

Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (Japanese GAAP)

February 14, 2019

Company name	UMN Pharma Inc.	Stock listings	Mothers of TSE
Securities code	4585	URL	http://www.umnpharma.com/en/
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Scheduled date of ordinary general shareholders' meeting	March 27, 2019	Scheduled date of Dividend payments	—
Scheduled date of filing securities report	March 30, 2019		
Supplementary materials for financial results	:Yes		
Briefing session of financial results	:Yes (For institutional investors and analysts(in Japanese only))		

(Rounded down to nearest million yen)

1. Financial Results for Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

(1) Operating results (Percentage indications show changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2018	103	(0.4)	(606)	—	(609)	—	(728)	—
FY2017	104	98.0	(498)	—	(158)	—	(159)	—

	Net income per share - basic	Net income per share – diluted	Net income as percentage of net assets	Ordinary income as percentage of total assets	Operating income as percentage of net sales
	Yen	Yen	%	%	%
FY2018	(55.12)	—	(199.3)	(39.7)	(585.6)
FY2017	(12.96)	—	(56.8)	(12.3)	(478.7)

(Reference) Equity in net income of affiliates FY2018 —Million yen FY2017 — Million yen

(2) Financial position

	Total assets	Net assets	Net assets as percentage of total assets	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec.31,2018	1,177	382	31.7	24.43
As of Dec.31,2017	1,189	357	18.9	27.93

(Reference) Shareholders' equity As of December 31, 2018 373Million yen As of December 31, 2017 357Million yen

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of fiscal year
	Million yen	Million yen	Million yen	Million yen
FY2018	(578)	(133)	(3)	1,018
FY2017	(561)	(0)	1,729	1,734

2. Dividends

	Annual dividends per share					Total dividends	Payout ratio	Dividends as percentage of net assets
	End of Q1	End of Q2	End of Q3	Year end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2017	—	0.00	—	0.00	0.00	—	—	—
FY2018	—	0.00	—	0.00	0.00	—	—	—
FY2019(forecast)	—	0.00	—	0.00	0.00	—	—	—

3. Forecasts for the Fiscal Year Ending December 31, 2019 (from January 1, 2019 to December 31, 2019)

(Percentage indications show changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	
Full year	100	(3.5)	(887)	—	(891)	—	(893)	—	Yen (58.36)

(Note) The above forecast is the plan of sales, R&D expenses, and administration expenses based on premise of achieving milestone conditions for First Phase of partnership with Shionogi & Co., Ltd.. On the other hand, if the transition to Second Phase is reached to agree, there is a possibility that the forecast value including sales and so on will fluctuate significantly depending on economic conditions and other agreements. The Company will disclose promptly after realization of the agreement of shifting to Second Phase, and necessity of revision of business forecast.

*(Notes)

(1) Application of special accounting treatment in preparation of quarterly non-consolidated financial statements : None

(2) Changes in accounting policies, changes in accounting estimates, and restatements

- 1) Changes due to revised accounting standards : None
- 2) Changes due to revised accounting policies other than 1) : None
- 3) Changes in accounting estimates : None
- 4) Restatements : None

(3) Number of common shares issued

- 1) Number of shares issued (including treasury shares)
- 2) Number of treasury shares
- 3) Average number of shares outstanding

As of December 31,2018	15,296,500	As of December 31,2017	12,796,500
As of December 31,2018	50	As of December 31,2017	50
As of December 31,2018	13,221,107	As of December 31,2017	12,270,011

* These (non-consolidated) financial results are outside the scope of audit.

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

The financial forecast is based on judgments and estimates that have been prepared on the basis of information available as at the time of disclosure of this material and assumptions about uncertain factors that could affect the forecasts of business results made as at the time of disclosure of this material. The actual business results may differ materially from the forecasts due to various factors in the future. For forecast premises and usage notes for earnings forecasts, please refer to “1. Summary of Operating Results and Financial Position, (4) Future Outlook”

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1. Summary of Operating Results and Financial Position

(1) Summary of Operating Results

During the current fiscal year, the Japanese economy experienced a slow recovery tendency in corporate earnings and employment environment by effect of economic policy of the government. On the other hand, in addition to weak individual consumption in a domestic market, concerns about the global economic situation has not been dispelled, such as destabilization of a surrounding area and an increase of feeling of caution against the trend of the US trade policy, and opaque situation still continues in the future.

