Consolidated Financial Results for the FY2022 (IFRS)

February 14, 2023

Company name: Sosei Group Corporation — Listing: Tokyo Stock Exchange
Security code: 4565 — URL: https://www.soseiheptares.com/
Representative: Christopher Cargill, Representative Executive Officer, CEO
Contact person: Hironoshin Nomura, Executive Officer, CFO — Tel: +81-3-5210-3290
Scheduled date of annual general meeting: March 23, 2023 — Scheduled date of dividend payments: -
Scheduled date of security report filing: March 23, 2023
Supplementary materials for financial results: Yes
Financial results briefing session: Yes

(Rounded million yen)

1. Consolidated results for the year ended December 31, 2022

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

	Revenue		Operating profit		Net profit before income taxes		Net profit		Net profit attributable to owners of the parent		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended December 31, 2022	15,569	(12.1)	3,436	(9.0)	1,078	149.0	382	(62.4)	382	(62.4)	(255)	-
Year ended December 31, 2021	17,712	100.3	3,775	306.8	433	(73.3)	1,017	(31.2)	1,017	(31.2)	5,623	750.7

	Earnings per share – basic	Earnings per share – diluted	Ratio of net income to equity attributable to owners of the parent	Ratio of net income before income taxes to total assets	Ratio of operating income to revenue
	Yen	Yen	%	%	%
Year ended December 31, 2022	4.68	4.63	0.7	1.1	22.1
Year ended December 31, 2021	12.53	12.40	1.9	0.5	21.3

(Note) Share of (loss) gain of associates accounted for under equity method: (429) million yen for the year ended December 31, 2022; and 50 million yen for the year ended December 31, 2021

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets	Equity per share-attributable to owners of the parent
	Million yen	Million yen	Million yen	%	Yen
At December 31, 2022	99,417	57,936	57,936	58.3	707.20
At December 31, 2021	96,985	57,468	57,468	59.3	704.97

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	Million yen	Million yen	Million yen	Million yen
Year ended December 31, 2022	9,952	1,043	(4,887)	66,557
Year ended December 31, 2021	7,095	278	11,123	60,087

2. Dividends

	Dividends per share					Total amount of dividends	Dividend payout ratio (consolidated)	Ratio of dividend to equity attributable to owners of the parent company (consolidated)
	End Q1	End Q2	End Q3	End Q4	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2021	—	0.00	—	0.00	0.00	—	—	—
FY2022	—	0.00	—	0.00	0.00	—	—	—
FY2023 (E)	—	0.00	—	0.00	0.00		—	

3. Forecast for the year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)

A financial results forecast for the year ended December 31, 2023 has not been provided because it is difficult to forecast a reasonable estimate of the full-year results. Details concerning the reasons thereof, business policy and cost estimates are provided in "1. Analysis of Operating Results and Financial Position (4) Future outlook" on page 12 of this document.

* Notes

(1) Changes in the number of significant subsidiaries for the year ended December 31, 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

(3) Number of common shares issued

1) Number of shares issued at period end (including treasury shares)	At December 31, 2022	81,923,230	shares	At December 31, 2021	81,518,316	Shares
2) Number of treasury shares at period end	At December 31, 2022	254	shares	At December 31, 2021	213	Shares
3) Average number of shares in issue in the period	Year ended December 31, 2022	81,785,008	shares	Year ended December 31, 2021	81,187,311	shares

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

* Explanation regarding the appropriate use of our forecast and other points to be noted
(Note concerning forward-looking statements)

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

The Company will host a webinar presentation in-person and virtually for institutional investors, securities analysts and the press on February 14, 2023. The webinar is open to all existing and potential investors as well and will consist of a presentation followed by a Q&A session. Presentation slides will be made available 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

Sosei Group is a science and technology-led company, specializing in drug discovery and early-stage drug development. Our mission is to make life-changing medicines using world-leading science and our vision is to become one of Japan's global biopharmaceutical champions.

The Group has established an innovative and productive StaR® ("stabilized receptor") and structure-based drug design ("SBDD") and discovery technology platform, which is focused predominantly on and provides unprecedented access to an important class of proteins called G protein-coupled receptors ("GPCRs"). GPCRs represent the largest single class of targets for drug discovery across a wide range of therapeutic areas.

A significant number of novel drug candidates have been generated through the application of this platform and are currently in development by global biopharma partners and internally.

