To Our Shareholders:

TSE Securities Code: 4565
(Sending date) March 7, 2024
(Starting date of the electronic provision) February 29, 2024

2-1 Kojimachi, Chiyoda-ku, Tokyo
Sosei Group Corporation
Representative Executive Officer, President and CEO Christopher Cargill

Notice of the 34th Ordinary General Meeting of Shareholders

We would like to extend our deepest condolences to all of those affected by Noto Peninsula Earthquake of 2024.

Sosei Group Corporation (the Company) would like to inform you that the 34th Ordinary General Meeting of Shareholders of the Company (the "Meeting") will be held as follows.

For this Meeting, we have taken measure of "the electronic provision system" of the shareholders meeting documents including reference documents for this Meeting. We have posted the notice of convening the 34th Ordinary General Meeting of Shareholders on our website on the Internet. Please access and confirm the following websites.

【Company's website】 https://www.soseiheptares.com/?ctry=jp

Please access the above website and select 『株主・投資家情報』『株式情報』『株主総会』from the menu in order.

In addition to the above website, the electronic provision system of the shareholders meeting documents are also available on the website of Tokyo Stock Exchange("TSE").

【TSE website】 https://www2.jpx.co.jp/tseHpFront/JJK010010Action.do?Show=Show

Please access the above website, enter and search for 『そーせいグループ』 in 『銘柄名（会社名）』 or our securities code 『4565』 in 『コード』 and search for 『基本情報』 and 『縦覧書類/PR情報』 in order, and confirm from the 『株主総会招集通知/株主総会資料』 column in 『縦覧書類』.

If you are unable to attend the Meeting, you may exercise your voting rights via the Internet or in writing (by mail). Please review the reference documents for the Meeting and exercise your voting rights by 5:00 p.m. on Tuesday, March 26, 2024 refering to "Exercise of Voting Rights."

Yours sincerely

Date and Time	Wednesday, March 27, 2024 at 10:00 a.m. (Reception start: 9:30 a.m.)	
Venue	Fuji-No-Ma Hall, 4th Floor, Hotel Grand Arc Hanzomon 1-1, Hayabusa-cho, Chiyoda-ku, Tokyo, Japan Please refer to "Access to Meeting of Shareholders Venue" at the end.	
Agenda	Matters to be reported:	1. Business Report, Consolidated Financial Statements, and Reports of Independent Auditor and the Audit Committee on the Consolidated Financial Statements for the 34th fiscal period (from January 1, 2023 to December 31, 2023) 2. Report on the Non-Consolidated Financial Statements for the 34th fiscal period (from January 1, 2023 to December 31, 2023)
	Matters to be resolved:	Proposal No1. - Partial amendment of articles of incorporation Proposal No2. - Election of Nine (9) Directors

Matters to be Determined in Convocation "Notice on exercising voting rights"	1. If you do not indicate whether you approve or disapprove of each proposal on the Voting Rights Exercise Form that you have sent back to us, you will be deemed to have Approved it. 2. If the voting rights are execised both via the Internet and in writig, the voting rights execised via the Internet shall be treated as valid. 3. If the voting rights are exercised twice or more times via the Internet, the latest exercise thereof shall be treated as valid. 4. If you intend to make a diverse exercise of your voting right, please notify our sock transfer agent in writing or by electronic method of your intention of make a diverse exercise of your voting rights and the reasons therrof three(3) days prior to the General Meeting of Shareholders. Above

◎ If you attend the Meeting, please present the Voting Rights Exercise Form sent with this notice of convocation to the receptionist at the venue.

◎ Regarding the shareholders meeting documents provided by the electronic provision system, the following matters are not included in the documents delivered to shareholders who request delivery of documents pursuant to the provisions of laws and regulations and Article 14 of the Company's Articles of Incorporation.In addition, the Audit Committee and the Independent Auditor have audited the documents to be audited, including the following matters.

・Of the business report "Current State of the Corporate Group"

Progress and Results of Operations
Assets and Profit/Loss in the previous three fiscal years
Issues to be addressed
Main Business Activities
Main Offices and Factories
Employee Information
Principal Lenders
Other Significant Matters on the Current Status of the Group

・Of the business report "Current Status of the Company"

State of Shares
Stock acquisition rights ("stock options"), etc.
Independent Auditors
Outline of the systems for ensuring the appropriateness of operations and their operating status
Policy on determination of Dividends, etc.
Policy on the conduct of persons influencing decision on the Company's financial and business policies

・Consolidated Financial Statements（Consolidated Balance Sheet, Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Notes to the Consolidated Financial Statements）

・Non-Consolidated Financial Statements（Non-Consolidated Balance Sheet, Non-Consolidated Statement of Profit or Loss, Non-Consolidated Statement of Changes in Equity and Notes to the Non-Consolidated Financial Statements）

◎ In the event that matters described in the shareholders meeting documents provided by the electronic provision system is amended, we will post the amendment on Company's website and TSE website above on the Internet.

Information on meetings with shareholders

・In consideration of the health and safety of our shareholders, we will hold the meeting after taking appropriate measures to prevent the spread of infection.

・After the general meeting of shareholders, we will hold an informal gathering for shareholders at the same venue.We would like to hear various valuable opinions from our shareholders, whom we rarely get to meet on a daily basis, so we are waiting for you with a light meal.

Exercise of Voting Rights

You may exercise your voting rights using one of the following three methods.

Exercising voting rights on the Internet

Please use a personal computer or smartphone to access the voting website designated by the Company. Please enter the “Voting code” and “Password” printed on the Voting Rights Exercise Form sent with this notice to the receptionist at the venue and exercise your voting rights by following the instructions displayed on the screen.

Exercise due date: No later than 5:00 p.m. on Tuesday, March 26, 2024

Exercising voting rights in writing (by mail)

Please indicate your approval or disapproval of each proposal on the Voting Rights Exercise Form sent with this notice and post it without affixing postage stamps.

Exercise due date: To be received no later than 5:00 p.m. on Tuesday, March 26, 2024

For those attending the Meeting in person

Please submit the Voting Rights Exercise Form at the reception desk at the venue.

Date and Time:	Wednesday, March 27, 2024 at 10:00 a.m. (Reception start: 9:30 a.m.)
Venue:	Fuji-No-Ma Hall, 4th Floor, Hotel Grand Arc Hanzomon 1-1, Hayabusa-cho, Chiyoda-ku, Tokyo, Japan

The Company designated voting website https://www.web54.net

You can connect to the voting website via smartphone.

<Smart Vote>

Smartphone users may log in to the voting website without entering the “voting code” and “password” by scanning the QR Code printed on the Voting Rights Exercise Form. For details, please refer to the leaflet sent with this notice.

<Cautionary matters>

- Each shareholder shall bear any fees for accessing the voting website (Internet connection fees, communications fees, etc.).

Inquiries related to exercise of voting rights via the Internet

The Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Web Support Helpline
Telephone: 0120-652-031 (toll-free in Japan only; hours: 9:00 a.m. to 9:00 p.m.)

To institutional investors

You may use the Electronic Voting Platform operated by ICJ Inc., as a method of exercising your voting rights.

Proposal No.1　Partial amendments to the Articles of Incorporation

1. Reasons for proposal

(1) In July 2023, the Company acquired all the issued shares of Idorsia Pharmaceuticals Japan Ltd (“IPJ”) and made it a wholly owned subsidiary with the strategic goal to expand the Company’s operations in Japan. As IPJ and Sosei Co. Ltd., also a wholly owned subsidiary of the Company, plan to merge as of the effective date April 1, 2024, the Company has decided to use the event to adopt a unified corporate brand and corporate name for the Group, including all subsidiaries. As a result, the Company's corporate name as stipulated in Article 1 of the Articles of Incorporation shall be changed from "Sosei Group Corporation" to "Nxera Pharma Co., Ltd." and the prescribed changes shall be made.
The name "Nxera" is derived from the words "Next" and "Era" to express the Company's determination to be a leader in the next era of science and healthcare. “Nxera” will be a technology-enabled pharma company that will challenge the status quo in its pursuit of better treatments for patients that are waiting.

(2) Considering the merger between the subsidiaries as described in (1) above, the Company's head office will be moved to the same location as the head office of IPJ (Minato-ku, Tokyo) to accelerate business integration and enhance operating efficiencies. In accordance with this change, the location of the head office as stipulated in Article 3 of the Articles of Incorporation shall be changed from Chiyoda-ku, Tokyo to Minato-ku, Tokyo, and the prescribed changes shall be made.

(3) This is also to amend the number of directors specified in Article 19 of the existing Articles of Incorporation from not more than ten (10) to not more than twelve (12) directors to allow for future flexibility to enhance the supervisory function of the Board as the Company grows.

The above (1) (2) changes will take effect on April 1, 2024.

2. Content of the Amendment

The proposed Amendments are as follows.

(The underlined portions show the changes.)

Current Articles of Incorporation	Proposed Amendments
(Corporate Name) Article 1 The name of the Company shall be <u>“Sosei Group Kabushiki Kaisha,”</u> and shall be <u>“Sosei Group Corporation”</u> in English. (Head Office) Article 3 The head office of the Company shall be located in <u>Chiyoda-Ku</u>, Tokyo, Japan.	(Corporate Name) Article 1 The name of the Company shall be <u>“Nxera Pharma Kabushiki Kaisha,”</u> and shall be <u>“Nxera Pharma Co., Ltd.”</u> in English. (Head Office) Article 3 The head office of the Company shall be located in <u>Minato-Ku</u>, Tokyo, Japan.

Current Articles of Incorporation	Proposed Amendments
(Number of Directors) Article 19 The Company shall have no more than ten (10) Directors.	(Number of Directors) Article 19 The Company shall have no more than twelve (12) Directors.
(Newly established)	(Supplementary provisions) 1. The changes to Article 1 (Corporate Name) and Article 3 (Head Office) of the current Articles of Incorporation shall take effect from 1 April 2024 (the "Effective Date"). 2. These Supplementary Provisions shall be deleted after the Effective Date.

Proposal No.2 Election of Nine (9) Directors

The term of office of all of current nine(9) directors will expire at the conclusion of the Meeting. In accordance with the decision by the Nomination Committee, the election of total nine (9) directors shall be proposed. Our Nomination Committee shall evaluate candidates for directors on the required skills, including management experience, expertise, career and achievements, and the status of concurrent assignments with other companies. The level of performance of duties, mental and physical health, and compliance awareness are also considered for election. Candidate selection shall be made to realize a high degree of diversity in gender, nationality and so on. The candidates are as follows:

Candidate No.	Name	Current positions and responsibilities at the Company	Attribute	Number of times attended Board of Directors Meetings
1	Shinichi Tamura	Chairman of the Board, Chair of the Nomination Committee, Member of the Compensation Committee	Re-appointed	15/17 times
2	Christopher Cargill	Director, Representative Executive Officer, President & CEO Member of the Compensation Committee	Re-appointed	17/17 times
3	Tomohiro Tohyama	External Director, Chair of the Audit Committee, Member of the Compensation Committee	Re-appointed External Ind	15/17 times
4	Kuniaki Kaga	External Director, Member of the Audit Committee	Re-appointed External Ind	16/17 times
5	David Roblin	External Director, Chair of the Compensation Committee, Member of the Nomination Committee	Re-appointed External Ind	16/17 times
6	Noriaki Nagai	External Director, Member of the Nomination Committee, Member of the Audit Committee	Re-appointed External Ind	17/17 times
7	Rolf Soderstrom	External Director, Member of the Compensation Committee, Member of the Audit Committee,	Re-appointed External Ind	17/17 times
8	Miwa Seki	External Director, Member of the Nomination Committee, Member of the Audit Committee	Re-appointed External Ind	15/17 times
9	Eiko Tomita	External Director	Re-appointed External Ind	11/12 times

Reappointed	Candidate as Reappointed Director
External	Candidate as External Director
Ind	Independent Director designated in accordance with the listing regulations of stock exchanges

※ Ms. Eiko Tomita was elected as Directors at the 33rd Ordinary General Meeting of Shareholders held on March 23, 2023 and was appointed as director on 1 April 2023, and accordingly, the numbers of times she attended the Board of Directors meetings held since assuming office are stated in.

Reference The expertise of the nominated director and the committees they are scheduled to become members of, if agenda proposals are approved, are as follows. Note that the table below does not necessarily represents all the expertises that the nominated directors have.

Name	Term of office	Skill					Scheduled to take office
		Corporate management	Technology/ R&D	Business strategy/ Marketing	Finance/ Accounting	Legal	
Shinichi Tamura	34 years	●	●	●			Nomination/ Compensation
Christopher Cargil	2 year	●		●	●		Compensation
TomohiroTohyama	13 years	●				●	Compensation/ Audit
Kuniaki Kaga	6 years	●	●	●			Audit
David Roblin	6 years	●	●	●			Nomination/ Compensation
Noriaki Nagai	5 years			●	●	●	Nomination/ Audit
Rolf Soderstrom	4 years	●		●	●		Compensation/ Audit
Miwa Seki	2 year	●		●	●		Nomination/ Audit
Eiko Tomita	1 year		●	●			–

Candidate No.

1

Shinichi Tamura

(Born 17/Sep/1949)

No. of shares owned:	594,270
Term of office as Board Director:	34 years
Attendance at Board Meetings:	15/17 times

Reappointed

[Career summary, and positions and responsibilities at the Company]

Apr. 1978	Joined Fujisawa Pharmaceutical Co., Ltd. (current Astellas Pharma Inc.)
Feb. 1987	Joined Genentech Inc.
Jul. 1989	Representative Director & President, Genentech Limited
Jun. 1990	Representative Director & CEO of the Company
Jun. 2005	Board Director, Representative Executive Officer and President, CEO of the Company
Mar. 2012	Managing Director, Sosei R&D Ltd.
Jun. 2016	Chairman of the Board of the Company Representative Executive Officer and Executive Chairman of the Company
Jan. 2019	Representative Executive Officer, Chairman, President and CEO of the Company
Sep. 2021	Representative Executive Officer, CEO of the Company
Mar. 2022	Chairman of the Board of the Company (to the present)

<Committee membership>

Chair of the Nomination Committee; Member of the Compensation Committee

[Significant concurrent posts]

N/A

Reason for selection of the candidate as Director

Mr. Shinichi Tamura is the founder of the Company and has led the Company's business expansion by utilizing his extensive experience in corporate management in the pharmaceutical industry. Since March 2022, he has concentrated on his role as Chairman of the Board of Directors. For further development of the Company's business, the Company proposes that he continue to be elected as a Director.

Candidate No.			
2	**Christopher Cargill** (Born 3/Jan/1984)	No. of shares owned:	41,687
		Term of office as Board Director:	2 year
		Attendance at Board Meetings:	17/17 times

Reappointed

[Career summary, and positions and responsibilities at the Company]

Feb. 2009	Joined KPMG
Apr. 2010	Joined J.P. Morgan Chase & Co
Sep. 2017	Head of IR and Corporate Communication Dept of the Company
Jun. 2018	Interim CFO of the Company
Jun. 2018	Director, Sosei R&D Ltd.
Nov. 2018	Executive Officer and Executive Vice President, CFO of the Company
Jan. 2019	Director, Heptares Therapeutics Ltd. (to the present)
Apr. 2021	Executive Officer, COO, CFO of the Company
Sep. 2021	Executive Officer, CFO of the Company
Mar. 2022	Representative Executive Officer and President, CEO of the Company (to the present)
Aug. 2022	Director, Sosei Group USA Inc. (to the present)
Apr. 2023	Representative Director and President, Sosei Co. Ltd. (to the present)
Jul. 2023	Director, Idorsia Pharmaceuticals Japan Ltd. (to the present)

<Committee membership>
Member of the Compensation Committee

[Significant concurrent posts]
Representative Director and President, Sosei Co. Ltd.
Director, Idorsia Pharmaceuticals Japan Ltd.
Director, Heptares Therapeutics Ltd.

Reason for selection of the candidate as Director

Mr. Christopher Cargill has extensive expertise in finance and accounting based on his business experience at a major overseas financial institution, etc. Since joining the Company in 2017, he was responsible for formulating business strategies as CFO and has demonstrated a high level of business management skills as a Director of Heptares Therapeutics Ltd., since 2019. Since March 2022, he has been Representative Executive Officer, President & CEO of the Company. It is expected that he demonstrates a high level of expertise with his understanding the overall management of the Company. Thus, the Company proposes that he continue to be elected as a Director.

Candidate No.

3

Tomohiro Tohyama
(Born 21/Feb/1950)

No. of shares owned:	51,258
Term of office as External Director:	13years
Attendance at Board Meetings:	15/17 times

Reappointed

External

Independent

[Career summary, and positions and responsibilities at the Company]

Apr. 1978	Entered Legal Training and Research Institute, Supreme Court of Japan
Apr. 1980	Registered with Dai-ichi Tokyo Bar Association Joined Nishimura & Sanada Law Office
May 1984	Mason & Sloane LLP., USA
Feb. 1985	Pollock, Bloom & Dekom, USA
Jun. 1985	Pryor, Cashman, Sherman & Flynn, USA
Aug. 1985	Returned to Nishimura & Sanada Law Office as a partner
Oct. 1990	Partner (one of founders) at TMI Associates (to the present)
Nov. 1999	External Corporate Auditor, Nippon Shikizai, Inc.
Jun. 2010	External Director, Avex Group Holdings Inc.
Jun. 2011	External Director of the Company (to the present)
May 2016	External Director, Member of the Audit and Supervisory Committee, Nippon Shikizai, Inc. (to the present)
May 2016	External Director, Trust Capital Co., Ltd.
Jun. 2016	Outside Statutory Auditor , WOWOW Inc.

