Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2017 (Japanese GAAP)

February 14, 2018

Company name	UMN Pharma Inc.	Stock listings	Mothers of TSE
Securities code	4585	URL	http://www.umnpharma.com/en/
Representative	Tatsuyoshi Hirano	Chairman and CEO	
Contact person	Hiroyuki Hashimoto	CFO	(TEL)+81-45-595-9840
Scheduled date of ordinary general shareholders' meeting	March 28, 2018	Scheduled date of Dividend payments	—
Scheduled date of filing securities report	March 30 , 2018		
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, 2017（From January 1, 2017 to December 31, 2017）

(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	%
FY2017	104	98.0	(498)	—	(158)	—	(159)	—
FY2016	52	(72.4)	(552)	—	(480)	—	(8,344)	—

	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	%	%	%
FY2017	(12.96)	—	(56.8)	(12.3)	(478.7)
FY2016	(804.39)	—	—	—	—

(Reference) Equity in net income of affiliates FY2017 —Million yen FY2016 — Million yen

(Note) The Company began preparing non-consolidated financial statements, from the first quarter of the fiscal year ending Dec.31, 2017, and thus the figures for FY2016 and year-on-year changes are not stated herein.

(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.31,2017	1,891	357	18.9	27.93
As of Dec.31,2016	694	208	29.2	16.82

(Reference) Shareholders' equity As of December.31, 2017 357Million yen As of December 31, 2016 202 Million 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
FY2017	(561)	(0)	1,729	1,734
FY2016	—	—	—	—

(Note) The Company began preparing non-consolidated financial statements, from the first quarter of the fiscal year ending Dec.31, 2017, and thus the figures for FY2016 and year-on-year changes are not stated herein.

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	%	%
FY2016	—	0 00	—	0 00	0 00	—	—	—
FY2017	—	0 00	—	0 00	0 00	—	—	—
FY2018(forecast)	—	0 00	—	0 00	0 00		—	

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 December 31,2017	12,796,500	As of December 31,2016	12,046,500
2) Number of treasury shares	As of December 31,2017	50	As of December 31,2016	50
3) Average number of shares outstanding	As of December 31,2017	12,270,011	As of December 31,2016	10,373,614

* 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, (4) Future Outlook”.

Contents of Attached materials

1. Summary of Operating Results

(1) Current Term Operating Results

During the current fiscal year, in Japanese an economic slow recovery has been seen, although consumers consumption has remained mostly flat. On the other hand, the business outlook for the future is uncertain due to instability of the surrounding regional situation, lengthening of the European debt problem, apprehension about the economic growth effect by monetary policy, concerns of slowing economic growth in emerging countries.

In the Japanese pharmaceutical industry, since growth in its pharmaceutical market has slowed down due to policy of medical expense control, expansion toward world markets with global drag development is becoming more important.

In such a business environment, UMN Pharma Inc. (hereinafter referred to as "The Company") has energetically engaged in biopharmaceutical contract manufacturing business and continuously allocated the operational resources and advanced R&D activities of UMN-2002 (recombinant norovirus VLP single vaccine, hereinafter referred to as "UMN-2002") for the prevention from norovirus; and UMN-2001 (recombinant rotavirus VP6 single vaccine, hereinafter referred to as "UMN-2001"); and UMN-2003 (recombinant norovirus VLP + recombinant VP6 combination vaccine, hereinafter referred to as "UMN-2003") for the prevention of norovirus and rotavirus that are principal causative virus of viral gastroenteritis ; and Zikavirus vaccine (hereinafter referred as " Zikavirus vaccine): and UMN-0502 (recombinant influenza HA vaccine for the prevention of seasonal influenza, hereinafter referred to as "UMN-0502"); and UMN-0501 (recombinant influenza HA vaccine (H5N1) for the prevention of pandemic influenza, hereinafter referred to as "UMN-0501"); and UMN-0901 (recombinant influenza HA vaccine (H9N2), hereinafter referred to as "UMN-0901") for which the possibility of pandemic has been indicated by WHO besides H5N1.