Following the creation of a new leadership team in 2022, management has outlined a clear and evolved strategy to leverage the Group's proprietary platform, pipeline and capabilities to grow the business internationally and in Japan. This strategy is based on four key strategic pillars:

(i) Extending and enhancing the competitive advantages of the Group's world-leading StaR®/SBDD discovery capabilities through continued internal innovation combined with external collaborations that provide access to complementary technologies.

(ii) Diligently driving forward existing partnerships with global biopharma companies and initiating new high-value partnerships to ensure the continued flow of revenues through upfront and development milestone payments, and ultimately royalties from sales of products that reach the market.

(iii) Transforming R&D to a program-centric operational model, entrenching target biology, and enhancing translational medicine capabilities to quickly achieve clinical proof of concept, which in turn is expected to enable higher quality candidates more cost effectively, larger out-licensing deals, as well as a deeper in-house pipeline and a pathway for clinical development in Japan.

(iv) Building out an agile, scalable and effective clinical development and commercialization business in Japan. This new strategic initiative is designed to capitalize on significant underserved opportunities that the Group sees within this large attractive market. The Group intends to start this strategy by in-licensing foreign de-risked approved or late-stage clinical assets and will expand the pipeline with internally generated programs in the future.

(i) Extending and enhancing the Group's world-leading StaR®/SBDD discovery capabilities

Verily – 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 a strategic research collaboration bringing together the complementary capabilities of Verily's immune profiling platform and the Group's GPCR SBDD. The collaboration aims to:

- 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. We have reached our first milestone in identifying and prioritizing targets only in 6 months after the start of the collaboration and entered validation, hit generation and lead selection.

Kallyope - to identify and validate novel gastrointestinal GPCR targets
On May 17, 2022, the Group and Kallyope, a pioneer 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 leverages 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.

University of Oxford and KU Leuven - R&D Agreements to identify and validate key GPCRs driving gastrointestinal and immune disorders
On December 8, 2022, the Group announced it had entered translational medicine and R&D agreements with the MRC Weatherall Institute of Molecular Medicine at the University of Oxford, UK and KU Leuven, Belgium. The focus of the agreements is to apply the innovative technologies and research capabilities of the respective academic groups to identify, validate and prioritize key GPCRs driving gastrointestinal and immune disorders, including Inflammatory Bowel Disease, as targets for SBDD.

(ii) Supporting our existing partnerships with major global biopharmaceutical companies to drive continued revenue flow

AbbVie partnership
On August 1, 2022 (UK time), the Group and AbbVie, a research-based global biopharmaceutical company, announced that they had 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 leverages 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 to 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 received 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.

On December 13, 2022, the Group announced that it had reached an important R&D milestone under its discovery collaboration with AbbVie focused on inflammatory and autoimmune diseases. The achievement triggered a payment of US$10 million to Sosei Heptares.

Neurocrine Biosciences partnership
On August 4, 2022 (UK time), the Group announced that it had been 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 adults with schizophrenia after receiving approval of its IND application by the US 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 safe and well tolerated.

NBI-1117568 is the most advanced candidate from a broad portfolio of novel clinical and preclinical subtype-selective muscarinic M1, M4 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.

On October 28, 2022, the Group noted that its partner, Neurocrine, had announced the first patient had been randomized for its Phase 2 placebo-controlled study evaluating the efficacy, safety, tolerability and pharmacokinetics of NBI-1117568 in adults with schizophrenia. The Phase 2 study will enroll approximately 200 adults and is being conducted at 15 centers throughout the US. The study will evaluate multiple active dose levels of NBI-1117568. The primary outcome measure will be the change in total Positive and Negative Syndrome Scale (PANSS) score from baseline to Week 6.

Lilly partnership
On December 16, 2022, the Group announced it had entered a drug discovery collaboration with Eli Lilly and Company ("Lilly"), a global biopharmaceutical company, to discover, develop and commercialize small molecules that modulate novel GPCR targets associated with diabetes and metabolic diseases. This new agreement leverages Sosei Heptares' StaR® technology and SBDD platform and Lilly's extensive drug development and commercialization expertise as well as its therapeutic area expertise in diabetes and metabolic diseases.

Under the terms of the agreement, Sosei Heptares will focus its efforts on multiple GPCR targets nominated by Lilly to deliver novel target-selective small molecule candidates for further development and commercialization. Sosei Heptares received an upfront payment of US$37 million on signing and is eligible to receive development and commercial milestones totaling up to US$694 million, plus tiered royalties on global sales.

