

# Consolidated Financial Results for the First Six Months of Fiscal Year Ending Dec. 31, 2015 (Japanese GAAP)

July 31, 2015

Company name	UMN Pharma Inc.	Stock listings	Mothers of TSE
Securities code	4585	URL	<a href="http://www.umnpharma.com/en/">http://www.umnpharma.com/en/</a>
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Scheduled date of filing securities report	August 12, 2015	Scheduled date of Dividend payments	—
Supplementary materials for financial results:	Yes		
Briefing session of financial results:	August 3, 2015		

(Rounded down to nearest million yen)

## 1. Consolidated Financial Results for the first six months of FY2015 (From Jan. 1, 2015 to June 30, 2015)

(1) Consolidated 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 FY2015	45	(95.8)	(2,157)	—	(2,186)	—	(2,183)	—
First six months of FY2014	1,078	—	(1,796)	—	(1,967)	—	(1,677)	—

(Note) Comprehensive income First six months of FY2015 (2,183) Million yen ( —%) First six months of FY2014 (1,722) Million yen ( —%)

	Net income per share – basic	Net income per share - Diluted
	Yen	Yen
First six months of FY2015	(228.17)	—
First six months of FY2014	(198.63)	—

## (2) Consolidated financial position

	Total assets	Net assets	Net assets as percentage of total assets
	Million yen	Million yen	%
As of June 30, 2015	11,981	1,535	12.8
As of Dec. 31, 2014	12,882	3,705	28.8

(Note) Shareholders' equity As of June 30, 2015 1,535 Million yen As of Dec. 31, 2014 3,705 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
FY2014	—	0 00	—	0 00	0 00
FY2015	—	0.00			
FY2015(Forecast)			—	0 00	0 00

(Note) Revisions to the latest dividend forecast: None

## 3. Forecasts for the Fiscal Year Ending Dec. 31, 2015(from Jan. 1, 2015 to Dec. 31, 2015)

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

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2015	2,254	103.4	(1,697)	—	(1,844)	—	(1,852)	—	(193.54)

(Note) Revisions to the latest financial forecast: None

\*(Notes)

(1) Changes in the number of significant subsidiaries in the period(changes in specified subsidiaries : None affecting the scope of consolidation)

(2) Application of special accounting treatment in preparation of consolidated quarterly financial statements : None

(3) 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

(4) Number of common shares issued

1) Number of shares issued  
(including treasury shares)

2) Number of treasury shares

3) Average number of shares  
outstanding

As of June 30, 2015	9,574,000	As of Dec. 31, 2014	9,556,500
As of June 30, 2015	50	As of Dec. 31, 2014	50
For the first six months of FY2015	9,569,027	For the first six months of FY2014	8,444,643

\* 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 of material litigation.

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## 1. Analysis of Operating Results and Financial Position

### (1) Analysis of Operating Results

During the three months ended June 30, 2015, the operational resources of UMN Pharma Inc. (“The Company”) were strategically allocated to R&D activities of 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; 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 UMN-2002 for the prevention for norovirus (recombinant norovirus VLP single vaccine, hereinafter referred to as “UMN-2002”). As for the above pipeline, the Company carried out development of UMN-0502 and UMN-0901 for Japan in collaboration with Astellas Pharma Inc. (“Astellas”), and of UMN-0502, UMN-0501 and UMN-0901 for South Korea in collaboration with Ildong Pharmaceutical Co., Ltd.

As for UMN-0502, 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, Labour and Welfare in May, 2014, the Company, in collaboration with Astellas, continued to respond to the related inquiries from Pharmaceutical and Medical Agency (“PMDA”) for the approval. Concurrently, the Company has been preparing for the start of commercial production at Gifu plant.

The results of Phase III Clinical Trials of UMN-0502 that Astellas and the Company conducted under co-operation have been made public in details for the first time at Symposium of Japanese Society of Chemotherapy held on June 5, 2015, presented by Dr. Hideaki Nagai, Center of Respiratory, National Hospital Organization Tokyo National Hospital.