In Japanese pharmaceutical industry, growth of a medical pharmaceutical market has slowed due to measures to curb medical expenses, so expanding into the global market by the development of pharmaceutical products is becoming increasingly important.

In such an economic environment, the Company has been developing “Next-generation biopharmaceutical in-house development business”, aiming to create higher value-added “*next-generation logical vaccine” capable of higher efficacy and efficient production. In addition, the Company has also been developing “Contract manufacturing business for biopharmaceuticals”, aiming at securing stable earnings. As above, the Company has been focusing on two businesses.

In “Next-generation biopharmaceutical in-house development project”, the Company has been promoting R&D activities related to fundamental core technology and basic research on development candidates, based on capital and business alliance signed with Shionogi & Co., Ltd. (hereinafter referred to as “Shionogi”) on October 31, 2017, aiming to select initial basic development candidates from fundamental core technology related to drug discovery, including vaccine for preventing infection in humans from a part of the Company’s proprietary development pipeline in next generation biopharmaceutical development project, and also from new development candidates targets other than in-house developed pipeline, and also aiming to promote fundamental research. On May 29 and October 25, 2018, the Company was confirmed that the 1st and 2nd milestone conditions achieved. In accordance with receiving milestone fees, the Company has achieved sales plan for this fiscal year. As of the date of disclosure, the Company has been promoting R&D activities related to development of fundamental core technology to achieve the 3rd milestone condition.

In terms of the in-house development pipeline, the Company has given the following development codes newly in accordance with rearrangement of the past partnership and has been promoting R&D based on original technology. In addition, all of the progress as of this disclosure date has been in basic research stage.

- **UMN-101 : Recombinant seasonal influenza HA vaccine**
- **UMN-102 : Recombinant H1N1 influenza HA vaccine**
- **UMN-103 : Recombinant Rotavirus single vaccine**
- **UMN-104 : Recombinant Norovirus single vaccine**

In addition, the Company has entered into the joint research agreement with National Institutes of Biomedical Innovation, Health and Nutrition (hereinafter referred to as “NIBIOHN”) on June 26, 2017 and on December 1, 2017, and has been promoting research and development activities aiming at creating “Next-generation logical vaccine”, which is state-of-the-art biopharmaceuticals including new vaccine, by fusing new **adjuvant seeds owned by NIBIOHN and manufacturing technology owned by the Company. The Company has been conducting an analysis of the immune responses in animals aiming at finding optimal combinations of the Company’s multiple vaccine candidate antigens and multiple adjuvants of NIBIOHN and has been beginning to acquire knowledge leading to the creation of next-generation logical vaccine. As collaborative research has been promoted, the two have agreed to extend the joint research period by June, 2019, dated June 22, 2018.

On the other hand, in the contract manufacturing business for biopharmaceuticals, as result a of working on orders that are mainly focused on related to partnership with Shionogi from universities and public research institutions, the Company has provided two cases form institutions that the Company received in the previous fiscal year.

Concerning the introduction of new development pipeline, through the achievement of the contracts from universities and public research institution so far, not only for consignment of manufacturing at the research stage but also for candidates that can be expected to be commercialized, and the Company has been actively working on as one of the introduction routes of the newly developed pipeline.

As disclosed in “Notice concerning the record of an extraordinary losses” dated July 31, 2018, the

Company has recorded an impairment loss of ¥80,605 thousand as an extraordinary losses in the second quarter, based on the “Accounting standards regarding impairment loss of fixed assets”, since the land of Akita Plant was recognized to be remarkable decline in market value against book value.

In addition, as disclosed in “Announcement of the partnership contract termination related to Zika Vaccine Development with Protein Sciences Corporation and posting extraordinary losses”, the Company has agreed to terminate the basic contract with Protein Sciences Corporation (Head Office: CT, United States; President: Mirelli W. Fino) and to withdraw the consortium, which is for development of Zika infection vaccine, because of considering the situation of business and capital alliance with Shionogi, and of recent infection of Zika virus, and that our development priority also had become low. The Company has recorded USD 348,706 (36,272 thousand yen, exchange rate JPY 104.02 /USD) as a burden cost among the consortium, as an extraordinary losses by loss on liquidation of business. Against this extraordinary losses, since the Company worked to reduce costs, mainly such as personnel, expendable and outsourcing expenses, and in addition, as a part of R&D expenses moved to the next first quarter of FY2019, the impact of extraordinary losses has been absorbed.

