has a strong cash runway into 2024 to fund its drug discovery and early-stage development activities.

* Notes

(1) Changes in the number of significant subsidiaries for the six-month period ended June 30, 2022 (changes of specified subsidiaries affecting the scope of consolidation): None

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

[1] Guidance for 2022 has been calculated on a financial statements disclosure basis which includes non-cash costs such as depreciation, amortization and share based payments.

(3) Number of common shares issued

1) Number of shares issued at period end (including treasury shares)	At June 30, 2022	81,923,230 shares	At December 31, 2021	81,518,316 shares
2) Number of treasury shares at period end	At June 30, 2022	213 shares	At December 31, 2021	213 shares
3) Average number of shares in issue in period	6 month period ended June 30, 2022	81,644,748 shares	6 month period ended June 31, 2021	80,906,526 shares

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

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

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

The Company is scheduled to hold a webinar presentation for all existing and potential investors as well as sell-/buy-side analysts which will consist of a presentation followed by a Q&A session on August 10, 2022. Presentation slides will be made available on August 10, 2022 through the investor section of the Company's Home Page.

○ Contents of Attached Materials

1. Analysis of Operating Results and Financial Position

(1) Analysis of operating results

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 and drug discovery champions.

During the six month period ended June 30, 2022, the Group continued to advance its drug discovery and early-stage development pipeline, as well as enhance its proprietary StaR® ("stabilized receptor") and aligned technologies, and Structure-based Drug Design ("SBDD") platform.

Our business model is focused across three core areas to create value:

A) supporting our existing partnerships with major global pharmaceutical companies
B) advancing R&D with innovative technology companies and venture funds
C) signing new high-value partnerships based on successful in-house drug discovery and early-stage clinical development of our candidates

In addition, the Group also focuses on strategic growth initiatives including: seeking revenue-generating opportunities such as M&A; investing or collaborating in novel technologies; expanding drug target classes beyond G protein-coupled receptors ("GPCRs"); and in-licensing late-stage programs for the Japan market.

As of June 30, 2022, the Group had over 20 programs in total ongoing in discovery, with multiple in-house and partnered programs currently in preclinical/clinical studies[2,3].

A) Supporting our existing partnerships with major global pharmaceutical companies

The Group continued to make good progress with its partners and retained COVID-19 safety measures during the period under review to ensure R&D continuity and productivity, regardless of the relaxing of Government guidelines in the United Kingdom, where our research activities are centered. All research and development activity continued to move forward productively.

B) Advancing R&D with innovative technology companies and venture funds

The Group continued to make progress with its technology and venture partners.

Verily – strategic collaboration to identify novel targets and generate drug candidates for immune-mediated diseases
On January 6, 2022, the Group and Verily, an Alphabet precision health company, announced that they had entered into a strategic research collaboration. The research agreement brings together the complementary capabilities of Verily's immune profiling platform and the Group's GPCR SBDD. The collaboration aims to:

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[2] **Clinical trials:** HTL0016878 for schizophrenia, PF-07081532 for T2DM/Obesity, PF-07054894 for Inflammatory Bowel Disease, PF-07258669 for Anorexia, and TMP301 for neurological disorders;
Preclinical trials: M1 agonist for neurological diseases, M1/M4 dual agonist for neurological diseases, GPR35 agonist for Inflammatory Bowel Disease, CGRP antagonist for neurological disorders; KY1051 for immuno-oncology, OX2 agonist for Narcolepsy, GPR52 agonist for neurological diseases, EP4 antagonist for immuno-oncology, EP4 agonist for Inflammatory Bowel Disease and H4 antagonist for atopic dermatitis.

[3] Imaradenant (AZD4635) for multiple solid malignancies was removed by AstraZeneca from its clinical development pipeline in the third quarter of 2021.

