Consolidated Financial Results for the Fiscal Year Ended 31 December 2016(Japanese GAAP)

February 14, 2017

Company name	UMN Pharma Inc.	Stock Listings	Mothers of the TSE
Securities code	4585	URL	http://www.umnpharma.com/en/
Representative	Tatsuyoshi Hirano	Chairman and CEO	
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Scheduled date of ordinary general shareholders' meeting	March 30, 2017	Scheduled date of Dividend payments	—
Scheduled date of filing securities report	March 31, 2017		

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. Consolidated Financial Results for Fiscal Year Ended Dec. 31, 2016（From Jan. 1, 2016 to Dec. 31, 2016）

(1) Consolidated operating results (Percentage indicate changes from the previous term)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2016	71	(64.8)	(3,564)	—	(3,857)	—	(14,142)	—
FY2015	202	(81.7)	(3,207)	—	(3,390)	—	(3,390)	—

(Note) Comprehensive income FY2016 (14,392) Million yen (—%) FY2015 (3,390) Million yen (—%)

	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	%	%	%
FY2016	(1,363 32)	—	—	(57.9)	(4,998.6)
FY2015	(354 16)	—	(167.9)	(27.5)	(1,582.8)

(Note) Equity in net income of affiliates FY2016 — Million yen FY2015 —Million yen

(2) Consolidated 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.31,2016	1,510	(10,964)	(726.1)	(910 67)
As of Dec.31,2015	11,808	333	2.8	34 84

(Note) Shareholders' equity As of Dec.31,2016 (10,970) Million yen As of Dec.31,2015 333 Million yen

(3) Consolidated 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
FY2016	(2,265)	(1,842)	4,243	978
FY2015	(3,393)	(398)	2,554	842

2. Dividends

	Annual dividends per share					Total dividends	Payout ratio(consolidated)	Dividends as percentage of net assets(consolidated)
	End of Q1	End of Q2	End of Q3	Year end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2015	—	0 00	—	0 00	0 00	—	—	—
FY2016	—	0 00	—	0 00	0 00	—	—	—
FY2017(forecast)	—	0 00	—	0 00	0 00		—	

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

Financial Results for the Fiscal Year Ending 31 December 2017 will be reported only on non-consolidated base. So as for the financial forecasts, please refer to (Reference) Summary of Non-consolidated Financial Results 2. Financial Forecasts for the Fiscal Year Ending December 31, 2017 (from January 1, 2017 to December 31, 2017).

* Notes

(1) Changes in the number of significant subsidiaries during the fiscal year(changes of specified subsidiaries affecting the scope of consolidation) : No

(2) Changes in accounting policies, changes in accounting estimates, and restatements

1) Changes due to revised accounting standards	:	Yes
2) Changes due to revised accounting policies except 1)	:	No
3) Changes in accounting estimates	:	No
4) Restatements	:	No

(3) Number of common shares issued

1) number of shares issued (including treasury shares)	As of Dec.31, 2016	12,046,500	As of Dec.31,2015	9,581,500
2) Number of treasury shares	As of Dec.31, 2016	50	As of Dec.31,2015	50
3) Average number of shares outstanding	FY2016	10,373,614	FY2015	9,572,808

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for Fiscal Year Ended Dec. 31, 2016(from Jan. 1, 2016 to Dec.31, 2016)

(1) Non-consolidated operating results (Percent indications show percent changes from corresponding figures for the Previous period)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2016	52	(72.4)	(552)	—	(480)	—	(8,348)	—
FY2015	190	(82.8)	(709)	—	(614)	—	(617)	—

	Net income per share – basic	Net income per share – diluted
	Yen	Yen
FY2016	(804 79)	—
FY2015	(64 48)	—

(2) Non-consolidated 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.31,2016	694	204	28.6	16 48
As of Dec.31,2015	6,274	5,708	91.0	595 82

(Note) Shareholders' equity As of Dec.31,2016 198 Million yen As of Dec.31,2015 5,708 Million yen

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

(Percentages show year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending December 31,2017	153	192.9	(512)	—	(504)	—	(506)	—	(41 57)

(Note) Revisions to the latest performance forecasts: None

* Disclosure concerning the implementation status of audit procedures

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

1. 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. As for the earnings forecasts for the fiscal year ending Dec.31,2017, please refer to 1. Analysis of Operating Results and Financial Position (1) Analysis of operating results (Earning forecasts for the fiscal year ending Dec. 31, 2017).
2. The Company currently plans to hold a conference for investors and analysts on February 22, 2017. The Presentation materials of the conference will be made available on the company's web pages as soon as possible after the conference.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

(Current term operating results)

During this consolidated fiscal year, the operational resources of UMN Pharma Inc. ("The Company") were continuously 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-2002 (recombinant norovirus VLP single vaccine, hereinafter referred to as "UMN-2002") for the prevention for norovirus 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). The Company had been carrying out development for UMN-0502 and UMN-0501 for Japan in collaboration with Astellas Pharma Inc. ("Astellas"), and has been doing for UMN-0502, UMN-0501 and UMN-0901 for South Korea in collaboration with Ildong Pharmaceutical Co., Ltd ("Ildong").