<Committee membership>
Chair of the Audit Committee; Member of the Compensation Committee

[Significant concurrent posts]
Partner at TMI Associates
External Director and Audit and Supervisory Committee Member of Nippon Shikizai, Inc.

Reason for selection of the candidate as External Director and summary of expected roles

Mr. Tomohiro Tohyama has extensive experience and expertise in international corporate legal affairs as a partner at a major law firm in Japan, and he also has experience in managing multiple companies as an External Director and Corporate Auditor. He has been actively providing useful advice and suggestions on overall management by utilizing his expert perspective on corporate management and legal affairs. It is expected that his performance of these important roles will further strengthen the oversight of the management and the governance system, and thus the Company proposes that he continue to be elected as an External Director.

Candidate No.			
4	Kuniaki Kaga (Born 1/Sep/1951)	No. of shares owned:	35,598
		Term of office as External Director:	6years
		Attendance at Board Meetings:	16/17 times

Reappointed

External

Independent

[Career summary, and positions and responsibilities at the Company]

Apr. 1975	Joined Mitsubishi Kasei Kogyo Kabushiki Kaisha (current Mitsubishi Chemical Corporation)
Jun. 2004	Deputy Director, Head of Healthcare Planning Department, Mitsubishi Chemical Corporation
Oct. 2005	Deputy Director, Mitsubishi Chemical Holdings Corporation (current Mitsubishi Chemical Group Corporation) Head of Healthcare Strategy Office
Jun. 2006	Executive Officer and Head of Healthcare Strategy Office, Mitsubishi Chemical Holdings Corporation Executive Officer, Head of Healthcare Business Domain, and General Manager of Healthcare Planning Office, Healthcare Business Domain, Mitsubishi Chemical Corporation
Jun. 2009	Board Director, Mitsubishi Tanabe Pharma Corporation
Jun. 2010	Representative Director, Managing Executive Officer, General Manager of International Business Department, Mitsubishi Tanabe Pharma Corporation
Apr. 2012	Representative Director, Senior Managing Executive Officer, General Manager of Research Division and International Business Department, Mitsubishi Tanabe Pharma Corporation
Apr. 2014	President and Representative Director, Life Science Institute, Inc. Board Director, Mitsubishi Tanabe Pharma Corporation Board Director, The KAITEKI Institute, Inc.
Feb. 2015	President and Representative Director, The KAITEKI Institute, Inc.
Jun. 2018	External Director of the Company (to the present)
Jan. 2021	External Director, SUSMED, Inc (to the present)

<Committee membership>
Member of the Audit Committee

[Significant concurrent posts]
External Director, SUSMED, Inc

Reason for selection of the candidate as External Director and summary of expected roles

Mr. Kuniaki Kaga has held several senior positions at leading Japanese chemical and pharmaceutical companies. He has been actively providing useful advice and suggestions on overall management by leveraging his expertise in corporate management, technology, research and development, business strategy and marketing. It is expected that his performance of these important roles will further strengthen the oversight of the management and the governance system, and thus the Company proposes that he continue to be elected as an External Director.

Candidate No.

5

David Roblin

(Born 25/Sep/1966)

No. of shares owned:	6,532
Term of office as External Director:	6 years
Attendance at Board Meetings:	16/17 times

Reappointed

External

Independent

[Career summary, and positions and responsibilities at the Company]

Apr. 1991	Medical practice at St George's and St Bartholomew's Hospital, London
Jun. 1997	Head of Therapy Area for Anti-Infectives, Bayer Pharma AG
Jun. 2008	Senior Vice President, Head of Research, Site Head, Chief Medical Officer (CMO), Europe R&D, Pfizer Inc.
Apr. 2011	CMO, Creabilis
Sep. 2013	Honorary Professor, Swansea University, School of Medicine (to the present)
Feb 2014	COO, The Francis Crick Institute
Jun. 2015	Honorary Professor of Translational Medicine, St George's Hospital Medical School (to the present)
Feb. 2017	Chairman of Scientific Translation, The Francis Crick Institute (to the present)
Feb. 2017	President of R&D, Summit Therapeutics
Jun. 2018	External Director of the Company (to the present)
Mar. 2020	COO and CEO JuvRX, Juvenescence Ltd
Apr. 2022	CEO, Relation Therapeutics Limited (to the present)
Apr. 2022	Chair of Board, Centauri Therapeutics Limited (to the present)

<Committee membership>
Chair of the Compensation Committee; Member of the Nomination Committee

[Significant concurrent posts]
Chairman of Scientific Translation, The Francis Crick Institute
CEO, Relation Therapeutics Limited
Chair of Board, Centauri Therapeutics Limited

Reason for selection of the candidate as External Director and summary of expected roles

Dr. David Roblin gained clinical experience as a physician, and later followed with a distinguished career in the pharmaceutical industry, most notably as SVP and Head of R&D in Europe for a major pharmaceutical company. He has been actively providing useful advice and suggestions on R&D in general, utilizing his expert perspective on corporate management, technology, R&D, business strategy and marketing. It is expected that his performance of these important roles will further strengthen the oversight of the management and the governance system, and thus the Company proposes that he continue to be elected as an External Director.

Candidate No.

6

Noriaki Nagai

(Born 1/Dec/1957)

No. of shares owned:	34,164
Term of office as External Director:	5 year
Attendance at Board Meetings:	17/17 times

Reappointed

External

Independent

[Career summary, and positions and responsibilities at the Company]

Apr. 1981	Joined Nomura Securities, Co., Ltd. (NSC)
Sep. 1998	Managing Director, Head of European Administration Division of Nomura International plc
Jun. 2000	General Manager, Legal Dept., NSC
Apr. 2006	Executive Officer in charge of Corporate, Nomura Holdings, Inc. (NHI) Executive Officer in charge of Legal, NSC
Apr. 2010	Executive Managing Director in charge of corporate planning, legal and secretary, NSC
Apr. 2011	Executive Officer and Chief Legal Officer, NHI Executive Managing Director in charge of legal and secretary, NSC
Jun. 2013	External Director, Japan Securities Depository Center, Inc.
Jun. 2013	External Director, Japan Securities Clearing Corporation
Apr. 2014	Executive Officer in charge of Corporate and Chief Legal Officer, NHI Executive Managing Director in charge of planning management, NSC
Apr. 2015	Professor of Law, Doshisha University
Mar. 2019	External Director of the Company (to the present)

<Committee membership>
Member of the Nomination Committee, Member of the Audit Committee

[Significant concurrent posts]
N/A

Reason for selection of the candidate as External Director and summary of expected roles

Mr. Noriaki Nagai held key positions in the corporate division of a major securities company and was a university professor at faculty of law. He has been actively providing useful advice and suggestions to the Company's management in general, utilizing his expertise in business strategy and marketing, finance and accounting, and legal affairs. It is expected that his performance of these important roles will further strengthen the oversight of the management and the governance system, and thus the Company proposes that he continue to be elected as an External Director.

Candidate No.

7

Rolf Soderstrom

(Born 29/Jul/1965)

No. of shares owned:	14,313
Term of office as External Director:	4years
Attendance at Board Meetings:	17/17 times

Reappointed

External

Independent

[Career summary, and positions and responsibilities at the Company]

Jan. 1988	Joined PricewaterhouseCoopers
Dec. 2000	Corporate Finance Director, Cable & Wireless plc
Jun. 2002	External Director, MobileOne Ltd. (current M1 Ltd.)
Jan. 2004	Divisional Finance Director, Cobham plc
Aug. 2007	Chief Financial Officer, Protherics plc (current BTG plc)
Dec. 2008	Chief Financial Officer, BTG plc
Jul. 2019	Senior Independent Director, Ergomed plc
Mar. 2020	External Director of the Company (to the present)
Sep. 2020	Non Executive Director, BioPharma Credit plc (to the present)
Jul. 2021	Chief Financial Officer, Syncona Investment Management Limited (to the present)

<Committee membership>
Member of the Compensation Committee, Member of the Audit Committee

[Significant concurrent posts]
Chief Financial Officer, Syncona Investment Management Limited
Non Executive Director, BioPharma Credit plc

Reason for selection of the candidate as External Director and summary of expected roles

Mr. Rolf Soderstrom is a qualified chartered accountant in the United Kingdom and has extensive experience and achievements in M&A, risk management and governance as a leader in finance-related matters for companies in Europe, North America and Asia. For the past 16 years he has worked in various companies in the Life Sciences sector. He has been actively providing useful advice and suggestions on overall management by utilizing his expertise in corporate management, business strategy and marketing, finance and accounting. It is expected that his performance of these important roles will further strengthen the oversight of the management and the governance system, and thus the Company proposes that he continue to be elected as an External Director.

Candidate No.			
8	Miwa Seki (Born 25/Feb/1965)	No. of shares owned:	11,276
		Term of office as External Director:	2 year
		Attendance at Board Meetings:	15/17 times

Reappointed

External

Independent

[Career summary, and positions and responsibilities at the Company]

Apr. 1988	Joined DENTSU INC.
Apr. 1989	Joined Smith Barney
Sep. 1993	Joined Morgan Stanley
Feb. 1997	Joined Clay Finlay Limited
Jan. 2003	General Manager, Tokyo Branch, Clay Finlay Limited
Apr. 2015	Associate Professor, Faculty of Foreign Studies, Kyorin University
Jun. 2018	External Director, World Co., Ltd. (to the present)
Jun. 2020	External Director, DAIWA HOUSE INDUSTRY CO., LTD. (to the present)
Apr. 2021	Specially Appointed Associate Professor, Faculty of Foreign Studies, Kyorin University
May.2021	General Partner MPOWER PARTNERS FUND (to the present)
Mar. 2022	External Director of the Company (to the present)

<Committee membership>
Member of the Nomination Committee, Member of the Audit Committee

[Significant concurrent posts]
General Partner MPOWER PARTNERS FUND
External Director, World Co., Ltd
External Director, DAIWA HOUSE INDUSTRY CO., LTD.
Director, Yanai Tadashi Foundation
Director, Fast Retailing Foundation

Reason for selection of the candidate as External Director and summary of expected roles

Ms. Miwa Seki served as head of Japan at a foreign capital financial institution and is currently a founding partner of an ESG-oriented investment fund. She has been actively providing useful advice and suggestions on overall management by utilizing her expert perspective on corporate management, business strategy and marketing, and finance/accounting. It is expected that her performance of these important roles will further strengthen the oversight of the management and the governance system, and thus the Company proposes that she continue to be elected as an External Director.

Candidate No.			
9	**Eiko Tomita** (Born 20/Apr/1961)	No. of shares owned:	-
		Term of office as External Director:	1 year
		Attendance at Board Meetings:	11/12 times

Reappointed

External

Independent

[Career summary, and positions and responsibilities at the Company]

Apr. 1984	Joined Eisai Co. Ltd.
Sep. 1994	Joined IBRD Japan Corporation
Sep. 1999	Joined Monsanto Japan Ltd. (current Pfizer Inc.)
Nov. 2000	Joined AstraZeneca K.K.
Sep. 2006	Joined Pfizer Japan Inc.
Apr. 2007	Joined Bristol-Myers Squibb K.K.
Nov. 2017	Bristol-Myers Squibb Vice President, Global Regulatory Sciences Intercontinental responsible for Japan, Korea, Taiwan and Intercontinental (Australia, Brazil, Turkey, India, Middle East and South America, etc.)
Mar. 2020	Bristol-Myers Squibb Vice President, Global Regulatory Sciences Intercontinental responsible for Intercontinental (China, Korea, Taiwan, Australia, Russia, Brazil, Turkey, India, Middle East, South America, etc.)
Apr. 2023	External Director of the Company (to the present)

[Significant concurrent posts]
N/A

Reason for selection of the candidate as External Director and summary of expected roles

Ms. Eiko Tomita is a qualified pharmacist of Japan and has a remarkable track record and has been deeply involved in the international pharmaceutical approval process for global pharmaceutical companies both domestically and internationally. She has been actively providing useful advice and suggestions on overall management by utilizing her expertise in technology, research and development, business strategy and marketing. It is expected that her performance of these important roles will further strengthen the oversight of the management and the governance system, and thus the Company proposes that she continue to be elected as an External Director.

Notes 1. There is no special conflict of interests between the Director candidates and the Company.

2. Mr. Tomohiro Tohyama, Mr. Kuniaki Kaga, Dr. David Roblin, Mr. Noriaki Nagai, Mr. Rolf Soderstrom, Ms. Miwa Seki, and Ms. Eiko Tomita are candidates for External Directors.

3. Summary of liability limitation agreements with the candidates

In accordance with Article 427, Paragraph 1 of the Companies Act, the Company entered into an agreement that limits liability for damages under Article 423, Paragraph 1 of the said Act with each of Mr. Tomohiro Tohyama, Mr. Kuniaki Kaga, Dr. David Roblin, Mr. Noriaki Nagai, Mr. Rolf Soderstrom, Ms. Miwa Seki and Ms. Eiko Tomita. The limit on the liability for damages under the agreements is the minimum amount of liability stipulated in Article 425, Paragraph 1 of the Companies Act. If the appointment of each candidate is approved at the Meeting, the Company intends to continue liability limitation agreements with the candidates.

4. We have a liability insurance (D&O insurance) policy in which all of our directors are insured. The Company is paying the full amount of premiums for this policy. To a director who is an insured person being liable for the execution of his/her duties or a request pertaining to the pursuance of such liability damage that may be caused by such damage is covered. If the election of each candidate is approved at the Meeting, each candidate will be included as an insured person under the relevant insurance policy. Moreover, we plan to renew D&O insurance with same content for the next contract renewal.

5. The Company has notified Tokyo Stock Exchange, Inc. of the appointment of Mr. Tomohiro Tohyama, Mr. Kuniaki Kaga, Dr. David Roblin, Mr. Noriaki Nagai, Mr. Rolf Soderstrom, Ms. Miwa Seki and Ms. Eiko Tomita as Independent Directors in accordance with the regulations of Tokyo Stock Exchange, Inc. If the election of each candidate is approved at the Meeting, the company plans to continue to designate each person as Independent Directors.

Reference the Independence Standards for External Directors

An external director will be determined to be independent if he or she does not fall under any of the following categories:

(1) A person who is or was an executive director, executive officer or other officer or employee (hereinafter collectively referred to as "Executive") of our Group (the Company and its affiliated companies);

(2) A person who is or was in any of the last three business years an Executive at our Group’s principal business partner (a company with which the annual amount of transaction (the amount of products and services provided or procured) exceeds 2% of consolidated net sales of the Company or the partner or a financial institution from which the amount of borrowing outstanding at the end of fiscal year exceeds 2% of the Company’s consolidated total asset) and its parent and subsidiary companies, and subsidiaries of such parent company;

(3) A consultant, or accounting or legal expert who has received in any of the last three business years cash or other property exceeding 10 million yen from our Group other than the remuneration for a director or officer (or a person who belongs to an organization if the said property has been received by a juridical person, partnership or any other organization);

(4) A person who belongs or belonged to an auditing firm that is an accounting auditor of the Company or its consolidated subsidiary in any of the last three business years;

(5) A major shareholder of the Company (shareholder holding 10% or more on a voting rights basis of the shares in the Company in its own or other's name) at the end of the most recent business year or its Executive;

(6) A spouse or relative within the second degree of kinship of a person who falls under any of the items (1) to (5) above provided that an Executive shall be in an “Important Position.” For the purpose of this item, a person is in an “Important Position" when the person is a director (excluding external director), executive officer, officer, employee in senior management position of general manager or higher, or other person who is objectively and reasonably judged to be in a position of equivalent importance; or

(7) A person who is reasonably judged to be unable to perform his or her duties as an independent external director due to a potential conflict of interest with shareholders.

End

1 Current State of the Corporate Group

(1) Progress and Results of Operations

1) Group Overview

Sosei Group is a science and technology-led biopharmaceutical business whose core activities are drug discovery, drug development and the commercialization of pharmaceutical products. Within the Group, Heptares Therapeutics Ltd (a wholly owned subsidiary based in UK) mainly engages in drug discovery, translational medicine, preclinical and early clinical development; Idorsia Pharmaceuticals Japan Ltd. ("IPJ"; a wholly owned subsidiary based in Japan), and Idorsia Pharmaceuticals Korea Co., Ltd. ("IPK"; a wholly owned subsidiary based in South Korea), mainly engage in clinical development and product commercialization in Japan and South Korea, respectively, with potential to expand into other Asia-Pacific ("APAC") regions.

In drug discovery, the Group's core scientific focus is to discover new medicines for important unmet medical needs, including novel small molecules, peptides and therapeutic antibodies, targeting G Protein-Coupled Receptors ("GPCRs"). Its proprietary StaR® ("stabilized receptor") technology and structure-based drug design ("SBDD") platform have enabled the Group to become a world leader in discovering new drugs to target GPCRs and to develop an extensive pipeline of over 30 active in-house and partnered discovery and development programs across important therapeutic areas, including neurology, gastroenterology, and immunology and inflammation.

In late-stage development and commercialization, the Group owns the Japan and APAC (excluding China) territory rights to PIVLAZ® (launched in Japan in 2022 to treat cerebral vasospasm) and daridorexant (filed in Japan in 2023 to treat insomnia), as well as exclusive options to license Japan and APAC (ex-China) rights from Idorsia Pharmaceuticals to its Phase 3 cenerimod (autoimmune diseases) and lucerastat (Fabry disease) programs.