Pfizer partnership
On December 21, 2022, the Group announced that it had been notified by Pfizer that the first subject had been dosed in a Phase 2 clinical trial with Pfizer's candidate PF-07081532. Achievement of this milestone triggered a US$10 million payment to Sosei Heptares. PF-07081532 is a once-daily, next-generation oral small molecule GLP-1 receptor agonist in development for the treatment of Type 2 diabetes and obesity. PF-07081532 was discovered by Pfizer scientists during a multi-target research collaboration in which Pfizer had access to Sosei Heptares proprietary StaR® technology. PF-07081532 had successfully completed Phase 1 clinical studies conducted by Pfizer.

PF-07081532 is one of three clinical candidates nominated by Pfizer during its collaboration with Sosei Heptares, all of which are now progressing in clinical trials. The other two candidates, both currently in Phase 1 trials, are:

- PF-07054894 (a CCR6 antagonist targeting Inflammatory Bowel Disease), and
- PF-07258669 (an MC4 receptor antagonist for anorexia)

(iii) Transforming in-house R&D to a program-centric operating model designed to enhance productivity, value and success

Weatherden – strategic collaboration 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 specialist R&D and 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 of this collaboration is 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 high-value global licensing and development deals as a way to generate significant revenues and fund accelerated growth 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 has assembled the capabilities 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.

Expansion of UK R&D operations to a second site in Cambridge, UK
On May 26, 2022, the Group announced it had expanded its UK R&D operations into a second and adjacent site within Granta Park, Cambridge. The expansion has been driven by the Group's growth strategy to become a multi-program, early clinical stage business and a partner-of-choice for leading biopharmaceutical companies.

Advancing three wholly owned candidates towards clinical trials
Based on the new strategy to transform R&D to a program-centric operating model, entrench target biology and enhance translational medicine capabilities, the Group aims to swiftly progress its wholly-owned programs to a clinical proof of concept stage, with the following three candidates the forefront:

- An oral EP4 antagonist (HTL0039732), a potential novel immunotherapy for solid tumors. On July 22, 2022, the Group and Cancer Research UK (CRUK), the world's largest private funder of cancer research, announced the signing of an agreement to bring HTL0039732 into a first-in-human trial.
- An oral small molecule GPR52 agonist program, which potentially presents opportunities to address both the positive and negative symptoms and cognitive impairment in schizophrenia and psychosis, without adverse effects typically associated with existing antipsychotics.
- An oral, gut-restricted small molecule EP4 agonist potentially for the treatment of Inflammatory Bowel Disease. The Group's candidate, which acts through combined anti-inflammatory and gut barrier-protecting effects to promote mucosal healing, has shown robust efficacy across a range of preclinical models.

(iv) Building out a leading commercialization business in Japan

During 2022, the Group has been refining its strategy for Japan to focus on specialty products targeting underserved therapy areas. The Group believes that a huge opportunity exists for an agile, scalable and effective clinical development and commercialization business in Japan and is committed to building such a business over the coming years. This belief is based on the fact that Japan is the third largest pharma market behind the US and China, has a very large aging population and universal health care system. The Group intends to in-license foreign approved or late-stage products initially and, in the longer term, to grow this pipeline with programs discovered internally.

Operational highlights after the period under review (period ended December 31, 2022)

On January 5, 2023, the Group noted its partner Tempero Bio had announced FDA clearance of its IND application for TMP-301 (formerly HTL0014242) for the treatment of alcohol and substance use disorders. Tempero Bio is planning to initiate a Phase 1 study with TMP-301 in healthy volunteers in Q1 2023 with support from a recently awarded US$5.3 million grant from the US National Institute on Drug Abuse (NIDA).

As of December 31, 2022, the Group had a total of 202 employees (an increase of 4 employees vs. the end of the prior year).

As a result of the above activities, the Group reported the following financial results for the year ended December 31, 2022.

Revenue of JPY 15,569 million (a decrease of JPY 2,143 million vs. the prior year), an operating profit of JPY 3,436 million (a decrease of JPY 339 million vs. the prior year), a net profit before income taxes of JPY 1,078 million (an increase of JPY 645 million vs. the prior year) and a net profit of JPY 382 million (a decrease of JPY 635 million vs. the prior year).