In addition, since the excess of debt has been resolved in the fiscal year ended December 31, 2017, the grace period warrants concerning delisting was canceled on the Tokyo Stock Exchange Co., Ltd. on March 30, 2018.

As a result of the above, net sales amount of the fiscal year was ¥103,610 thousand (a decrease of 0.4% from the same period last year). On the other hand, due to the recording of R&D expenses related to business alliance with Shionogi, facility improvement expenses for Yokohama laboratory, and restarting expenses of Akita plant etc., the operating loss was ¥606,770 thousand (¥498,127 thousand of operating loss in the same period of the previous year), and the ordinary loss was ¥609,796 thousand (¥158,422 thousand of ordinary loss in the same period of the previous year), and as a result of recorded ¥80,605 thousand of impairment loss and ¥36,272 thousand of loss on liquidation of business as extraordinary losses both, the net loss for the fiscal year was ¥728,736 thousand (¥159,059 thousand of net loss in the same period of the previous year).

In addition, ¥1,124 thousand of foreign exchange gains due to fluctuations in exchange rates was recorded as non-operating income.

In addition, since the Company has a single segment of R&D of medical drugs and related business, the description of business results by segment is omitted.

*Next-generation logical vaccine: The next-generation logical vaccine that the Company has been aiming for is a development concept of vaccine, integrated recombinant protein antigen production technology, adjuvant technology and formulation/drug delivery technology, utilizing various knowledge, know-how and technology of biopharmaceutical technology platform, which has been developed for over 10 years by the Company. By next-generation logical vaccine, the Company has been aiming at the realization of optimal high effectiveness and high productivity for a target infectious disease. In other words, by utilizing formation/drug delivery technology, it is possible to realize high effectiveness by inducing optimal immunity for each targeted infectious disease. In addition, by utilizing adjuvant technology, not only it is possible to realize high effectiveness with less antigen amount, but also it is possible to secure a supply amount that can cover the market with the Company’s current production system and also to contribute to cost reduction, by introducing efficiently producing recombinant protein antigens.

**Adjuvant: Pharmaceutical additives for the purpose of immunopotentiating to increase effectiveness of vaccine.

(2) Summary of financial position

The financial position as of December 31, 2018 is as follows,

Current assets:

Current assets amounted to ¥1,077,324 thousand, which corresponded to a decrease of ¥759,619 thousand from the end of the previous fiscal year. This was mainly due to a decrease of ¥715,862 thousand in cash and deposits.

Non-current assets:

Non-current assets amounted to ¥100,048 thousand, which corresponded to an increase of ¥45,748 thousand from the end of the previous fiscal year. This was mainly due to an increase of ¥80,605 thousand of land.

Current liabilities:

Current liabilities amounted to ¥52,854 thousand, which corresponded to an increase of ¥6,087 thousand from the end of the previous fiscal year. This was mainly due to an increase in income taxes payable of ¥5,125 thousand.

Non-current liabilities:

Non-current liabilities amounted to ¥742,384 thousand, which corresponded to a decrease of ¥744,655 thousand from the end of the previous fiscal year. This was mainly due to a ¥745,000 thousand decrease in convertible bond-type bonds with share acquisition rights.

Net assets:

Net assets amounted to ¥382,134 thousand, which corresponded to an increase of ¥24,696 thousand from the end of the previous fiscal year.

(3) Summary of Cash Flows

The balance of cash and cash equivalents (hereinafter referred to as “cash”) at the end of the fiscal year amounted to ¥1,018,410 thousand, which corresponded to a decrease ¥ 715,862 thousand from the end of the previous fiscal year.

Operating cash flows:

Net cash spent on operating activities amounted to ¥578,483 thousand, including mainly ¥726,674 thousand of loss before income taxes.

Investing cash flows:

Net cash spent on investing activities amounted to ¥133,539 thousand, including mainly ¥161,211 thousand of purchase of property, plant and equipment.

Financing cash flows:

Net cash spent on financing activities amounted to ¥3,838 thousand, including mainly ¥3,239 thousand of payments for issuance of common shares.

(4) Future Outlook

In terms of future economic trends, although the domestic economy is moderately recovering, Consumer trends, foreign exchange trends, US trade policy, regional situation, and economic trends of emerging countries etc. still remain uncertain, unstable business conditions will continue.