- Advance the understanding of GPCR biology in immune cells, particularly in the fields of immunology, gastroenterology, immuno-oncology and other disorders with immunoprotective or immunopathogenic mechanisms
- Prioritize and validate GPCR targets with strong potential as drug targets
- Discover and develop novel drug candidates that modulate these targets

Verily's proprietary Immune Profiler is a next generation immune mapping platform that combines high-resolution molecular phenotyping performed in Verily's labs and advanced computational analysis techniques to generate insights into immune system functions. It will be used to identify GPCR targets that represent new opportunities to modulate immune cell function and ameliorate disease pathology. The companies will collaborate to prioritize the GPCR targets using the Group's world-leading StaR® platform and structure-based drug design expertise, with the goal of generating lead molecules for further development or out-licensing.

Weatherden - to embed an agile operating model and enhance discovery and translational medicine capabilities
On April 26, 2022, the Group announced a strategic collaboration with Weatherden, a pioneering clinical development consulting group. The collaboration aims to build upon the Group's world-leading GPCR SBDD platform and expertise and Weatherden's translational medicine and drug development expertise to create an agile operating model supported by best-in-class drug discovery and development teams. The goal being to accelerate the prioritization and progression of multiple pipeline programs through Phase 1b/2a trials to establish clinical proof-of-concept. This stage represents a key value inflection point that will potentially drive the Group to enter into large global licensing deals as a way to fuel significant upside potential over the long term.

By leveraging Weatherden's extensive experience, scientific expertise and data driven approach, together with its commercial focus on pharmaceutical asset evaluation and development, the Group is bringing together the operational and technical expertise needed to enable a 'venture-like' capital allocation approach to pipeline development.

In this way, the Group aims to optimize decision-making and value generation by:

- creating new, efficient drug discovery and development pathways,
- accelerating the translation of its world-leading science into life-changing therapeutics for patients, and
- maximizing partnering transaction opportunities by taking selected in-house programs to a clinical proof-of-concept stage.

Kallyope - strategic research collaboration to identify and validate novel gastrointestinal GPCR targets
On May 17, 2022, the Group and Kallyope, pioneers in drug discovery involving the gut-brain axis, announced that they had entered a strategic research collaboration to identify and validate novel GPCR targets with a goal of creating new drug discovery programs in the area of gastrointestinal diseases. The agreement will leverage the Group's GPCR Diversified Compound Library and GPCR expertise with the innovative Kallyope gut-brain axis platform, which combines single-cell sequencing, circuit mapping, computational biology and enteroid phenotypic screening. Together, the companies will prioritize and validate GPCR drug targets that represent new opportunities for potential therapeutic intervention in gastrointestinal diseases and create programs for the development of novel small molecules that modulate these targets.

C) Signing new high-value partnerships based on successful in-house drug discovery and early-stage clinical development of our candidates

The Group continued to make significant investments in its pipeline, as it advanced multiple discovery candidates and early development programs.

D) Operational highlights after the period under review (period ended June 30, 2022)

Cancer Research UK partnership
On July 22, 2022, the Group and Cancer Research UK, the world's largest private funder of cancer research, announced the signing of an agreement to bring the Group's cancer immunotherapy drug candidate into a first-in-human trial. Under the Clinical Trial and License Agreement (CTLA), Cancer Research UK's Centre for Drug Development will sponsor, design and execute a Phase I/IIa clinical trial of HTL0039732, a novel selective EP4 antagonist. The Group will be responsible for CTA enabling activities, including GLP toxicology, IMP manufacture and other necessary pre-clinical studies in preparation for the opening of the clinical trial. The Group holds a license to the results generated under the trial to continue the clinical development and commercialization of HTL0039732.

