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To the Shareholders

Information Disclosure on the Internet Regarding the Notice of the 29th Ordinary General Meeting of Shareholders

29th Term (April 1, 2018 – December 31, 2018)

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Sosei Group Corporation

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

■ Stock acquisition rights ("stock options"), etc. (as of December 31, 2018)

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

	27th Stock Options	29th Stock Options
Date of Board resolution	September 6, 2010	November 13, 2015
Number of stock options	115	30
Number and class of shares for stock options	46,000 shares of common stock	12,000 shares of common stock
Amount of payment for stock options	1 yen per stock option	261 yen per stock option
Value of assets to be provided on exercise of stock options	64,800 yen per stock option (162 yen per share)	413,200 yen per stock option (1,033 yen per share)
Exercise period	from September 7, 2012 to September 6, 2020	from July 1, 2017 to June 30, 2020
Terms and conditions for exercise	If a beneficiary loses its position during the exercise period, the beneficiary is able to exercise the rights only during the period prescribed in "Agreement on Allotment of Stock Option"	Note 1, 2 and 4
Holdings by directors and executive officers: Directors and executive officers (excluding external directors)	Number of stock options: 115 Number of shares for stock options: 46,000 Number of holders: 1	—
Holdings by directors and executive officers: External directors	—	Number of stock options: 30 Number of shares for stock options: 12,000 Number of holders: 1

	30th Stock Options	31st Stock Options
Date of Board resolution	November 13, 2015	May 15, 2017
Number of stock options	1,159	611
Number and class of shares for stock options	463,600 shares of common stock	244,400 shares of common stock
Amount of payment for stock options	281 yen per stock option	1,234,900 yen per stock option (Note 5)
Value of assets to be provided on exercise of stock options	413,200 yen per stock option (1,033 yen per share)	400 yen per stock option (1 yen per share)
Exercise period	from July 1, 2018 to June 30, 2021	from July 1, 2020 to April 30, 2027
Terms and conditions for exercise	Notes 1, 2 and 4	Notes 3, 4 and 6
Holdings by directors and executive officers: Directors and executive officers (excluding external directors)	Number of stock options: 1,159 Number of shares for stock options: 463,600 Number of holders: 4 (Note 7)	Number of stock options: 581 Number of shares for stock options: 232,400 Number of holders: 4 (Note 7)
Holdings by directors and executive officers: External directors	—	Number of stock options: 30 Number of shares for stock options: 12,000 Number of holders: 2

		34th Stock Options
Date of Board resolution		November 21, 2017
Number of stock options		7
Number and class of shares for stock options		2,800 shares of common stock
Amount of payment for stock options		621,400 yen per stock option (Note 8)
Value of assets to be provided on exercise of stock options		1,074,800 yen per stock option (2,687 yen per share)
Exercise period		from December 1, 2020 to October 29, 2027
Terms and conditions for exercise		Notes 3, 4 and 6
Holdings by directors and executive officers	Directors and executive officers (excluding external directors)	Number of stock options: 7 Number of shares for stock options: 2,800 Number of holders: 1 (Note 7)
	External directors	—

(Notes):

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

■ <u>Systems for ensuring the appropriateness of operations and their operating status</u>

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

1. Systems for ensuring the appropriateness of operations

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

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

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

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

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

- The Internal Audit Department consults in advance with the Audit Committee regarding internal audit policies and plans, etc. and closely coordinates with the Committee, which includes holding discussions related to audits.
- The Company promptly processes requests by the Audit Committee member for advancement or reimbursement of expenses necessary for the performance of Audit Committee duties.
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<<Systems for ensuring that the execution of duties by executive officers conforms with laws and regulations and Articles of Incorporation, and other systems required to ensure the appropriateness of the Company's operations>>

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

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

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

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

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

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

・ Specific policies and measures are determined to deal with risks related to the Group's business operations, and risk management procedures are appropriately conducted at the Company and its subsidiaries.

・ Important management decisions are made after adequate deliberation by the Board of Directors, etc. and based on the opinions of outside experts as necessary.