In addition, the Group generates royalty revenues from the global sales of respiratory disease products Seebri® Breezhaler®, Ultibro® Breezhaler® and Enerzair® Breezhaler® from Novartis International AG ("Novartis"). These royalties provide the Group with a significant, stable source of capital to support the investment required to achieve its strategic objectives.

During 2023, management has focused on implementing an evolved strategy to more effectively leverage the Group's proprietary platform, pipeline and capabilities to grow its business in Japan and internationally. This strategy, designed to apply cutting-edge science to create pipeline programs by design and deliver life-changing medicines to patients, has been 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 investment and internal innovation combined with external collaborations that provide access to advanced complementary technologies.

(ii) Transforming R&D to a program-centric operational model, entrenching target biology and enhancing translational medicine capabilities, to quickly achieve clinical proof of concept. This, in turn, is expected to enable the advancement of higher quality internal candidates more cost effectively, promote the signing of more profitable out-licensing deals, as well as the generation of a deeper in-house pipeline.

(iii) 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. The Group aims to retain rights to develop and commercialize candidates in Japan/APAC under these partnership agreements.

(iv) Building out an agile, scalable and effective clinical development and commercialization business in Japan and APAC. This strategic initiative aims to capitalize on significant underserved opportunities that the Group sees within this large attractive market. This strategy includes in-licensing externally sourced and de-risked clinical assets that are either approved or in late-stage clinical development, as well as expanding the pipeline with internally generated programs in the future.

In 2023, the Group continued to make progress in extending and enhancing its world-leading StaR®/SBDD discovery capabilities mentioned in (i). The Group successfully validated and nominated a first GPCR target into early drug discovery for immune-mediated diseases with an initial indication focus of inflammatory bowel disease ("IBD") under a collaboration with Verily. The Group also expanded a collaboration with PharmEnable to apply their respective technologies to drive novel drug discovery for a second neurological disease target. Furthermore, the Group successfully identified, validated and nominated the first GPCR target to enter a therapeutic discovery program for gastrointestinal diseases under its collaboration with Kallyope.

In terms of transforming R&D and operations, as mentioned in part (ii) above, the Group achieved its goal of advancing at least two in-house programs into Phase 1 clinical trials in 2023: the first being a novel GPR52 agonist for schizophrenia (HTL0048149); and the second, an EP4 antagonist (HTL0039732), which is in development as a cancer immunotherapy drug candidate with potential to treat advanced solid tumors. The latter program is in development under a collaboration with Cancer Research UK, the world's largest independent funder of cancer research.

Through its extensive array of partnerships with major biopharmaceutical companies, under (iii) above, the Group is exposed to some of the most exciting and fastest growing therapeutic areas of interest to the global pharmaceutical market, particularly in metabolic and neuropsychiatric disorders. In metabolic diseases, such as diabetes and obesity, the Group is partnered with Pfizer on oral GLP-1 receptor ("GLP-1R") agonists and is looking at approaches beyond GLP-1R agonists in its collaboration with Lilly, as well as advancing internal programs to identify next-generation programs in these areas.

In November, Pfizer entered a new GLP-1 receptor agonist (PF-06954522), discovered under the collaboration with the Group, into a Phase 1 clinical trial. This followed the discontinuation of Pfizer's Phase 2 program with lotiglipron, a once-daily GLP-1R agonist candidate, in June.

In neuropsychiatric disorders, the Group has seen significant progress in its partnership with Neurocrine Biosciences, through which Neurocrine has developed one of the largest portfolios of muscarinic receptor agonist candidates in the industry. During 2023, Neurocrine confirmed its plan to evaluate multiple new oral drug candidates in Phase 1 clinical studies, alongside its ongoing Phase 2 trial of NBI-1117568 (a muscarinic M4 agonist) for schizophrenia. Phase 1 studies of NBI-1117569 (an M4-preferring agonist) and NBI-1117570 (an M1/M4 selective dual agonist) have started and a Phase 1 study of NBI-1117567 (an M1-preferring agonist) is expected to be initiated in 2024.

Finally, the Group has made significant progress during 2023 in advancing a strategy to build out a leading sales platform in Japan and APAC regions, as mentioned in (iv). The Group successfully acquired the pharmaceuticals business in Japan and South Korea from the Switzerland-based biopharmaceutical company Idorsia. This transformational acquisition brought a highly experienced development and commercialization team, a growing commercially available product in Japan, PIVLAZ®, and a late-stage development candidate, daridorexant, as well as options to in-license several other clinical-stage candidates from Idorsia's pipeline for these markets.

This acquisition has rapidly accelerated the Group's mission to build out an agile, scalable and effective clinical development and commercialization business in the important Japan and APAC markets, and accelerated its transition to becoming a fully integrated, commercial-stage pharmaceutical company.

The Group is highly motivated and committed to growing and developing its business in Japan and internationally over the coming years. The Group retains a highly focused investment strategy across its business, remaining flexible to all value-creating opportunities, while continuing to rigorously manage costs.

Financial results for the year ended December 31, 2023 were revenue of 12,766 million yen (a decrease of 2,803 million yen vs. the prior year), core operating loss of 3,076 million yen (a decrease of 8,932 million yen vs. the prior year), operating loss of 9,526 million yen (a decrease of 12,962 million yen vs. the prior year) and net loss of 7,193 million yen (a decrease of 7,575 million yen vs. the prior year).

		The 33rd Term January 1, 2022 - December 31, 2022	The 34th Term January 1, 2023 - December 31, 2023	vs. the prior year	
		Value	Value	Value	Rate of change
Revenue	(JPY millions)	15,596	12,766	(2,803)	(18.0)%
Core operating profit (loss)	(JPY millions)	5,856	(3,076)	(8,932)	-%
Operating profit (loss)	(JPY millions)	3,436	(9,526)	(12,962)	-%
Net profit (loss)	(JPY millions)	382	(7,193)	(7,575)	-%
Net earnings (loss) per share - basic	(Yen)	4.68	(87.18)	(91.86)	-%

The principal management indicators are as follows.

Revenue

Revenue in the year under review totalled JPY 12,766 million (a decrease of JPY 2,803 million vs. the prior year).

Revenue relating to pharmaceutical product sales in the year under review totaled JPY 6,173 million (an increase of JPY 6,093 million vs. the prior year). This was primarily due to the inclusion of IPJ in the scope of consolidation from July, which resulted in the addition of PIVLAZ® sales.

Revenue relating to upfront fees and milestone income in the year under review totaled JPY 3,839 million (a decrease of JPY 8,224 million vs. the prior year). Upfront fees and milestone income comprises upfront fee revenue, milestone revenue and deferred revenue releases. 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. In some contracts, income relating to research and development services is included within upfront fee revenue or milestone revenue, and recorded initially as deferred revenue. Such income is transferred from deferred revenue to revenue as a result of the performance of research and development activity in the period under review. The decrease in upfront fees and milestone income in the year under review was primarily due to signing no new partnership agreements and the occurrence of four milestone events in the current year vs. two upfront fees and five milestone events in the prior year.

Revenue relating to royalty income in the year under review totaled JPY 2,504 million (a decrease of JPY 60 million vs. the prior year). The Group's royalty revenue relates to sales of Ultibro® Breezhaler®, Seebri® Breezhaler® and Enerzair® Breezhaler® by Novartis.

(Note) 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.

Cost of sales

Cost of sales in the year under review totaled JPY 3,102 million (an increase of JPY 2,176 million vs. the prior year). Cost of sales excluding the effect of incorporating IPJ/IPK in the scope of consolidation in the year under review totaled JPY 458 million (a decrease of JPY 468 million vs. the prior year). This was due to a decrease in the internal costs of delivering research and development services to customers, as a result of lower revenues from contract research and development contracts. JPY 2,644 million has been recorded for the cost of sales of PIVLAZ® due to the inclusion of IPJ in the scope of consolidation from July 2023.

Research and development expenses

Research and development ("R&D") expenses in the year under review totaled JPY 10,075 million (an increase of JPY 2,621 million vs. the prior year). R&D expenses excluding those incurred by IPJ/IPK after July 2023 totaled JPY 9,194 million (an increase of JPY 1,740 million vs. the prior year). This increase primarily reflects an increased investment in discovery activities, but also reflects the impact of the weaker Yen. JPY 881 million has been included in 2023 for R&D

expenses relating to IPJ/IPK. In the period under review, 90% of R&D spend related to our UK operations.

Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses in the year under review totaled JPY 9,965 million (an increase of JPY 5,588 million vs. the prior year). SG&A expenses excluding those incurred by IPJ/IPK after July 2023 totaled JPY 6,210 million (an increase of JPY 1,833 million vs. the prior year). This increase was primarily due to the inclusion of non-recurring M&A related costs totaling JPY 1,263 million. JPY 3,755 million has been included in 2023 for SG&A expenses relating to IPJ/IPK, which includes an amortization charge on Idorsia related intangible assets.

Net other income

Net other income in the year under review totaled JPY 850 million (an increase of JPY 226 million vs. the prior year). This was primarily due to a higher R&D expenditure-related UK tax credit.

Operating loss

Operating loss in the year under review totaled JPY 9,526 million (vs. an operating profit of JPY 3,436 million in the prior year). This increase reflects the combined effect of all of the movements explained above.

Net finance costs

Net finance costs in the year under review totaled JPY 1,154 million (an increase of JPY 1,061 million vs. the prior year). This was primarily due to recording an accounting charge relating to the purchase and cancellation of existing corporate bonds, and an increase in foreign exchange losses. This was partially offset by an increase in interest income as a result of higher UK interest rates.

Share of profit / loss of associates accounted for using the equity method

The Group ceased to equity account for MiNA (Holdings) Limited ("MiNA") from October 2022, accordingly, there was no share of profit / loss of associates accounted for using the equity method in the year under review.

Impairment loss on investments accounted for using the equity method

Impairment loss on investments accounted for using the equity method for the year ended 31 December 2022 was due to a decrease in the estimated value of MiNA, which was an associate accounted for under the equity method.

Loss before income taxes

Loss before income taxes in the year under review totaled JPY 10,680 million (vs. a profit before income taxes of JPY 1,078 million in the prior year). This decrease reflects the combined effect of all of the movements explained above.

Income tax benefit

Income tax benefit in the year under review totaled JPY 3,487 million (vs. an income tax expense of JPY 696 million in the prior year). This was primarily due to recording the following deferred tax assets in 2023: (i) JPY 1,289 million relating to Heptares Therapeutics Ltd. tax losses, (ii) JPY 948 million relating Sosei Co. Ltd. tax losses, and (iii) JPY 612 million relating to the IPJ acquisition.

Net loss

Net loss in the year under review totaled JPY 7,193 million (vs. a net profit of JPY 382 million in the prior year). This reduction in profit 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 loss in the year under review totaled JPY 3,076 million (vs. a core operating profit of JPY 5,856 million in the prior year). In calculating core operating loss, the following adjustments to the IFRS operating loss have been made:

- Depreciation totaled JPY 983 million (an increase of JPY 420 million vs. the prior year), JPY 357 million of which relates to the inclusion of IPJ/IPK in the scope of consolidation in 2023.
- Amortization totaled JPY 1,495 million (an increase of JPY 713 million vs. the prior year), JPY 637 million of which relates to the inclusion of IPJ/IPK in the scope of consolidation in 2023.
- Share-based payments totaled JPY 844 million (an increase of JPY 302 million vs. the prior year).
- Restructuring costs totaled JPY 53 million (a decrease of JPY 480 million vs. the prior year). These costs related to a management restructuring program at a subsidiary company (including JPY 26 million of accelerated share-based payment expenses vs. JPY 158 million in the prior year).
- M&A related costs, including professional advisory fees, totaled JPY 1,263 million (including acquisition-related costs relating to the transaction with Idorsia totaling JPY 1,149). There were no M&A related costs in the prior year.
- Cost of sales adjustment totaled JPY 1,812 million. This relates to an accounting adjustment for inventory acquired in a business combination which feeds through to cost of sales, and which will cease when all the opening inventory has been sold (there was no cost of sales adjustment in the prior year).

(2) Capital Expenditures

The total amount of capital expenditures made by the Group in the year under review was JPY 1,222 million, which was mainly for the expansion of the R&D base in Cambridge, U.K.

(3) Significant Organizational Restructuring, etc.

The Company acquired the entire share capital of Idorsia Pharmaceuticals Japan Ltd. (“IPJ”) and Idorsia Pharmaceuticals Korea Co., Ltd. (“IPK”) on July 20, 2023.

(4) Assets and Profit/Loss in the previous three fiscal years

Item		The 31st Term As of December 31, 2020	The 32nd Term As of December 31, 2021	The 33rd Term As of December 31, 2022	The 34th Term (current term) As of December 31, 2023
Revenue	(JPY millions)	8,842	17,712	15,569	12,766
Core operating profit / loss	(JPY millions)	2,904	8,904	5,856	(3,076)
Operating proft (loss)	(JPY millions)	928	3,775	3,436	(9,526)
Net profit (loss)	(JPY millions)	1,479	1,017	382	(7,193)
Net earnings or (loss) per share - basic	(Yen)	18.77	12.53	4.68	(87.18)
Total assets	(JPY millions)	76,465	96,985	99,417	157,198
Total equity	(JPY millions)	52,381	57,468	57,936	66,810

(5) Issues to be addressed

1) Business advancement and strategy

As a science and technology-led biopharmaceutical business whose core activities are drug discovery, drug development and the commercialization of pharmaceutical products, the Group has outlined a strategy to grow the business in Japan and internationally.

Outside of Japan, the Group intends to take programs from drug discovery through translational medicine into early clinical development internally, and license these in-house programs to partners, while retaining its rights to develop such programs in Japan when possible.

In Japan, the Group will start its development and commercialization 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.

Please refer “(1) Progress and Results of Operations, 1) Group Overview” for our four key strategic pillars.

2) Risk recognition

The Group is exposed to a range of risks consistent with the industry in which it operates. The business, financial condition and results of the Group may be adversely impacted by any of these risks. The Group has in place an Enterprise Risk Management Program that monitors and mitigates business specific risks in both Japan and the United Kingdom. The Group has summarized its most important risks into the following categories: industry; commercial; strategic; financial; legal and compliance; and takes necessary measures to deal with these risks.

INDUSTRY RISKS

Risks inherent to research and development

The Group's business strategy is to leverage its proprietary platform, pipeline and capabilities and build a balanced and integrated business with a commercial capability in Japan/APAC and partnering opportunities globally. The Group has established an unrivalled platform of technologies and tools, as well as skillful employees to seamlessly manage its discovery and early-stage drug development capabilities. The Group works closely with its partners to ensure success on high-value partnered programs and collaboration with long-term venture funds. Furthermore, the Group is equipped with experienced clinical development capability and profitable commercial operations in Japan. However, there are increasing challenges for the industry, which generally include productivity, complexity and cost of research and development, innovative developments, changing relationships due to rapid consolidation in the industry, patent expirations, and regulatory changes. Large pharma and biotech companies regularly re-assess their business strategies to remain competitive in the industry.

Research and development of new drug candidates always carries inherent risk. There is no guarantee that the Group by itself, or together with its partners will successfully develop and commercialize new drugs. It is possible economic returns may not be achieved, or an impairment to the carrying value of the Group's intangible assets may be required and that may impact the Group's statement of financial performance and financial position. It is also possible that the Group could be responsible for liabilities resulting from its research and development activities, and therefore the Group is covered by liability insurance to help mitigate these risks.

COMMERCIAL RISKS

The Group continues to be engaged in multiple active drug discovery and early-stage development programs that it intends to license to large pharma or biotech companies for clinical development and commercialization; however, the Group may not be able to achieve this goal. Additionally, the commercial environment for licensing might change during the lifetime of individual projects. The actual timing and commercial values of individual projects, or the financial proceeds from licensed partnering programs can change significantly from initial estimates.

The Group's reliance on partners is subject to additional risks. For example, the Group's partners may not devote sufficient time and resources to the Group's future products or may not pursue further development and commercialization of the products resulting from the partnership.

In Japan, the Group has a pipeline of medicines that includes PIVLATZ® already commercially available. However, delays in research and development, regulatory filing, or launch of the product, as well as failure to achieve expected efficacy and safety, or delays in progress from the sales plan may occur.

The Group mitigates both risks by ensuring it has a diverse and balanced partnered and in-house pipeline.

STRATEGIC RISKS

Execution of business strategy

The Group continues to focus its in-house activities on leveraging its platform and expertise to create and develop drug candidates, adding to its broad pipeline with the aim to achieve important value inflection points that will enable new out-licensing and co-investment agreements. The Group is also focused on in-licensing de-risked approved or late-stage clinical assets to build out a business in Japan. It is possible that investments might be allocated to the development of unsuccessful drug candidates, or failed technologies.

Risks from investment strategy

In the past, the Group has made equity investments in companies with highly promising yet unproven technologies. These investments may enable the Group to accelerate its business model as they provide a beneficial risk-reward profile through to a significant value inflection. However, unproven technologies also carry the risk of failure, which may lead to impairment of the intangible asset and impact the Group's statement of financial performance and financial position. To mitigate this risk, the Group. In 2020, established an Investment Committee that is responsible for conducting diligence and making recommendations to the Group's Board of Directors, who are in turn responsible for approving strategic investments. The Group's approach to investments is to balance risk and reward appropriately, ensuring excessive capital is not put at risk.