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m	Change
Revenue	**15,569**	17,712	(2,143)
Cost of sales	**(926)**	(933)	7
Research and development expenses	**(7,454)**	(5,931)	(1,523)
Selling, general and administrative expenses	**(4,377)**	(3,940)	(437)
Operating expenses	**(12,757)**	(10,804)	(1,953)
Net other income	**624**	(3,133)	3,757
Operating profit	**3,436**	3,775	(339)
Net finance costs	**(93)**	(3,598)	3,505
Share of (loss) / gain of associates	**(429)**	50	(479)
(Impairment charge) / reversal of impairment charge relating to associates	**(1,836)**	206	(2,042)
Net profit before income tax	**1,078**	433	645
Income Tax (expense) / benefit	**(696)**	584	(1,280)
Net profit	**382**	1,017	(635)

Alternative performance measure			
Core operating profit[1]			
Operating profit (as stated above)	**3,436**	3,775	(339)
Adjustments:			
Depreciation	**563**	541	22
Amortization	**782**	737	45
Share based payments (excluding amounts in Restructuring)	**542**	713	(171)
Restructuring	**533**	-	533
Impairment	**-**	3,138	(3,138)
Core operating profit	**5,856**	8,904	(3,048)

Average exchange rate during period			
USD:JPY	**131.30**	110.16	21.14
GBP:JPY	**161.76**	151.50	10.26

Note 1. Core operating profit 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

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m	Change
Upfront fees and milestone income	**12,063**	14,667	(2,604)
Upfront fee revenue recognised at deal inception	4,666	11,408	(6,742)
Milestone revenue recognised at milestone event	6,429	1,963	4,466
Deferred revenue releases	968	1,296	(328)
Royalty income	**2,564**	2,311	253
Product supply revenue	**80**	28	52
Other	**862**	706	156
	15,569	17,712	(2,143)

Revenue in the year under review totalled JPY 15,569 million (a decrease of JPY 2,143 million vs. the prior year).

Revenue relating to upfront fees and milestone income in the year under review totalled JPY 12,063 million (a decrease of JPY 2,604 million vs. the prior year). Upfront fees and milestone income can vary considerably year on year and depend on the commencement of new partnership agreements and the achievement of defined milestone events within that year. The decrease in revenues primarily reflects the inclusion in the prior year of a substantial upfront fee from Neurocrine Biosciences in the amount of JPY 11,408 million (USD 100 million) compared to the inclusion in 2022 of upfront fee revenue recognised at deal inception totalling JPY 4,666 million (USD 35 million) from two new collaborations (AbbVie Neurology and Lilly). This decrease was partially offset by a rise in milestone income recognised upon the occurrence of milestone events. There were five milestone events in 2022 generating JPY 6,429 million, as a result of the significant progress including advancement into Phase 2 clinical trials, vs. 8 milestone events in 2021 generating JPY 1,963 million. Deferred revenue releases decreased compared to the prior year due maturation of the older platform collaborations. In addition, as the majority of the Group's revenues are earned in USDs, the substantially stronger USD in 2022 also had an offsetting effect.

Revenue relating to royalties in the year under review totaled JPY 2,564 million (an increase of JPY 253 million vs. the prior year). The Group's royalty revenue relates to sales of Ultibro® Breezhaler®, Seebri® Breezhaler® and Enerzair® Breezhaler® by Novartis[1].

Operating expenses

Cost of sales

Cost of sales in the year under review totaled JPY 926 million (a decrease of JPY 7 million vs. the prior year). 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.

Research and development expenses

Research and development ("R&D") expenses in the year under review totaled JPY 7,454 million (an increase of JPY 1,523 million vs. the prior year). The increase is primarily due to increased investment in our in-house discovery and early development programs, the cost of a restructuring program designed to accelerate the development of medicines costs have increased due to

[1] 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.

inflation and the impact of the weaker Yen. In addition, 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 year under review 98% of R&D spend related to our UK operations.

Selling, general and administrative expenses
Selling, general and administrative ("G&A") expenses in the year under review totaled JPY 4,377 million (an increase of JPY 437 million vs. the prior year). 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.

Net other income
Net other income in year under review totaled JPY 624 million (an increase of JPY 3,757 million vs. the prior year). This was primarily due to the inclusion in the prior year of an intangible asset impairment charge totalling JPY 3,138 million relating to the decision by a partner not to proceed with clinical trials for certain out-licensed products. There was no equivalent in 2022. In addition, a higher R&D expenditure related UK tax credit was recorded in 2022.

Operating profit
Operating profit in the year under review totaled JPY 3,436 million (a decrease of JPY 339 million vs. the prior year). The main reasons for the decrease in the operating loss are the decrease in revenue and increase in R&D expenditure, for the reasons stated above.