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

・ Operational responsibilities of executive officers and official authority for respective executives and employees of the Company and subsidiaries are clearly stipulated, and reporting on operational performance and deliberations on important matters are conducted with flexibility in accordance with rules.

・ System construction is promoted to improve operational efficiency.

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

・ Reports on operational matters at subsidiaries are received in accordance with internal company rules, and instructions and support relating to the establishment of systems designed to ensure operational appropriateness are provided to subsidiaries.

・ The Internal Audit Department provides instructions and recommendations for improvements to subsidiaries based on the findings of internal audits of subsidiaries.

・ Efforts are made to ensure the appropriateness of the Group's financial reporting, while evaluation, continuance and improvement, etc. of the reporting should be assured.

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

(1) Compliance system

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

(2) Information retention and management system

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

(3) Risk management system

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

(4) System for efficient and appropriate execution of duties

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

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

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

■ Basic policy on company control

Not applicable.

Consolidated Statement of Changes in Equity

(Millions of yen)

	Capital	Capital surplus	Treasury stock	Retained earnings	Other elements of shareholders' equity	Total Equity attributable to owners of the parent company
					Exchange differences of foreign operations	
Balance at April 1, 2018	**36,783**	**25,608**	**(0)**	**(7,527)**	**(5,982)**	**48,882**
Change in accounting policies	-	-	-	(192)	-	**(192)**
Balance after restatement	36,783	25,608	**(0)**	(7,719)	(5,982)	**48,690**
Loss for the year	-	-	-	(5,977)	-	**(5,977)**
Exchange differences on translation	-	-	-	-	(1,641)	**(1,641)**
Total comprehensive income	-	-	-	(5,977)	(1,641)	**(7,618)**
Issuance of new shares	71	13	-	-	-	**84**
Share-based payments	-	421	-	-	-	**421**
Total transactions with owners	71	434	-	-	-	**505**
Balance at December 31, 2018	**36,854**	**26,042**	**(0)**	**(13,696)**	**(7,623)**	**41,577**

	Non-controlling interest	Total shareholders' equity
Balance at April 1, 2018	**4**	**48,886**
Change in accounting policies	-	**(192)**
Balance after restatement	4	**48,694**
Loss for the year	(1)	**(5,978)**
Exchange differences on translation	-	**(1,641)**
Total comprehensive income	(1)	**(7,619)**
Issuance of new shares	-	**84**
Share-based payments	-	**421**
Total transactions with owners	-	**505**
Balance at December 31, 2018	**3**	**41,580**

Note: Amounts less than 1 million yen have been rounded

Notes to the Consolidated Financial Statements

1. Basis of preparation of the consolidated financial statements

(1) Standards for preparation of the consolidated financial statements

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

(2) Scope of consolidation

1) Consolidated subsidiaries

i. Number of subsidiaries: 6

ii. Names of principal consolidated subsidiaries:

Sosei Co., Ltd.
Sosei R&D Ltd. (in liquidation)
Heptares Therapeutics Ltd.

(3) Scope of equity accounting

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

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

ii. Names of principal companies:

JITSUBO Co., Ltd.
MiNA (Holdings) Ltd.

(4) Change of fiscal year end

The Company and the Group changed the end of their fiscal year from March 31 to December 31 after the 28th ordinary general meeting of shareholders. The 29th term is therefore a nine-month term from April 1, 2018 to December 31, 2018. Comparative disclosures are for the twelve-month period ended 31 March 2018 which is the most recent period for which audited accounts exist.

(5) Accounting policies

1) Valuation standards and methods for significant assets and liabilities

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

Financial assets

Initial recognition and measurement of financial assets

The Group classifies financial assets upon initial recognition as either financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income. To date the Group has not elected to classify any of its investments in equity instruments as financial assets measured at fair value through other comprehensive income.
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.
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.
Debt instruments, except for financial assets measured at amortized cost, are classified as financial assets at fair value through profit or loss.

Subsequent measurement of financial assets

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

(a) Profit or loss on financial assets that are measured at fair value through profit or loss is recognized as the change in the amount of the fair value.
(b) Profit or loss on financial assets measured at amortized cost is recognized by the effective interest method.
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.