In terms of the carrying out development for UMN-0502 and UMN-0501 for Japan in collaboration with Astellas Pharma Inc. (hereinafter referred to as "Astellas"), after submission of an application for marketing approval of recombinant influenza HA vaccine ASP7374, for the prevention of seasonal influenza, by Astellas to the Ministry of Health, Labor and Welfare in May, 2014, the Company, in collaboration with Astellas, responded to the related inquiries from Pharmaceutical and Medical Agency ("PMDA") for the approval. However, as shown in the release, on January 10, 2017, "Notice Received from Astellas for its Exercise of Termination Right of the Agreement to Co-develop ASP7374 (UMN-0502) and ASP7373 (UMN-0501)", the Company received notice from Astellas to exercise termination right on the agreement as Astellas reached a conclusion that it would be difficult to obtain the approval of APS7374 by PMDA and thus the application should be turned down by Astellas. According to Astellas, the conclusion was reached after the meeting held between Astellas and PMDA, and PMDA showed Astellas that PMDA had no intension to continue the review process any further after considering the benefits and the risks of ASP7374, since little clinical significance was recognized for ASP7374.

Astellas withdrew the application for marketing approval of ASP7374 from PMDA and the Company and Astellas settled the termination of the agreement on March 10, 2017. In response to the request to exercise the cancellation right from Astellas, the Company posted both consolidated extraordinary loss and non-consolidated extraordinary loss. According to thus making significant downward revision in the fiscal year ending December 31, 2016, and under such an abrupt change in the business circumstances, the Company reached the conclusion that it was impossible for the Company to financially support UNIGEN as a group anymore. As a result, the Company, and IHI Corporation ("IHI") with 50% shareholder of UNIGEN, decided to transfer all the shares of UNIGEN to API Co., Ltd. (hereinafter referred to as "API"). Upon the execution of this share transfer, the Company transformed its business model along with the fundamental change, including pushing through the overall restructuring. The Company and IHI agreed to terminate "Basic Agreement on Business Collaboration" dated January 25, 2010, including joint operation for the influenza vaccine drug substance manufacturing business.

In terms of UMN-0501, Astellas applied for cancellation of the designation of orphan drugs to the authorities, which was approved in March, 2017. According to the procedure above, the Company has transferred ¥336 million, which had received as research subsidies targeting UMN-0501 before, to non-operating income as subsidy income in the first quarter of the current

fiscal year, from long-term deposits. According to the result of the significant change in business environment, the Company has formulated new business direction as a non-consolidated company, which is specialized in*CMC development and industrialization for examination stages. The Company has redefined the business domain as “Next Generation Biopharmaceuticals In-house Development Project” and “Contract Manufacturing Business for Biopharmaceuticals”, specializing in CMC development and examination for industrialization.

As a result of activities aiming at early realizing new business direction with a new business partners, as mentioned “notice of sighing a capital investment and business alliance agreement” on October 31, 2017, the Company has signed business alliance with Shionogi & Co., Ltd., (hereinafter referred to as "Shionogi"; headquarters location: Doshomachi, Chuo-ku, Osaka; President and CEO: Isao Teshirogi, Ph.D.) for the purpose of selecting new development candidates targets from development core technologies regarding drug discovery, including vaccine to prevent human infection, from a part of in-house pipelines that the Company has been proceeding in in –house next generation biopharmaceutical development business, and from new development candidates other than in-house pipelines, and also of proceeding fundamental research. The Company also has issued new shares and the 1st unsecured convertible bond type bonds with stock acquisition right assigning to Shionogi.

The Company has decided to consider reviewing and cancelling existing development in-house pipelines in next-generation biopharmaceutical in-house development business, considering the above-mentioned dramatic change in business environment, and capital and business alliance agreement with Shionogi based on new business policy.

In terms of UMN-0502, UMN-0501 and UMN-0901, as stated in “Notice of cancellation of license agreement with Protein Sciences Corporation” on December 11, 2017, as a result of review including continuation of license agreement on development, manufacture and sales in Japan and East Asia with Protein Sciences Corporation (hereinafter referred to as “PSC”), the Company has decided that there is few possibility to be applied even if re-development and reapplication will be implemented, and has judged that fully development will be necessary again for a new drug. In addition, since the PSC's management situation has been significantly changed following the acquisition of PSC by Sanofi in August, 2017, considering in relation to Sanofi's business policy, the Company has judged that there is no significance of license agreement with PSC, and has agreed to terminate license agreement of UMN-0501, UMN-0502 and UMN-0901 with PSC. In addition, in line with the above termination of license agreement with PSC, the Company is consulting with Ildong Pharmaceutical Co., Ltd. (hereinafter referred to as “Ildong”) for the license agreement dated December 29, 2012 with including manufacture, import, co-development and sales of UMN-0502, UMN-0501 and UMN-0901 in Korea. The Company is also consulting with Adimmune Corporation for the contract dated October 30, 2013 with including granting first refusal rights for recombinant influenza HA vaccine in Taiwan and China.