HTL0039732 has been proposed for a range of cancers including microsatellite stable colorectal, gastroesophageal, head and neck and castrate resistant prostate cancer. Many people with these types of cancer have missed out on the benefits that common immunotherapies, such as PD1/L1 checkpoint inhibitors, have brought to other cancer types. The hope is that this trial could find that HTL0039732 is an effective immunotherapy for these under-served patient populations. HTL0039732 is a type of immunotherapy known as an EP4 antagonist, which means it selectively binds and blocks a specific type of prostaglandin receptor called EP4. Prostaglandin E2 (PGE2) mediated signaling through EP4 can trigger cancer cells to evade the immune system and can also influence tumor cell growth. Therefore, blocking this type of receptor may improve patient survival, especially if used in combination with another immunotherapy.

AbbVie partnership
On August 1, 2022(UK time), the Group and AbbVie, a research-based global biopharmaceutical company, entered a new drug discovery collaboration and option-to-license agreement to discover, develop and commercialize small molecules that modulate novel GPCR targets associated with neurological disease. The new agreement will leverage the Group's StaR® technology and SBDD platform and AbbVie's extensive neuroscience and disease area expertise. The agreement expands the breadth of the ongoing collaboration between the Group and AbbVie, building on the first multi-target discovery agreement signed between the companies in June 2020, which is focused on the inflammatory and autoimmune disease areas. Under the terms of the new agreement, the Group will conduct and fund R&D activities through the completion of Investigational New Drug (IND)-enabling studies. AbbVie has the exclusive option to license up to three programs at this stage and will have responsibility for clinical, regulatory and commercial development thereafter. The Group became eligible to receive an upfront payment of US$40 million on signing and is eligible to receive up to US$40 million in near-term research milestone payments expected over the next three years, as well as further potential option, development and commercial milestones totaling up to US$1.2 billion, plus tiered royalties on global sales.

Neurocrine Biosciences partnership
On August 4, 2022 (UK time), the Group was notified by its partner Neurocrine Biosciences ("Neurocrine") that a US$30 million milestone had become payable to the Group following

Neurocrine's determination that it could proceed as planned with a Phase 2 clinical trial of NBI-1117568 for the treatment of schizophrenia after receiving approval of its Investigational New Drug (IND) Application by the U.S. Food and Drug Administration (FDA).

NBI-1117568 is an oral, selective muscarinic M4 receptor agonist in development for the treatment of schizophrenia and other neuropsychiatric disorders. As a selective M4 orthosteric agonist, NBI-1117568 offers the potential to deliver therapeutic effects without the need for combination therapy to minimize side effects, as required with non-selective muscarinic agonists, whilst also avoiding the requirement for cooperativity with acetylcholine (ACh) when compared to positive allosteric modulators. Clinical studies completed to date have shown NBI-1117568 to be generally well tolerated. NBI-1117568 is the most advanced candidate from a broad portfolio of novel clinical and preclinical subtype-selective muscarinic M4, M1 and dual M1/M4 receptor agonists discovered by the Group and in development under the 2021 collaboration with Neurocrine for the treatment of major neurological disorders. Upon successful completion of pre-clinical studies, Neurocrine anticipates initiating Phase 1 studies for a dual M1/M4 and selective M1 agonist. Advancing additional compounds into clinical studies would trigger further milestone payments from Neurocrine to the Group.

As of June 30, 2022, the Group had a total of 205 employees (an increase of 7 employees vs. the end of the previous financial year, 2021).

As a result of the above activities, the Group reported the following financial results for the six month period ended June 30, 2022.

Revenue of JPY 2,457 million (a decrease of JPY 666 million vs. the prior corresponding period), an operating loss of JPY 3,804 million (vs. an operating loss of JPY 1,849 million in the prior corresponding period), a net loss before taxes of JPY 4,282 million (vs. a net loss before income taxes of JPY 1,393 million in the prior corresponding period), and a net loss of JPY 3,538 million (vs. a net loss of JPY 2,297 million in the prior corresponding period).