Derecognition of financial assets
The Group derecognizes a financial asset when, and only when:
(a) the contractual rights to cash flows from the financial asset expire, or
(b) it transfers the contractual rights to receive cash flows from the financial asset and transfers substantially all the risks and rewards of ownership of the financial asset.

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

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

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

Subsequent measurement of financial liabilities
After initial recognition, the Group measures a financial liability according to its classification as follows:
(a) Profit or loss on financial liabilities that are measured at fair value through the profit or loss is recognized as a change in fair value.
(b) Profit or loss on financial liabilities measured at amortized cost is recognized by the effective interest method.

Derecognition of financial liabilities

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Presentation of financial assets and financial liabilities

The Group offsets financial assets and financial liabilities showing the net amount only when the Group has the legal right to offset the balances, and either settles the balances on a net basis or intends to simultaneously realize the asset and settle the liability.

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

Property, plant and equipment

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

Goodwill and intangible assets

Goodwill

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

Intangible assets

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

Development assets

Expenditure on research activities is recognized as a cost in the period in which it occurs. Internally generated intangible assets that occur at the development stage are recognized only when all of the following criteria can be substantiated:

・Technical feasibility of completing an intangible asset that can be used or sold
・Intention to complete the intangible asset and then use it or sell it
・Ability to use or sell the intangible asset
・Method by which the intangible asset will create future economic benefit with strong potential
・Possibility of using financial or other resources that will be necessary to complete the intangible asset and use it or sell it
・Ability to reliably measure expenditure required to develop the intangible asset

The amount initially recognized for internally generated intangible assets is the total of costs incurred from the date that the intangible asset initially met the above recognition standards. When an internally generated intangible asset cannot be recognized, development outlays are expensed in the period they occur. Intangible assets generated after initial recognition are stated at acquisition cost less cumulative amortization and cumulative impairment.　Intangible assets acquired through business combinations and recognized separately from goodwill are stated at acquisition cost less cumulative amortization and cumulative impairment after initial recognition at fair value as of the acquisition date.

Impairment of non-financial assets

The book values of non-financial assets are assessed at each reporting date by searching for the existence of indications of impairment. If signs of impairment exist, the asset’s recoverable value is estimated. For goodwill and intangible assets with indeterminate useful economic lives or assets that cannot yet be used, the recoverable value is estimated in the same quarter in each fiscal year. The recoverable value of assets or cash-generating units is the higher of value in use and fair value less disposal costs. In the calculation of value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects the time value of money and risks inherent to the asset. In respect of cash-generating units, assets are grouped into the smallest units generating independent cash flows.

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

Impairment losses related to goodwill are permanent. In respect of impairment loss on other assets recognized in the past, the existence of indications showing that the loss has decreased or been eliminated is assessed on each reporting date. If there are signs of a reversal of impairment and the estimate used for determining the recoverable value has changed, the impairment loss is reversed. The impairment loss is reversed up to the amount of the book value after deducting necessary depreciation or amortization costs.

2) Depreciation methods for significant depreciable assets

i. Property, plant and equipment

Depreciation is recorded to write off the cost over the expected useful life of an asset using the straight-line method. The normal expected useful lives used in calculating depreciation are as follows:
Buildings and structures: 3-15 years
Machinery and equipment: 5 years
Furniture and fixtures: 3-20 years
Lease assets: 5 years
Expected useful lives and residual values are reviewed at the end of each fiscal year and adjusted as required.

ii. Intangible assets

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

iii. Leases (Lessee)

Leases in which nearly all the risk and reward of ownership are transferred to the Group are categorized as finance leases. Finance leases are recorded as assets at the lower of the fair value of the leased assets at the commencement of the lease and the present value of minimum lease payments. They are depreciated over the shorter of the lease period or useful life. Lease obligations are recognized as interest-bearing liabilities. The portion of lease payments corresponding to finance charges is recognized as an expense over the lease period using the effective interest method. Lease agreements other than finance leases are categorized as operating leases. Operating lease payments are recognized as expenses on a straight-line basis over the lease period.