Regarding the development of UMN-2001, the Company has been conducting immunogenicity tests using model mice, and is about to acquire findings of the immune response of the vaccine, and has been proceeding the research. As for UMN-2002, under the joint research agreement with Daiichi Sankyo Company Limited (hereinafter referred to as “Daiichi Sankyo”) in February 2014, the Company made further optimization of the manufacturing process, and provided Daiichi Sankyo with VLP antigens, and Daiichi Sankyo was proceeding basic research using them. However, the project was running considerably behind schedule. As announced in "Notice on agreement to conclude a collaborative research with Daiichi Sankyo" has disclosed on October 31, the Company has decided to terminate the joint research agreement about UMN-2001 with Daiichi Sankyo on the same date. However, the Company has been continuing research and development independently.

In terms of Zika Vaccine, PSC announced dated January 12, 2017 that preclinical studies, sponsored by National Institute of Allergy and Infectious Disease, National Institutes of Health, using its lead protein based Zika vaccine candidate created by PSC’s proprietary BEVS technology, were conducted, and PSC obtained good safety results. In addition, in January 2017, PSC also announced that the Institute of Technology in Immunobiologicals of the Oswaldo Cruz Foundation (Bio-Manguinhos/ Fiocruz) of Brazil joined the multinational consortium including entities from five countries, such as the United

States, Mexico, Brazil, Argentina and Japan. Currently, the consortium have been preparing for various exams with clinical trials in mind, discussing a draft agreement for formal agreement.

In addition, as for the formal participation into the consortium, members who have a plan to participate in the consortium have been discussing. However, Judging from the current agreement with Shionogi, recent infection situation of Zika virus, and etc., the Company has informed PSC of declining to participate in the consortium and is consulting with PSC to withdraw.

In addition to other existing pipelines, the Company had been promoting alliance activities to multiple companies as new R&D candidates, focusing on not only to conduct entrusted tests along with achievements so far, but also to assume a feasibility of productivity. Due to the conclusion of a capital and business alliance agreement with Shionogi, the Company has been considering possibility as development candidates in accordance with the capital and business partnership agreement. As a part of activities above, the Company has concluded a joint research agreement with National Institute of Biomedical Innovation, Health and Nutrition (hereinafter referred to as "NIBIOHN") on June 26, 2017, in order to combine of new **adjuvant seeds possessed by NIBIOHN with our manufacturing technologies and so as to create state-of-the-art biopharmaceuticals such as new vaccine. In addition, on December 1, 2017, the Company and NIBIOHN have agreed to extend the scope of vaccine candidate antigens that are combined with new adjuvant seed.

In terms of contract manufacturing business such as biopharmaceuticals, the Company had been specializing in examination stages for CMC development and industrialization, and had been trying to expand contract manufacturing business utilizing Yokohama Lab, Akita Lab and Akita Plant. Regarding the contract manufacturing business for new vaccine candidate antigens from several domestic research institutions where the Company has been continuously receiving orders so far, the Company received 4 orders for 4 targets in FY2017, delivering 3 of them in FY2017. On the other hand, as a result of reviewing the business strategy in terms of the joint business contract of antibody biosimilar between the Company, Yakult Honsha Co., Ltd (hereinafter referred to as "Yakult Honsha") and API, the Company, Yakult Honsha and API agreed to terminate the contract dated March 31, 2017. In conclusion, the Company decided to concentration on R&D activities related to business alliance with Shionogi at each of Yokohama laboratory, Akita laboratory and Akita plant, since the Company has been obliged to concentrate on R&D related to business alliance with Shionogi due to agreement of a capital and business partnership with Shionogi. As a result, the Company was unable to achieve the plan, since the Company canceled part of order acceptance activities in contract manufacturing business related to biopharmaceuticals.