	6 month period ended June 30, 2022 ¥m	6 month period ended June 30, 2021 ¥m	Change
Revenue	**2,457**	3,123	(666)
Cost of sales	**(531)**	(447)	(84)
Research and development expenses	**(3,698)**	(2,598)	(1,100)
Selling, general and administrative expenses	**(2,265)**	(1,934)	(331)
Operating expenses	**(6,494)**	(4,979)	(1,515)
Other income (loss)	**233**	7	226
Operating loss	**(3,804)**	(1,849)	(1,955)
Net finance (costs) income	**(12)**	(32)	20
Share of (loss) / profit of associates	**(466)**	282	(748)
Gain on reversal of impairment loss for investments accounted for using the equity method	**-**	206	(206)
Net loss before income taxes	**(4,282)**	(1,393)	(2,889)
Net loss	**(3,538)**	(2,297)	(1,241)
Alternative performance measure			
Core operating profit / loss[1]			
Operating loss (as stated above)	**(3,804)**	(1,849)	(1,955)
Adjustments:			
Depreciation	**281**	275	6
Amortization	**382**	368	14
Share based payments (excluding amounts in Restructuring)	**230**	332	(102)
Restructuring	**533**	-	533
Impairment	**-**	74	(74)
Core operating loss	**(2,378)**	(800)	(1,578)
Average annual exchange rate			
USD:JPY	**122.83**	108.11	14.72
GBP:JPY	**159.37**	150.33	9.04

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

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

	6 month period ended June 30, 2022 ¥m	6 month period ended June 30, 2021 ¥m	Change
Upfront fees and milestone income	**512**	1,546	(1,034)
Royalty income	**1,376**	1,167	209
Product supply revenue	**80**	-	80
Other	**489**	410	79
	2,457	3,123	(666)

Revenue in the six month period under review totaled JPY 2,457 million (a decrease of JPY 666 million vs. the prior corresponding period).

Revenue related to upfront fees and milestone income in the six month period under review totaled JPY 512 million (a decrease of JPY 1,034 million vs. the prior corresponding period). Upfront fees and milestone income can vary considerably quarter on quarter and depend on the achievement of defined milestone events and the commencement of new partnership agreements within a quarter. The decrease in revenues related to milestones in the six-month period under review was primarily due to there being two milestone events in the current period vs. five milestone events in the prior corresponding period. In addition, deferred revenue releases were lower in the current period.

Revenue related to royalties in the six month period under review totaled JPY 1,376 million (an increase of JPY 209 million vs. the prior corresponding period). The Group's royalty revenue relates to sales of Ultibro® Breezhaler®, Seebri® Breezhaler® and Enerzair® Breezhaler® by Novartis[4].

Operating expenses

Cost of sales

Cost of sales in the six month period under review totaled JPY 531 million (an increase of JPY 84 million vs. the prior corresponding period). Cost of sales comprises the cost of pharmaceutical product sold in the period plus the internal costs of delivering research and development services to customers. The increase in cost of sales is primarily due to occurrence of pharmaceutical product sales in the current period.

Research and development expenses

Research and development ("R&D") expenses in the six month period under review totaled JPY 3,698 million (an increase of JPY 1,100 million vs. the prior corresponding period). The increase is primarily due to increased investment in our in-house discovery and early development programs and the cost of a restructuring program designed to accelerate the development of medicines. In addition, costs have increased due to inflation, the impact of the weaker Yen and the reclassification of share based payment costs relating to scientists to the R&D expenses line from the G&A expenses line as this is regarded as a better presentation of that spend. In the period under review 98% of R&D spend related to our UK operations.

[4] Glycopyrronium bromide and certain use and formulation intellectual property were exclusively licensed to Novartis in April 2005 by Sosei and Vectura. Seebri®, Ultibro®, Enerzair® and Breezhaler® are registered trademarks of Novartis AG.