3) Accounting standards for significant income and expenditure

i. Royalty revenue, milestone revenue and lump-sum payments

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

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

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

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

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

Where the above criteria are met the promise to grant a license is accounted for as a performance obligation satisfied over time. Where these criteria are not met the promise to grant a license is accounted for as a performance obligation satisfied at a point in time.

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

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

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

ii. Cost of sales

Cost of sales represents the fully loaded cost of those employees providing research and development services for specific customers under contracts. It also includes other costs directly associated with these activities such as lab consumables and an allocated share of depreciation of lab equipment.

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

i. Foreign-denominated transactions

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

ii. Financial statements of foreign operations

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

5) Business combinations

Business combinations are accounted for using the acquisition method. Consideration is measured as the total value of assets transferred and liabilities assumed in exchange for control of the acquired business, and the fair value on the transaction date of any equity instruments issued by the Company. If the acquisition value exceeds the fair value of

identifiable assets and liabilities, the difference is recorded as goodwill in the consolidated balance sheet. Conversely, if the difference is lower, it is directly recorded as income in the consolidated statement of comprehensive income. If accounting for a business combination is not completed by the end of the period in which the business combination occurred, provisional amounts are used to record the transaction, and the provisional amounts are revised within one year of the acquisition date. Acquisition costs are accounted for as expenses.

2. Changes in accounting policies

The significant accounting policies applied to the Group's consolidated financial statements for the period ended December 31, 2018 are consistent with those applied to the consolidated financial statements for the year ended March 31, 2018, except for amendments to IFRS 9 Financial Instruments and the implementation of IFRS 15 Revenue from Contracts with Customers, which became effective for the Group from 1 April 2018.

IFRS		**Outline of new standards and amendments**
IFRS 9	Financial Instruments	Amendment to the classification, measurement and recognition of financial instruments
IFRS 15	Revenue from Contracts with Customers	Introduces a new revenue recognition framework based on the satisfaction of performance obligations together with new disclosure requirements. The new standard requires companies to follow a 5-step approach to revenue recognition: ・ Identify the contract ・ Identify performance obligations in the contract ・ Determine the transaction price ・ Allocate the transaction price to the performance obligations in the contract ・ Recognize revenue when (or as) the entity satisfies a performance obligation

Each of the Group's material research and licensing agreements have been analyzed to identify the consideration receivable (the transaction price) and the underlying promises to supply goods or services (performance obligations). Such obligations can include the grant of the license, the provision of research and development services and the supply of product. The transaction price arising under each contract has been matched to performance obligations and revenue has been recognized in line with the satisfaction of the performance obligations. See Note 1.(5)3 for further details.

In adopting IFRS 15 the Group has applied the modified retrospective approach causing a cumulative adjustment to decrease intangible assets of JPY 923 million, a corresponding decrease in deferred tax liabilities of JPY 263 million, a decrease in deferred revenue of JPY 468 million (included in trade and other payables) and a decrease in equity by JPY 192 million. Some of the revenue that had been recorded as deferred revenue in accordance with IAS 18 in the prior year has been released to the income statement in the current reporting period. Revenue relating to the grant of a license by the Group has been recognised at a point in time and revenue relating to the provision of research and development services has been recognised over time in line with the delivery of those services. Intangible assets arising from an in-license transaction and related capitalized development costs, which had been accounted in accordance with IAS 38, required amendment upon the adoption of IFRS 15. These costs were adjusted retrospectively by amortizing the balances over their useful economic lives starting from the point of their commercialization. As a consequence of measuring and reporting revenue relating to the provision of research and development services the cost of providing these services has been separately reported under Cost of Sales.

In accordance with the requirements of the Standard, where the modified retrospective approach is adopted, prior year results are not restated. No adjustments were required to be made to prior year results upon adopting the amendments to IFRS 9. The adoption of IFRS9 and IFRS15 has not had a material impact on the results for the period ended December 31, 2018.

3. Notes to consolidated statement of financial position

Cumulative depreciation on property, plant and equipment was 665 million yen.