FINANCIAL RISKS

The Group's financial risk management focuses on liquidity and currency risks.

Liquidity risks

Revenue timing, external events and changes in the business environment might negatively impact the Group's profitability and cash. The Group is currently well-financed and able to deal with these risks. To mitigate this risk, the Group regularly reviews options for capital increases and for the use of other refinancing tools and the Group maintains a commitment line for liquidity purposes.

Currency risks

The Group is impacted by fluctuations in foreign exchange rates mainly between the Japanese Yen, Pound Sterling and US dollar. The Group mitigates this exposure via close monitoring to manage the Group's current and upcoming currency requirements, which is intended to reduce the exchange rate risks in the future.

LEGAL & COMPLIANCE RISKS

The Group operates in a global industry where legal compliance, contractual agreements and intellectual property rights are crucially important. Moreover, there is a trend towards greater regulatory compliance in the pharma industry. The Group ensures regulatory as well as internal compliance and employees are obliged to immediately report any incidents they suspect of having breached regulatory or compliance rules to their manager or to the Chief Compliance Officer.

3) Value creation

The pharmaceutical industry is undergoing rapid change due to numerous pressures faced by large companies, such as patent expiries, higher burden of approval and increasing costs. This has led to a reduction in the number of research-based businesses taking the full financial and commercial risk of drug development.

New strategies across the industry are focused on securing external innovation in an efficient way. Furthermore, ageing populations in many developed countries are driving the need for differentiated and better treatments. As a result, large pharma and biotech companies are increasingly seeking innovative solutions to their R&D challenges, and therefore increasingly executing collaborations across research, discovery and development activities with mid-sized science and technology-led companies. The Group is positioned to take advantage of this growth trend. The Group regularly identifies and evaluates opportunities for business expansion and value creation and is pursuing a capital efficient business model that will sustainably create new commercial opportunities in an evolving industry landscape.

4) Corporate Governance

The Group has business activities in multiple jurisdictions and takes corporate governance very seriously. The Group is continuously evaluating ways to enhance its systems and processes, to ensure it complies with all national regulations. Furthermore, the Group will continue to promote a corporate culture that is committed to the highest standards of openness, integrity and accountability.

The Group's Board of Directors is responsible for overseeing management and conducting risk management and compliance activities to maintain standards and accountability and a majority of members are independent external directors. Executive Officers work closely with the Board of Directors to achieve long-term and sustainable growth for the Group and to create shareholder value. They make decisions on and execute the Group's strategy and business transactions that are significant, based on the authority delegated by the Board of Directors.

(6) Main Business Activities (as of December 31, 2023)

The Group's main business is the research, development and sale of pharmaceutical products. The Group companies are engaged in the following business activities.

Company Name	Business Description
Sosei Group Corporation	Responsible for setting the strategy of Sosei Group, and performing centralized administrative activities on behalf of group companies
Sosei Co. Ltd.	Research and development, sales of pharmaceutical drugs
Idorsia Pharmaceuticals Japan Ltd.	Research & Development, importation, packaging and sale of pharmaceutical products
Heptares Therapeutics Ltd.	Structural analysis of GPCRs, generation of initial lead compounds, discovery of drug candidates through proprietary StaR® technology

(Note) The Company acquired the entire share capital of Idorsia Pharmaceuticals Japan Ltd. ("IPJ") and Idorsia Pharmaceuticals Korea Co., Ltd. ("IPK") on July 20, 2023.

(7) Principal Parent Company and Subsidiaries (as of December 31, 2023)

1) Parent company

Not applicable.

2) Subsidiaries

Company Name	Capital	Ratio of Voting	Key Business
Sosei Co. Ltd.	JPY 90 million	100.0%	Research and development, sales of pharmaceutical drugs
Idorsia Pharmaceuticals Japan Ltd.	JPY 95 million	100.0%	Research & Development, importation, packaging and sale of pharmaceutical products
Heptares Therapeutics Ltd.	GBP 416 thousand	100.0%	Structural analysis of GPCRs, generation of initial lead compounds, discovery of drug candidates through proprietary StaR® technology

(Note) The Company acquired the entire share capital of Idorsia Pharmaceuticals Japan Ltd. ("IPJ") and Idorsia Pharmaceuticals Korea Co., Ltd. ("IPK") on July 20, 2023.

3) Other significant information

Not applicable.

(8) Main Offices and Factories (as of December 31, 2023)

1) Main Sites of the Company

Office	Location
Head Office	Chiyoda-ku, Tokyo
London Office	London, UK

2) Main Sites of Subsidiaries

Office	Location
Sosei Co. Ltd.	Chiyoda-ku, Tokyo
Idorsia Pharmaceuticals Japan Ltd.	Minato-ku, Tokyo
Heptares Therapeutics Ltd.	Cambridge, UK

(Note) The Company acquired the entire share capital of Idorsia Pharmaceuticals Japan Ltd. ("IPJ") and Idorsia Pharmaceuticals Korea Co., Ltd. ("IPK") on July 20, 2023.

(9) Employee Information (as of December 31, 2023)

1) Group Employees

Business Segment	Number of Employees	Change from the End of the Previous Fiscal Year
Pharmaceutical business	309 (69.0)	+139
Group administration	41 (0.9)	+9
Total	350 (69.9)	+148

(Note) 1. The number of employees does not include the number of temporary employees, which is listed in parentheses as the average for the year.

2. Pharmaceutical business increased by 139 compared with the end of the previous year, mainly due to the acquisition of all shares of Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd. in July 2023.

3. Group administration increased by 9 compared with the end of the previous year, mainly due to the strengthening of the organisation.

2) Company Employees

Number of Employees	Change from the End of the Previous Fiscal Year	Average Age	Average Service Years
41 (0.9)	+9	43.5 years old	3.2 years

(Note) The number of employees is the number of people employed full-time and does not include the number of temporary employees, which is listed in parentheses as the average for the year.

(10) Financing

The Company raised JPY 40,000 million by borrowing long-term loans from financial institutions on July 21, 2023, to fund the acquisition of Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd.

On December 14, 2023, the Company issued Euro-yen Convertible Bonds due 2028 raising JPY 32,000 million, raised JPY 2,053 million by issuing new shares through an international offering and JPY 8,000 million by issuing shares through third party allotment on December 15, 2023.
In conjunction with the above funding the Company purchased and cancelled JPY 29,850 million of its Euro- yen Convertible Bonds due 2026.

(11) Principal Lenders (as of December 31, 2023)

Lender	Amount of borrowing
Mizuho Bank, Ltd.	JPY 38,550 million

The Company has entered into a (JPY 5,000 million) commitment line contract with Mizuho Bank, Ltd. and 3 other financial institutions in order to finance working capital more efficiently. The Company had no outstanding borrowings related to the commitment line contract at the end of this fiscal year.

(12) Other Significant Matters on the Current Status of the Group

Not applicable

2 Current Status of the Company

(1) State of Shares (as of December 31, 2023)

1) Total number of authorized shares 149,376,000 shares

2) Total number of outstanding shares 89,446,777shares

(Notes)1. The number of outstanding shares increased by 413,547 shares to issue new shares by a post-hoc granted stock-based compensation (RSU) plan.
2. The number of outstanding shares increased by 1,500,000 shares to issue new shares by global offering.
3. The number of outstanding shares increased by 5,610,000 shares to issue new shares by third party allotment.

3) Number of shares constituting one unit 100 shares

4) Number of shareholders 30,016

5) Major shareholders (Top 10)

Shareholder’s Name	Shareholdings (shares)	Ownership Stake
The Master Trust Bank of Japan, Ltd. (trust account)	8,137,800	9.10%
Daisuke Gomi	6,630,000	7.41 %
JICVGI Opportunity Fund No.1 Investment Limited Partnership	5,610,000	6.27%
Custody Bank of Japan, Ltd. (trust account)	2,787,500	3.12%
TAIYO FUND, L.P.	2,521,600	2.82%
SSBTC CLIENT OMNIBUS ACCOUNT	1,952,340	2.18%
TAIYO HANEI FUND, L.P.	1,902,500	2.13%
Pfizer Japan Inc.	1,885,136	2.11%
STATE STREET BANK AND TRUST COMPANY 505227	1,602,700	１.79%
JP MORGAN CHASE BANK 385781	1,009,600	1.13%

(Notes) 1. Ownership stakes have been rounded off to two decimal places.
2. Ownership stakes are calculated deducting 335 treasury shares which the Company owns.

6) Status of Shares Issued as Consideration for the Execution of Duties to Directors and executive officers during FY2023

	Shares	Number of grantees
Directors(Excluding External Directors) and Executive officers	230,755	10
External Directors	73,265	6

(Notes) 1. Directors(Excluding External Directors) and Executive officers include three retired executive officer.
2. The contents of the Company's share remuneration are described「Policy concerning decisions on the content of individual remuneration for Executive Officers, etc. by the Compensation Committee」

(2) Stock acquisition rights (“stock options”), etc. (as of December 31, 2023)

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

		31st Stock Options	34th Stock Options
Date of Board resolution		May 15, 2017	November 21, 2017
Number of stock options		3	2
Number and class of shares for stock options		1,200 shares of common shares	800 shares of common shares
Amount of payment for stock options		1,234,900 yen per stock option (Note 3)	621,400 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)	1,068,800 yen per stock option (2,672 yen per share)
Exercise period of stock options		from July 1, 2020 to April 30, 2027	from December 1, 2020 to October 29, 2027
Terms and conditions for exercise		Notes 1 and 2	Notes 1 and 2
Holdings by directors and executive officers	Directors and executive officers (excluding external directors)	- -	Number of stock options: 2 Number of shares for stock options: 800 Number of holders: 1 (Note 4)
	External directors	Number of stock options: 3 Number of shares for stock options: 1,200 Number of holders: 1	-

(Notes):

1. 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.
2. (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.
3. 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.
4. Holdings of 34th Stock Options include the options granted to an employee before his assumption of the office as executive officer.
5. 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.
6. 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.

(3) Directors and executive officers (as of December 31, 2023)

1) Directors

Title		Name	Responsibility	Significant Concurrent Posts
Chairman of the Board		Shinichi Tamura	Chair of Nomination Committee; Member of Compensation Committee	–
Director		Christopher Cargill	Member of Compensation Committee	Representative Director President, Sosei Co. Ltd. Director, Idorsia Pharmaceuticals Japan Ltd. Director, Heptares Therapeutics Ltd.
Director	*	Tomohiro Tohyama	Chair of Audit Committee; Member of Compensation Committee	Partner at TMI Associates External Director and Audit and Supervisory Committee Member of Nippon Shikizai, Inc.
Director	*	Kuniaki Kaga	Member of Audit Committee	External Director of SUSMED, Inc
Director	*	David Roblin	Chair of Compensation Committee; Member of Nomination Committee	Chairman of Scientific Translation, The Francis Crick Institute CEO, Relation Therapeutics Limited Chair of Board, Centauri Therapeutics Limited
Director	*	Noriaki Nagai	Member of Nomination Committee; Member of Audit Committee	–
Director	*	Rolf Soderstrom	Member of Compensation Committee; Member of Audit Committee	Chief Financial Officer, Syncona Investment Management Limited Non Executive Director, BioPharma Credit plc
Director	*	Miwa Seki	Member of Nomination Committee; Member of Audit Committee	General Partner MPOWER PARTNERS FUND External Director, World Co., Ltd External Director, DAIWA HOUSE INDUSTRY CO., LTD. Director, Yanai Tadashi Foundation Director, Fast Retailing Foundation
Director	*	Eiko Tomita	–	–

(Notes) 1. The directors listed above with an asterisk (*) are external directors. The Company designates Director Tomohiro Tohyama, Director Kuniaki Kaga, Director David Roblin, Director Noriaki Nagai, Director Rolf Soderstrom, Director Miwa Seki and Director Eiko Tomita as independent directors in accordance with the regulations of Tokyo Stock Exchange and has notified the Exchange accordingly.

2. Noriaki Nagai has long-term experience at a major security company, being in charge of corporate planning as an officer, and has considerable financial and accounting knowledge.

3. Rolf Soderstrom is a qualified UK accountant, has experience as a head of company finance department,

and has considerable financial and accounting knowledge.

4. Miwa Seki served as head of Japan at a foreign capital financial institution, then founded an ESG-oriented investment fund, and has considerable financial and accounting knowledge.
5. The Audit Committee has conducted audits in close coordination with the internal audit department and employees who assist in the performance of duties of the Committee, and believes it is not essential that a full-time committee member be selected. Accordingly, a full-time committee member has not been selected.
6. The Company has no special relationships with the companies at which the external directors concurrently serve the offices.
7. Ms. Eiko Tomita was elected as Directors at the 33rd Ordinary General Meeting of Shareholders held on March 23, 2023 and was appointed as director on 1 April 2023

2) Executive officers

Title	Name	Responsibility	Significant Concurrent Posts
Representative Executive Officer	* Christopher Cargill	President and CEO	Representative Director President, Sosei Co. Ltd. Director, Idorsia Pharmaceuticals Japan Ltd. Director, Heptares Therapeutics Ltd.
Executive Officer	Hironoshin Nomura	Executive Vice President, CFO	Director, Sosei Co. Ltd. Managing Director, Idorsia Pharmaceuticals Japan Ltd. Director, Idorsia Pharmaceuticals Korea Co., Ltd.
Executive Officer	Kieran Johnson	Executive Vice President, CAO (Chief Accounting Officer)	Director, Heptares Therapeutics Ltd.
Executive Officer	Kazuhiko Yoshizumi	Executive Vice President, CCO (Chief Compliance Officer)	Managing Director, Idorsia Pharmaceuticals Japan Ltd. Director, Idorsia Pharmaceuticals Korea Co., Ltd.
Executive Officer	Matthew Barnes	Executive Vice President	President of Heptares Therapeutics Ltd.
Executive Officer	Candelle Chong	Executive Vice President, and Chief of Staff	Director, Heptares Therapeutics Ltd.
Executive Officer	Satoshi Tanaka	Executive Vice President	Representative Director and President, Idorsia Pharmaceuticals Japan Ltd. Representative Director and Chairman, Idorsia Pharmaceuticals Korea Co., Ltd.
Executive Officer	Toshihiro Maeda	Executive Vice President, COO (Chief Operating Officer)	–

(Note) 1. The executive officer listed above with an asterisk (*) serves concurrently as a director.
2. Satoshi Tanaka was appointed executive officer on July 20, 2023.
3. Toshihiro Maeda was appointed executive officer on December 18, 2023.

3) Symmary of liability limitation agreements

In accordance with Article 427, Paragraph 1 of the Companies Act (the "Act") and the provisions of the Articles of Incorporation, the Company and external directors have entered into agreements that limit liability for damages as provided in Article 423, Paragraph 1 of the Act.

The limit on liability for damages applicable to each external director under the agreements is the minimum amount of liability stipulated in Article 425, Paragraph 1 of the Act

4) Outline of the directors and execctive officers, etc. liability insurance policy, etc.

The Company has concluded a directors and officers liability insurance ("D&O insurance") policy with an insurance company as provided for in Article 430-3, Paragraph 1 of the Companies Act with all Directors, Executive Officers, and Corporate Auditors of the Company and its subsidiaries as insured parties. The Company is paying the full amount of premiums for this policy.

Regarding the details of this insurance policy, it covers losses arising from the liability borne by the insured party in the course of the execution of his/her duty or claims pertaining to the pursuit of such liability.

5) Policy concerning decisions on the content of individual remuneration for Executive Officers, etc. by the Compensation Committee

The Company's Compensation Committee has set policy on decisions of the contents of individual remuneration for Executive Officers, etc. Also, regarding the individual remuneration, etc., of Executive Officers, etc. during the fiscal year under review, as the method for deciding the content of remuneration, etc., and the content of remuneration, etc. that was decided are consistent with this policy, it is judged by the Compensation Committee to be in line with policy.

i. Basic Policies

- The basic policy regarding officer compensation is to provide incentives for securing talented personnel, raising the corporate value of the Group, and implementing management strategies aimed at sustainable growth.
- Policy regarding Directors' remuneration is to secure excellent personnel as Directors of the Company from a global perspective to strengthen the oversight function of Group management and, in addition to fulfilling the oversight function, enable proactive contribution to the enhancement of corporate value by sharing the benefits and risks of stock price fluctuations with shareholders. Director's remuneration shall consist of a fixed amount of base salary and a post-hoc granted stock-based compensation (RSU).
- Executive Officers' remuneration is determined to further increase motivation to realize the Company's vision and strategy, promote management that focuses on the medium-to long-term enhancement of corporate value and shareholder value, and reflect individuals' roles and achievements. Executive Officer's remuneration shall consist of a fixed amount of base salary, a bonus determined according to the accomplishment of the individual's business objectives, retirement allowances, and a post-hoc granted stock-based compensation (RSU).
- The Compensation Committee, of which a majority comprises external rectors, determines compensation fairly and appropriately, ensuring transparency under the chairmanship of an external director.

ii. Policy for determining the amount or the method of calculation of individual remuneration, etc. (excluding non-monetary remuneration outlined in iii. below)

a. Directors' remuneration

The amount of base salary (annual salary), which is a fixed remuneration, shall be the same for all Directors except for the Chairperson, and the remuneration level of this base salary shall be determined by taking into consideration the situation at other companies, etc. using the available databases of external research organizations as a reference. Directors who also concurrently serve as Executive Officers shall not be paid Directors' compensation.

b. Executive Officers' remuneration

- Base salary (annual salary), which is a fixed remuneration, shall be determined based on the individual's performance in the previous fiscal year and an evaluation of contribution to the Company, taking into consideration factors such as the remuneration level of comparable companies in the country where the individual is acting or resides, using the available databases of external research organizations as a reference.