Based on new business policy disclosed on February 14, 2017, the Company has been developing mainly next-generation biopharmaceutical in-house development business and contract manufacturing business, and as disclosed on October 31, 2017 that “Notice of Capital and business alliance, issuance of new shares through third-party allotment and the 1st unsecured convertible bond-type bonds with share acquisition rights”, the company has alliance with Shionogi, aiming to development of fundamental core technology related to drug discovery including vaccine to prevent human infections. The Company are also been aiming to select and promote the targets of initial development candidates from parts of the Company’s proprietary pipeline that the Company has already been developing next-generation biopharmaceutical in-house development business, and from other than the Company’s development pipeline. And the Company also issued new shares and the 1st unsecured convertible bond-type bonds with share acquisition rights allocating to Shionogi. The business alliance with Shionogi is composed of two phases, First Phase and Second Phase, and capital and business alliance is related to First Phase, which is assumed to be about until the end of December 31, 2019.

In First Phase, both companies will develop fundamental core technology related to formulation including vaccine for prevention of human infectious diseases, using the Company’s various findings, know-how, and technology, which are related to vaccine for preventing infection. In parallel, the Company will select development candidates form a part of the Company’s proprietary pipeline that the Company has been developing in the next-generation biopharmaceutical in-house development project, or from other than the Company’s in-house pipeline, and will develop fundamental research. During First Phase, the Company will receive milestone fees from Shionogi based on achievement conditions of prescribed results every half year for two years. In the fiscal year ended December 31, 2018, the Company has achieved the 1st and 2nd milestone status and has received the fees. The Company will continue to promote R&D to complete the 3rd and 4th milestone conditions in the fiscal year 2019.

In addition, First Phase will shift to Second Phase at the time when both companies judge that certain results will be obtained in development of fundamental core technology. Shionogi and the Company will select development candidates based on fundamental research results that has been pursuing in parallel. The two companies will discuss on an exclusive license agreement or other form of cooperation aiming to promote research development, application, and launch, by using established technology through development of fundamental core technology. When shifted to Second Phase, it is assumed that the Company will be in charge of making investigational drug manufacturing, preparing for commercial production and its production, and continuing research on development candidates determined by both companies as development subjects. Shionogi will be in charge of conducting non-clinical and clinical trials, pharmaceutical affairs and sales.

In capital and business alliance agreement, during First Phase, in order to bear the obligation to focus on the work related to this alliance, the Company will concentrate on research and development activities related alliance with Shionogi at Yokohama laboratory and Akita plant, so the Company will carry out consignment work etc. in contract manufacturing business of biopharmaceutical to the extent that it does not interfere with the progress of the capital and business partnership.

Accordingly, in the fiscal year ended December 31, 2019, as in the previous fiscal year, the Company will aim to steadily secure sales by achieving the 3rd and 4th milestone conditions, related to alliance with Shionogi, during First Phase. In addition, by realizing the shift to Second Phase, the Company will aim for further sales growth. On the other hand, as mentioned above, as for contract manufacturing business of biopharmaceuticals, the Company has decided to expand the business to Academia etc., focusing on consignment work related to future new development candidates targets, so it is necessary to estimate conservatively its business scale, so the contract business is not being reflected in sales plan.

The Company will continue to promote basic research in-house development pipelines, such as UMN-101 (Recombinant seasonal influenza HA vaccine, polyvalent), UMN-102 (Recombinant H1N1 influenza HA vaccine), UMN-103 (Recombinant Rotavirus single vaccine), UMN-104 (Recombinant Norovirus single vaccine).

Regarding expenses, although reducing expenses with thorough cost control, since the Company has planned aggressive R&D investment and recruitment in order to achieve related to First Phase of the alliance with Shionogi, R&D and general and administrative expenses are expected to increase in the fiscal year 2019.

Based on the above activity policy, the Company plan to secure sales, promoting R&D activity aggressively, and the Company estimated 100 million yen of net sales, 887 million yen of operating loss, 891 million yen of ordinary loss and 893 million yen of net loss. The above forecast is the plan of sales, R&D expenses, and administration expenses based on premise of achieving milestone conditions for First Phase of partnership with Shionogi. On the other hand, if the transition to Second Phase is reached to agree, there is a possibility that the forecast value including sales and so on will fluctuate significantly depending on economic conditions and other agreements. The Company will disclose promptly after realization of the agreement of shifting to Second Phase, and necessity of revision of business forecast.