Selling, general and administrative expenses
Selling, general and administrative ("G&A") expenses in the six month period under review totaled JPY 2,265 million (an increase of JPY 331 million vs. the prior corresponding period). This was primarily due to the cost of a restructuring program designed to accelerate the development of medicines, the impact of the weaker Yen and cost inflation. These increases were partly offset by the reclassification of share based payment costs relating to scientists from the G&A expenses line to the R&D expenses line as this is regarded as a better presentation of that spend.

Operating loss
Operating loss in the six month period under review totaled JPY 3,804 million (vs. an operating loss of JPY 1,849 million in the prior corresponding period). The main reason for the increase in the operating loss is the increase in operating expenses for the reasons stated above.

Net finance (costs) income
Net finance costs in the six month period under review totaled JPY 12 million (a decrease of JPY 20 million vs. the prior corresponding period). Although bond amortisation costs have increased following the issuance of new convertible bonds with a face value of JPY 30,000 million net of the repurchase and conversion of existing convertible bonds with a face value of JPY 16,000 million in July 2021, the impact has been more than offset by higher foreign exchange gains in the current period relating to the stronger USD.

Share of (loss) profit of associates accounted for using the equity method
Share of loss of associates accounted for using the equity method in the six month period under review totaled JPY 466 million (an increase of JPY 748 million vs. the prior corresponding period). This was due to MiNA (Holdings) Limited (MiNA), an affiliated company of the Group, increasing expenditure on R&D leading to a net loss for the six month period under review vs. MiNA recording a net profit in the prior corresponding period.

Gain on reversal of impairment loss for investments accounted for using the equity method
Gain on reversal of impairment loss for investments accounted for using the equity method in the prior corresponding period totaled JPY 206 million. This was due to an increase in the fair value of the shares of JITSUBO, an affiliated company of the Group, which was disposed of in April 2021.

Net loss
Net loss in the six month period under review totaled JPY 3,538 million (vs a net loss of JPY 2,297 million in the prior corresponding period). The main reason for the increase in net loss is the increase in the operating loss as stated above.

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

Core operating loss in the six month period under review totaled JPY 2,378 million (vs a core operating loss of JPY 800 million in the prior corresponding period). In calculating core operating loss the following adjustments to the IFRS operating loss have been made:

- Depreciation totaled JPY 281 million (an increase of JPY 6 million vs. the prior corresponding period).
- Amortization totaled JPY 382 million (an increase of JPY 14 million vs. the prior corresponding period).
- Stock-based compensation totaled JPY 230 million (a decrease of JPY 102 million vs. the prior corresponding period).
- Restructuring costs totaled JPY 533 million. These costs related to the management reorganization announced on February 1, 2022 (including JPY 158 million of accelerated stock-based compensation expenses).
- Impairment loss in the prior corresponding period was JPY 74 million. This was due to an intangible asset impairment charge associated with a reduction in Oravi® sales and profitability forecasts.

The increase in core operating loss of JPY 1,578 million is primarily due to the planned increase in investment in priority in-house R&D programs.

(2) Analysis of financial position

1) Assets, liabilities and equity

Assets

Total assets as at June 30, 2022 were JPY 91,232 million (a decrease of JPY 5,753 million vs. the end of the previous financial year, 2021). This decrease was primarily due to a decrease in cash and cash equivalents as a result of operating cash outflows and the payment of contingent consideration to the former shareholders of Heptares Therapeutics Limited, partially offset by an increase in the yen value of assets held by our consolidated subsidiary Heptares Therapeutics Ltd. as a result of the appreciation of the British pound.

Liabilities

Total liabilities as at June 30, 2022 were JPY 34,866 million (a decrease of JPY 4,651 million vs. the end of the previous financial year, 2021). This decrease was primarily due to the payment of contingent consideration to the former shareholders of Heptares Therapeutics Limited during the current period.

Equity

Total equity as at June 30, 2022 was JPY 56,366 million (a decrease of JPY 1,102 million vs. the end of the previous financial year, 2021). This was primarily due to the net loss of JPY 3,538 million partially offset by exchange gains on translation of JPY 2,513 million.