4. Notes to the consolidated statement of changes in equity

(1) Total shares outstanding

Share class	Shares at beginning of consolidated fiscal period	Increase in shares during consolidated fiscal period	Decrease in shares during consolidated fiscal period	Shares at end of consolidated fiscal period
Common shares	19,054,984	57,246,952	-	76,301,936

Note: The increase in 57,164,952 shares outstanding is due to a 4-for-1 stock split on July 1, 2018 and the increase in 82,000 shares is due to exercise of stock options.

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

Type and number of shares for subscription warrants at the end of the consolidated fiscal period under review (excluding warrants prior to the first day of their exercise period): Common shares 1,542,800

5. Notes on financial instruments

(1) Financial instruments

1) Policies for management of financial instruments

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

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

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

(2) Fair value of financial instruments

Amounts stated in the consolidated statement of financial position at December 31, 2018, their corresponding fair values and the differences between these amounts are as follows:

	Amount stated in consolidated statement of financial position	Fair value	Difference
	¥m	¥m	¥m
Cash and cash equivalents	18,760	18,760	-
Trade and other receivables	987	987	-
Other financial assets	1,515	1,515	-
Trade and other payables	(2,080)	(2,080)	-
Interest-bearing liabilities	(6,964)	(6,964)	-
Contingent consideration related to corporate acquisition	(4,180)	(4,180)	-
Other financial liabilities	(1,179)	(1,179)	-

Notes: Valuation methodology for financial instruments

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

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

2. Interest-bearing liabilities

Borrowings are valued at amortized cost and their book values are reasonable approximations of fair values.

3. Interest-bearing liabilities scheduled for repayment after the consolidated settlement date

	Due within 1 year ¥m	**Due within 1-5 years ¥m**
Interest-bearing liabilities (including long-term)	3,007	4,030

4. Contingent consideration related to corporate acquisitions

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

5. Other financial assets and other financial liabilities

Other financial assets and other financial liabilities are revalued in line with changes in fair value.

6. Notes on per-share information

	¥
Equity attributable to owners of parent company per share	544.89
Basic net income per share	(78.40)

Note: Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. Net loss per share has been calculated as if the stock split had occurred at the beginning of this consolidated fiscal year.

7. Subsequent events

(1) Milestone income

On January 7, 2019, the Group announced it had been notified by AstraZeneca that it had reached a clinical development milestone with its partnered next generation immuno-oncology candidate AZD4635, triggering a US$15 million payment from AstraZeneca. The clinical study to date has established the maximum-tolerated dose of AZD4635 as a single agent and in combination with durvalumab. The study has progressed successfully to the point where the therapeutic potential of AZD4635 is being explored in multiple solid tumors. As a result, AstraZeneca is moving the trial towards Phase 2, thereby triggering the milestone payment to the Group. Headline data from the Phase 1 study is planned to be presented at a scientific congress in 2019.

(2) Bank loan covenant

On February 1, 2019 the Company received notification from the banks participating in the Company's syndicated loans that they would not require repayment of the loans following a breach of the loan covenants caused by two consecutive periods of loss. Details of the loan balances are as follows:

Opening date	**Opening balance ¥m**	**Loan Balance at December 31, 2018 ¥m**
September 28,2015	10,000	3,500
May 18, 2017	5,000	3,500
	15,000	7,000

The total period end loan balance is covered by the Group's cash balances by more than two and a half times. The Company is required to comply with the following loan covenants:

i) The amount of net assets in the consolidated statements of financial position at December 31 and June 30 of each year must be maintained at no less than 75% of the amount at the respective corresponding date of the previous fiscal year.

ii) The borrower must not record an operating loss or net loss in the consolidated statements of profit or loss and other comprehensive income for two consecutive fiscal years.

8. Other notes

(1) Impairment of intangible assets

The Group recorded an impairment loss of 319 million yen in other expenses during the fiscal year. The carrying value of certain in-process research and development costs was impaired to nil when the Group decided to cease the related development program.