- For bonuses, a base amount shall be the amount obtained by multiplying the amount of base salary by a certain percentage determined for each individual according to factors such as his/her responsibilities and performance, and the difficulty in securing persons fit for the role. The amount of this base amount paid shall be determined in accordance with the accomplishment of the individual's business objectives.
- Retirement allowances shall be equivalent to the sum of the bonus and the annual salary for the previous business year. However, retirement allowances shall not be paid to Executive Officers who are not re-appointed or are dismissed due to misconduct, violation of laws, regulations and the Articles of Incorporation of the Company, breach of trust, gross negligence, incompetence or inability to execute duties, disqualification as an Executive Officer under the Companies Act, or any other justifiable reason. Furthermore, in cases where the law stipulates that a dismissal notice allowance is payable following a contract termination, only the difference between the amount of the annual salary of the previous year and the dismissal notice allowance shall be paid.

iii. Contents of non-monetary remuneration, etc., and policy for determining the amount or number or the method of calculating the amount or number of non-monetary remuneration

The Company has introduced a post-hoc granted stock-based compensation (RSU) as non-monetary remuneration, etc. An overview of this post-hoc granted stock-based compensation (RSU) is as follows.

a. Conditions for allotment

Shares of the Company will be allotted on the condition that an individual has served continuously in the position of Director or Executive Officer of the Company throughout a performance period. However, in cases where a Director or Executive Officer ceases to hold office due to the expiration of his/her term of office, other grounds deemed by the Board of Directors to be justifiable, or death during the performance period, a number of shares calculated by the Company under the applicable share-based compensation regulations will be allotted.

b. Maximum number of the Company's shares to be delivered

The number of shares of the Company to be delivered under the plan, together with the number of shares to be issued under other share compensation plans, shall not exceed 10% of the total number of issued and outstanding shares of the Company.

c. Performance period and number of allotted shares

- The performance period for Directors (excluding Directors who concurrently serve as Executive Officer) is one year, and after the expiration of said performance period, a number of shares shall be allotted which shall be calculated by dividing an amount equivalent to 130% of the amount of base salary by the stock price at the start of the performance period.
- The performance period for Directors who concurrently serve as Executive Officer and Executive Officers shall be two years and three years from the first day of the performance period respectively. After the expiration of said performance period, one-half of a number of shares shall be allotted respectively and said number shall be calculated by dividing an amount equivalent to the amount of basic compensation multiplied by certain ratio (125% to 250%) set according to position by the stock price at the start of the performance period.

d. Method for the allotment of shares

The allotment of shares shall be a payment of a monetary compensation claim to an officer to whom the shares are scheduled of an amount obtained by multiplying the number of allocated shares by the amount to be paid per share determined by decision of the Board of Directors or a Representative Executive Officer authorized thereby. Said monetary compensation claim shall be delivered as properties contributed in kind.

iv. Policy for determining the composition of officer compensation

The composition ratio of the amount of individual remuneration, etc. shall be as follows:

	Base salary	Bonus	Stock compensation Restricted Stock Units (RSU).	Retirement allowances
Director	1	-	1.3	-
Representative Executive Officer & CEO	1	0.75	2.5	1.75
Executive Officer	1	0.4~0.6	1.25~1.75	1.4~1.6

In the above table, the model for the amount of bonus to be paid is a payment of standard amount determined by the Company. This ratio may change in accordance with factors such as the Company's business results and share price.

v. Policy on determining the timing or conditions for granting remuneration, etc. to officers

・ One twelfth of base salary will be paid monthly.

・ Bonuses will be paid in February every year.

・ Post-hoc granted stock-based compensation (RSU) will be granted in April of each year, and shares will be allotted after the end of the performance period.

6) Total amount of remuneration paid to directors and executive officers

Item	Total remuneration	Amount of remuneration			Total number of directors/executive officers
		Base salary	Bonus	Non-monetary remuneration	
Directors (External directors)	¥304 million (¥215 million)	¥128 million (¥95 million)	- (-)	¥176 million (¥120 million)	8 (7)
Executive Officers	¥656 million	¥257 million	¥237 million	¥162 million	7
Total	¥960 million (¥215 million)	¥385 million (¥95 million)	¥237 million (-)	¥338 million (¥120 million)	15 (7)

(Notes) 1. Renumeration of Christopher Cargill, Director and Executive Officer is excluded from Director's remuneration.
2. Renumeration of Christopher Cargill, Director and Executive Officer is included in Executive Officer's remuneration.
3. The table above does not include the following:
・Retirement allowrance of ¥28 million, which were paid by the Company subsidiaries to one Executive Officer who retired in March 2023 in accordance wih the result of the Remuneration Committee held in April 2023.
・Salary of ¥90 million, which were paid by the Company subsidiaries to three Executive Officers including

one Executive Officer who retired in March 2023.
・Bonus of ¥30 million, which were paid by the Company subsidiaries to two Executive Officers paid in February 2024 in accordance with the resolution of the Remuneration Committee held in January 2024.
・ Non-monetary remuneration of ¥46 million, which were paid by the Company subsidiaries to two Executive Officers including one Executive Officer retired in March 2023.

4. Remuneration of one Executive Officer who assumed in March 2023 and one Executive Officers assumed in July 2023 are included after their assuming.
5. Non-monetary remuneration includes the Company's shares. The terms of allocation are as described in " iii Contents of non-monetary remuneration, etc., and policy for determining the amount or number or the method of calculating the amount or number of non-monetary remuneration". In addition, details of the allocation during the current fiscal year are described in "2 (1) 6) Status of Shares Issued as Consideration for the Execution of Duties to Directors and executive officers during FY2023”.
6. The amount of non-monetary compensation in the table above shows the amount recorded as expenses in the current fiscal year.

7) Attendance of external directors at meetings of the Board of Directors and Committees during the fiscal year under review and the status of their remarks and activities

Name	Attendance		Remarks/Activities/Summary of duties performed in relation to the role expected of an external director
Tomohiro Tohyama	Board of Directors meetings	15 out of 17 (88%)	Makes statements at the Board meetings as necessary for deliberations on agenda items from a professional viewpoint as an attorney, leads audits as the chair of the Audit Committee, and asks questions and gives opinions and other statements as appropriate at each Committee meeting.
	Compensation Committee meetings	7 out of 7 (100%)	
	Audit Committee meetings	15 out of 16 (94%)	
Kuniaki Kaga	Board of Directors meetings	16 out of 17 (94%)	Makes statements at the Board meetings as necessary for deliberations on agenda items from a professional viewpoint based on the experience of management of leading chemical and pharmaceutical companies in Japan and asks questions and gives opinions and other statements as appropriate at Audit Committee meeting.
	Audit Committee meetings	16 out of 16 (100%)	
David Roblin	Board of Directors Meetings	16 out of 17 (94%)	Makes statements at the Board meetings as necessary for deliberations on agenda items from a professional viewpoint based on the clinical experience as a physician and R&D experience of pharmaceutical companies, and asks questions and gives opinions and other statements as appropriate at each Committee meeting.
	Nomination Committee meetings	0 out of 2 (0%)	
	Compensation Committee meetings	6 out of 7 (86%)	
Noriaki Nagai	Board of Directors Meetings	17 out of 17 (100%)	Makes statements at the Board meetings as necessary for deliberations on agenda items from a professional viewpoint based on his legal knowledge and his career experience in important positions in corporate departments at major securities companies and as a professor of law, and asks questions and gives opinions and other statements as appropriate at each Committee meeting.
	Nomination Committee meetings	2 out of 2 (100%)	
	Audit Committee meetings	16 out of 16 (100%)	

Rolf Soderstrom	Board of Directors Meetings	17 out of 17 (100%)	Makes statements at the Board meetings as necessary for deliberations on agenda items from a professional viewpoint based on his financial knowledge and his career experience in the field of finance at companies in Europe, North America, Asia, etc., and asks questions and gives opinions and other statements as appropriate at each Committee meeting.
	Compensation Committee meetings	7 out of 7 (100%)	
	Audit Committee meetings	15 out of 16 (94%)	
Miwa Seki	Board of Directors Meetings	15 out of 17 (88%)	Makes statements at the Board meetings as necessary for deliberations on agenda items from a professional viewpoint based on her career experience in head of Japan at a foreign capital financial institution and founding partner of an ESG-oriented investment fund, and asks questions and gives opinions and other statements as appropriate at each Committee meeting.
	Nomination Committee meetings	2 out of 2 (100%)	
	Audit Committee meetings	13 out of 16 (81%)	
Eiko Tomita	Board of Directors Meetings	11 out of 12 (92%)	Makes statements at the Board meetings as necessary for deliberations on agenda items from a professional viewpoint based on a remarkable track record and experience deeply involved in the international pharmaceutical approval process for global pharmaceutical companies both domestically and internationally.

※ Eiko Tomita was elected as Directors at the 33rd Ordinary General Meeting of Shareholders held on March 23, 2023, with effect from 1 April of the same year, and accordingly, the numbers of times shethey attended the Board of Directors meetings held since assuming office are stated in.

(4) Independent Auditors

1) Name Ernst & Young ShinNihon LLC

2) Amounts of remuneration, etc.

Amount of remuneration, etc. payable to the independent auditors for services related to this fiscal period	¥ 78 Million
Total amount of cash and other property benefits payable to the independent auditors by the Company and its subsidiaries	¥ 116 Million

(Notes) 1. In the audit agreement between the Company and the Independent Auditors, there is no clear distinction between the remuneration for audits based on the Companies Act and the remuneration for audits based on the Financial Instruments and Exchange Act, and no distinction can be made in practice, so amounts of remuneration, etc. for the Independent Auditors for this fiscal year are the total of these remunerations.

2. The Audit Committee has confirmed the audit plan of the independent auditors, the state of execution of duties for accounting audits, and the basis of remuneration estimates, etc. and considered whether audit remuneration is adequate for the implementation of appropriate audits and as a result has found that remuneration is appropriate. Therefore, it has given consent to remuneration, etc. of the Independent Auditors in accordance with Article 399, Paragraph 1 of the Companies Act.

3. One of the Company’s significant subsidiaries, Heptares Therapeutics Ltd. has been audited by an auditing firm that belongs to a member firm of Ernst & Young LLC., Which is a member of our accounting auditor, and the audit fee is ¥55 million.

4. In addition to the above, the Company paid JPY3 million of remuneration to the organization within the network same with the Company's independent auditors. This primarily consists of support on tax and related services

for an expatriate.

3) Contents of non-audit services

The Company paid to Ernst & Young ShinNihon LLC fees for production of comfort letter which is a work other than the work under Article 2, Paragraph 1 of the Certified Public Accountants Act.

4) Policy for dismissal or non-reappointment of the independent auditors

If circumstances arise that would interfere with the appropriate execution of the duties of the independent auditors or cause the Audit Committee to deem it appropriate to dismiss or not to reappoint the independent auditors, the Audit Committee will make a proposal for dismissal or non-reappointment of the independent auditors for submission to the Ordinary General Meeting of Shareholders. Also, when it deems that any cause stipulated in each item of Article 340, Paragraph 1 of the Companies Act applies to the independent auditors, the Audit Committee can dismiss the independent auditors by agreement of all committee members.

5) Summary of liability limitation agreements

The Company has not entered into an agreement with the Independent Auditors to limit their liability for damages under Article 423, Paragraph 1 of the Companies Act

(5) Outline of the 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

① Matters relating to the directors and employees who assist in the duties of the Audit Committee, and system to ensure those directors and employees act independently from executive officers

- Management assigns employees to assist in the duties of the Audit Committee who shall perform its duties at the instruction and direction of a chair of the Audit Committee in cooperation with Internal Audit Department. The Audit committee conducts evaluation of the performance of the duties of such employees and his or her reassignment requires an approval of the Audit Committee.

② System of reporting to the Audit Committee by directors, executive officers and employees and others matters relating to the report to the Audit Committee

- Directors, executive officers, audit and supervisory board members (Kansa-yaku) and employees of the Company and its subsidiaries shall report to the Audit Committee in a timely and appropriate manner if the Audit Committee or its designated Committee member requests a report on the execution of business. Also, when they become aware of any matter that may have a material effect on the business or financial conditions of the Company or its subsidiaries, they shall report immediately to the Audit Committee. The Company shall not give any disadvantageous treatment to a person who made reports to the Audit Committee because of the reporting.
- Internal Audit Department shall report to audit committee timely and adequately the status of

internal audits.

- Office of Japan Compliance and Governance Department shall report to the Audit Committee timely and adequately the status of whistleblowing system.

③ Other system to ensure the effective audit by the Audit Committee

- Internal Audit Department shall consult with the Audit Committee on, among other things, the policy and plan of internal audits, exchange the information on audits and otherwise cooperate closely with the Audit Committee.
- In the event an Audit Committee member requests for advance payment or reimbursement of the expenses necessary for the performance of the duties of the Audit Committee, the Company shall dispose of such expenses or liabilities without delay.

④ System to ensure that executive officers and employees of the Company as well as directors and employees of subsidiaries perform their duties in compliance with laws and regulations and the Articles of Incorporation of the Company

- The code of conduct of the Group companies sets forth the principles of acting in compliance with applicable laws and regulations and in accordance with high standards of corporate ethics, and the management shall act to improve awareness of all directors, executive officers and employees of the Company and its subsidiaries of compliance and the corporate principle. An independent compliance helpline system shall be established and properly operated so that employees of Group companies and business partners may timely report on unlawful or dishonest acts occurred at Group companies.
- Internal Audit Department conducts internal audits on the performance of the duties by executive officers, directors of subsidiaries and employees of the Company and subsidiaries.

⑤ System to retain and manage information relating to the performance of duties by executive officers

Minutes of the meetings at which executive officers and subsidiaries' directors are present and other important meetings, written documents recording required approval and other information relating to the performance of the duties by executive officers shall be prepared, retained and managed in accordance with the Regulations of Document Management and other internal regulations.

⑥ Rules and systems for the risk management

- The Company shall identify risks associated with the conduct of business of the Group companies, select the risks of the high priority, and decide specific policies and measures to deal with those risks and ensure adequate implementation by the Company and its subsidiaries.
- In making business judgment and decisions on business strategies and other important matters, the discussions shall be conducted comprehensively at the Board of Directors and other meetings and the relevant risks shall be dealt with by taking such actions as obtaining opinions of outside experts as necessary before making decisions.

⑦ System to ensure that the executive officers and directors and employees of subsidiaries perform their duties efficiently

- The Board of Directors shall decide the responsibilities of each executive officer, and the respective decision-making authorities in the performance of the duties shall be specified for executive officers, directors and employees of the Company and subsidiaries.
- The Company shall provide the charters and rules of the meetings of the Company and subsidiaries and ensure that report is made on the status of the performance of the duties and

efficient discussions are made on the important matters in accordance with the rules.

- The Company shall improve the efficiency of the performance of the duties by designing and building IT systems.

⑧ System to ensure the proper operation of the business group consisting of the Company and its subsidiaries

- The Company shall manage the business of the subsidiaries by appointing executive officers of the Company as directors of subsidiaries, receiving monthly report on the status of operation and implementing other measures in accordance with the Regulation of Management of Group Companies. Further, relevant divisions of the Company shall provide guidance and support to enable subsidiaries to establish compliance and other systems to ensure the proper operation of business of subsidiaries.
- Internal Audit Department shall give instructions and recommendations to subsidiaries depending on the results of internal audit.
- The Company shall take various measures including separation of duties and responsibilities and ongoing monitoring at the Company and subsidiaries in order to ensure the effective internal control over financial reporting of the Group companies, and shall evaluate, maintain and improve the system of internal control.

2) Outline of the 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 in accordance with the relevant rules, and provides suitable supervision and guidance by the parent to affiliated companies. In addition, the business performance of subsidiaries is reported as necessary at 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.

⑥ Status of New subsidiaries

Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd., which became wholly owned subsidiaries of the Company on July 20, 2023, are in the process of integration after the acquisition, and are working to introduce a system to ensure proper application of internal control system to those group companies.

(6) Policy on determination of Dividends, etc.

The declaration and payment of any dividends in the future will depend on the results of operations, financial conditions, cash requirements, future prospects, profits available for distribution and other factors deemed by the Board to be relevant at the time.

At present, the Group is making prudent investments to build a globally competitive biotechnology business and, therefore, does not expect to pay any dividends in the near to medium term. The Board will continue to reassess this position based on the factors above.