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 concerned authorities have been continuously reviewing the application for the approval based upon the guidelines such as ICH（International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use）, and the Company, in collaboration with Astellas, has continuously been responding 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. According to Astellas, the conclusion was drawn after the meeting recently 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 has no intension to continue the review process any further as few clinical significance has been 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 are now taking the procedure for the termination of the agreement.

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.

Regarding UMN-2003, taking UMN-2002 project with Daiichi Sankyo in progress into consideration, the Company has decided to concentrate its resources more on UMN-2002, rather than UMN-2003 (recombinant norovirus VLP + recombinant rotavirus VP6 combination vaccine), and has transformed, on September 19, 2016, the license agreement with Dr. Timo Vesikari and Dr. Vesna Blazevic of University of Tampere Vaccine Research Center, Finland, dated January 23, 2012, for the exclusive license for Rotavirus and Norovirus combination vaccine, into the non-exclusive license for Norovirus single vaccine.

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 it 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.

Regarding biopharmaceutical contract manufacturing business, the Company completed a part of the ongoing contracts and additionally received order to produce candidate antigen for a novel vaccine.

Under the 'Basic Agreement for supply of Flublok® Drug Substance from UNIGEN Inc. ('UNIGEN', consolidated subsidiary of the Company) ' with PSC on February 12, 2016, UNIGEN has been driving the project forward as a main counterparty and an outsourcee. On April 7, 2016 (the US local time), Type C meeting (a preparatory Q&A meeting between Food and Drug Administration ("FDA") and an applicant before submitting application) between PSC and FDA was held, where the necessary steps to obtain the licensure from FDA for UNIGEN Gifu plant ("Gifu plant") as a manufacturing facility of Flublok® drug substance ("DS") were discussed and confirmed. UNIGEN has now become more confident that the process for the licensure could be moved forward as planned and prepared in close collaboration with PSC. On July 15, 2016, UNIGEN started trial manufacturing of Flublok® DS in full scale (21,000L) at Gifu plant in order for PSC to collect data for its sBLA (Supplemental Biologics License Application) submission to FDA. The trial manufacturing was already completed in early October 2016 and at the trial manufacturing, UNIGEN has achieved much higher yield than those in the previous cases of Performance Qualification (PQ) and Process Validation (PV) in producing the proteins, which have been attained by means of using novel strains which PSC had already used in its manufacturing and succeeded in realizing very high yields. That could lead to higher efficiency in the future commercial production at Gifu plant. The Flublok® DS manufactured have already been sent to PSC as planned and PSC is now acquiring relevant data necessary for submission of sBLA to FDA. Furthermore, PSC has announced, on October 11, 2016, that the FDA has approved its quadrivalent formulation of Flublok influenza vaccine for adults 18 years of age and older.

On the other hand, as shown in the release "Notice regarding Posting Extraordinary Losses" and "Revision of Consolidated Financial Results Forecasts For the Fiscal Year Ending December 31, 2016" on January 31, 2017, and in another release "Revision of Consolidated Financial Results Forecasts For the Fiscal Year Ending December 31, 2016" on February 13, 2017, the Company posted consolidated extraordinary loss of ¥10,532 million and non-consolidated extraordinary loss of ¥7,865 million 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.

Under such an abrupt change in the business circumstances, the Company sought for alternative business plan mainly putting more focus upon overseas business developments, especially those making UNIGEN function as a global manufacturing base of Flublok® DS, currently under progress in collaboration with PSC for the U.S. market. But looking at the financial condition of both UNIGEN and the Company, after posting the extraordinary losses mentioned above, 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 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. UNIGEN Gifu plant is built next to API's formulating plant especially constructed for UMN-0502 under the exclusive agreement between the Company and API reached on March, 2011. Upon the execution of this share transfer, 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,, will terminate.

In a series of agreements reached among the concerned parties on January 31, 2017, the Company was released from the obligations as joint and several guarantor regarding the syndicated loan agreements of UNIGEN, which stood at ¥11,185 million (Tranche A: ¥5,185 million, Tranche B: ¥6,000 million) as of December 31, 2016, as well as being released from another obligation as the guarantor regarding UNIGEN's lease agreements, which was taken over to API.