The ratios of Cash and cash equivalents, Interest-bearing debt and Equity attributable to owners of the parent company to total assets were 58.8%, 32.5% and 61.8%, respectively.

2) Cash flows

Cash and cash equivalents as at June 30, 2022 decreased by JPY 6,431 million from the beginning of the year and amounted to JPY 53,656 million.

Cash flows from operating activities

Net cash used in operating activities during the period under review totaled JPY 3,181 million. This was primarily due to operating expenses exceeding revenues.

Cash flows from investing activities

Net cash used in investing activities during the period under review totaled JPY 183 million. This was due to purchases of property, plant and equipment of JPY 183 million.

Cash flows from financing activities

Net cash used in financing activities during the period under review totaled JPY 4,781 million. This was primarily due to the payment of contingent consideration totalling JPY 4,680 million.

Effects of exchange rate changes on cash and cash equivalents

Effects of exchange rate changes on cash and cash equivalents during the period under review totaled JPY 1,714 million. This positive impact was primarily due to a stronger GBP vs. JPY and a stronger USD vs JPY.

(3) Forecast Guidance

We continue to focus on expanding our drug discovery business and remain well positioned to capitalize on both organic and inorganic growth opportunities. Our SBDD platform and highly productive drug discovery engine has generated multiple new exciting drug candidates for in-house progression into early clinical development, and we will continue to take steps to maintain partnered and co-investment activity to ensure programs are advanced in a capital efficient manner. At the same time, we will invest in new technologies, tools and capabilities to maintain our competitive edge and bring forward an exciting pipeline of next-generation programs in areas of high unmet medical need.

The Group expects 2022 to be a year of continued incremental investment in strategic growth initiatives, including seeking an acquisition of a revenue-generating business to support our medium-term plan for corporate expansion.

As in 2021, in our underlying drug discovery business we will continue to target a sustainable balance of resources and capital in the pursuit of growth in corporate value:

- Forecast R&D expenses in the range of JPY 6,750 to JPY 7,750million[5] (an increase from the previously guided range of JPY 5,750 to JPY 6,750 million).
    - The change to the guided range reflects (i) foreign exchange rate movements (ii) cost inflation which is currently running at circa 9% in the UK (iii) the reclassification of stock based compensation costs relating to scientists to the R&D expenses line from the G&A expenses line as this is regarded as a better presentation of that spend.
- Forecast G&A expenses in the range of JPY 3,750 to JPY 4,250 million[5] (no change from the previously guided range).
    - The impact of foreign exchange rate movements and cost inflation has been largely offset by the reclassification of stock based compensation costs relating to scientists from the G&A expenses line to the R&D expenses line.
- We will carefully review these forecasts again at Q3 in view of the prevailing inflation and foreign exchange rates at that time.
- 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 that complement and future-proof our drug discovery platform, as well as advance next-generation candidates; all while strongly managing our cost base.
- We will seek out a potentially transformative acquisition to secure long-term revenue growth.
- We will expand our drug candidate discovery and early development capabilities into new target classes.
- We will seek out late-stage clinical assets to in-license and develop for the Japanese market.

The Group has a strong cash runway into 2024 to fund its drug discovery and early-stage development activities.

[5] Guidance for 2022 has been calculated on a financial statements disclosure basis which includes non-cash costs such as depreciation, amortization and share based payments.