Net finance costs
Net finance costs in the year under review totaled JPY 93 million (a decrease of JPY 3,505 million vs. the prior year). This decrease was primarily due to a non-recurring event in the prior year which resulted in a substantial contingent consideration charge being recorded relating to the Neurocrine Biosciences licensing transaction. In addition, interest income has risen due to higher UK interest rates. These reductions in the net cost have been partially offset by higher bond amortization costs, which have increased following (i) the issuance of new convertible bonds with a face value of JPY 30,000 million and (ii) the repurchase and conversion of existing convertible bonds with a face value of JPY 16,000 million in July 2021.

Share of (loss) gain of associates accounted for using the equity method
Share of loss of associates accounted for using the equity method in the year under review totaled JPY 429 million (an increase of JPY 479 million vs. the prior year). This was due to MiNA (Holdings) Limited (MiNA), an affiliated company of the Group, generating no licensing revenue leading to a net loss for the year under review vs. MiNA recording a net profit in the prior year. The Group ceased to equity account for its investment in MiNA from October 2022 as management determined that it no longer exercised significant influence over MiNA from this date.

(Impairment charge) / reversal of impairment charge relating to associates
Impairment charge for investments accounted for using the equity method during the year under review totaled JPY 1,836 million. This was due to a decrease in the estimated fair value of MiNA. Gain on reversal of impairment loss for investments accounted for using the equity method in the prior year totaled JPY 206 million. This was due to an increase in the fair value of shares in JITSUBO, an affiliated company of the Group, which was disposed of in April 2021.

Net profit before income tax

Net profit before income tax in the year under review totaled JPY 1,078 million (an increase of JPY 645 million vs. the prior year). This increase reflects the combined effect of all of the movements explained above.

Income tax (expense) / benefit

Income tax expense in the year under review totaled JPY 696 million (vs. an income tax benefit of JPY 584 million in the prior year). This was primarily due to the cessation of entitlement of the Group's UK subsidiary to claim certain UK R&D expenditure related tax incentives due to its sustained growth.

Net profit

Net profit in the year under review totaled JPY 382 million (a decrease of JPY 635 million vs. the prior year). This reduction reflects the combined effect of all of the movements explained 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 profit in the year under review totaled JPY 5,856 million (a decrease of JPY 3,048 million vs. the prior year). The main reasons for the decrease are a reduction in revenues in 2022 for the reasons explained above, and an increase in investment in R&D in line with the Group's growth strategy. In calculating core operating profit the following adjustments to the IFRS operating profit have been made:

- Depreciation totaled JPY 563 million (an increase of JPY 22 million vs. the prior year).
- Amortization totaled JPY 782 million (an increase of JPY 45 million vs. the prior year).
- Stock-based compensation totaled JPY 542 million (a decrease of JPY 171 million vs. the prior year).
- 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 charge JPY nil million (JPY 3,138 million charge recorded in the prior year) .This was mainly due to the impairment of intangible assets recorded in the prior year as a result of a decision by a partner not to proceed with clinical trials for certain out-licensed products.

(2) Analysis of financial position

Assets

Total assets as at December 31, 2022 were JPY 99,417 million (an increase of JPY 2,432 million vs. the end of the prior year). This was primarily due to the receipt of USD 77 million in upfront payments from AbbVie and Lilly and 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, partially offset by the decrease in equity method investments following the impairment loss recorded on the Group's shareholding in MiNA and a decrease in other financial assets due to the fall in the value of Centessa shares.

Liabilities

Total liabilities as at December 31, 2022 were JPY 41,481 million (an increase of JPY 1,964 million vs. the end of the prior year). This was primarily due to the increase in deferred revenue arising from our new collaborations with AbbVie and Lilly, partially offset by the payment of conditional consideration to the former shareholders of Heptares Therapeutics Ltd.

Equity

Total equity as at December 31, 2022 was JPY 57,936 million (an increase of JPY 468 million vs. the end of the prior year). This was primarily due to the net profit for the year.

The ratios of Cash and cash equivalents, Interest-bearing debt and Equity attributable to owners of the parent company to total assets were 66.9%, 29.9% and 58.3%, respectively.

(3) Analysis of cash flows

Cash and cash equivalents as at December 31, 2022 increased by JPY 6,470 million from the beginning of the year and amounted to JPY 66,557 million.

Cash flows from operating activities

Net cash provided by operating activities in the year under review totalled JPY 9,952 million. This was primarily due to cash revenues exceeding cash operating costs.

Cash flows from investing activities

Net cash provided by investing activities in the year under review totalled JPY 1,043 million. This was primarily due to proceeds received from the sale of shares in Biohaven.

