



Non-consolidated Financial Results for the First Six Months of Fiscal Year Ending Dec. 31, 2018 (Japanese GAAP)

July 31, 2018

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 Supplementary materials for financial results: Yes
 Briefing session of financial results: Yes (For institutional investors and analysts)

(Rounded down to nearest million yen)

1. Financial Results for the First Six Months of FY2018 (From January 1, 2018 to June 30, 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	%
First six months of FY2018	53	—	(305)	—	(307)	—	(388)	—
First six months of FY2017	2	—	(315)	—	34	—	34	—

	Net income per share - basic	Net income per share - diluted
	Yen	Yen
First six months of FY2018	(30.34)	—
First six months of FY2017	2.79	—

(Note) Year-on-year changes are not presented as the Company began preparing quarterly non-consolidated financial statements in the first quarter ended December 31, 2017.

(2) Financial position

	Total assets	Net assets	Net assets as percentage of total assets
	Million yen	Million yen	%
As of June 30, 2018	1,501	(28)	(2.1)
As of December 31, 2017	1,891	357	18.9

(Reference) Shareholders' equity As of June 30, 2018 (30) Million yen As of December 31, 2017 357 Million yen

2. Dividends

	Annual dividends per share				
	End of Q1	End of Q2	End of Q3	Year end	Total dividends
	Yen	Yen	Yen	Yen	Yen
FY2017	—	0 00	—	0 00	0 00
FY2018	—	0 00	—	—	—
FY2018(Forecast)	—	—	—	0 00	0 00

(Note) Revisions to the latest dividend forecast: None

3. Forecasts for the Fiscal Year Ending December. 31, 2018(from January 1, 2018 to December 31, 2018)

(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	%	Yen
FY2018	102	(1.1)	(803)	—	(809)	—	(810)	—	(63.31)

(Note) Revisions to the latest performance forecasts: None

*(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)

As of June 30,2018	12,796,500	As of December 31,2017	12,796,500
As of June 30,2018	50	As of December 31,2017	50
For the first six months of FY2018	12,496,450	For the first six months of FY2017	12,192,306

2) Number of treasury shares

3) Average number of shares outstanding

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

** Explanation concerning the appropriate use of forecasts and other special instructions

(Notice regarding forward-looking statements)

This press release includes forward-looking statements based on a number of assumptions and beliefs in light of the information currently available to management and subject to significant risks and uncertainties. Consequently, any statements herein do not constitute assurances regarding the actual results. Actual financial results may differ materially depending on a number of factors, including adverse economic conditions, currency exchange rate fluctuations, adverse legislative and regulatory developments, delays in new product launches, the pricing and product initiative of competitors, the inability of the company to market existing and new product effectively, interruptions in production, infringement of the company's intellectual property rights and the adverse outcome material litigation.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

During the six months ended June 30, 2018, the Japanese economy experienced a slow recovery tendency in corporate earnings and employment environment by the effect of the economic policy of the government. On the other hand, in addition to weak individual consumption in the domestic market, concerns about the global economic situation have not been dispelled, such as the destabilization of the surrounding area situation and the increase of feeling of caution against the trend of the US trade policy, and opaque situation still continues in the future.

In the Japanese pharmaceutical industry, the growth of the medical pharmaceutical market has slowed due to measures to curb medical expenses, and expansion to the world market by the development of global pharmaceutical products is becoming more 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” that is 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, which has been aiming to select initial basic development candidates from fundamental core technology related to drug discovery, which is including vaccine for preventing infection in humans, from a part of the Company’s proprietary development pipeline in next generation biopharmaceutical development project, and from new development candidates targets other than in-house developed pipeline, and to promote fundamental research. On May 29, 2018, the Company was confirmed that the first milestone condition was achieved and has received milestone fee in this second quarter based on the semi-annual achievement status predetermined in the capital and business alliance agreement. As of this disclosure date, R&D activities related to fundamental core technology focusing on achieving the second milestone condition has been progressing as initial planned. In addition, regarding fundamental research on development candidates that has been progressed in parallel, the Company is beginning to acquire important knowledge on the creation of next-generation logical vaccine from multiple development candidates and proceeding the studies on the selection of the development candidate products.