Furthermore, on June 25, 2015 (the US local time), Protein Sciences Corporation (hereinafter referred to as “PSC”), from which the Company is granted a license, released topline data showing that Flublok Quadrivalent – the quadrivalent version of FDA-approved trivalent Flublok® Influenza Vaccine (the world’s first protein-based recombinant influenza HA vaccine for the prevention of seasonal influenza, which was approved by FDA in January 2013, hereinafter referred to as “Flublok”) – outperformed a traditional influenza vaccine last season and was better at preventing the Influenza-like illness. PSC presented the results of a clinical trial comparing Flublok Quadrivalent to a traditional egg-based quadrivalent inactivated vaccine. The data demonstrate superior performance of Flublok based on a significantly lower number of people contracting the flu after vaccination with Flublok Quadrivalent.

As for UMN-2002, under the joint research agreement with Daiichi Sankyo Company, Limited (“Daiichi Sankyo”) in February 2014, the Company continued to carry out the research to verify the possibility of UMN-2002 development using Daiichi Sankyo’s device for new administration.

Regarding biopharmaceutical contract manufacturing business, the Company completed the orders from the Infectious Disease Surveillance Center, under which the Company manufactured prospective antigens for new vaccine and delivered them to the agency. The number of orders for the business is increasing steadily.

In addition, in December 2014, the Company entered into an agreement with PSC and IHI Corporation to assess the feasibility of sourcing the active ingredients of Flublok from Gifu plant. Flublok is currently manufactured by PSC and marketed in the United States. As a first step, the Company is currently reviewing the gap of the process of manufacturing Flublok active ingredients between Japan and US.

As a result, consolidated net sales for the first six months of FY2015 totaled ¥45,367 thousand (compared to net sales of ¥1,078,888 thousand in the same period of the previous fiscal year). Reflecting that the Company decided not to start commercial production at Gifu Plant from 2015-16 season, as obtaining approval of UMN-0502 is expected to take more time than initially assumed, fixed costs previously recorded as work in process on the balance sheet was charged as R&D expenses during the second quarter of FY2015. Accordingly, operating loss increased, more than previously projected, to ¥2,157,270 thousand (compared to operating loss of ¥1,796,953 thousand in the same period of the previous fiscal year), with ordinary loss of ¥2,186,674 thousand (compared to ordinary loss of ¥1,967,850 thousand in the same period of the previous year) and net loss of ¥2,183,313 thousand (compared to net loss of ¥1,677,314 thousand in the same period of the same fiscal year).

## (2) Analysis of Financial Position

The consolidated financial position as of June 30, 2015 is as follows,

Total assets amounted to ¥11,981,769 thousand, which corresponds to a decrease of ¥900,281 thousand compared to the end of the previous fiscal year.

Current assets amounted to ¥3,034,718 thousand, which corresponds to a decrease of ¥162,325 thousand compared to the end of the previous fiscal year, mainly due to a decrease of ¥903,272 thousand in cash and cash equivalents, a decrease of ¥324,074 thousand in work in process and an increase of ¥1,144,812 thousand in raw materials and supplies.

Noncurrent assets amounted to ¥8,947,050 thousand, which corresponds to a decrease of ¥737,955 thousand compared to the end of the previous fiscal year, mainly due to a decrease of ¥709,858 thousand in property, plant and equipment.

Liabilities amounted to ¥10,446,273 thousand, which corresponds to an increase of ¥1,269,631 thousand compared to the end of the previous fiscal year, mainly due to an increase of ¥900,000 thousand in short-term loans payable included in current liabilities.

Net assets amounted to ¥1,535,495 thousand, which corresponds to a decrease of ¥2,169,913 thousand compared to the end of the previous fiscal year, mainly due to net loss of ¥2,183,313 thousand incurred during the period.

### Cash and cash equivalents position

The balance of cash and cash equivalents stood at ¥1,176,948 thousand, which corresponds to a decrease of ¥903,272 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 FY2015 totaled ¥1,700,323 thousand, mainly due to loss before income taxes of ¥2,186,674 thousand, depreciation of ¥762,709 thousand, increase in inventories of ¥820,738 thousand and increase in notes and accounts payable-trade of ¥891,310 thousand.