Cash flows from financing activities

Net cash used in financing activities in the year under review totalled JPY 4,887 million. This was primarily due to the payment of contingent consideration totaling JPY 4,680 million to the former shareholders of Heptares Therapeutics Ltd.

(4) Future outlook

The Group's revenue is mostly derived from upfront payments from new partnerships and milestone payments as a result of the progress of R&D with existing partners. These payments are dependent on multiple factors, including negotiations with (potential) partners, R&D policies of partners and clinical trial results of development candidates, and these factors are difficult for the Group to control. Therefore, a financial results forecast for 2023 has not been provided because it is difficult to forecast revenue.

Based on its extremely productive drug discovery platform (StaR®/SBDD), the Group aims to further improve efficiency and add value to drug discovery by introducing an agile development model and enhancing translational medicine capabilities, and will continue to make sufficient R&D investments in 2023 to achieve this goal. In addition, as a strategic alternative to achieve higher growth, we will seek late-stage clinical programs to in-license for the Japanese market, as well as the acquisition of a business. We will also continue to target a balance between capital and investments in the pursuit of growth in corporate value.

At present, the Group has a strong cash runway into 2025 to fund its R&D activities.

Our cost estimates and key initiatives for 2023 are as follows:

- Forecast R&D expenses in the range of JPY 8,000 to JPY 10,000 million[2] (2022 actual: JPY 7,454 million).
- Forecast G&A expenses in the range of JPY 4,250 to JPY 4,750 million[2] (2022 actual: JPY 4,377 million).
- We expect to receive upfront payments relating to one or more new partnerships.
- We expect to receive milestone payments as a result of the progress of R&D at existing partners.
- We will expand our drug candidate discovery into novel drug targets to enhance our pipeline.
- We expect to start clinical trials of multiple development candidates for which we have rights.
- We will seek out late-stage clinical candidates to in-license and develop for the Japanese market.
- We will seek out a potentially transformative acquisition to secure long-term revenue growth potential.

2. Basic Policy on Selection of Accounting Standards

The Group has adopted International Financial Reporting Standards (IFRS) since the fiscal year ended March 31, 2014 (2014) in order to improve international comparability of financial information in the capital markets.

[2] Guidance was calculated on a cash cost basis until 2021. Guidance for 2022 and beyond has been calculated on a financial statements disclosure basis which includes non-cash costs such as depreciation, amortization and share based payments. The assumed USD:JPY FX rate in 2023 is 143 and GBP:JPY FX rate is 166. Please note that the cost estimates are for existing operations, and if the estimates change significantly as a result of strategic developments, such as the in-licensing of development candidates or the acquisition of a business, we will make an announcement.

3. Consolidated financial statements and primary notes (IFRS)
1) Consolidated statement of financial position

	December 31, 2022 ¥m	December 31, 2021 ¥m
Assets		
Non-current assets		
Property, plant and equipment	**3,791**	3,817
Goodwill	**15,306**	15,095
Intangible assets	**8,577**	9,120
Investments accounted for using the equity method	**-**	3,479
Other financial assets	**1,737**	2,564
Other non-current assets	**64**	102
Total non-current assets	**29,475**	34,177
Current assets		
Trade and other receivables	**2,462**	2,138
Income taxes receivable	**58**	70
Other financial assets	**-**	86
Other current assets	**865**	427
Cash and cash equivalents	**66,557**	60,087
Total current assets	**69,942**	62,808
Total assets	**99,417**	96,985
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred tax liabilities	**2,922**	2,706
Contingent consideration in business combinations	**-**	47
Corporate bonds	**27,981**	27,440
Lease liabilities	**1,577**	1,638
Other non-current liabilities	**4,909**	495
Total non-current liabilities	**37,389**	32,326
Current liabilities		
Trade and other payables	**1,628**	1,176
Contingent consideration in business combinations	**-**	4,048
Income taxes payable	**260**	279
Lease liabilities	**176**	193
Other financial liabilities	**36**	-
Other current liabilities	**1,992**	1,495
Total current liabilities	**4,092**	7,191
Total liabilities	**41,481**	39,517
Equity		
Capital stock	**41,335**	41,036
Capital surplus	**29,525**	29,100
Treasury stock	**(1)**	(0)
Retained earnings	**(8,911)**	(9,768)
Other components of equity	**(4,012)**	(2,900)
Equity attributable to owners of the parent	**57,936**	57,468
Total equity	**57,936**	57,468
Total liabilities and equity	**99,417**	96,985