On the financial side, 745,000 thousand yen (2,500 thousand shares) , which is a part of the 1st unsecured convertible bond-type bonds with share acquisition rights to shares allotted to Shionogi, has been converted into the Company's common stock, and the net asset value at the end of the fiscal year ended December 31, 2018, is 382 million yen. Taking into consideration of current financial situation, in order to avoid excessive debt at the end of the fiscal year ending December 31, 2019, it is necessary to convert the unconverted balance of stock subscription rights of 715,200 thousand yen (2,400 thousand shares) into the Company's common stock as will. The essential condition is that the Company's common stock price has exceeded 298 yen of the original conversion price, and that the development of First Phase is progressing steadily, so the Company will strive to satisfy the conditions for steady conversion. Also, in the future, since it is assumed that additional fundraising will be required for implementation of the affiliated Second Phase, the Company will have closer talks with Shionogi regarding necessary fund procurement for R&D in Second Phase at the transition of it.

Although the above forecast figures are based on the information currently acquired by the Company and certain assumptions that deemed rational, the Company does not promise to realize it. Actual business results may differ greatly due to various factors.

In next-generation biopharmaceutical in-house development business, if it is delay in achieving assumed milestone conditions due to the Company's progress situation of R&D related to alliance with Shionogi, there is a possibility that it may be different from the forecast. In the contract manufacturing business for biopharmaceuticals, although the Company estimate sales plan based on contents of orders already confirmed, if the delivery schedule is changed, there is a possibility that it may be different from the forecast. Furthermore, in terms of costs, according to progress of R&D, there is a possibility that forecasts may be changed. The Company will promptly disclose when recognizing that it is necessary to revise business forecasts.

2. Accounting Standards

Almost of the Company's stakeholders are domestic shareholders, creditors, and business partners etc. In order to ensure comparability with other domestic peers in the same industry, the Company applies Japanese accounting standards.

3. Non-consolidated Financial Statements and Notes

(1) Non-consolidated Balance Sheets

(Thousands of yen)

	As of December 31, 2017	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	1,734,272	1,018,410
Raw materials	—	5,946
Work in process	1,526	—
Advance payments - trade	61,829	13,716
Prepaid expenses	9,163	9,106
Consumption taxes receivable	26,887	23,442
Other	3,265	6,703
Total current assets	1,836,944	1,077,324
Non-current assets		
Property, plant and equipment		
Land	—	80,605
Total property, plant and equipment	—	80,605
Investments and other assets		
Lease and guarantee deposits	43,967	16,295
Other	10,332	3,146
Total investments and other assets	54,300	19,442
Total non-current assets	54,300	100,048
Total assets	1,891,244	1,177,373
Liabilities		
Current liabilities		
Accounts payable - other	40,303	37,792
Accrued expenses	1,758	4,042
Income taxes payable	1,408	6,534
Deposits received	3,295	4,485
Total current liabilities	46,766	52,854
Non-current liabilities		
Convertible bond-type bonds with share acquisition rights	1,460,200	715,200
Asset retirement obligations	23,125	23,469
Other	3,714	3,714
Total non-current liabilities	1,487,040	742,384
Total liabilities	1,533,806	795,238
Net assets		
Shareholders' equity		
Capital stock	306,915	679,415
Capital surplus		
Legal capital surplus	306,915	679,415
Total capital surpluses	306,915	679,415
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(256,194)	(984,931)
Total retained earnings	(256,194)	(984,931)
Treasury shares	(197)	(197)
Total shareholders' equity	357,437	373,701
Share acquisition rights	—	8,433
Total net assets	357,437	382,134
Total liabilities and net assets	1,891,244	1,177,373

(2) Non-consolidated Statements of Income

(Thousands of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Net sales	104,050	103,610
Cost of sales	3,003	1,677
Gross profit	101,046	101,933
Selling, general and administrative expenses	599,174	708,704
Operating loss	(498,127)	(606,770)
Non-operating income		
Interest income	6	5
Foreign exchange gains	—	1,124
Subsidy income	336,618	—
Office work fee	6,603	2,592
Rent income on facilities	9,073	—
Other	779	28
Total non-operating income	353,080	3,751
Non-operating expenses		
Interest expenses	15	—
Interest on bonds	396	2,938
Share issuance cost	4,534	3,239
Bond issuance cost	8,428	—
Issuance cost of subscription rights to shares	—	599
Total non-operating expenses	13,374	6,777
Ordinary loss	(158,422)	(609,796)
Extraordinary losses		
Impairment loss	—	80,605
Loss on liquidation of business	—	36,272
Total extraordinary losses	—	116,878
Loss before income taxes	(158,422)	(726,674)
Income taxes - current	636	2,062
Total income taxes	636	2,062
Net Loss	(159,059)	(728,736)