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 is 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 26 June, 2017 and on 1 December, 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 aimed at finding optimal combinations of the Company’s multiple vaccine candidate antigens and multiple adjuvants of NIBIOHN, and is 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 22 June, 2018.

On the other hand, in terms of “the contract manufacturing business for biopharmaceuticals”, the Company delivered two items to research institutions such as universities. In order to secure sales, the Company has been mainly working on the orders related to business alliance with Shionogi from mainly universities and public research organization.

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 extraordinary losses” dated July 31, 2018, the Company have recorded

an impairment loss of ¥80,605 thousand as 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. However, this impairment loss will be substantially absorbed and in the impact on the full-year financial forecast for the fiscal year ending December 31, 2018, disclosed on February 14, 2018, is minimal since the Company anticipate to reduce expenses, centering on personnel, consumables, and outsourcing expenses, equal to the amount of the impairment loss, judging from the status of the progress of R&D expenses and general administrative expenses and the assumption cost after 3Q and beyond.

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 second-quarter was ¥53,610 thousand (an increase of 1,721.4% from the same period last year). On the other hand, due to the recording of R&D expenses related to business alliance with Shionogi, cost of facility improvement for Yokohama laboratory, and restarting cost of Akita plant etc., the operating loss was ¥305,162 thousand (Operating loss ¥315,140 thousand in the same period of the previous year), the ordinary loss was ¥307,329 thousand (Ordinary profit of ¥34,350 thousand in the same period of the previous year) and the net loss for this quarter was ¥388,253 thousand (Net profit of ¥34,032 thousand in the same period of the previous year).

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) Analysis of Financial Position

The financial position as of 30 June, 2018 is as follows;

Total assets amounted to ¥1,501,196 thousand, which corresponds to a decrease of ¥390,047 thousand compared to the end of the previous fiscal year.

Current assets amounted to ¥1,396,024 thousand, which corresponds to a decrease of ¥440,919 thousand compared to the end of the previous fiscal year, mainly due to a decrease of ¥421,417 thousand in cash and cash deposits.

Non-current assets amounted to ¥105,172 thousand, which corresponds to an increase of ¥50,872 thousand compared to the end of the previous fiscal year, mainly due to an increase of ¥80,605 thousand property, plant and equipment.

Liabilities amounted to ¥1,529,691 thousand, which corresponds to a decrease of ¥4,115 thousand compared to the end of the previous fiscal year.

Net assets amounted to (¥28,494) thousand, which corresponds to a decrease of ¥385,932 thousand compared to the end of the previous fiscal year, mainly due to net loss of ¥388,253 thousand incurred during the period.

Summary of Cash Flows

The balance of cash and cash equivalents (hereinafter referred to as "cash") at the end of the second quarter of the fiscal year amounted to ¥1,312,854 thousand, which corresponds to a decrease of ¥421,417 thousand compared to the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash used in operating activities for the first six months of FY2018 totaled ¥287,278 thousand, due to quarterly net loss before income taxes of ¥387,935 thousand etc. (Expenditure of ¥330,107 thousand in the same quarter of the previous fiscal year)

(Cash flows from investing activities)

Net cash used in investing activities for the first six months of FY2018 totaled ¥133,539 thousand, due to purchase of property, plant and equipment. (Expenditure of ¥50 thousand in the same quarter of the previous fiscal year)

(Cash flows from financing activities)

Net cash used in financing activities for the first six months of FY2018 totaled ¥599 thousand, due to payments for issuance of subscription rights to shares. (Revenue of ¥102,916 thousand in the same quarter of the previous fiscal year)

(3) Explanation of Non-consolidated Financial Results Forecasts and Other Forward-looking Information

There is no change from our financial results for the fiscal year ending December 31, 2018 released on February 14, 2018.