2) Consolidated statement of comprehensive income

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Revenue	**15,569**	17,712
Cost of sales	**(926)**	(933)
Gross profit	**14,643**	16,779
Research and development expenses	**(7,454)**	(5,931)
Selling, general and administrative expenses	**(4,377)**	(3,940)
Other income	**626**	8
Other expenses	**(2)**	(3,141)
Operating profit	**3,436**	3,775
Finance income	**663**	199
Finance costs	**(756)**	(3,797)
Share of (loss) gain of associates accounted for using the equity method	**(429)**	50
Impairment loss on investments accounted for using the equity method	**(1,836)**	-
Gain on reversal of impairment loss for investments accounted for using the equity method	**--**	206
Profit before income tax	**1,078**	433
Income tax (expense) benefit	**(696)**	584
Net profit	**382**	1,017
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 (loss) income	**(928)**	760
Total items that may not be reclassified subsequently to (loss) profit	**(928)**	760
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**291**	3,846
Total items that may be reclassified subsequently to profit	**291**	3,846
Total other comprehensive (loss) income	**(637)**	4,606
Total comprehensive income for the year	**(255)**	5,623
Net profit attributable to:		
Owners of the parent	**382**	1,017
	382	1,017
Total comprehensive income for the year attributable to:		
Owners of the parent	**(255)**	5,623
	(255)	5,623
Earnings per share (yen)		
Basic earnings per share	**4.68**	12.53
Diluted earnings per share	**4.63**	12.40

3) Consolidated statement of changes in equity

	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity ¥m	**Equity attributable to owners of the parent ¥m**	**Total equity ¥m**
Balance at January 1, 2021	**40,220**	**30,452**	**(0)**	**(10,785)**	**(7,506)**	**52,381**	**52,381**
Net profit	-	-	-	1,017	-	**1,017**	**1,017**
Other comprehensive loss	-	-	-	-	4,606	**4,606**	**4,606**
Total comprehensive income (loss) for the year	-	-	-	1,017	4,606	**5,623**	**5,623**
Issuance of new shares	689	(89)	-	-	-	**600**	**600**
Share-based payments	-	699	-	-	-	**699**	**699**
Issuance of convertible bonds	-	1,809	-	-	-	**1,809**	**1,809**
Repurchase and cancellation of convertible bonds	-	(3,877)	-	-	-	**(3,877)**	**(3,877)**
Conversion of convertible bonds	127	106	-	-	-	**233**	**233**
Total transactions with owners	816	(1,352)	-	-	-	**(536)**	**(536)**
Balance at December 31, 2021	**41,036**	**29,100**	**(0)**	**(9,768)**	**(2,900)**	**57,468**	**57,468**
Net profit	-	-	-	382	-	**382**	**382**
Other comprehensive loss	-	-	-	-	(637)	**(637)**	**(637)**
Total comprehensive income for the year	-	-	-	382	(637)	**(255)**	**(255)**
Issuance of new shares	299	(299)	-	-	-	**0**	**0**
Share-based payments	-	724	-	-	-	**724**	**724**
Purchase of treasury stock	-	-	(1)	-	-	**(1)**	**(1)**
Transfer from other components of equity to retained earnings	-	-	-	475	(475)	**-**	**-**
Total transactions with owners	299	425	(1)	475	(475)	**723**	**723**
Balance at December 31, 2022	**41,335**	**29,525**	**(1)**	**(8,911)**	**(4,012)**	**57,936**	**57,936**