In terms of financial aspects, the Company issued 1.5 million shares as the 20th stock acquisition right (with amendment of the exercise price) on November4, 2016 to allocate to Evolution Biotech Fund, in order to increase the production capacity of Gifu plant to realize Flublok® drug substance export business for the US, to promote in-house development pipeline, to seek for new seeds and to reinforce financial position, especially operational capital and repayments of loans at Gifu plant.

As a result of exercising 150 thousand shares in January, 2017, although cumulative total of 800 thousand shares was exercised so far, since the stock price changed to less than ¥563, which is lower limit exercise price, the Company has decided to purchase and cancel 700 thousand of outstanding shares at the Board of Directors meeting dated on March21, 2017.

As a result of the exercising, the actual cumulative amount of the procurement after the issue expenses are deducted has become ¥717 million. In addition, at the Board of Directors' Meeting held on January 31 and March 21, 2017, the Company has made resolutions on changes in the use of the procured funds due to the changes in situation such as the reorganization of the group structure and the divergence of the procurement amount between the estimate and actual.

In consideration of the financial situation, the Company have made resolutions at the ordinary general meeting of shareholders held on March 30 , 2017, the reduction of the amount of capital from ¥10,117,021 thousand as of December 31, 2016, to ¥150,000 thousand, and of legal capital surplus from ¥9,786,021 thousand as of December 31, 2016, to ¥150,000 thousand, transferring both to other capital surplus; and the reduction of the other capital surplus from ¥19,603,000 thousand as of December 31, 2016 to ¥0, transferring to retained earnings in order to reduce carry forward deficit on May 2, 2017, as effective date.

After that, as disclosed on October 31, 2017, “Notice of signing a capital investment and business alliance agreement”, the Company has raised funds for ¥1,639,000 thousand (before issue discounts) by issuing new shares and bonds with stock acquisition rights of the first unsecured convertible bond type allocating Shionogi, which is including capital increase of ¥178,800 thousand accompanying issuance of 600 thousand of new shares.

In addition, the Company has been in the grace period for delisting under the regulation of the listing policy of securities, since consolidated net assets as of December 31, 2016, exceeded liabilities of ¥10,920 million on the securities report of the fiscal year ended December 31, 2016, which is submitted on March 31, 2017. The grace period is until December 31, 2017. However, as mentioned above, as a result of transferring the business of UNIGEN, which was a consolidated subsidiary of the Company, the Company has decided to manage the business on a standalone basis since the fiscal year ended December, 2017. The excess of liabilities of ¥10,920 million in net assets as of the end of December, 2016, has already been eliminated by the non-consolidation of UNIGEN, and the non-consolidated net assets of the Company as of December 31, 2017 is ¥357 million, and the Company has already avoided circumstances of excessive debt for the second consecutive term with the grace period in the Securities Listing Regulations.

As a result of the above, net sales for current fiscal year amounted to ¥104,050 thousand. On the other hand, operating loss was ¥498,127 thousand, due to recording R&D expenses related to business alliance with Shionogi above. As mentioned above, ordinary loss was ¥158,422 thousand and loss was ¥159,059 thousand, due to recording ¥336,618 thousand of drug subsidy research grant for rare diseases of UMN-0501 as subsidy income in non-operating income.

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

*CMC：Chemistry, Manufacturing and Control

**adjuvant：Pharmaceutical excipients for eliciting more immunity to enhance the effectiveness of vaccines and more

(2) Summary of Financial Position

Status of assets, liabilities and net assets

(Current Assets)

Current assets at the end of the fiscal year amounted to ¥1,836,944 thousand, including as a result of an increase of ¥1,168,173 thousand in cash and deposits, which is an increase of ¥1,186,790 thousand comparing to the previous fiscal year.

(Noncurrent Assets)

Noncurrent Assets at the end of the fiscal year amounted to ¥54,300 thousand, and increased by ¥10,099 thousand from the end of the previous fiscal year. This was mainly due to an increase in other (long-term deposits) by ¥9,241 thousand.

