Non-consolidated Financial Results for the First Nine Months of Fiscal Year Ending Dec. 31, 2017
(Japanese GAAP)

October 31, 2017

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 filing securities report November 8, 2017 Scheduled date of Dividend payments —
Supplementary materials for financial results: None
Briefing session of financial results: None

(Rounded down to nearest million yen)

1. Financial Results for the First Nine Months of FY2017 (From January 1, 2017 to September 30, 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	%
First nine months of FY2017	4	—	(412)	—	(60)	—	(61)	—
First nine months of FY2016	—	—	—	—	—	—	—	—

	Net income per share - basic	Net income per share - diluted
	Yen	Yen
First nine months of FY2017	(5.04)	—
First nine months of FY2016	—	—

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

(2) Financial position

	Total assets	Net assets	Net assets as percentage of total assets
	Million yen	Million yen	%
As of September 30, 2017	324	276	85.0
As of December 31, 2016	694	208	29.2

(Reference) Shareholders' equity As of September 30, 2017 276 Million yen As of December 31, 2016 202 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
FY2016	—	0 00	—	0 00	0 00
FY2017	—	0 00	—		
FY2017(Forecast)				0 00	0 00

(Note) Revisions to the latest dividend forecast: None

3. Forecasts for the Fiscal Year Ending December. 31, 2017(from January 1, 2017 to December 31, 2017)

(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
FY2017	153	192.9	(512)	—	(167)	—	(170)	—	(13.96)

(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 September 30,2017	12,196,500	As of December 31,2016	12,046,500
2) Number of treasury shares	As of September 30,2017	50	As of December 31,2016	50
3) Average number of shares outstanding	For the first nine months of FY2017	12,193,702	For the first nine months of FY2016	9,994,945

* Disclosure concerning the implementation status of review procedures

This quarterly financial report is exempt from the quarterly review procedures as stipulated under the Financial Instruments and Exchange Act of Japan. At the date of disclosure, quarterly financial statement review procedures have not been completed under the Financial Instruments and Exchange Act of Japan.

** 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.

The Company changed to disclose non-consolidated financial results from the first quarter fiscal year ending December 31, 2017. Because, the Company, as a non-consolidated single entity after relinquishing UNIGEN, is transforming its business model including pushing through the overall restructuring.

Contents of Attached materials

1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

During the third quarters of the current fiscal year, an economic slow recovery has been seen in Japan, although personal 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 Japanese pharmaceutical industry and market, since the growth has slowed down due to policy of medical expense control, expansion toward world markets with global drag development is becoming more important.

During the first nine months of FY2017, ended September 30, 2017, 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 "Zika" 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 (hereinafter referred as "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 to PMDA should be turned down by Astellas. According to Astellas, the conclusion was drawn after the meeting held between Astellas and PMDA, where the regulator's point of view was presented from PMDA to Astellas that PMDA had no intension to continue the review process any further as little clinical significance was recognized for ASP7374, after considering the benefits and the risks of 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 consolidated extraordinary loss and non-consolidated extraordinary loss both. 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 has 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.

According to the result of the significant change in business environment, the Company has formulated new business policy as a single company, 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.

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.

In light of these circumstances, the Company has been reviewing License Agreement for development, manufacturing and marketing in Japan and East Asia with Protein Sciences Corporation (hereinafter referred to as "PSC"), who is the technology introducer of UMN-0502, UMN-0501 and UMN-0901, including consideration whether to continue the license agreement. Under the current situation, even if the Company develop and apply UMN - 0502, UMN - 0501 and UMN – 0901 for manufacturing and marketing again in Japan, there will be no possibility of obtaining authorization. The Company has judged that it is necessary to start full renewal development as new drugs. In addition, since the PSC's management situation has been significantly changed following the acquisition of PSC by French company, Sanofi (hereinafter referred to as "Sanofi") in August, 2017, in relation to Sanofi's business policy, the Company has determined that it is necessary to carefully review the license agreement with PSC in the future, and has begun to discuss with PSC. However, even if the Company terminates the license agreement with PSC in the future, there will be no impact on the results for the current fiscal year. In terms of “Next Generation Biopharmaceutical In-house Development Project”, the Company has been energetically conducting R&D activities focusing on UMN-2002, and UMN-2001 which has been newly established, and proceeding alliance activities as in-house existing pipelines as well. Regarding business expansion of UMN-0502 and UMN-0501 to East Asian region, especially to Korean market, although Ildong Pharmaceutical Co., Ltd. (hereinafter referred to as “Ildong”) was preparing clinical trial of UMN-0502, after the results of the review process by PMDA of Japan, Ildong has been reexamining development policy with the Company and PSC. 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. 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 Termination of Co-research Agreement with Daiichi Sankyo" has disclosed on October 31, 2017 today, the Company has decided to terminate the joint research agreement about UMN-2001 with Daiichi Sankyo on the same date. However, there is immaterial impact on business results of FY2017 for this matter.