#### (Cash flows from investment activities)

Net cash used in investment activities for the first six months of FY2015 totaled ¥22,821 thousand, mainly due to ¥14,668 thousand used in purchase of property, plant and equipment and ¥7,993 thousand used in payments for lease deposits.

#### (Cash flows from financing activities)

Net cash provided by financing activities for the first six months of FY2015 totaled ¥819,872 thousand, mainly due to ¥900,000 thousand in increase in short-term loans payable, ¥43,750 thousand in repayment of long-term loans payable and ¥49,705 thousand in repayments of lease obligations.

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

On June 5, 2015, based on recent business performance, the full year sales and income (loss) forecasts for the fiscal year ending Dec. 31, 2015 were revised downward from our previous full year sales and income (loss) forecasts announced on Feb. 13, 2015 as described in the table below.

Revision of Consolidated Financial Forecasts for the Fiscal Year Ending Dec. 31, 2015 (From Jan. 1, 2015 to Dec. 31, 2015)

	Net sales	Operating Income	Ordinary Income	Net Income	Net Income per Share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previously Announced Forecasts (A)	5,224	(878)	(1,025)	(1,033)	(108 14)
Revised Forecasts (B)	2,254	(1,697)	(1,844)	(1,852)	(193 54)
Change (B-A)	(2,969)	(818)	(818)	(818)	—
Rate of Change (%)	(56.8)%	—	—	—	—
(Ref.) Results for the fiscal year ended Dec. 31, 2014	1,108	(3,942)	(4,249)	(3,961)	(452 34)

## 2. Quarterly Consolidated Financial Statements

### (1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (as of Dec. 31, 2014)	Second quarter of FY2015 (as of June 30, 2015)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	2,080,221	1,176,948
Accounts receivable-trade	14,502	16,653
Work in process	338,602	14,527
Raw materials and supplies	348,261	1,493,073
Advance payments-trade	88,712	68,783
Other	326,745	264,731
Total current assets	3,197,044	3,034,718
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	5,120,982	4,897,334
Machinery and equipment, net	3,410,677	2,983,114
Tools, furniture and fixtures, net	104,783	89,696
Lease assets, net	533,355	479,794
Construction in progress	1,050	11,050
Total property, plant and equipment	9,170,849	8,460,991
Intangible assets	245,703	210,121
Investments and other assets	268,453	275,938
Total noncurrent assets	9,685,006	8,947,050
Total assets	12,882,050	11,981,769
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	—	891,310
Short-term loans payable	600,000	1,500,000
Current portion of long-term loans payable	336,000	858,000
Accounts payable-other	607,462	112,410
Income taxes payable	30,567	23,874
Other	224,680	316,171
Total current liabilities	1,798,710	3,701,767
Noncurrent liabilities		
Long-term loans payable	6,329,000	5,763,250
Long-term deposits received	340,332	340,332
Assets retirement obligations	171,248	165,834
Other	537,350	475,089
Total noncurrent liabilities	7,377,931	6,744,506
Total liabilities	9,176,642	10,446,273
<b>Net assets</b>		
Shareholders' equity		
Capital stock	8,688,544	8,695,244
Capital surplus	8,357,544	8,364,244
Retained earnings	(13,340,482)	(15,523,795)
Treasury stock	(197)	(197)
Total shareholders' equity	3,705,408	1,535,495

	(Thousands of yen)	
	Previous fiscal year (as of Dec. 31, 2014)	Second quarter of FY2015 (as of June 30, 2015)
Total net assets	3,705,408	1,535,495
Total liabilities and net assets	12,882,050	11,981,769