(2) Non-exercise of option

In September 2018 the Group received the result of MiNA's Phase I/IIa OUTREACH study of CEBPA which had the effect of starting a contractual timeframe during which the Group had to decide whether to exercise its option to increase its shareholding in MiNA. Management's assessment of the data determined that it was unlikely to meet the Group's strict internal hurdle for further investment and the Group did not exercise the option. The carrying value of the option was reduced to nil incurring a loss in the amount of ¥1,121m which is included as a financial cost.

(3) Contingent Consideration

The contingent consideration liability is a fair value estimate by management of the amount payable to the former shareholders of Heptares Therapeutics Limited under the 2015 Share Purchase Agreement. It has been calculated on a risk adjusted and discounted basis. The maximum amount of contingent consideration payable under the contract is US$220m (¥24,400m) of which US$66m (¥6,969m) has been paid out to date. Under the agreement there are defined mechanisms for determining the amounts payable. In instances where the agreement is not explicit the liability includes management's best estimate of the probable outflows. It is therefore possible that the amounts ultimately payable will be different to those provided for as there may be differing interpretations of the agreement.

Non-Consolidated Statement of Changes in Equity

(Millions of yen)

	Shareholders' equity				
	Capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
		Capital reserve	Other retained earnings		
			Retained earnings brought forward		
Balance at April 1, 2018	**36,782**	**24,899**	**(3,410)**	**(0)**	**58,271**
Changes of items during period					
Issuance of new shares	72	72	-	-	**144**
Loss for the year	-	-	(2,501)	-	**(2,501)**
Net changes of items other than shareholders' equity	-	-	-	-	**-**
Total changes of items during period	72	72	(2,501)	-	**(2,357)**
Balance at December 31, 2018	**36,854**	**24,971**	**(5,911)**	**(0)**	**55,914**

	Subscription rights to shares	Total net assets
Balance at April 1, 2018	**1,421**	**59,693**
Changes of items during period		
Issuance of new shares	-	**144**
Loss for the year	-	**(2,501)**
Net changes of items other than shareholders' equity	412	**412**
Total changes of items during period	412	**(1,945)**
Balance at December 31, 2018	**1,833**	**57,747**

Note: Amounts less than 1 million yen have been rounded

Notes to the Non-Consolidated Financial Statements

1. Significant accounting policies

(1) Asset valuation standards and methods

1) Marketable securities

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

(2) Fixed asset depreciation methods

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

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

Buildings (facilities attached to buildings): 8-15 years

Tools, furniture and fixtures: 5-20 years

2)Intangible fixed assets (except lease assets) :

The straight-line method is used.

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

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

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

(3) Accounting for deferred assets

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

(4) Recognition standards for allowances

1)Allowance for doubtful accounts

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

2)Allowance for bonuses

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

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

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

(6) Basis of preparation of the financial statements

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

(7) The Change of the end of the fiscal year

The Company changed the end of the fiscal year from March 31 to December 31 after the 28th ordinary general meeting of shareholders. The 29th term was therefore a nine-month irregular term from April 1, 2018 to December 31, 2018.

2. Notes to the balance sheet

	¥m
(1) Cumulative depreciation on property, plant and equipment	29
(2) Monetary claims and obligations to subsidiaries and affiliates	
Monetary obligations to subsidiaries and affiliates	2
(3) Monetary claims and obligations to directors and officers	
Monetary obligations	18

(4) Guarantee liabilities

Debt guarantees totaling 2,336 million yen have been provided in relation to a building lease agreement and building contract signed by the Company's subsidiary, Heptares Therapeutics Ltd.

3. Notes to the statement of profit or loss

Operating transactions with subsidiaries and affiliates totaled 829 million yen.

Non-operating transactions with subsidiaries and affiliates totaled 36 million yen.

4. Notes to the statement of changes in equity

Share class	Shares at beginning of fiscal year	Increase in shares during fiscal year	Decrease in shares during fiscal year	Shares at end of fiscal year
Ordinary Treasury shares	26	78	―	104

Notes: The increase is due to a 4-for-1 stock split that occurred on July 1, 2018.