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 has joined the multinational consortium including entities from five countries, such as the United States, Mexico, Brazil, Argentina and Japan. Currently, the consortium has been preparing for various exams with clinical trials in mind, discussing a draft agreement for formal agreement. However, as for the formal participation into the consortium, the Company has been examining, since it is necessary to judge carefully based on recent infection situation of Zika virus.

In addition to other existing pipelines, the Company has been promoting alliance activities to multiple companies as new candidates, focusing on not only to conduct entrusted tests along with achievements so far, but also to assume a feasibility of productivity. As a part of activities above, the Company has concluded a joint research agreement with National Institute of Biomedical Innovation, Health and Nutrition ("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 vaccines.

Furthermore, in addition to individual pipeline partnerships, the Company has been widely discussing possibility of alliance with multiple candidates which have business strategies to take full advantage of synergy with the Company's business and technologies.

In terms of contract manufacturing business such as biopharmaceuticals, the Company has been specializing in examination stages for CMC development and industrialization, and has 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, although new orders have been slightly behind schedule due to customers' situation in budget execution, the Company has received 4 consignments so far and has achieved all of 4 goals in current fiscal year, and in addition, has been receiving 1 consultation at the moment.

As for new projects, the Company has already submitted two quotations so far, although our goal is to obtain three projects in FY 2017. Regarding one of quotations, the Company has already submitted it including costs and schedule for a contract manufacturing for applied products of biotechnologies other than human medicine, and has been examining its feasibility from the study of the industrialization at Yokohama Lab to the production by 600L culture tank at Akita Plant. Another quotation is a project that is in progress of discussion for the feasibility of contract manufacturing of human drags other than vaccine candidate antigens by 600L culture tank at Akita Plant. The Company has been advancing consultations regarding multiple projects which involve biopharmaceutical candidates other than vaccine candidate antigens and applied biotechnologies other than human drugs. The Company will increase opportunities to acquire new orders and to organize the production system for multiple orders and to realize sales figures steadily. 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 three-party agreement was terminated dated March 31, 2017.

As mentioned above, as for contract manufacturing business such as biopharmaceuticals, regarding existing projects, the Company has sequentially received orders, and achieved 4 items as a goal for FY2017. On the other hand, most new projects are ongoing discussions. Furthermore, the Company has been activating towards acquiring orders.

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 yen, which was 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 has made resolutions at the ordinary general meeting of shareholders held on March 30 , 2017, the reduction of the amount of capital from ¥10,117 million as of December 31, 2016, to ¥150 million, and of legal capital surplus from ¥9,786 million as of December 31, 2016, to ¥150 million, transferring both to other capital surplus; and the reduction of the other capital surplus from ¥19,603 million as of December 31, 2016 to 0 yen, transferring to retained earnings in order to reduce carry forward deficit on May 2, 2017, as effective date. 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 was 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 September 30 , 2017 is ¥276 million yen. In order to avoid excessive debt and to stabilize the medium- and long-term management foundation to earn revenues, the Company has been rebuilding the existing in-house development pipeline as “Next Generation Biopharmaceutical In-house Development Project”, and pursuing researches and introductions of new seeds by partnership with pharmaceutical companies. In "Contract Manufacturing Business for Biopharmaceuticals", the Company specialize in "CMC development and industrialization study of biopharmaceuticals", and seek for secure profitability and expand business by industrialization consignment etc. such as contract manufacturing of biopharmaceutical drugs in the initial development stage, development of drug substance manufacturing process, commissioned work of standardization of analytical test concerning various quality control such as process standard test, and industry consultation business aimed at scale-up business, using Yokohama Lab, Akita Lab and Akita Plant owned by the Company, widely from domestic to overseas companies and research institutions.

As a result of the above, net sales for the first nine months of FY 2017 were ¥4,050 thousand. On the other hand, operating loss is ¥412,034 thousand due to account expenses related to research and development of each pipeline.

As mentioned above, ordinary loss were ¥60,994 thousand due to recording subsidy income of ¥336,618 thousand as research grant for rare diseases of UMN-0501, and net loss the quarter were ¥61,471 thousand.

Since the Company is a single segment of research and development of medical drugs and related businesses, the description of business results by segment is omitted.

*CMC：Chemistry, Manufacturing and Control

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

(2) Analysis of Financial Position

The financial position as of September 30, 2017 is as follows,

Total assets amounted to ¥324,950 thousand, which corresponds to a decrease of ¥369,404 thousand compared to the end of the previous fiscal year.