As for financial aspects, the Board of Directors of the Company approved a resolution, on May 25, 2016, to enter into #19 warrants (with provision for revising exercise price) purchase agreement with the Evolution Biotech Fund with dilutive share issuable of 1,800,000 shares when fully exercised. The projected funds to be raised at the issuance was ¥3,092 million, which was initially planned to be used for the additional capital investment at UNIGEN Gifu plant to enhance manufacturing capacity

in order to meet the projected future demands including those of Flublok® DS for the US market, conducting R&D for existing in-house pipeline and prospective new pipelines, as well as repayment of loans to reinforce financial position. On September 1, 2016, the exercise of 1,800,000 shares on #19 warrants was completed and the funds raised resulted in as much as ¥2,219 million, which was short of ¥873 million compared to the initial projection. So, the Board of Directors of the Company, on October 18, 2016, approved a resolution of the change in use of the funds raised from the one announce on May 25, 2016. Additionally, the Board of Directors of the Company approved another resolution, on November 4, 2016, to enter into #20 warrants (with provision for revising exercise price) purchase agreement with the Evolution Biotech Fund with dilutive share issuable of 1,500,000 shares when fully exercised. The funds raised will be used for the additional capital investment at UNIGEN Gifu plant to enhance manufacturing capacity in order to meet the projected future demands for Flublok® DS for the US market, conducting R&D for existing in-house pipeline and prospective new pipelines, additional working capital at Gifu plant as well as repayment of loans to reinforce financial position. As of today, 800,000 shares has been issued on the exercise of #20 warrants, raising ¥732,200 thousand. At transferring all of the shares of UNIGEN owned by the Company to API, the Board of Directors of the Company, on January 31, 2017, approved a resolution of the change in use of the funds raised through the exercise of #19 and #20 warrants from the one previously announced, that the funds raised will be allocated to conducting R&D activities and working capital of the Company.

As a result, consolidated net sales for FY2016 totaled ¥71,301 thousand (a decrease of 64.8% compared to those in the previous fiscal year) with operating loss of ¥3,564,090 thousand (loss of ¥3,207,281 thousand in the previous fiscal year), ordinary loss of ¥3,857,909 thousand (loss of ¥3,390,038 thousand in the previous fiscal year) and loss attributable to owners of parent of ¥14,142,466 thousand (loss of ¥3,390,281 thousand in the previous fiscal year). The losses are mainly due to consolidated extraordinary loss of ¥10,532,848 thousand posted for provision for loss on liquidation of business and additional costs for the trial manufacturing of Flublok® DS at Gifu plant for PSC to collect data for its sBLA submission to FDA.

(Earnings forecasts for the fiscal year ending Dec. 31, 2017 (FY2017))

As signified today in another release "New Business Plan : Specialize in Chemistry, Manufacturing and Control ("CMC") Development and Process Development for Commercialization of Innovative Novel Drugs", the Company, as a non-consolidated single entity after relinquishing UNIGEN, is transforming its business model along with the fundamental change in the business circumstances, including pushing through the overall restructuring. The forecasts for the fiscal year ending Dec.31, 2017 based upon the new business plan are as follows.

Regarding the development of in-house pipeline of next-generation bio-pharmaceuticals, the Company will intensively allocate its resources on UMN-2002, while further establishing a new pipeline of UMN-2001 (recombinant rotavirus VP6 single vaccine, hereinafter referred to as "UMN-2001"), and will make its best to make alliances as early as possible both globally and domestically. As for UMN-0502, UMN-0501 and UMN-0901, the Company will temporally discontinue the relevant R&D activities until the future development course be decided. As for South Korean market, Ildong is now reconsidering the schedule of beginning clinical trial of UMN-0502 in the country after the results of the review process by PMDA in Japan. In the case Ildong would commence PIII clinical trial in South Korea as planned, the investigational new drug is planned to be provided from PSC with the relevant data of Flublok®, which would be necessary for the review process.

Regarding Biopharmaceutical Contract Manufacturing Organization ("CMO") and Contract Research Organization ("CRO") business, the Company will specialize in CMC development and process development for commercialization of new drugs by making full use of Yokohama Research Center, Akita Laboratory and Akita Plant. The Company will make best effort to acquiring new contracts, while continuing and expanding the ongoing contracts to produce candidate antigen for novel vaccines. The Company has already received several inquiries from potential customers, and some of which are concerned with antigens for other than vaccines, or those for other than human use. So, the Company will establish flexible system so as to meet various needs from variety of customers, which builds long-term relationship of trust with them.

The Company will also engage in absolute cost-control activities in order to further reduce expenses. However, some increase in R&D expenses is projected as the running costs of Akita plant, which had been rented out to UNIGEN, will be borne by the Company beginning FY2017 as the plant would be operated and utilized by the Company under the new plan. The total running costs for Akita plant are currently projected to be as much as ¥130 million per year including depreciation expenses, and the Company will make best effort to cover the costs by maximizing utilization of the capabilities of Akita plant.