(7) Policy on the conduct of persons influencing decision on the Company's financial and business policies

Not applicable

Consolidated Balance Sheet

(Millions of yen)

Item	The 34th term At December 31, 2023	Item	The 34th term At December 31, 2023
Non-current assets	**92,086**	**Non-current liabilities**	**73,203**
Property, plant and equipment	7,900	Deferred tax liabilities	1,490
Goodwill	24,623	Corporate bonds	30,551
Intangible assets	52,291	Bank borrowings	32,664
Deferred tax assets	3,964	Lease liabilities	3,985
Other financial assets	3,266	Provisions	484
Other non-current assets	42	Other non-current liabilities	4,029
		Current liabilities	**17,185**
		Trade and other payables	4,244
Current assets	**65,112**	Income taxes payable	378
Trade and other receivables	5,064	Corporate bonds	143
Inventories	2,903	Current portion of long-term bank borrowings	5,798
Income taxes receivable	2,099	Lease liabilities	832
Other financial assets	316	Other current liabilities	5,790
Other current assets	5,665	**Total liabilities**	**90,388**
Cash and cash equivalents	49,065	**Equity**	
		Capital stock	46,807
		Capital surplus	34,048
		Treasury stock	(1)
		Retained earnings	(16,104)
		Other components of equity	2,060
		Equity attributable to owners of the parent	**66,810**
		Total equity	**66,810**
Total assets	**157,198**	**Total liabilities and equity**	**157,198**

Note: Amounts less than JPY 1 million have been rounded.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Millions of yen)

Item	The 34th term Financial year ended December 31, 2023	
Revenue		**12,766**
Cost of sales		**(3,102)**
Gross Profit		**9,664**
Other income and expenses		
Research and development expenses	(10,075)	
Selling, general and administrative expenses	(9,965)	
Other income	944	
Other expenses	(94)	(19,190)
Operating loss		**(9,526)**
Finance income		**1,341**
Finance costs		**(2,495)**
Loss before income taxes		**(10,680)**
Income tax benefit		**3,487**
Net loss		**(7,193)**
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	668	
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,404	6,072
Total comprehensive income		**(1,121)**
Net loss attributable to		
Owners of the parent	(7,193)	(7,193)
Total comprehensive income attributable to:		
Owners of the parent	(1,121)	(1,121)

Note: Amounts less than JPY 1 million have been rounded.

Consolidated Statement of Changes in Equity

(Millions of yen)

	Capital Stock	Capital surplus	Treasury stock	Retained earnings	Other compo-nents of equity	Equity attributa-ble to owners of the parent	Total equity
Balance at January 1, 2023	**41,335**	**29,525**	**(1)**	**(8,911)**	**(4,012)**	**57,936**	**57,936**
Net loss	-	-	-	(7,193)	-	**(7,193)**	**(7,193)**
Other comprehensive income	-	-	-	-	6,072	**6,072**	**6,072**
Total comprehensive income	-	-	-	(7,193)	6,072	**(1,121)**	**(1,121)**
Issuance of new shares	5,472	4,511	-	-	-	**9,983**	**9,983**
Share-based payments	-	832	-	-	-	**832**	**832**
Acquisition of treasury stock	-	-	(0)	-	-	**(0)**	**(0)**
Issuance of corporate bonds	-	800	-	-	-	**800**	**800**
Purchase and cancellation of corporate bonds	-	(1,620)	-	-	-	**(1,620)**	**(1,620)**
Total transactions with owners	5,472	4,523	(0)	-	-	**9,995**	**9,995**
Balance at December 31, 2023	**46,807**	**34,048**	**(1)**	**(16,104)**	**2,060**	**66,810**	**66,810**

Note: Amounts less than JPY 1 million 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 accordance 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:

Heptares Therapeutics Ltd.
Idorsia Pharmaceuticals Japan Ltd.
Sosei Co. Ltd.

iii. Change in scope of consolidation:

The company acquired the entire share capital of Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd., and those companies were included in the scope of consolidation in the year under review.

(3) Accounting policies

1) Valuation standards and methods for significant assets and liabilities

i. Financial assets (excluding derivatives)

Initial recognition and measurement of financial assets

Trade receivables and other receivables are recognized initially on their settlement dates. Other financial assets are recognized on their transaction dates. At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. At the time of initial recognition, the classification of financial assets is determined as follows:

Debt instruments

- Financial assets measured at amortized cost
  A financial asset is measured at amortized cost when both of the following conditions are met:
  (a) the financial asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
  (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets measured at fair value through profit or loss are financial assets other than those defined above.

Equity instruments

- Financial assets measured at fair value through other comprehensive income
  The Group may irrevocably elect to classify equity investments, other than those held for trading, upon initial recognition as financial assets measured at fair value through other comprehensive income.
- Equity financial assets measured at fair value through profit or loss are equity financial assets other than those defined above.

Subsequent measurement of financial assets

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

(a) a financial asset measured at fair value through profit or loss is recognized at an amount that reflects the change in the amount of the fair value.

(b) a financial asset measured at fair value through other comprehensive income is recognized at an amount that reflects the change in the amount of the fair value. When the financial asset is derecognized, the cumulative gain or loss in other components of equity is transferred to retained earnings. 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.

(c) a financial asset 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.

ii. Financial liabilities (excluding derivatives)

Initial recognition and measurement of financial liabilities

Financial liabilities are recognized on the transaction date. At initial recognition, the Group measures a financial liability at its fair value minus, in the case of a financial liability not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. The Group classifies financial liabilities upon initial recognition as financial liabilities subsequently measured at fair value through profit or loss, or financial liabilities measured at amortized cost.

Subsequent measurement of financial liabilities

After initial recognition, the Group measures a financial liability as follows:

(a) a financial liability measured at fair value through profit or loss is recognized at an amount that reflects the change in fair value.

(b) a financial liability measured at amortized cost is recognized by the effective interest method.

If the discontinuation of amortization and derecognition using the effective interest method occur, a gain or loss is recognized within 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 balance sheet when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

iii. Derivatives

The Group uses forward exchange contracts to manage its foreign exchange risk. These derivatives are initially recognized at fair value on the date the contract is entered into, and are remeasured at fair value at each balance sheet date after initial recognition. Changes in fair value are recognized through profit or loss. These derivatives do not qualify for hedge accounting.

iv. 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.

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

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost comprises those costs directly attributable to the acquisition of the asset, the initial estimate of costs for dismantling and removing the asset and the costs of restoring property to its original state.

Goodwill and intangible assets

Goodwill

Goodwill arising from an acquisition of a subsidiary is recorded at cost less accumulated impairment losses. 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 annual impairment test is conducted at the same time in each financial year or whenever there is an indication that goodwill may be impaired. Impairment losses on goodwill are recognized in the consolidated statement of profit or loss and other comprehensive income and are not reversed subsequently.

Intangible assets

Separately acquired intangible assets with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Cost comprises those costs directly attributable to the acquisition of the intangible asset.

Internally generated intangible 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 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)
Management assesses whether new contracts include a lease at inception of the contract. If the contract conveys the right to control the use of an identified asset for a period 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. Interest on the lease liability is calculated to be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The lease liability is reduced by lease payments net of the interest expense.

Presentation
In the Consolidated Balance Sheet, the Group presents right-of-use assets in "Property, plant and equipment". In the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Group presents interest expense at an 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,* 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.

Inventories
Inventories are measured at the lower of cost (including purchasing and processing costs) and net realizable value. Net realizable value is the estimated selling price in the course of business less estimated costs to complete and estimated selling expenses. Cost is determined on a first-in, first-out basis.

vi. Impairment of non-financial assets
The book values of non-financial assets are reviewed for indications of impairment at each reporting date. If any such indications exist, the asset's recoverable amount is estimated. For goodwill and intangible assets with indefinite useful lives or intangible assets not yet available for use, the recoverable amount is estimated at the same time in each financial year. The recoverable amount of assets or cash-generating units is the higher of value in use or fair value less disposal costs. In the calculation of value in use, estimated future cash flows are discounted to present value using a discount rate that reflects the time value of money and risks inherent to the asset. In respect of cash-generating units, assets are grouped into the smallest units generating largely independent cash flows from other assets or units, through continued usage.

In respect of cash-generating units for goodwill, goodwill is assessed based on those business units defined for the purposes of internal reporting. In principle, a cash-generating unit is classified as a type of business and geographical region. Corporate assets do not generate independent cash inflows. Therefore, when there are indications of impairment in corporate assets the recoverable amount of the cash-generating unit to which the corporate asset belongs is calculated for the impairment test. Assets that do not have external cash flows are included within the cash-generating units of the business units that they support. Impairment loss is recognized in profit or loss when the book value of the asset or cash-generating unit exceeds the recoverable amount. Impairment loss recognized in connection with cash-generating units is allocated first to reduce the book value of goodwill relating to that cash-generating unit. Any additional impairment required is allocated next to reduce the book values of other assets within the cash-generating unit proportionally.

Impairment losses related to goodwill are not reversed. In respect of impairment losses on other assets recognized in the past, the existence of indications showing that the loss has decreased or been eliminated is assessed on each reporting date. If there are indications of a reversal of impairment and the estimate used for determining the recoverable amount has changed, the impairment loss is reversed. The previously recognized impairment loss is reversed to the extent that the carrying amount of the asset does not exceed what the carrying amount would have been (net of amortization and depreciation) had no impairment loss been recognized for the asset in prior years.

2) Depreciation methods for significant depreciable assets

i. Property, plant and equipment

Property, plant and equipment are depreciated based on their depreciable amounts by the straight-line method over the expected useful life of each asset. The normal expected useful lives of major asset categories are as follows:

- Buildings and structures: 3 to 18 years
- Machinery and equipment: 4 to 8 years
- Furniture and fixtures: 2 to 18 years
- Right-of-use assets: 2 to 16 yeares

The expected useful lives, residual values and depreciation methods are reviewed at the end of each financial year, and changes in these items, if any, are applied prospectively as changes in accounting estimates.

ii. Intangible assets

Intangible assets are amortized based on their amortizable amounts by the straight-line method over the expected useful life of each asset. The amortization method, expected useful lives, and residual values are reviewed at the end of each financial year, and changes in these items, if any, are applied prospectively as changes in accounting estimates. Expected useful lives of major asset categories are as follows:

- Product-related assets: 18 to 28 years
- Core technology: 12 to 20 years
- Customer-related assets: 20 years

Intangible assets with indefinite useful lives and intangible assets that are not yet available for use and therefore not yet amortized, are tested for impairment at the same time in each financial year and whenever there is an indication of impairment.

3) Accounting standards for significant provisions

The Group recognizes a provision when it has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources with economic benefits will be required to settle such obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions are measured as the present value of the expenditure expected to be required to settle the obligation, using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. Increases in provisions over time are recognised as finance costs.

Asset retirement obligations are estimated based on the past restoration experience and the estimated period of use determined by taking into account the useful life of the internal structures of the offices, etc., and taking into account the specific conditions of each property. The Group estimates, recognises and measures the cost of restoration obligations for leased offices and buildings, taking into account the specific conditions of each property.

4) Accounting standards for significant income and expenditure

The Group recognizes revenue from contracts with customers based on the following five-step approach:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Pharmaceutical product sales

Pharmaceutical product sales are recognized upon the customer's acceptance.

Grant of Licenses

The promise to grant a license is regarded as a distinct performance obligation if the customer can benefit from the license either on its own or together with other resources that are readily available to the customer, and the Group's promise to transfer the license to the customer is separately identifiable from other promises in the contract.

The promise to grant a license under a contract is a promise to provide a right to access intellectual property if all the following criteria are met:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property to which the customer has rights.
- the rights granted by the license directly expose the customer to any positive or negative effects of the Group's activities identified in the above criterion; an
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

(a) When a license is distinct from other goods or services and evaluated as a right to use license

- Upfront fees are recognized at the time of the grant of the license if the performance obligation is satisfied at a point in time.
- Development milestone income is only recognized when it is determined that the achievement of milestones agreed between the parties, such as regulatory filings, are assured, taking into consideration the probability of a subsequent significant reversal of revenue.
- Sales royalty income and sales milestone income are measured based on the sales recorded by the counterparty when (or as) the later of (i) a sales transaction has occurred or a contractually agreed target is achieved, and (ii) the performance obligation is satisfied.

(b) When a license is distinct from other goods or services and evaluated as a right to access license:

Not applicable.

Research and Development services

Revenue from Research and Development services is recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

(a) Research and Development services – compensated through upfront fees and development milestones

When a performance obligation is not satisfied at a point in time and consideration is received prior to the satisfaction of the performance obligation, the consideration is recorded as a contract liability (deferred revenue). Revenue is measured, and the same amount is derecognized from the contract liability (deferred revenue), based on the ratio of actual time incurred on each R&D program at the reporting period end to the total time estimated to be incurred from the commencement of the R&D plan until its scheduled completion date. However, development milestone income, which includes variable consideration, is recognized only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(b) Research and Development services – compensated through FTE charges

Full Time Equivalent ("FTE") revenue earned from providing research and development services to customers is recognized over time by multiplying the amount of time worked by the contracted charge-out rate.

The transaction price for granting licenses is allocated to each performance obligation based on the stand-alone selling price calculated using the residual approach. The consideration is the amount receivable within one year from satisfaction of the performance obligations or fulfillment of contractual terms and conditions.

Variable consideration is allocated to a specific performance obligation only if both of the following conditions apply:

- Variable payment terms relate specifically to the entity's effort to satisfy the performance obligation or transfer the distinct good or service.
- Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service, is consistent with the following allocation objective when considering all of the performance obligations and payment terms in the contract: an entity should allocate the transaction price to each performance obligation or distinct good or service in an amount that depicts the amount of consideration to which the entity expects to be entitled to in exchange for transferring the promised goods or services to the customer.

There are no significant financing components included in any license contracts or any research and development contracts.

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

i. Foreign-denominated transactions

Transactions denominated in foreign currencies are translated into the functional currency of each Group company at the rates of exchange prevailing at the dates of the transactions. Foreign-denominated monetary assets and liabilities are translated into the functional currency of each Group company using the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are retranslated into the functional currency at the exchange rates on the date fair value is determined. Non-monetary items measured at cost are translated at the exchange rate on the transaction date. Exchange differences resulting from retranslation or settlement are recognized in profit or loss in the period incurred.

ii. Financial statements of foreign operations

The assets and liabilities of the Group's foreign operations (such as overseas subsidiaries) are translated into Japanese yen at the exchange rates prevailing at the end of the period. Income and expenses are translated into Japanese yen at the average annual exchange rates for the period as long as there is no significant exchange rate fluctuation. Exchange differences arising from the translation of the financial statements of foreign operations are recognized in "Other comprehensive income" in the consolidated statement of profit or loss and other comprehensive income and accumulated in "Other components of equity" in the consolidated balance sheet.

6) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed, and equity instruments issued by the Company in exchange for control of the acquiree. If the consideration transferred exceeds the fair value of identifiable assets and liabilities, the excess is recorded as goodwill in the consolidated balance sheet. Conversely, if the fair value of such assets and liabilities exceeds the consideration transferred, the excess is immediately recognized as a gain in the consolidated statement of profit or loss and other comprehensive income. If the initial accounting for a business combination is incomplete by the end of the period in which the business combination occurred, the Group reports provisional amounts for items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period which lasts no more than one year from the acquisition date. Acquisition costs are expensed as incurred.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period” (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

2. Notes relating to changes in presentation

Consolidated Balance Sheet

The “Inventories" balance which was included in "Other current assets" in the previous consolidated financial year, is presented separately in the year under review due to its increased importance in terms of amount. To reflect this change in presentation, JPY 865 million presented as "Other current assets" in the consolidated balance sheet as at December 31, 2022 has been reclassified as "Inventories" (JPY 32 million) and "Other current assets" (JPY 833 million).

The “Provisions" balance which was included in "Other non-current liabilities" in the previous consolidated financial year, is presented separately in the year under review due to its increased importance in terms of amount. To reflect this change in presentation, JPY 4,909 million presented as "Other non-current liabilities" in the consolidated balance sheet as at December 31, 2022 has been reclassified as "Provisions" (JPY 118 million) and "Other non-current liabilities" (JPY 4,791 million).

3. Notes relating to key accounting estimates

In preparing consolidated financial statements in accordance with IFRS, management is required to make judgements, estimates, and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates due to their nature. The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The key judgements and estimates made by management that have had a significant effect on the amounts recognized in the consolidated financial statements are as follows:

(1) Valuation and impairment of Goodwill and Intangible Assets

The carrying amounts of Goodwill and Intangible Assets were JPY 24,623 million and JPY 52,291 million, respectively, as at December 31, 2023.

1) Method of calculation of the carrying amounts in the consolidated financial statements and significant assumptions used in the calculation

The book values of non-financial assets are reviewed for indications of impairment at each reporting date. If any such indications exist, the asset’s recoverable amount is estimated. For goodwill and intangible assets with indefinite useful lives or intangible assets not yet available for use, the recoverable amount is estimated at the same time in each financial year. Goodwill is not amortized. It is allocated to cash-generating units and an annual impairment test is conducted at the same time in each financial year or whenever there is an indication that goodwill may be impaired. Impairment losses on goodwill are recognized in the consolidated statement of profit or loss and other comprehensive income and are not reversed subsequently. 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. In respect of cash-generating units for intangible assets, intangible assets are grouped based on the smallest cash-generating unit that produces largely independent cash inflows.

1. Recoverable amount of Goodwill and Intangible Assets of Heptares Therapeutics Ltd.

The recoverable amount of the Heptares Therapeutics Ltd. cash generating unit has been assessed using fair value less cost of disposal. Fair value less cost of disposal has been calculated by estimating future cash flows based on business plans. Assumptions used in business plans and fair value less costs of disposal include the timings of milestone achievements and product launches, the probabilities of success of R&D activities and projected revenues including expected future product sales and the weighted average cost of capital. Management uses its experience, external sources, knowledge of the activities of competitors and industry trends in forming these assumptions.

2. Recoverable amount of Goodwill and Intangible Assets of Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd.

The recoverable amount of the Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd. cash generating unit has been assessed using a value in use approach by estimating future cash flows based on business plans. Assumptions used in business plans and the value in use calculation include the market size of related pharmaceutical products and projected market shares, projected related selling, general & administrative expense, R&D expenses, the growth rate in the period after the business plan and the weighted average cost of capital. Management uses its experience, external sources, knowledge of the activities of competitors and industry trends in forming these assumptions.