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

1) Interim Condensed Consolidated Balance Sheet

	June 30, 2022 (Unaudited) ¥m	December 31, 2021 (Audited) ¥m
Assets		
Non-current assets		
Property, plant and equipment	4,056	3,817
Goodwill	15,736	15,095
Intangible assets	9,321	9,120
Investments accounted for using the equity method	3,226	3,479
Other financial assets	2,249	2,564
Other non-current assets	110	102
Total non-current assets	34,698	34,177
Current assets		
Trade and other receivables	1,614	2,138
Income taxes receivable	446	70
Other financial assets	102	86
Other current assets	716	427
Cash and cash equivalents	53,656	60,087
Total current assets	56,534	62,808
Total assets	91,232	96,985
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred tax liabilities	2,118	2,706
Contingent consideration in business combinations	-	47
Corporate bonds	27,709	27,440
Lease liabilities	1,725	1,638
Other non-current liabilities	543	495
Total non-current liabilities	32,095	32,326
Current liabilities		
Trade and other payables	1,411	1,176
Contingent consideration in business combinations	-	4,048
Income taxes payable	124	279
Lease liabilities	220	193
Other current liabilities	1,016	1,495
Total current liabilities	2,771	7,191
Total liabilities	34,866	39,517
Equity		
Capital stock	41,335	41,036
Capital surplus	29,193	29,100
Treasury stock	(0)	(0)
Retained earnings	(13,306)	(9,768)
Other components of equity	(856)	(2,900)
Equity attributable to owners of the parent company	56,366	57,468
Total equity	56,366	57,468
Total liabilities and equity	91,232	96,985

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

	Six month period ended June 30, 2022 (Unaudited) ¥m	Six month period ended June 30, 2021 (Unaudited) ¥m
Revenue	**2,457**	3,123
Cost of sales	**(531)**	(447)
Gross profit	**1,926**	2,676
Research & development expenses	**(3,698)**	(2,598)
Selling, general & administrative expenses	**(2,265)**	(1,934)
Other income	**238**	81
Other expenses	**(5)**	(74)
Operating loss	**(3,804)**	(1,849)
Finance income	**349**	173
Finance costs	**(361)**	(205)
Share of (loss) profit of associates accounted for using the equity method	**(466)**	282
Gain on reversal of impairment loss for investments accounted for using the equity method	**-**	206
Loss before income taxes	**(4,282)**	(1,393)
Income tax credit / (expense)	**744**	(904)
Net loss for the period	**(3,538)**	(2,297)
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	**(469)**	1,443
Total items that will not be reclassified subsequently to profit or loss	**(469)**	1,443
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**2,513**	3,296
Total items that may be reclassified subsequently to profit or loss	**2,513**	3,296
Total other comprehensive income	**2,044**	4,739
Total comprehensive (loss) income for the period	**(1,494)**	2,442
Net loss for the period attributable to:		
Owners of the parent company	**(3,538)**	(2,297)
	(3,538)	(2,297)
Total comprehensive (loss) income for the period attributable to:		
Owners of the parent company	**(1,494)**	2,442
	(1,494)	2,442
Earnings per share (yen)		
Basic loss per share	**(43.33)**	(28.38)
Diluted loss per share	**(43.33)**	(28.38)

3) Interim Condensed Consolidated Statement of Changes in Equity

	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity ¥m	Equity attributable to owners of the parent company ¥m	Total equity ¥m
Balance at January 1, 2022	**41,036**	**29,100**	**(0)**	**(9,768)**	**(2,900)**	**57,468**	**57,468**
Net loss for the period	-	-	-	(3,538)	-	(3,538)	(3,538)
Other comprehensive income	-	-	-	-	2,044	2,044	2,044
Total comprehensive (loss) income for the period	-	-	-	(3,538)	2,044	(1,494)	(1,494)
Issuance of new shares	299	(299)	-	-	-	0	0
Share-based payments	-	392	-	-	-	392	392
Total transactions with owners	299	93	-	-	-	392	392
Balance at June 30, 2022 (Unaudited)	**41,335**	**29,193**	**(0)**	**(13,306)**	**(856)**	**56,366**	**56,366**
Balance at January 1, 2021	40,220	30,452	(0)	(10,785)	(7,506)	52,381	52,381
Net loss for the period	-	-	-	(2,297)	-	(2,297)	(2,297)
Other comprehensive income	-	-	-	-	4,739	4,739	4,739
Total comprehensive (loss) income for the period	-	-	-	(2,297)	4,739	2,442	2,442
Issuance of new shares	689	(88)	-	-	-	601	601
Share-based payments	-	332	-	-	-	332	332
Total transactions with owners	689	244	-	-	-	933	933
Balance at June 30, 2021 (Unaudited)	40,909	30,696	(0)	(13,082)	(2,767)	55,756	55,756