Current assets amounted to ¥279,657 thousand, which corresponds to a decrease of ¥370,496 thousand compared to the end of the previous fiscal year, mainly due to a decrease of ¥369,982 thousand in cash and cash deposits.

Noncurrent assets amounted to ¥45,293 thousand, which corresponds to an increase of ¥1,092 thousand compared to the end of the previous fiscal year.

Liabilities amounted to ¥48,725 thousand, which corresponds to a decrease of ¥436,842 thousand compared to the end of the previous fiscal year.

Net assets amounted to ¥276,225 thousand, which corresponds to an increase of ¥67,438 thousand

compared to the end of the previous fiscal year, mainly due to net loss of ¥ 61,471 thousand incurred during the period.

Cash and cash equivalents position

The balance of cash and cash equivalents stood at ¥196,115 thousand, which corresponds to a decrease of ¥369,982 thousand compared to the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash used in operating activities for the first nine months of FY2017 totaled ¥472,849 thousand, mainly due to loss before income taxes of ¥60,994 thousand.

(Cash flows from investment activities)

Net cash used in investment activities for the first nine months of FY2017 totaled ¥50 thousand, mainly due to ¥50 thousand, in payment for guarantee deposits.

(Cash flows from financing activities)

Net cash provided by financing activities for the first nine months of FY2017 totaled ¥102,916 thousand, mainly due to ¥25,000 in repayment of long-term loans payable, and ¥132,956 thousand in proceeds from issuance of common stock.

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

We have revised our financial results forecasts for the fiscal year ending December 31, 2017 on March 24, 2017 from those announced on February 14, 2017. Please refer to the release on March 24, 2017 for details.

2. Quarterly Non-consolidated Financial Statements

(1) Quarterly Non-consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (as of December 31, 2016)	Third quarter of FY2017 (as of September 30, 2017)
Assets		
Current assets		
Cash and deposits	566,098	196,115
Accounts receivable-trade	6,130	498
Work in process	—	286
Other	77,925	82,756
Total current assets	650,154	279,657
Noncurrent assets		
Investments and other assets	44,201	45,293
Total noncurrent assets	44,201	45,293
Total assets	694,355	324,950
Liabilities		
Current liabilities	122,448	21,970
Noncurrent liabilities		
Assets retirement obligations	22,787	23,041
Other	340,332	3,714
Total noncurrent liabilities	363,119	26,755
Total liabilities	485,568	48,725
Net assets		
Shareholders' equity		
Capital stock	10,117,021	217,515
Capital surplus	9,786,021	217,515
Retained earnings	(19,700,179)	(158,607)
Treasury stock	(197)	(197)
Total shareholders' equity	202,666	276,225
Subscription rights to shares	6,120	—
Total net assets	208,786	276,225
Total liabilities and net assets	694,355	324,950

(2) Quarterly Non-consolidated Statements of Income

Quarterly Non-consolidated Statements of Income

(Thousands of yen)

	Nine months ended September 30, 2017 (From January 1, 2017 to September 30, 2017)
Net sales	4,050
Cost of sales	3,003
Gross profit	1,046
Selling, general and administrative expenses	413,081
Operating loss (-)	(412,034)
Non-operating income	
Interest income	6
Subsidy income	336,618
Other	15,424
Total non-operating income	352,048
Non-operating expenses	
Interest expenses	15
Stock issuance cost	993
Total non-operating expense	1,008
Ordinary loss (-)	(60,994)
Loss before income taxes (-)	(60,994)
Income taxes-current	477
Total income taxes	477
Net loss (-)	(61,471)

(3) Quarterly Non-consolidated Statements of Cash Flows

(Thousands of yen)

	Nine months ended September 30, 2017 (From January 1, 2017 to September 30, 2017)
Net cash provided by (used in) operating activities	
Loss before income taxes	(60,994)
Interest income	(6)
Interest expenses	15
Stock issuance cost	993
Subsidy income	(336,618)
Decrease(increase) in notes and accounts receivable-trade	5,632
Other	(78,941)
Subtotal	(469,919)
Interest income received	6
Interest expenses paid	(15)
Income taxes paid	(2,921)
Net cash provided by (used in) operating activities	(472,849)
Net cash provided by (used in) investment activities	
Payments for guarantee deposits	(50)
Net cash provided by (used in) investment activities	(50)
Net cash provided by (used in) financing activities	
Repayment of long-term loans payable	(25,000)
Proceeds from issuance of common stock	132,956
Other	(5,040)
Net cash provided by (used in) financing activities	102,916
Net increase(decrease) in cash and cash equivalents	(369,982)
Cash and cash equivalents at beginning of the period	566,098
Cash and cash equivalents at end of the period	196,115