2) Effects on the consolidated financial statements for the year ending December 31, 2024

If there are material adverse differences between management's projected cash flows and the actual cash flows due to the timing of milestone achievement and market shares of pharmaceutical products, impairment may be recognized to reduce the carrying amounts of goodwill and intangible assets down to their recoverable amounts.

(2) Revenue recognition

The balance of contract liabilities was JPY 5,260 million as at December 31, 2023. JPY 1,731 million of former contract liabilities was recognized as revenue during the financial year ended December 31, 2023.

1) Method of calculation of the carrying amounts in the consolidated financial statements and significant assumptions used in the calculation

When a performance obligation is not satisfied at a point in time and consideration is received prior to the satisfaction of the performance obligation, the consideration is recorded as a contract liability (deferred revenue). Revenue is measured, and the same amount is derecognized from the contract liability (deferred revenue), based on the ratio of actual time incurred on each R&D program at the reporting period end to the total time estimated to be incurred from the commencement of the R&D plan until its scheduled completion date.

For the following reasons, the calculation of total estimated time is characterized by uncertainty:

- *Research and development generally takes a long time and is highly individualized for each project.*
- *By its nature, the achievement of results is not guaranteed, and the total estimated time required varies depending on the progress of the R&D.*
- *The total estimated time for R&D is subjective in that it depends on the judgment of project managers who have expertise and experience in R&D.*

2) Effects on the consolidated financial statements for the year ending December 31, 2024

Fluctuations in the total estimated time due to the above uncertainties may have a significant impact on the amount of revenue recognized in the consolidated financial statements for the year ending December 31, 2024.

4. Notes to consolidated balance sheet

(1) Property, plant and equipment

Cumulative depreciation on property, plant and equipment was JPY 3,496 million.

(2) Commitment line agreement

The contractual limit of the commitment line agreement is JPY 5,000 million and there were no loans outstanding under this agreement at the financial year ended December 31, 2023.

On December 30, 2022, the Company entered into a commitment line agreement for one year (maximum loan amount: JPY 5,000 million) with Mizuho Bank and three other banks. Under the commitment line agreement, the Company is subject to a financial covenant requiring it to maintain its consolidated net assets at 75% or more of the level at the second quarter of the financial year ending December 31, 2022 at every second quarter after the financial year end and at the financial year end. In addition, the Company has the following rights under the commitment line agreement:

1) Extend the maturity of the commitment line for a period of one year on the anniversary of the contract date and for another one year on the anniversary of the second year, for a total of two extensions.
2) Convert the commitment line at each anniversary date up to December 30, 2025 into an installment term loan of the same value with a repayment period of four years.

The contract was extended in December 2023, with a contract term ending December 30, 2024.

5. Notes to the consolidated statement of changes in equity

(1) Total shares outstanding

Share class	Shares at beginning of the financial year	Increase in shares during the financial year	Decrease in shares during the financial year	Shares at end of the financial year
Common shares	81,923,230	7,523,547	-	89,446,777

Note: The increase in common shares outstanding is due to Issuance of new shares by way of overseas subscription (1,500,000 shares), Issuance of new shares by way of third-party allotment (5,610,000 shares) and the allotment of Restricted Stock Units (“RSUs”) (413,547 shares).

(2) Subscription warrants, etc. as at December 31, 2023

Type and number of shares for subscription warrants as at December 31, 2023:
Common shares 18,105,265

6. 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 bonds, borrowing from banks, and through leasing.

2) Financial instruments – content, 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 balance sheet as at December 31, 2023, their corresponding fair values and the differences between these amounts are as follows:

	Amount stated in the consolidated balance sheet ¥m	Fair value ¥m	Difference ¥m
Other financial assets	3,582	3,582	-
Trade and other receivables	5,064	5,064	-
Cash and cash equivalents	49,065	49,065	-
Corporate bonds	30,694	31,751	1,057
Bank borrowings	38,462	38,585	123
Trade and other payables	4,244	4,244	-

(3) Classification of fair value of financial instruments

The classification of financial instruments within the fair value hierarchy from Level 1 to Level 3 is as follows:

Level 1: Quoted prices (unadjusted) in an active market for identical assets or liabilities.

Level 2: Fair value determined using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Fair value determined using valuation techniques including measurement based on unobservable inputs.

1) Financial instruments that are measured at fair value on a recurring basis

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial assets:				
Financial assets measured at fair value through profit or loss:				
Other financial assets	-	21	577	598
Financial assets measured at fair value through other comprehensive income:				
Other financial assets	1,208	-	1,110	2,318
	1,208	**21**	**1,687**	**2,916**

2) Financial instruments measured at amortized cost

	Level 1 ¥m	Level 2 ¥m	Level 3 ¥m	Total ¥m
Financial liabilities:				
Corporate bonds	-	31,751	-	31,751
Bank borrowings	-	38,585	-	38,585
	-	**70,336**	**-**	**70,336**

Notes: Explanation of valuation methods and inputs used in determining fair value

1. Financial assets

Financial assets are reported under Other financial assets in the consolidated balance sheet and comprise:

a. Listed securities

The fair value of listed securities is assessed using the market price at the end of the period, and changes in fair value are recorded in “Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income” in the consolidated statement of profit or loss and other comprehensive income. The fair value is categorized as Level 1, as securites are traded in an active market.

b. Unlisted securities

The fair value of unlisted securities is assessed using an appropriate valuation model based on a number of variables including net assets, future cashflows and estimated profits, and changes in fair value are recorded in profit or loss, or in “Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income” in the consolidated statement of profit or loss and other comprehensive income. The fair value is categorized as Level 3 as it is determined by a valuation method utilising unobservable inputs.

c. Contingent consideration receivable relating to a business disposal

The fair value of contingent consideration receivable relating to a business disposal is assessed using a probability adjusted discounted cashflow model. The fair value is categorized as Level 3 as it is determined by valuation methods utilising unobservable inputs. Changes in fair value are recorded in profit or loss.

d. Insurance reserves

The fair value of insurance reserves is based on the surrender values provided by the insurance companies with which the Company transacts business. The fair value is categorized as Level 3.

e. Memberships

The fair value of memberships is determined based on publicly available prices for identical assets in markets that are not active. The fair value is categorized as Level 2.

2. Financial liabilities

Financial liabilities are reported under Corporate bonds and Bank borrowings in the consolidated balance sheet and comprise:

a. Corporate bonds

The fair value of the debt element of convertible bonds is calculated by discounting the total amount of principal and future interest payments at an interest rate that considers the remaining maturity of the bonds and credit risk. They are categorized as Level 2 of the fair value hierarchy.

b. Bank borrowings

The fair value of bank borrowings is calculated as the present value of the total amount of principal and interest discounted at the interest rate that would be applicable to a new similar bank borrowing. They are categorized as Level 2 of the fair value hierarchy.

(4) Repayment schedule for Corporate bonds, Bank borrowings and Lease liabilities

	Due within 1 year ¥m	Due more than 1 year and less than 5 years ¥m	Due more than 5 years ¥m
Corporate bonds	150	32,000	-
Bank borrowings	5,800	23,200	9,550
Lease liabilities	832	2,815	1,170

7. **Notes on revenue recognition**

The Group earns revenue through selling a fully developed pharmaceutical product, granting licenses that provide the rights to develop and market pharmaceutical products and through the provision of research and development services to customers. These activities are classified into the following types of revenue based on their purpose and performance obligations:

(1) Types of revenue classified by purpose

- Upfront fees and milestone income: Upfront fees, Development milestone income, Sales milestone income
- Royalty income: Sales royalty income
- Pharmaceutical product sales: Revenue from product sales
- Other: Revenue from contracted research and development services

(2) Types of revenue classified by performance obligation

Types of revenue classified by performance obligation is shown in the Notes to the Consolidated Financial Statements under "(3) Accounting policies 4) Accounting standards for significant income and expenditure".

(3) Breakdown of revenue

	Performance obligation			
Types of Revenue	**Product supply revenue ¥m**	**Grant of Licenses ¥m**	**Research and Development services ¥m**	**Total ¥m**
Phamaceutical product sales	6,173	-	-	6,173
Upfront fees and milestone income	-	2,108	1,731	3,839
Royalty income	-	2,504	-	2,504
Other	-	-	250	250
	6,173	**4,612**	**1,981**	**12,766**

Performance obligations satisfied in past periods amounting to JPY 4,612 million are included in revenue for the year ended December 31, 2023.

(4) Contract balances

Receivables from contracts with customers are included in the consolidated balance sheet as “Trade and other receivables”. Deferred revenue is included in the consolidated balance sheet under “Other non-current liabilities” and “Other current liabilities”.

Opening and closing balances of deferred revenue from contracts with customers	**¥m**
Opening balance – January 1, 2023	6,221
Of the opening balance, the amount recognized as revenue in the year	(1,731)
Exchange differences on translation	770
Closing Balance - December 31, 2023	5,260
Other non-current liabilities	3,882
Other current liabilities	1,378

(5) Transaction price allocated to the remaining performance obligations

Research and development services related performance obligations arising under contracts may be unsatisfied or partially satisfied at the reporting date. Milestone income allocated to research and development services is not included in the transaction price allocated to the remaining performance obligation because the uncertainty of reaching the agreed milestone, such as a regulatory filing, will not be resolved until the actual achievement of the milestone. Since the Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Group’s performance of services completed to date, the transaction price allocated to the remaining performance obligations relating to research and development services is omitted as a practical expedient in accordance with paragraphs 121(b) and B16 of IFRS15.

8. Notes on per-share information

	¥
Equity attributable to owners of parent - per share	746.92
Basic earnings - per share	(87.18)

9. Other notes

(1) Business conbinations

1) Overview of Business Combination

Acquisition of shares in Idorsia Pharmaceuticals Japan Ltd. and Idorsia Pharmaceuticals Korea Co., Ltd. and related assets

The Company announced that it had resolved at a meeting of the Board of Directors held on July 20, 2023, to acquire from Idorsia Ltd. and Idorsia Pharmaceutical Ltd. (together “Idorsia”) the entire share capital of Idorsia Pharmaceuticals Japan Ltd. (“IPJ”) and Idorsia Pharmaceuticals Korea Co., Ltd. (“IPK”) together with related intercompany receivable balances and intellectual property rights (the “Transaction”). The Company acquired all shares on the same day.

Name of the acquiree and Description of business

Name of the acquiree:	Idorsia Pharmaceuticals Japan Ltd. Idorsia Pharmaceuticals Korea Co., Ltd.
Description of business:	Research & Development, importation, packaging and sale of pharmaceutical products

Primary reason for the business combination

In 2022, the new leadership team at the Group began executing an evolved corporate strategy designed to leverage its proprietary platform, pipeline and capabilities and build a balanced and integrated business with a commercial capability in Japan/APAC and partnering opportunities globally. A key element of this strategy is focused on building an agile, scalable and effective clinical development and commercialization business capability that enables the Group to deliver life-changing medicines to patients in Japan and capitalize on the significant underserved opportunities that it sees within this large attractive market.

The acquisition of IPJ and IPK addresses this objective and is the conclusion of a rigorous global search by the Group team. The cash-flow positive Transaction, which is fully funded by existing cash and a new long-term, low-rate corporate loan, provides the Group with multiple strategic benefits by:

- Accelerating the Group's mission by adding experienced clinical development capability and a profitable commercial operation in Japan, with a lean model for sales and marketing, and the ability to scale and create further value.
- Securing and expanding the Group's future pipeline with two major products PIVLAZ® and Daridorexant; exclusive opt-ins for Cenerimod and Lucerastat; and selected rights for up to five additional clinical-stage programs from Idorsia's global pipeline.
- Bringing a highly skilled team with a proven track record of excellence and delivery, led by Dr. Satoshi Tanaka, who has directed several New Drug Application (Japan) and Ministry of Food and Drug Safety (South Korea) approvals and successful commercial launches over the past two decades.
- Leveraging Japan's quality clinical environment to target underserved, specialty disease areas; and providing the platform to expand across broader APAC regions and extend product launches.

The Transaction also brings together complementary capabilities to develop and commercialize novel medicines across Japan and APAC (ex-China) from three sources of innovation: (i) the Group's wholly owned discovery and early development pipeline, (ii) selected clinical candidates from Idorsia's pipeline, and (iii) in-licensing of Japan/APAC (ex-China) rights to clinical product candidates from third parties.

In addition, the Group will continue to seek partners for novel candidates or programs discovered by the Group for development and commercialization outside of Japan/APAC territories where significant unmet needs exist, as well as the requirements for substantial expertise and resources.

Date of acquisition
July 20, 2023

Percentage of voting equity interests acquired

Idorsia Pharmaceuticals Japan Ltd.	100%
Idorsia Pharmaceuticals Korea Co., Ltd.	100%

Method of acquisition
Acquisition of shares for cash

Consideration for the Transaction
JPY 64,440 million.
Acquisition related costs of JPY 1,149 million relating to the Transaction were included in Selling, general and administrative expenses.

2) Fair value of assets acquired and liabilities assumed as of the acquisition date, and goodwill

	Amount ¥m
Fair value of assets acquired and liabilities assumed:	
Property, plant and equipment	3,431
Intangible assets	44,071
Deferred tax assets	2,279
Trade and other receivables	3,505
Inventories	4,779
Other assets	2,735
Lease liabilities	(2,837)
Trade and other payables	(880)
Other liabilities	(661)
Net fair value of assets acquired and liabilities assumed	56,422
Goodwill	8,018
	64,440

Goodwill reflects the future excess earning power expected from future business development and synergies with existing businesses. None of the recognized goodwill is expected to be deductible for tax purposes.

3) Cash flows relating to the acquisition of Idorsia

	Amount ¥m
Cash and cash equivalents paid for acquisition	64,440
Cash and cash equivalents of assets acquired	(1,499)
Net cash payment for the acquisition of Idorsia	62,941

4) Impact on Business Performance

The consolidated statement of profit or loss and other comprehensive income includes revenue and net profit of JPY 7,609 million and JPY 623 million, respectively, arising from IPJ/IPK after the acquisition date. Assuming that the business combination had taken place at the beginning of the financial year, the Group’s revenue and net loss for the twelve-month period ended December 31, 2023 would have been JPY 17,783 million and JPY 10,710 million, respectively. Such proforma information has not been subject to Audit.

Non-Consolidated Balance Sheet

Item	The 34th term At December 31,2023	Item	The 34th term At December 31,2023
Asset		**Liabilities**	
Current assets	**39,899**	**Current liabilities**	**11,062**
Cash and deposits	21,989	Accounts payable - trade	112
Accounts receivable from subsidiaries and associates - trade	4,094	Accounts payable - other	1,302
Accounts receivable from subsidiaries and associates - other	8,891	Accounts payable to subsidiaries and associates - other	3,000
Prepaid expenses	150	Accrued expenses	183
Consumption taxes refund receivable	4,714	Income taxes payable	79
Other	61	Current portion of long-term bank borrowings	5,800
		Current portion of corporate bonds	152
		Deposit received	41
		Provision for share-based compensation	380
		Other	13
Non-current assets	**102,112**	**Non-current liabilities**	**65,749**
Property, plant and equipment	**39**	Long-term bank borrowings	32,750
Buildings	29	Convertible bonds	32,793
Tools, furniture and fixtures	10	Asset retirement obligations	18
Intangible assets	**43,368**	Provision for share-based compensation	188
Sales rights	43,352	**Total liabilities**	**76,811**
Software	16	**Net Assets**	
Other	0	**Shareholders' equity**	**64,965**
Investments and other assets	**58,705**	**Capital stock**	**46,807**
Shares of subsidiaries and associates	58,480	**Capital surplus**	**34,924**
Long-term loans receivable from subsidiaries and associates	3,390	Legal capital surplus	34,924
Investments in capital	95	**Retained earnings**	**(16,765)**
Other	58	Other retained earnings	(16,765)
Allowance for doubtful accounts	(3,318)	Retained earnings brought forward	(16,765)
		Treasury stock	**(1)**
		Valuation/translation difference	**(0)**
		Unrealized holding gains or losses on securities	(0)
		Stock acquisition rights	**235**
		Total net assets	**65,200**
Total assets	**142,011**	**Total liabilities and net assets**	**142,011**

Note: Amounts less than JPY 1 million have been rounded.

Non-Consolidated Statement of Profit or Loss

(Millions of yen)

Item	The 34th term Financial year ended December 31,2023	
Revenue		**5,015**
Cost of sales		**(646)**
Gross profit		**4,369**
Selling, general and administrative expenses		**(4,704)**
Operating loss		**(335)**
Non-operating income		
Interest income	132	
Miscellaneous income	0	132
Non-operating expenses		
Interest expenses	(74)	
Commission expenses	(116)	
Loss on cancellation of bonds	(1,056)	
Bond issuance costs	(1,092)	
Share issuance costs	(71)	
Provision of allowance for doubtful accounts for subsidiaries and associates	(400)	
Foreign exchange loss	(263)	
Miscellaneous loss	(26)	(3,098)
Ordinary loss		**(3,301)**
Extraordinary income		
Gain on reversal of share acquisition rights	7	7
Loss before income taxes		**(3,294)**
Corporate tax, residential tax and enterprise tax	(9)	(9)
Net loss		**(3,285)**

Note: Amounts less than JPY 1 million have been rounded.