(Current Liabilities)

Current liabilities at the end of the fiscal year amounted to ¥46,766 thousand, and decreased by ¥75,682 thousand from the end of the previous fiscal year. This was mainly due to a decrease of ¥35,020 thousand in income taxes payable and ¥37,342 thousand in advances received.

(Noncurrent Liabilities)

Noncurrent liabilities at the end of the fiscal year amounted to ¥ 1,487,040 thousand, and increased by ¥ 1,123,920 thousand from the end of the previous fiscal year. This was mainly due to an increase of ¥ 1,460,200 thousand in convertible bond-type bonds with subscription rights to shares.

(Net assets)

Net assets amounted to ¥ 357,437 thousand, and increased by ¥ 148,650 thousand from 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 ¥1,734,272 thousand, and increased by ¥1,168,173 thousand from the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash spent on operating activities amounted to ¥561,723 thousand, including as result of excluding ¥158,422 thousand of loss before income taxes and ¥336,618 thousand of subsidy income.

(Cash flows from investing activities)

Net cash spent on investing activities amounted to ¥50 thousand by payments for guarantee deposits.

(Cash flows from financing activities)

Net cash acquired through financing activities amounted to ¥1,729,946 thousand, mainly due to ¥1,451,771 thousand of proceeds from issuance of convertible bond-type bonds with subscription rights to shares, and ¥308,215 thousand of proceeds from issuance of common shares.

(4) Future Outlook

In terms of future economic trends, although the domestic economy is moderately recovering, it is judged that the uncertain economic situation will continue, since the future is still uncertain, considering consumption trends, foreign exchange trends, regional situation and emerging economic trend and so on.

The Company has redefined major business direction as “Next-Generation Biopharmaceuticals In-house Development Project” and “Contract Manufacturing Business for Biopharmaceuticals”, specializing in CMC development and examination for industrialization, as disclosed on February 14, 2017. Based on the new business policy, while promoting mainly on next-generation biopharmaceutical in-house development business and contract manufacturing business for biopharmaceuticals etc., as described on “Notice of signing a capital investment and business alliance agreement” on October 31, 2017, the Company has tied-up business alliance with Shionogi, aiming at developing fundamental core technologies related to drug discovery including vaccine to prevent human infection, as well as aiming at selecting and promoting new development candidate targets, which are including a part of development pipelines that the Company has been developing in next-generation biopharmaceutical in-house development business, and other than in-house developed pipeline. In addition, the Company has issued to allocate new shares and the 1st unsecured convertible bond type bonds with stock acquisition rights to Shionogi. The business alliance with Shionogi consists of two phases, named the First Phase and the Second Phase, and the capital and business alliance is related to the First Phase. The period of the First Phase is assumed to be roughly until the end of December 31, 2019.

In the First Phase, Shionogi and the Company will develop fundamental core technologies related to drug discovery, including vaccine for preventive vaccine for humans, using the Company’s knowledge, know-how and technology on in the Company’s infectious disease prevention vaccine. In parallel, the Company will proceed with fundamental research by selection of new development candidates from a part of in-house development pipelines that the Company has been developing on next-generation biopharmaceutical business so far and from new development candidate targets other than in-house development pipelines. During the First Phase, the Company will receive a certain amount of milestones on a semiannual

basis for two years from the date of the business alliance start date, based on the achievement status through predetermined schedule. The First Phase will step up to the Second Phase from the time both companies judge that certain results are obtained in development of core technologies. The both companies will start selecting development candidates based on results of fundamental research that has been conducting in parallel, and discussing an exclusive license agreement or other forms of collaboration agreement aiming at promotion of research, development, application and launch. When shifting to the Second Phase, the Company will continue research on development candidate products determined by both companies as targets of investigational drug manufacture, commercial production preparation, commercial production, and development. Shionogi will be assumed responsible for implementation of nonclinical and clinical trials, as well as response of the pharmaceutical affairs and sales.

In the capital and business alliance agreement, while the First Phase, the Company has decided concentrating on R&D activities under this business alliance at Yokohama laboratory, Akita laboratory and Akita plant. The Company will continue engaging in consignment manufacturing business on biopharmaceuticals to the extent that it does not interfere with the progress of business related this capital and business partnership with Shionogi.