4) Interim Condensed Consolidated Statement of Cash Flows

	Six month period ended June 30, 2022 (Unaudited) ¥m	Six month period ended June 30, 2021 (Unaudited) ¥m
Cash flows from operating activities		
Loss before income taxes	**(4,282)**	(1,393)
Adjustments for:		
Depreciation and amortization	**663**	643
Share-based payments	**388**	332
Impairment loss	**-**	74
Loss (gain) on investments in securities	**15**	(8)
Change in fair value of contingent consideration	**(46)**	(98)
Net foreign exchange gain	**(162)**	(99)
Interest income	**(40)**	(3)
Interest expenses	**343**	201
Share of loss (profit) of associates accounted for using the equity method	**466**	(282)
Gain on reversal of impairment loss for investments accounted for using the equity method	**-**	(206)
Decrease (increace) in trade and other receivables	**641**	(180)
Increase (decrease) in trade payables	**172**	(10)
Decrease in deferred revenue	**(282)**	(272)
Other	**(782)**	(483)
Subtotal	**(2,906)**	(1,784)
Grants received	**16**	-
Interest and dividends received	**40**	3
Interest paid	**(73)**	(72)
Income tax refunded	**0**	380
Income taxes paid	**(258)**	(2)
Net cash used in operating activities	**(3,181)**	(1,475)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(183)**	(67)
Purchase of intangible assets	**-**	(2)
Proceeds from sale of investment in associate	**-**	206
Proceeds from contingent consideration receivable	**-**	273
Net cash (used in) provided by investing activities	**(183)**	410
Cash flows from financing activities		
Payment of lease liabilities	**(101)**	(88)
Payment of contingent consideration	**(4,680)**	(62)
Proceeds from issuance of common stock	**0**	601
Net cash (used in) provided by financing activities	**(4,781)**	451
Effects of exchange rate changes on cash and cash equivalents	**1,714**	1,235
Net (decrease) increase in cash and cash equivalents	**(6,431)**	621
Cash and cash equivalents at the beginning of the period	**60,087**	40,008
Cash and cash equivalents at the end of the period	**53,656**	40,629

5) Notes of Interim Condensed Consolidated Financial Statements

5.1 Notes related to going concern assumptions

Not applicable.

5.2 Change in accounting policy

Not applicable.

5.3 Changes in accounting estimates

Not applicable.

5.4 Operating segments

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

5.5 Significant subsequent events

AbbVie partnership

On August 1, 2022 (UK time), the Group and AbbVie, a research-based global biopharmaceutical company, entered a new drug discovery collaboration and option-to-license agreement to discover, develop and commercialize small molecules that modulate novel GPCR targets associated with neurological disease. The Group became eligible to receive an upfront payment of US$40 million on signing and is eligible to receive up to US$40 million in near-term research milestone payments expected over the next three years, as well as further potential option, development and commercial milestones totaling up to US$1.2 billion, plus tiered royalties on global sales.

Neurocrine Biosciences partnership

On August 4, 2022 (UK time), the Group was notified by its partner Neurocrine Biosciences ("Neurocrine") that a US$30 million milestone had become payable to the Group following Neurocrine's determination that it could proceed as planned with a Phase 2 clinical trial of NBI-1117568 for the treatment of schizophrenia after receiving approval of its Investigational New Drug (IND) Application by the U.S. Food and Drug Administration (FDA).