Non-Consolidated Statement of Changes in Equity

(Millions of yen)

	Shareholders' equity				
		Capital surplus	Retained earnings		
			Other retained earnings		
	Capital stock	Legal capital surplus	Retained earnings brought forward	Treasury shares	Total shareholders' equity
Balance at January 1, 2023	**41,335**	**29,452**	**(13,480)**	**(1)**	**57,306**
Changes during the period:					
Issuance of new shares	5,472	5,472	-	-	**10,944**
Net loss	-	-	(3,285)	-	**(3,285)**
Purchase of treasury stock	-	-	-	(0)	**(0)**
Net changes of items other than shareholders' equity	-	-	-	-	**-**
Total changes during the period	5,472	5,472	(3,285)	(0)	**7,659**
Balance at December 31, 2023	**46,807**	**34,924**	**(16,765)**	**(1)**	**64,965**

	Valuation/ translation difference		
	Unrealized holding gains or loss on securities	Stock acquisition rights	Total net assets
Balance at January 1, 2023	**(5)**	**243**	**57,544**
Changes during the period:			
Issuance of new shares	-	-	**10,944**
Net loss	-	-	**(3,285)**
Purchase of treasury stock	-	-	**(0)**
Net changes of items other than shareholders' equity	5	(8)	**(3)**
Total changes during the period	5	(8)	**7,656**
Balance at December 31, 2023	**(0)**	**235**	**65,200**

Notes: Amounts less than JPY 1 million have been rounded.

<u>**Notes to the Non-Consolidated Financial Statements**</u>

1. Significant accounting policies

(1) Asset valuation standards and methods

1) Securities

Shares of subsidiaries and associates are carried at cost determined by the moving-average method .

(2) Depreciation Methods for non-current Assets

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 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: 3-18 years

2) Intangible 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.

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

(4) Recognition standards for provisions

1) Allowance for doubtful accounts

Allowance is made for credit losses on accounts receivable and other accounts. An estimate of the irrecoverable amount is set aside based on historical credit loss rates for ordinary receivables and based on individual collectability for specific receivables regarded as doubtful.

2) Provision for bonuses payable to employees

Provision is made during the financial year for the estimated payment of employee bonuses.

3) Provision for bonuses payable to executive officers

Provision is made during the financial year for the estimated payment of bonuses to executive officers .

4) Provision for share-based compensation

Provision is made for an estimation of the in-kind contribution of monetary compensation claim incurred from RSU/PSUs for directors and employees.

(5) Revenue recognition criteria

Pharmaceutical product sales

Pharmaceutical product sales are recognized upon the customer’s acceptance.

Management fees

The Company's revenue consists of management fees charged to its subsidiaries. Since the Company's performance obligation is to provide contracted services to its subsidiaries and the Company's performance obligation is satisfied when those services are performed, revenue is recognized at that point in time.

(6) Standards for Conversion of Foreign-denominated Assets and Liabilities to Japanese Currency

Foreign-denominated monetary receivables and payables are converted to Japanese yen based on the closing spot rate of each reporting period, and exchange differences are accounted for within profit or loss for the period.

2. Notes on changes in presentation

Balance sheet

The "Consumption taxes refund receivable" balance which was included in "Others" in the previous financial year, is separately stated in the year under review due to its increased importance in terms of amount. To reflect this change in presentation, JPY 35 million presented as "Others " in the non-consolidated balance sheet as at December 31, 2022 has been reclassified as " Consumption taxes refund receivable" (JPY 31 million) and "Others" (JPY 4 million).

Statement of Profit or Loss

As a result of a review of the method of presentation following the commencement of product sales, the company has decided to present "Operating revenue" as "Revenue" and "Operating expenses" as "Selling, general and administrative expenses".

3. Notes relating to key accounting estimates

Valuation of Shares of subsidiaries and associates

	Ending balance ¥m
Shares of subsidiaries and associates	58,480

Method of calculation of the carrying amounts in the non-consolidated financial statements and significant assumptions used in the calculation

A valuation loss is recorded on non-marketable securities, such as investments in unlisted subsidiaries and associates, when their net asset value decrease significantly due to deterioration of the financial position of the security issuer, unless there is sufficient evidence to support their recoverability. The net asset value used in the impairment assessment is calculated based on the net assets of the latest available financial statements prepared in accordance with the Generally Accepted Accounting Standards and obtained from subsidiaries and associates before the period end, and includes goodwill. Hence, significant assumptions related to significant accounting estimates described in "Valuation and impairment of Goodwill and Intangible Assets" within "4. Significant accounting estimates and associated judgments" of the consolidated financial statements significantly affects the calculation of the net asset value.

Effects on the non-consolidated financial statements for the year ending December 31, 2024

There is possibility when a significant decline in the real value of the asset coud result in a valuation loss due to uncertain events in the future.

Valuation of Sales rights

	Ending balance ¥m
Sales rights	43,352

Method of calculation of the carrying amounts in the non-consolidated financial statements and significant assumptions used in the calculation

The Company's marketing rights are grouped according to the smallest unit that independently generates cash flows. When an indication of impairment exists of an asset group, the total undiscounted future cash flows generated from the asset group is compared to the book value to determine the necessity of impairment. Once an impairment loss is determined to be recognized, the book value is reduced to the asset's recoverable amount and the decreased amount is recorded as an impairment loss. Indications of impairment include cases where operating losses or net cash outflows from operating activities continue, or will continue in the near future, and significant changes with an adverse effect on the business environment have taken place, or will take place in the near future.

Effects on the non-consolidated financial statements for the year ending December 31, 2024

Since the purchase price of marketing rights is calculated based on business plans of related pharmaceutical products, there is a possibility that an impairment loss may be recorded when the actual result is significantly worse than the budgeted result.

Notes to the Balance sheet

	¥m
(1) Cumulative depreciation on property, plant and equipment	48

(2) Guarantee liabilities

Debt guarantees totaling JPY 2,011 million have been provided in relation to land and building lease agreements signed by the Company's subsidiary, Heptares Therapeutics Ltd.

	¥m
(3) Monetary liabilities to directors and executive officers	234

4. Notes to the Statement of Profit or Loss

	¥m
Operating transactions with subsidiaries and affiliates	7,705
Non-operating transactions with subsidiaries and affiliates	0

5. Notes to the Statement of Changes in Equity

Share class	Shares at beginning of financial year	Increase in shares during financial year	Decrease in shares during financial year	Shares at end of financial year
Ordinary Treasury shares	254	81	-	335

Note: The increase in common shares is due to the purchase of shares of less than one unit (81 shares).

6. Notes on revenue recognition

The Company's revenue recognition policy is shown in Notes to the Non-consolidated Financial Statements under "1. Significant accounting policies (5) Revenue recognition criteria".

7. Tax

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

Tax losses carried forward	3,018
Shares in subsidiaries and associates	3,135
Allowance for doubtful debts	1,016
Other	455
Deferred tax assets subtotal	7,624
Valuation allowance	(7,624)
Total deferred tax assets	**-**

8. 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%	Provision of management services to subsidiary	88	-	-
			Loan to subsidiary	400	Long-term loans to subsidiaries and affiliates	3,318
Subsidiary	Idorsia Pharmaceuticals Japan Ltd.	Direct holding 100%	Product sales	4,094	Accounts receivable from subsidiaries and associates – trade	4,094
			Acquisition of sales rights	43,963	Accounts receivable from subsidiaries and associates – other	8,849
			Outsourcing expenses	955	Accounts payable to subsidiaries and associates - other	3,000
			Selling expenses	1,560		
			Debt guarantee provided	38,550	-	-
Subsidiary	Heptares Therapeutics Ltd.	Direct holding 100%	Provision of management services to subsidiary	892	-	-
			Debt guarantee received	2,011	-	-

Notes:

1. Prices and other transaction terms are determined upon discussion and agreement by the counterparties on terms equivalent to other parties unrelated to the Company.
2. Intercompany receivables and interest are collected based on the available cash position of each company.
3. Loans to Sosei Co., Ltd. are made at market interest rates. Collateral has not been requested.
4. At the end of the current financial year, JPY 3,318 million was set aside as an allowance for doubtful debts in respect of a long-term loan receivable from a subsidiary company, Sosei Co., Ltd. During the current financial year JPY 400 million was recorded as an allowance for doubtful accounts for subsidiary companies.
5. The Company has received a debt guarantee from Idorsia Pharmaceuticals Japan Ltd. for loans from financial institutions. No guarantee fee has been received.
6. The ending balance due to Idorsia Pharmaceuticals Japan Ltd. is the amount by which part of receivables and payables are offset.
7. A debt guarantee has been provided by the Company in relation to land and building lease agreements and building contracts signed by the Company's subsidiary, Heptares Therapeutics Ltd. No fee for the provision of the guarantees has been charged to the subsidiary.

(2) Officers and major individual shareholders

Type	Name	Voting rights holding (held) (%)		Relationship with related parties	Transaction type	Transaction amount ¥m	Account	Ending balance ¥m
Officer	Shinichi Tamura	Directly held	0.66	Chairman	In-kind contribution of monetary compensation claim	209	-	-
Officer	Christpher Cargill	Directly held	0.05	Director Representative Executive Officer, President and CEO	In-kind contribution of monetary compensation claim	117	-	-
Officer	Tomohiro Tohyama	Directly held	0.06	Director	In-kind contribution of monetary compensation claim	15	-	-
Officer	Kuniaki Kaga	Directly held	0.04	Director	In-kind contribution of monetary compensation claim	15	-	-
Officer	David Roblin	Directly held	0.01	Director	In-kind contribution of monetary compensation claim	15	-	-
Officer	Noriaki Nagai	Directly held	0.04	Director	In-kind contribution of monetary compensation claim	15	-	-
Officer	Rolf Soderstorm	Directly held	0.02	Director	In-kind contribution of monetary compensation claim	28	-	-
Officer	Miwa Seki	Directly held	0.01	Director	In-kind contribution of monetary compensation claim	15		
Officer	Hironoshin Nomura	Directly held	0.00	Executive Officer and CFO	In-kind contribution of monetary compensation claim	5		

Type	Name	Voting rights holding (held) (%)		Relationship with related parties	Transaction type	Transaction amount ¥m	Account	Ending balance ¥m
Officer	Kieran Johnson	Directly held	0.01	Executive Officer and CAO	In-kind contribution of monetary compensation claim	23	-	-
Officer	Kazuhiko Yoshizumi	Directly held	0.01	Executive Officer and CCO	In-kind contribution of monetary compensation claim	24	-	-
Officer	Matthew Barnes	Directly held	0.00	Executive Officer	In-kind contribution of monetary compensation claim	13	-	-
Officer	Candelle Chong	Directly held	0.01	Executive Officer	In-kind contribution of monetary compensation claim	21	-	-

Notes:
1. Transaction prices and other conditions are determined by reference to similar third-party contracts.
2. The in-kind contribution of monetary compensation claim relates to the Restricted Stock Units (RSUs).

9. Notes on per-share information

	¥
(1) Net assets - per share	726.29
(2) Net loss - per share	(39.81)

Accounting Audit Report on the Consolidated Financial Statements

This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Independent Auditor's Report

February 15, 2024

The Board of Directors
Sosei Group Corporation

Ernst & Young ShinNihon LLC
Tokyo, Japan

Kiyoto Tanaka
Designated Engagement Partner
Certified Public Accountant

Hiroyuki Nakada
Designated Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and notes to the consolidated financial statements of Sosei Group Corporation and its consolidated subsidiaries (the Group) applicable to the fiscal year from January 1, 2023 to December 31, 2023.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position and results of operations of the Group applicable to the fiscal year ended December 31, 2023, in accordance with accounting principles that omit certain disclosure items required under International Financial Reporting Standards, pursuant to the provision of Article 120, paragraph 1, latter clause of the Regulations on Corporate Accounting.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The other information comprises the information included in the Group's business report and its supplementary schedules. Management is responsible for preparation and disclosure of the other information. The Audit Committee is responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles that omit certain disclosure items required under International Financial Reporting Standards, pursuant to the provision of Article 120, paragraph 1, latter clause of the Regulations on Corporate Accounting, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles that omits certain disclosure items required under International Financial Reporting Standards, pursuant to the provision of Article 120, paragraph 1, latter clause of the Regulations on Corporate Accounting, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles that omits certain disclosure items required under International Financial Reporting Standards, pursuant to the provision of Article 120, paragraph 1, latter clause of the Regulations on Corporate Accounting.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain

solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide the Audit Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied to reduce threats to an acceptable level.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan
Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Accounting Audit Report on the Financial Statements

This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Independent Auditor's Report

February 15, 2024

The Board of Directors
Sosei Group Corporation

Ernst & Young ShinNihon LLC
Tokyo, Japan

Kiyoto Tanaka
Designated Engagement Partner
Certified Public Accountant

Hiroyuki Nakada
Designated Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 436, paragraph 2, item 1 of the Companies Act, we have audited the accompanying non-consolidated financial statements, which comprise the non-consolidated balance sheet, the non-consolidated statement of profit or loss, the non-consolidated statement of changes in net assets, and notes to the non-consolidated financial statements and supplementary schedules of Sosei Group Corporation (the Company) applicable to the 34th fiscal year from January 1, 2023 to December 31, 2023.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position and results of operations of the Company applicable to the fiscal year ended December 31, 2023, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the non-consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The other information comprises the information included in the Company's business report and its supplementary schedules. Management is responsible for preparation and disclosure of the other information. The Audit Committee is responsible for overseeing the Company's reporting process of the other information.

Our opinion on the non-consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the non-consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Non-Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the non-consolidated financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non- consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the non-consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied to reduce threats to an acceptable level.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan
Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Audit Report of the Audit Committee

Audit Report

The Audit Committee of Sosei Group Corporation (the "Company") has audited the performance of duties by directors and executive officers for the 34th fiscal period from January 1, 2023 to December 31, 2023. The methods and findings are reported as follows.

1. Methods and Content of the Audit

The Audit Committee received reports from directors, executive officers and employees, etc. on a regular basis of the content of resolutions of the Board of Directors related to items provided in Article 416, Paragraph 1, Item 1 (b) and (e) of the Companies Act and of the structures and operation of the systems established in accordance with the resolutions (internal control systems), requested explanations and expressed opinions as necessary, and conducted an audit as follows.

1) In accordance with the audit policy and the division of responsibilities, etc. determined by the Audit Committee, each member of the Committee attended meetings of the Board of Directors and other important meetings, received reports from directors, executive officers and others on the performance of their duties, etc., and requested additional explanations as necessary, and reviewed the documents relating to the important decisions, and investigated the state of the business and assets of the Company in cooperation with the Internal Audit Department. Regarding subsidiaries, the Audit Committee sought to achieve a mutual understanding of subsidiaries, exchanged information with the directors and corporate auditors, etc. of subsidiaries and received business reports from subsidiaries as necessary.

2) The Audit Committee monitored and verified whether the Independent Auditors maintained independence and conducted appropriate audits, received reports from the Independent Auditors on the performance of their duties, etc., and requested explanations as necessary. Also, the Audit Committee received notification from the Independent Auditors that they had established the "Structure for Ensuring Appropriate Operation" (matters provided in each item of Article 131 of the Regulation on Accounting of Companies) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council, October 28, 2005).

Based on the aforementioned methods, the Audit Committee examined the business report and supplementary schedules thereof, non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of profit or loss, non-consolidated statement of changes in equity and notes thereto) and supplementary schedules thereof, and consolidated financial statements (consolidated balance sheet, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and notes thereto) for the fiscal period under review.

2. Results of Audit

(1) Results of audit of business report, etc.

1) The Committee found that the business report and supplementary schedules accurately present the status of the Company in accordance with laws, regulations and the Articles of Incorporation.

2) The Committee did not find any inappropriate conduct related to the execution of duties by directors or executive officers or any material facts indicating violation of laws and regulations or the Articles of Incorporation.

3) The Committee found that the contents of resolutions of the Board of Directors related to the system of internal control to be appropriate. In addition, the Committee did not find any matter requiring it to comment on the contents of the business report or execution of duties by directors or executive officers regarding the system of internal control.

(2) Results of audit of non-consolidated financial statements and supplementary schedules

The Committee found that the methods and results of the audit performed by the Independent Auditors, Ernst & Young ShinNihon LLC were appropriate.

(3) Results of audit of consolidated financial statements

The Committee found that the methods and results of the audit performed by the Independent Auditors, Ernst & Young ShinNihon LLC were appropriate.

February 15, 2024

Sosei Group Corporation Audit Committee

Chair of Audit Committee	Tomohiro Tohyama	*
Member of Audit Committee	Kuniaki Kaga	*
Member of Audit Committee	Noriaki Nagai	*
Member of Audit Committee	Rolf Soderstrom	*
Member of Audit Committee	Miwa Seki	*

Note: All members of the Audit Committee are external directors as stipulated in Article 2, Item 15 and Article 400, Paragraph 3 of the Companies Act.

Access to Meeting of Shareholders Venue

Shareholders are asked to **consider forgoing attending the General meeting of Shareholders and at the same time, exercise voting rights in advance as much as possible, either by returning the voting form by post or voting on the internet.**

Venue	Fuji-No-Ma Hall, 4th Floor, Hotel Grand Arc Hanzomon 1-1, Hayabusa-cho, Chiyoda-ku, Tokyo, Japan TEL: 03-3288-0111
Access	2-min. walk from Hanzomon Station (Exit 1) and 3-min. walk from Hanzomon Station (Exit 6) on Hanzomon Line 8-min. walk from Kojimachi Station (Exit 1) on Yurakucho Line

* We kindly ask you to refrain from coming by car since parking lots are not available.