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

July 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 August 10, 2017 Scheduled date of Dividend payments —
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 FY2017 (From January 1, 2017 to June 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 six months of FY2017	2	—	(315)	—	34	—	34	—
First six months of FY2016	—	—	—	—	—	—	—	—

	Net income per share - basic	Net income per share - diluted
	Yen	Yen
First six months of FY2017	2.79	—
First six 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 six 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 June 30, 2017	465	371	79.9
As of December 31, 2016	694	208	29.2

(Reference) Shareholders' equity As of June 30, 2017 371 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 June 30,2017	12,196,500	As of December 31,2016	12,046,500
2) Number of treasury shares	As of June 30,2017	50	As of December 31,2016	50
3) Average number of shares outstanding	For the first six months of FY2017	12,192,306	For the first six months of FY2016	9,614,252

* 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 six months ended June 30, 2017, UMN Pharma Inc. (“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. (“Astellas”), after submission of an application for marketing approval of recombinant influenza HA vaccine ASP7374 by Astellas for the prevention of seasonal influenza 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 during the period.

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 has 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 from PMDA and thus the application 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 after considering the benefits and the risks of ASP7374, PMDA had no intension to continue the review process any further as little clinical significance was recognized for ASP7374. As of today, Astellas has already commenced the procedure to withdraw the application for marketing approval of ASP7374 with PMDA and the Company and Astellas have 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 for provision for loss on liquidation of business. Thus making significant downward revision of both consolidated and non-consolidated financial results forecasts for the fiscal year ending December 31, 2016, and under such an abrupt change in the business circumstances, the Company has reached the conclusion that it is impossible for the Company to financially support UNIGEN and to go further as a group anymore. As a result, the Company, with IHI Corporation (“IHI”) as the business partner or 50% shareholder of UNIGEN concurrently acting as disclosed on January 31, 2017, decided to transfer all the shares of UNIGEN owned by the Company and IHI to API Co., Ltd. (“API”), which wishes to become a sponsor of UNIGEN.

Upon the execution of this share transfer, the Company has been transforming its business model along with the fundamental change in the business circumstances, including pushing through the overall restructuring. The “Basic Agreement on Business Collaboration”, where the Company and IHI concluded to jointly operate the influenza vaccine drug substance manufacturing business reached on January 25, 2010, has been terminated.

Following the reorganization of the Group structure as a result of the significant change in the business environment of the Company, the Company has formulated new business policies, as a single 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. Please see “Supplementary Documents of Business Results for Fiscal Year 2016 Ended Dec. 31, 2016”.

In terms of UMN-0501, Astellas filed an application 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 received as research subsidies targeting UMN-0501 before, to non-operating income as subsidy income from long-term deposits in the first quarter of the current fiscal year.

In terms of “Next Generation Biopharmaceutical In-house Development Project”, the Company energetically conducted R&D activities between UMN-2002 and UMN-2001 newly established and alliance activities as in-house existing pipelines as well. As for South Korean market, although Ildong has prepared upcoming clinical trial of UMN-0502, after the results of the review process by PMDA in Japan, Ildong has been reexamining their development policies with the Company and PSC.

Regarding the development of establishing a new pipeline of UMN-2001, the Company has been conducting immunogenicity tests using model mice, and is getting the findings of increase of target immunogenic chemicals. In addition, the Company has been going ahead to make alliances as early as possible globally and domestically. As for UMN-2002, under the joint research agreement with Daiichi Sankyo Company, Limited (“Daiichi Sankyo”) in February 2014, the Company made further optimization of the manufacturing process, while Daiichi Sankyo continuously conducted basic research using the VLP antigen produced on the refined process and provided by the Company. Currently, however, the project has been run considerably behind schedule.

In order to make sure long-term sustainable growth, the Company is seeking for new vaccine candidates by further leveraging BEVS platform, and on June 28, 2016, the Company signed a partnership agreement with Protein Sciences Corporation (‘PSC’), in which secures a right to participate in ‘International Zika Vaccine Consortium’ that PSC has taken an initiative. Currently, preclinical studies using its lead protein based Zika vaccine candidate, created using PSC’s proprietary BEVS technology, have been conducted by PSC, which were sponsored by National Institute of Allergy and Infectious Disease, National Institutes of Health through its pre-clinical support program. In addition, in January 2017, the Institute of Technology in Immunobiologicals of the Oswaldo Cruz Foundation (Bio-Manguinhos/ Fiocruz) of Brazil has joined the multinational consortium, thus making the consortium composed of entities from five countries, the United States, Mexico, Brazil, Argentina and Japan. Currently, the Company have been preparing for various exams with clinical trials in mind, discussing a draft agreement with the consortium for formal agreement.

In addition to other existing pipelines, the Company has been performing percussions of joint developments to companies, in terms of new R&D candidates that aimed not only for conducting entrusted tests along with achievements so far, but also for assuming 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, aimed to combine new **adjuvant seeds possessed by NIBIOHN with our manufacturing technologies, and to create state-of-the-art biopharmaceuticals such as new vaccines.

Furthermore, apart from individual pipeline partnerships, the Company has been widely discussing possibilities of alliances with multiple candidates who have business strategies to take full advantage of the synergies with our business and technologies.

As mentioned above, as for “Next Generation Biopharmaceutical In-house Development Project”, all of the joint activities are in progress and do not give any impacts to the financial results of this quarter.