Accordingly, in the fiscal year ending December 31, 2018, the Company has been aiming to secure steady net sales by achievement of conditions for milestone set for the First Phase. On the other hand, in terms of the contract manufacturing business of biopharmaceuticals, as mentioned above, the Company has a policy to expand mainly on consignment work related to future new development candidate targets centering on academia and so on, within the scope of no hindrance for partnership agreement with Shionogi. So based on judgment that it is necessary to conservatively estimate the scale of consignment, regarding the next sales plan, the Company has been recording only orders that are already confirmed.

The Company has decided that development codes of existing in-house development pipelines has changed from recombinant influenza HA vaccine (multivalent) to UMN-101 (previous development code: UMN-0502), from recombinant influenza HA vaccine (H5N1) and recombinant influenza HA vaccine (H9N2) to UMN-102 (previous development code: UMN-0501 and UMN-0901) , from recombinant rotavirus VP6 single vaccine to UMN-103 (previous development code: UMN-2001), and from recombinant norovirus VLP single vaccine to UMN-104 (previous development code: UMN-2002) , since the date of disclosure of this documents. In addition, UMN-001 will be set as the code of development of core technologies related on alliance with Shionogi, and UMN-002 will be set newly as new development candidate group. All of these development codes are to be attached for all fundamental research stage, and new development codes will be attached again when transferring of stages of development after nonclinical trial.

In terms of cost, the Company has conducted to reduce expenses in the fiscal year ended December 31, 2017. On the other hand, since the Company will actively invest R&D to ensure the realization of the result through the capital and business alliance with Shionogi, such as improvement of experimental environment at Yokohama laboratory and maintenance for restart of Akita plant, and recruitment for R&D and manufacturing representatives, R&D expenses and general and administrative expenses are expected to increase for the period after the fiscal year of 2018.

According to the business directions above, although the Company has been seeking to secure sales, from initiatively promoting R&D actively, the Company anticipate net sales of ¥102 million, operating loss of ¥803 million, ordinary loss of ¥809 million, and loss of ¥810 million, as for the outlook of the fiscal year ending December, 2018.

On the financial aspect, although net assets at the end of December, 2017, is ¥357 million, when considering business forecast value of FY2018, it is necessary to convert to a certain degree of the Company’s common stock every year, regarding the 1st unsecured convertible bond type with stock acquisition rights allocated to Shionogi, in order to avoid excessive debt at the end of the fiscal year ending December, 2018. The Company will aim for coping with steady conversion, since it is necessary situation in which the stock price of the Company’s common stock exceeds the original conversion price of ¥298 and the development in the First Phase has been progressing steadily. In addition, it is assumed that additional funding will be required for the implementation of the Second Phase, so the Company has a plan to discuss again with Shionogi about

necessary funds for R&D when shifted to the Second Phase.

The above forecast figures are based on the information currently acquired by the Company and certain assumption deemed to be reasonable, and the Company does not promise to realize it. Actual results may differ greatly due to various factors.

In next-generation biopharmaceutical in-house development business, there is a possibility that it may be different from the forecast due to the milestone achievement timing is delayed by the slow progress of R&D based on alliance with Shionogi. In contract manufacturing business such as biopharmaceuticals, although the Company has estimated sales plan based on already securement of contract, there is a possibility that it may be different from the forecast due to the delivery time. Furthermore, in terms of expenses, there is a possibility that it may be different from the forecast due to increase of R&D expenses more than anticipated in line with progress in R&D. The Company will disclose promptly if it is necessary to revise the forecast.

2. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheets

(Thousands of yen)