The business forecasts are made based on information available at the present, and actual results may differ due to various factors in the future.

2. Quarterly Non-consolidated Financial Statements

(1) Quarterly Non-consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (as of Dec. 31, 2017)	Second quarter of FY2018 (as of June. 30, 2018)
Assets		
Current assets		
Cash and deposits	1,734,272	1,312,854
Other	102,672	83,170
Total current assets	1,836,944	1,396,024
Non-current assets		
Property, plant and equipment	—	80,605
Investments and other assets	54,300	24,566
Total non-current assets	54,300	105,172
Total assets	1,891,244	1,501,196
Liabilities		
Current liabilities		
	46,766	42,479
Non-current liabilities		
Convertible bond-type bonds with subscription rights to shares	1,460,200	1,460,200
Asset retirement obligations	23,125	23,297
Other	3,714	3,714
Total non-current liabilities	1,487,040	1,487,212
Total liabilities	1,533,806	1,529,691
Net assets		
Shareholders' equity		
Capital stock	306,915	306,915
Capital surplus	306,915	306,915
Retained earnings	(256,194)	(644,448)
Treasury shares	(197)	(197)
Total shareholders' equity	357,437	(30,815)
Subscription rights to shares	—	2,321
Total net assets	357,437	(28,494)
Total liabilities and net assets	1,891,244	1,501,196

(2) Quarterly Non-consolidated Statements of Income

(Thousands of yen)

	Six months ended Jun. 30, 2017 (From Jan. 1, 2017 to Jun. 30, 2017)	Six months ended Jun. 30, 2018 (From Jan. 1, 2018 to Jun. 30, 2018)
Net sales	2,943	53,610
Cost of sales	1,896	1,677
Gross profit	1,046	51,933
Selling, general and administrative expenses	316,187	357,096
Operating loss	(315,140)	(305,162)
Non-operating income		
Interest income	4	3
Subsidy income	336,618	—
Other	13,877	22
Total non-operating income	350,500	25
Non-operating expenses		
Interest expenses	15	—
Interest on bonds	—	1,593
Share issuance cost	993	—
Issuance cost of subscription rights to shares	—	599
Total non-operating expenses	1,008	2,192
Ordinary profit (loss)	34,350	(307,329)
Extraordinary losses		
Impairment loss	—	80,605
Total extraordinary losses	—	80,605
Profit (loss) before income taxes	34,350	(387,935)
Income taxes - current	318	318
Total income taxes	318	318
Net Profit (loss)	34,032	(388,253)

(3) Quarterly Non-consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended June 30, 2017 (From Jan. 1, 2017 to Jun. 30, 2017)	Six months ended June 30, 2018 (From Jan. 1, 2018 to Jun. 30, 2017)
Cash flows from operating activities		
Profit (loss) before income taxes	34,350	(387,935)
Impairment loss	—	80,605
Issuance cost of subscription rights to shares	—	599
Share-based compensation expenses	—	2,321
Interest income	(4)	(3)
Interest expenses	15	—
Interest on bonds	—	1,593
Share issuance cost	993	—
Subsidy income	(336,618)	—
Decrease (increase) in notes and accounts receivable - trade	6,130	—
Other, net	(32,360)	17,448
Subtotal	(327,493)	(285,371)
Interest income received	4	3
Interest expenses paid	(15)	(1,593)
Income taxes paid	(2,602)	(318)
Net cash provided by (used in) operating activities	(330,107)	(287,278)
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 common shares	132,956	—
Payments for issuance of subscription rights to shares	—	(599)
Other, net	(5,040)	—
Net cash provided by (used in) financing activities	102,916	(599)
Net increase (decrease) in cash and cash equivalents	(227,241)	(421,417)
Cash and cash equivalents at beginning of period	566,098	1,734,272
Cash and cash equivalents at end of period	338,857	1,312,854