(3) Non-consolidated Statements of Change in Net Assets
FY2017 (From January 1 to December 31, 2017)

(Thousands of yen)

	Shareholders' equity					
	Capital stock	Capital surplus			Retained earnings	
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings
					Retained earnings brought forward	
Balance at beginning of current period	10,117,021	9,786,021	—	9,786,021	(19,700,179)	(19,700,179)
Changes of items during period						
Issuance of new shares	89,400	89,400		89,400		
Issuance of new shares - exercise of share acquisition rights	67,515	67,515		67,515		
Capital reduction	(9,967,021)	(9,636,021)	19,603,043	9,967,021		
Deficit disposition			(19,603,043)	(19,603,043)	19,603,043	19,603,043
Loss					(159,059)	(159,059)
Net changes of items other than shareholders' equity						
Total changes of items during period	(9,810,106)	(9,479,106)	—	(9,479,106)	19,443,984	19,443,984
Balance at end of current period	306,915	306,915	—	306,915	(256,194)	(256,194)

	Shareholders' equity		Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity		
Balance at beginning of current period	(197)	202,666	6,120	208,786
Changes of items during period				
Issuance of new shares		178,800		178,800
Issuance of new shares - exercise of share acquisition rights		135,030		135,030
Capital reduction		—		—
Deficit disposition		—		—
Loss		(159,059)		(159,059)
Net changes of items other than shareholders' equity			(6,120)	(6,120)
Total changes of items during period	—	154,770	(6,120)	148,650
Balance at end of current period	(197)	357,437	—	357,437

FY2018 (From January 1 to December 31, 2018)

(Thousands of yen)

	Shareholders' equity						
	Capital stock	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
Balance at beginning of current period	306,915	306,915	306,915	(256,194)	(256,194)	(197)	357,437
Changes of items during period							
Issuance of new shares - exercise of share acquisition rights	372,500	372,500	372,500				745,000
Loss				(728,736)	(728,736)		(728,736)
Net changes of items other than shareholders' equity							
Total changes of items during period	372,500	372,500	372,500	(728,736)	(728,736)	—	16,263
Balance at end of current period	679,415	679,415	679,415	(984,931)	(984,931)	(197)	373,701

	Share acquisition rights	Total net assets
Balance at beginning of current period	—	357,437
Changes of items during period		
Issuance of new shares - exercise of share acquisition rights		745,000
Loss		(728,736)
Net changes of items other than shareholders' equity	8,433	8,433
Total changes of items during period	8,433	24,696
Balance at end of current period	8,433	382,134

(4) Non-consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Cash flows from operating activities		
Loss before income taxes	(158,422)	(726,674)
Impairment loss	—	80,605
Issuance cost of subscription rights to shares	—	599
Share-based compensation expenses	—	8,433
Interest income	(6)	(5)
Interest expenses	15	—
Interest on bonds	396	2,938
Share issuance cost	4,534	3,239
Bond issuance cost	8,428	—
Subsidy income	(336,618)	—
Loss on liquidation of business	—	36,272
Decrease (increase) in notes and accounts receivable - trade	6,130	—
Other, net	(82,854)	19,358
Subtotal	(558,396)	(575,232)
Interest income received	6	5
Interest expenses paid	(411)	(2,938)
Income taxes paid	(2,921)	(318)
Net cash provided by (used in) operating activities	(561,723)	(578,483)
Cash flows from investing activities		
Purchase of property, plant and equipment	—	(161,211)
Payments for guarantee deposits	(50)	(1,320)
Proceeds from collection of guarantee deposits	—	28,992
Net cash provided by (used in) investing activities	(50)	(133,539)
Cash flows from financing activities		
Repayments of long-term loans payable	(25,000)	—
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares	1,451,771	—
Proceeds from issuance of common shares	308,215	—
Payments for issuance of common shares	—	(3,239)
Payments for issuance of subscription rights to shares	—	(599)
Other, net	(5,040)	—
Net cash provided by (used in) financing activities	1,729,946	(3,838)
Net increase (decrease) in cash and cash equivalents	1,168,173	(715,862)
Cash and cash equivalents at beginning of period	566,098	1,734,272
Cash and cash equivalents at end of period	1,734,272	1,018,410