	As of December 31, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	566,098	1,734,272
Accounts receivable - trade	6,130	—
Work in process	—	1,526
Advance payments - trade	52,010	61,829
Prepaid expenses	14,187	9,163
Consumption taxes receivable	11,722	26,887
Other	6	3,265
Total current assets	650,154	1,836,944
Non-current assets		
Lease and guarantee deposits	43,917	43,967
Other	283	10,332
Total non-current assets	44,201	54,300
Total assets	694,355	1,891,244
Liabilities		
Current liabilities		
Current portion of long-term loans payable	25,000	—
Accounts payable - other	17,400	40,303
Accrued expenses	2,071	1,758
Income taxes payable	36,428	1,408
Advances received	37,342	—
Deposits received	3,084	3,295
Provision for loss on guarantees	1,121	—
Total current liabilities	122,448	46,766
Non-current liabilities		
Convertible bond-type bonds with subscription rights to shares	—	1,460,200
Asset retirement obligations	22,787	23,125
Other	340,332	3,714
Total non-current liabilities	363,119	1,487,040
Total liabilities	485,568	1,533,806
Net assets		
Shareholders' equity		
Capital stock	10,117,021	306,915
Capital surplus		
Legal capital surplus	9,786,021	306,915
Total capital surpluses	9,786,021	306,915
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(19,700,179)	(256,194)
Total retained earnings	(19,700,179)	(256,194)
Treasury shares	(197)	(197)
Total shareholders' equity	202,666	357,437
Subscription rights to shares	6,120	—
Total net assets	208,786	357,437
Total liabilities and net assets	694,355	1,891,244

(2) Non-consolidated Statements of Income

(Thousands of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Net sales	52,561	104,050
Cost of sales	51,484	3,003
Gross profit	1,076	101,046
Selling, general and administrative expenses	553,127	599,174
Operating loss (-)	(552,051)	(498,127)
Non-operating income		
Interest income	38	6
Foreign exchange gains	333	―
Subsidy income	―	336,618
Office work fee	9,493	6,603
Rent income on facilities	38,401	9,073
Interest on loans	47,523	―
Other	191	779
Total non-operating income	95,981	353,080
Non-operating expenses		
Interest expenses	594	15
Interest on bonds	―	396
Share issuance cost	24,248	4,534
Bond issuance cost	―	8,428
Total non-operating expenses	24,842	13,374
Ordinary loss (-)	(480,912)	(158,422)
Extraordinary losses		
Loss on liquidation of business	7,865,830	―
Total extraordinary losses	7,865,830	―
Loss before income taxes (-)	(8,346,743)	(158,422)
Income taxes - current	2,602	636
Income taxes - deferred	(4,926)	―
Total income taxes	(2,323)	636
Loss (-)	(8,344,420)	(159,059)

(3) Non-consolidated Statements of Change in Net Assets

FY2017 (from Jan. 1, 2017 to Dec. 31, 2017)

(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		
				Retained earnings brought forward			
Balance at beginning of current period	8,697,869	8,366,869	8,366,869	(11,355,759)	(11,355,759)	(197)	5,708,782
Changes of items during period							
Issuance of new shares - exercise of subscription rights to shares	1,419,152	1,419,152	1,419,152				2,838,305
Loss				(8,344,420)	(8,344,420)		(8,344,420)
Net changes of items other than shareholders' equity							
Total changes of items during period	1,419,152	1,419,152	1,419,152	(8,344,420)	(8,344,420)	—	(5,506,115)
Balance at end of current period	10,117,021	9,786,021	9,786,021	(19,700,179)	(19,700,179)	(197)	202,666

	Subscription rights to shares	Total net assets
Balance at beginning of current period	—	5,708,782
Changes of items during period		
Issuance of new shares - exercise of subscription rights to shares		2,838,305
Loss		(8,344,420)
Net changes of items other than shareholders' equity	6,120	6,120
Total changes of items during period	6,120	(5,499,995)
Balance at end of current period	6,120	208,786

(4) Non-consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended December 31, 2017
Cash flows from operating activities	
Loss before income taxes	(158,422)
Interest income	(6)
Interest expenses	15
Interest on bonds	396
Share issuance cost	4,534
Bond issuance cost	8,428
Subsidy income	(336,618)
Decrease (increase) in notes and accounts receivable - trade	6,130
Other, net	(82,854)
Subtotal	(558,396)
Interest income received	6
Interest expenses paid	(411)
Income taxes paid	(2,921)
Net cash provided by (used in) operating activities	(561,723)
Cash flows from investing activities	
Payments for guarantee deposits	(50)
Net cash provided by (used in) investing activities	(50)
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
Other, net	(5,040)
Net cash provided by (used in) financing activities	1,729,946
Net increase (decrease) in cash and cash equivalents	1,168,173
Cash and cash equivalents at beginning of period	566,098
Cash and cash equivalents at end of period	1,734,272