4) Consolidated statement of cash flow

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Cash flows from operating activities		
Profit before income taxes	**1,078**	433
Adjustments for:		
Depreciation and amortization	**1,345**	1,278
Share-based payments	**700**	713
Impairment loss	**–**	3,138
Loss (gain) on investment in securities	**41**	(2)
Change in fair value of contingent consideration	**(114)**	2,787
Net foreign exchange loss (gain)	**195**	(194)
Interest income	**(236)**	(4)
Interest expense	**714**	529
Share of loss (gain) of associates accounted for using the equity method	**429**	(50)
Impairment loss on investments accounted for using the equity method	**1,836**	–
Gain on reversal of impairment loss on investments accounted for using the equity method	**–**	(206)
Increase in trade and other receivables	**(210)**	(799)
Increase (decrease) in trade and other payables	**315**	(184)
Increase (decrease) in deferred revenue	**5,153**	(800)
Other	**(1,154)**	495
Subtotal	**10,092**	7,134
Grants received	**57**	27
Interest and dividends received	**236**	4
Interest paid	**(171)**	(157)
Income tax paid	**(262)**	(296)
Income tax refunded	**0**	383
Net cash provided by operating activities	**9,952**	7,095
Cash flows from investing activities		
Purchase of property, plant and equipment	**(277)**	(193)
Purchase of intangible assets	**(26)**	(8)
Proceeds from sale of investment in associate	**–**	206
Proceeds from sales of investment securities	**1,209**	–
Proceeds from contingent consideration receivable	**137**	273
Net cash provided by investing activities	**1,043**	278
Cash flows from financing activities		
Repayments of lease liabilities	**(206)**	(183)
Proceeds from issuance of bonds	**–**	29,855
Payments for repurchase and cancellation of corporate bonds	**–**	(18,958)
Payment for settlement of contingent consideration	**(4,680)**	(191)
Proceeds from issuance of common stock	**0**	600
Other	**(1)**	–
Net cash (used in) provided by financing activities	**(4,887)**	11,123
Effects of exchange rate changes on cash and cash equivalents	**362**	1,583
Net increase in cash and cash equivalents	**6,470**	20,079
Cash and cash equivalents at the beginning of the period	**60,087**	40,008
Cash and cash equivalents at the end of the period	**66,557**	60,087

5) Notes to the consolidated financial statements

5.1 Notes related to going concern assumptions

Not applicable.

5.2 Change in accounting policy

Not applicable.

5.3 Operating segments

Overview of reportable segments

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

Information regarding products and services

The breakdown of revenue is as follows:

	Year ended December 31, 2022 ¥m	Year ended December 31, 2021 ¥m
Upfront fees and milestone income	**12,063**	14,667
Royalty income	**2,564**	2,311
Product supply revenue	**80**	28
Other	**862**	706
	15,569	17,712

Geographical information

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

Revenues from external customers

Country	**Year ended December 31, 2022 ¥m**	Year ended December 31, 2021 ¥m
Japan	**80**	(22)
USA	**9,934**	13,937
Bermuda	**2,849**	301
Switzerland	**2,564**	2,311
UK	**142**	1,178
Ireland	**–**	7
	15,569	17,712

Non-current assets

	At December 31, 2022 ¥m	At December 31, 2021 ¥m
Japan	**167**	252
UK	**27,571**	27,882
	27,738	28,134

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

Information about major customers

Name of customer	**Year ended December 31, 2022 ¥m**	Year ended December 31, 2021 ¥m
Neurocrine Biosciences, Inc.	**4,138**	11,408
Eli Lilly and Company	**3,429**	–
AbbVie Inc.	**2,849**	301
Novartis International AG	**2,564**	2,311

Note: Revenues in the table above include revenues from subsidiaries of the customer groups listed

5.4 Earnings per share

Basic earnings per share

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

	Year ended December 31, 2022	Year ended December 31, 2021
Net profit attributable to owners of the parent (¥m)	**382**	1,017
Weighted-average number of common shares outstanding (Shares)	**81,785,008**	81,187,311
Basic earnings per share (¥)	**4.68**	12.53

Diluted earnings per share

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

	Year ended December 31, 2022	Year ended December 31, 2021
Net profit	**382**	1,017
Adjustment to net profit used in the calculation of diluted earnings per share (¥m)	-	-
Net profit used in the calculation of diluted earnings per share (¥m)	**382**	1,017
Weighted-average number of common shares outstanding (Shares)	**81,785,008**	81,187,311
Increases in number of common shares used in the calculation of diluted earnings per share (Shares):		
Increases in number of common shares due to the exercise of stock options (Shares)	70,387	151,334
Increases in number of common shares due to the allotment of Restricted Stock Units (Shares)	727,124	587,147
Increases in number of common shares due to the allotment of Performance Share Units (Shares)	7,922	80,114
Convertible bonds (Shares)	-	-
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	**82,590,441**	82,005,906
Diluted earnings per share (¥)	**4.63**	12.40
Summary of potential stocks not included in the calculation of diluted earnings per share because they do not have a dilutive effect	**The 32nd-35th series of stock options (Totalling common shares 15,200) Euro-yen Denominated Convertible Bonds due 2026 (Common shares 13,422,818)**	**The 32nd-35th series of stock options (Totalling common shares 18,000) Euro-yen Denominated Convertible Bonds due 2026 (Common shares 13,422,818)**

5.5 Significant subsequent events

Not applicable.