5. Tax

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

	¥m
Tax loss carried forward	662
Stock in subsidiaries and affiliates	3,544
Allowance for doubtful debts	526
Other	54
Deferred tax assets subtotal	4,786
Valuation allowance	(4,786)
Total deferred tax assets	**-**

6. Related party transactions

(1) Subsidiaries

Type	Name of company	Share of voting rights holding (held)		Transaction type	Transaction amount ¥m	Account	Ending balance ¥m
Subsidiary	Sosei Co., Ltd.	Direct holding	100%	Loan to subsidiary	480	Long-term loans to subsidiaries and affiliates	1,718
Subsidiary	Sosei R&D Ltd.	Indirect holding	100%	Provision of management services to subsidiary	103	Accounts receivable-subsidiaries and affiliates	-
Subsidiary	Heptares Therapeutics Ltd.	Direct holding	100%	Provision of management services to subsidiary	669	Accounts receivable-subsidiaries and affiliates	-
				Loan to subsidiary	4,926	Short-term loans to subsidiaries and affiliates	4,926
				Receive interest income	34	Accounts receivable-subsidiaries and affiliates	24
				Debt guarantees	2,336	-	-
				Loan from subsidiary	917	Short-term loans from subsidiaries and affiliates	917
				Underwriting of capital increase	14,112	Shares of subsidiaries and associates	44,397

Notes:

1. Transaction amounts do not include consumption taxes, etc.; term-end balances include consumption taxes, etc.
2. Prices and other transaction terms are determined upon discussion and agreement by the two parties on terms equivalent to other parties unrelated to the Company.
3. Intercompany receivables and interest are collected based on the available cash position of each company
4. Loans to Sosei Co., Ltd. are made at market interest rates. Collateral has not been requested.
5. 1,718 million yen was set aside as an allowance for doubtful debts from a subsidiary company, Sosei Co., Ltd., as at December 31, 2018. During the current fiscal period 890 million yen was recorded as a loss of allowance for doubtful debts from subsidiary companies.
6. Debt guarantees have been provided in relation to a building lease agreement and building contract signed by the Company's subsidiary, Heptares Therapeutics Ltd. No fee for the provision of the guarantees has been charged to the subsidiary.
7. The Company made a contribution in kind of its entire shareholding in Sosei R&D Ltd. to Heptares Therapeutics Ltd. The transaction was recorded at book value at the transaction date.

(2) Officers and major individual shareholders

Type	Name	Share of voting rights holding (held)		Relationship with related parties	Transaction type	Transaction amount ¥m	Account	Ending balance ¥m
Company co-founded by Officer	Tomohiro Tohyama	Directly Held	-	Director	Legal advice	2	Account payable	-
Officer	Malcolm Weir	Directly held	-	Executive Officer and Executive Vice President	Payment of contingent consideration	20	Account payable	13
Officer	Tim Tasker	Directly held	-	Executive Officer and Executive Vice President	Payment of contingent consideration	-	Account payable	3

Notes:

1. Transaction prices and other conditions are determined by reference to similar third-party contracts.
2. Transactions with Mr. Tomohiro Tohyama, Director, relate to transactions with TMI Associates, of which he is a partner.

7.Notes on per-share information

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

	¥
(1) Net assets per share	732.78
(2) Net (loss) per share	(32.79)

8.Subsequent events

(1) Bank loan covenant

On February 1, 2019 the Company received notification from the banks participating in the Company's syndicated loans that they would not require repayment of the loans following a breach of the loan covenants caused by two consecutive periods of loss. Details of the loan balances are as follows:

Opening date	Opening balance ¥m	Loan Balance at December 31, 2018 ¥m
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	15,000	7,000

The total period end loan balance is covered by the Group's cash balances by more than two and a half times.

The Company is required to comply with the following loan covenants:

i) The amount of net assets in the consolidated statements of financial position at December 31 and June 30 of each year must be maintained at no less than 75% of the amount at the respective corresponding date of the previous fiscal year.

ii) The borrower must not record an operating loss or net loss in the consolidated statements of profit or loss and other comprehensive income for two consecutive fiscal years.