## (2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income for the First half year ended June 30, 2015

	(Thousands of yen)	
	Six months ended June 30, 2014 (From Jan. 1, 2014 to June 30, 2014)	Six months ended June 30, 2015 (From Jan. 1, 2015 to June 30, 2015)
Net sales	1,078,888	45,367
Cost of sales	166,913	20,259
Gross profit	911,975	25,108
Selling, general and administrative expenses	2,708,928	2,182,378
Operating loss (-)	(1,796,953)	(2,157,270)
Non-operating income		
Interest income	291	217
Foreign exchange gains	—	1,790
Subsidy income	—	76,263
Other	304	3,831
Total non-operating income	595	82,103
Non-operation expenses		
Interest expenses	95,997	72,513
Stock issuance cost	94	72
Foreign exchange losses	1,215	—
Commission fee	74,185	38,922
Total non-operation expense	171,493	111,507
Ordinary loss (-)	(1,967,850)	(2,186,674)
Extraordinary income		
Subsidy income	2,213,799	—
Total extraordinary income	2,213,799	—
Extraordinary loss		
Loss on reduction of noncurrent assets	1,966,398	—
Total extraordinary loss	1,966,398	—
Loss before income taxes and minority interests (-)	(1,720,450)	(2,186,674)
Income taxes-current	3,197	3,235
Income taxes-deferred	(1,370)	(6,596)
Total income taxes	1,826	(3,361)
Loss before minority interests (-)	(1,722,276)	(2,183,313)
Loss attributable to minority interests (-)	(44,962)	—
Net loss (-)	(1,677,314)	(2,183,313)



Quarterly Consolidated Statements of Comprehensive Income for the First half year ended June 30, 2015

	(Thousands of yen)	
	Six months ended June 30, 2014 (From Jan. 1, 2014 to June 30, 2014)	Six months ended June 30, 2015 (From Jan. 1, 2015 to June 30, 2015)
Loss before minority interest (-)	(1,722,276)	(2,183,313)
Comprehensive income (losses)	(1,722,276)	(2,183,313)
(Breakdown)		
Comprehensive income(losses) attributable to owners of the company	(1,677,314)	(2,183,313)
Comprehensive income(losses) attributable to minority interests	(44,962)	—

### (3) Quarterly Consolidated Statements of Cash Flows

	(Thousands of yen)	
	Six months ended June 30, 2014 (From Jan. 1, 2014 to June 30, 2014)	Six months ended June 30, 2015 (From Jan. 1, 2015 to June 30, 2015)
Net cash provided by (used in) operating activities		
Loss before income taxes and minority interests (-)	(1,720,450)	(2,186,674)
Depreciation	935,876	762,709
Interest income	(291)	(217)
Interest expenses	95,997	72,513
Commission fee	74,185	38,922
Stock issuance cost	94	72
Loss on reduction of noncurrent assets	1,966,398	—
Subsidy income	(2,213,799)	(76,263)
Decrease(increase) in notes and accounts receivable-trade	—	(2,151)
Decrease(increase) in inventories	(315,109)	(820,738)
Increase(decrease) in notes and accounts payable-trade	—	891,310
Increase(decrease) in deposits received	(3,019)	(13,868)
Other	1,399,171	(337,814)
Subtotal	219,055	(1,672,201)
Interest income received	364	217
Interest expenses paid	(95,320)	(71,583)
Proceeds from subsidy	2,216,799	76,263
Income taxes paid	(6,068)	(6,379)
Other	(54,267)	(26,641)
Net cash provided by (used in) operating activities	2,280,564	(1,700,323)
Net cash provided by (used in) investment activities		
Purchase of property, plant and equipment	(2,228)	(14,668)
Purchase of intangible assets	(3,096)	(216)
Payments for lease deposits	—	(7,993)
Collection of lease deposits	336	57
Net cash provided by (used in) investment activities	(4,988)	(22,821)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	1,870,000	900,000
Decrease in short-term loans payable	(1,884,300)	—
Repayment of long-term loans payable	(4,888,750)	(43,750)
Repayments of lease obligations	(46,404)	(49,705)
Proceeds from issuance of common stock	18,455	13,328
Net cash provided by (used in) financing activities	(4,930,999)	819,872
Net increase(decrease) in cash and cash equivalents	(2,655,423)	(903,272)
Cash and cash equivalents at beginning of the period	4,267,657	2,080,221
Cash and cash equivalents at end of the period	1,612,234	1,176,948