In terms of “Contract Manufacturing Business for Biopharmaceuticals”, the Company specializes in "CMC development and industrialization study of biopharmaceuticals", and has been trying to expand it, using our Yokohama Lab, Akita Lab and Akita Plant.

As for contracted manufacturing for novel vaccine candidate antigens from multiple domestic institutions where have been continuously ordering us, their orders are a little behind schedule due to delays in budget execution. However, the Company have already received one orders so far against four goals in FY2017, and submitted two quotations. In addition, there are another multiple projects that have been requested for quotations.

As for new projects, the Company has already submitted two quotations so far, although our goals are three projects in FY 2017. Regarding one of the quotations involving costs and schedule, the Company has received the request for a contract manufacturing for applied products of biotechnologies, from the study of the industrialization at Yokohama Lab to the production with 600L culture tank at Akita Plant and has been examining the realization. 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 is now 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 organize the production system for multiple orders and steadily realize sales figures.

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 ("Yakult Honsha") and API, the Company, Yakult Honsha and API have agreed to terminate the contract dated March 31, 2017.

As mentioned above, as for "Contract Manufacturing Business for Biopharmaceuticals", while currently accepting multiple orders, the Company is currently discussing multiple projects that have been submitted for estimation and responding to estimate requests from domestic research institutions in Japan. The Company is expecting to catch up with initial forecasts annually by winning orders steadily.

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 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 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 securitiessince, 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 stand-alone 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 June 30 , 2017 is ¥371 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 six months of FY 2017 were ¥2,943 thousand. On the other hand, operating loss is ¥315,140 thousand due to account expenses related to research and development of each pipeline.

As mentioned above, ordinary income were ¥34,350 thousand due to recording subsidy income of ¥336,618 thousand as research grant for rare diseases of UMN-0501, and net income the quarter were 34,032 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 June 30, 2017 is as follows,

Total assets amounted to ¥465,452 thousand, which corresponds to a decrease of ¥228,902 thousand compared to the end of the previous fiscal year.

Current assets amounted to ¥419,924 thousand, which corresponds to a decrease of ¥230,229 thousand compared to the end of the previous fiscal year, mainly due to a decrease of ¥227,241 thousand in cash and cash deposits.

Noncurrent assets amounted to ¥45,527 thousand, which corresponds to an increase of ¥1,326 thousand compared to the end of the previous fiscal year.

Liabilities amounted to ¥93,723 thousand, which corresponds to a decrease of ¥391,845 thousand compared to the end of the previous fiscal year.

Net assets amounted to ¥371,729 thousand, which corresponds to an increase of ¥162,942 thousand compared to the end of the previous fiscal year, mainly due to net income of ¥ 34,032 thousand incurred during the period.

Cash and cash equivalents position

The balance of cash and cash equivalents stood at ¥338,857 thousand, which corresponds to a decrease of ¥227,241 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 FY2017 totaled ¥330,107 thousand, mainly due to income before income taxes of ¥34,350 thousand.

(Cash flows from investment activities)

Net cash used in investment activities for the first six 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 six 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)	Second quarter of FY2017 (as of June 30, 2017)
Assets		
Current assets		
Cash and deposits	566,098	338,857
Accounts receivable-trade	6,130	—
Work in process	—	1,915
Other	77,925	79,151
Total current assets	650,154	419,924
Noncurrent assets		
Investments and other assets	44,201	45,527
Total noncurrent assets	44,201	45,527
Total assets	694,355	465,452
Liabilities		
Current liabilities	122,448	67,052
Noncurrent liabilities		
Assets retirement obligations	22,787	22,956
Other	340,332	3,714
Total noncurrent liabilities	363,119	26,670
Total liabilities	485,568	93,723
Net assets		
Shareholders' equity		
Capital stock	10,117,021	217,515
Capital surplus	9,786,021	217,515
Retained earnings	(19,700,179)	(63,103)
Treasury stock	(197)	(197)
Total shareholders' equity	202,666	371,729
Subscription rights to shares	6,120	—
Total net assets	208,786	371,729
Total liabilities and net assets	694,355	465,452

(2) Quarterly Non-consolidated Statements of Income

Quarterly Non-consolidated Statements of Income

(Thousands of yen)

	Six months ended June 30, 2017 (From January 1, 2017 to June 30, 2017)
Net sales	2,943
Cost of sales	1,896
Gross profit	1,046
Selling, general and administrative expenses	316,187
Operating loss (-)	(315,140)
Non-operating income	
Interest income	4
Subsidy income	336,618
Other	13,877
Total non-operating income	350,500
Non-operating expenses	
Interest expenses	15
Stock issuance cost	993
Total non-operating expense	1,008
Ordinary income	34,350
Income before income taxes	34,350
Income taxes-current	318
Total income taxes	318
Net income	34,032

(3) Quarterly Non-consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended June 30, 2017 (From January 1, 2017 to June 30, 2017)
Net cash provided by (used in) operating activities	
Income before income taxes	34,350
Interest income	(4)
Interest expenses	15
Stock issuance cost	993
Subsidy income	(336,618)
Decrease(increase) in notes and accounts receivable-trade	6,130
Other	(32,360)
Subtotal	(327,493)
Interest income received	4
Interest expenses paid	(15)
Income taxes paid	(2,602)
Net cash provided by (used in) operating activities	(330,107)
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	(227,241)
Cash and cash equivalents at beginning of the period	566,098
Cash and cash equivalents at end of the period	338,857