As a result, the Company forecasts, for the fiscal year 2017, net sales of ¥153 million, operating loss of ¥512 million, ordinary loss ¥504 million, and net loss of ¥506 million, as the Company could not count on posting net sales surpassing the projected expenses for FY2017 at this moment.

As for financial aspects, given the non-consolidated net assets of ¥204 million as of December 31, 2016, reinforcing financial position through raising capital during FY2017 is one of the Company's top issue, while further endeavoring to acquire additional net sales and curtailing costs, and securing additional fund through exercise of #20 warrants resolved on November 4, 2016

These forecasts are based on currently available information and assumptions 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 and conditions.

As for the business for development of in-house pipeline of next-generation bio-pharmaceuticals, timing and terms of the contracts could be different from those planned in the sales forecasts, dependent upon progress of the developments or negotiations. Regarding CMO and CRO business, contract orders could not be received as planned or acceptance validation could be delayed, which could badly influence the sales forecasts. With regard to expenses, R&D costs could be more than initial plan, which could also affects the financial results. The Company will quickly disclose revised figures when receiving information or coming to know outcome / progress which could influence the current forecasts for the fiscal year ending Dec.31, 2017, if necessary.

(2) Analysis of Financial Position

1) Assets, liabilities and net assets

The financial position as of December 31, 2016 and the main changes from the end of the previous year are as follows.

(Current Assets)

Total current assets amounted to ¥1,456,480 thousand, which corresponds to a decrease of ¥1,847,278 thousand compared to the end of the previous fiscal year, mainly due to a decrease of raw materials and supplies of ¥1,685,139 thousand and a decrease of work-in-process of ¥411,955 thousand.

(Noncurrent Assets)

Total noncurrent assets stood at ¥0 thousand, which corresponds to a decrease of ¥8,450,147 thousand compared to the end of the previous fiscal year, mainly due to write-down of all the tangible assets, raw materials and supplies, and work-in-process, resulting in a decrease of buildings and structures of ¥4,680,456 thousand and a decrease of machinery and equipment of ¥2,555,545 thousand.

(Current Liabilities)

Total current liabilities amounted to ¥7,519,029 thousand, which corresponds to an increase of ¥2,189,000 thousand compared to the end of the previous year, mainly due to an increase of short-term loan of ¥2,400,000 thousand.

(Noncurrent Liabilities)

Total noncurrent liabilities amounted to ¥4,956,111 thousand, which corresponds to a decrease of ¥1,188,384 thousand compared to the end of the previous year, mainly due to a decrease of long-term loan of ¥1,069,000 thousand.

(Net Assets)

Total net assets resulted in ¥(10,964,259) thousand, which corresponds to a decrease of ¥11,298,041 thousand compared to the end of the previous fiscal year, mainly due to net loss of ¥14,392,466 thousand incurred during the fiscal year ended December 31, 2016.

2) Cash flow

(Cash flows from operating activities)

Net cash flows used in operating activities for the fiscal year ended December 31, 2016 amounted to ¥2,265,204 thousand, due to net loss before income taxes and minority interests of ¥14,390,757 thousand, depreciation (non-cash expenses) of ¥1,237,256 thousand and loss on liquidation of business(non-cash expenses) of ¥10,532,848 thousand.

(Cash flows from investing activities)

Net cash flows used for investing activities for the period amounted to ¥1,842,137 thousand, due to acquisition of tangible fixed assets of ¥1,843,678 thousand.

(Cash flows from financing activities)

Net cash flows provided by financing activities for the period amounted to ¥4,243,372 thousand, mainly due to proceeds from the short-term loans of ¥2,400,000 thousand, repayment of the long-term loans of ¥1,119,000 thousand and proceeds from issuance of common stock of ¥2,794,976 thousand.

As a result of the above, cash and cash equivalents amounted to ¥978,152 thousand as of December 31, 2016, an increase of ¥136,030 thousand compared to the end of the previous fiscal year.

Reference: Cash-flow-related indicators

	FY2012	FY2013	FY2014	FY2015	FY2016
Ratio of shareholders' equity to total assets (%)	30.8	22.1	28.8	2.8	(726.1)
Ratio of shareholders' equity to total assets on a fair market value basis (%)	82.2	135.2	216.7	141.7	821.2
Cash flow to interest-bearing liabilities ratio (%)	—	—	23.1	—	—
Interest coverage ratio (times)	—	—	1.9	—	—

Ratio of shareholders' equity to total assets : Equity attributable to owners of parent / Total assets

Ratio of shareholders' equity to total assets on a fair market value basis: Current market capitalization / Total assets

Cash flow to interest-bearing liabilities ratio: Interest-bearing liabilities / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest expense

(3) Basic Policy on Distribution of Profits and Dividends for Fiscal Year 2016 and Fiscal Year 2017

The Company recognizes that redistribution of profits to the shareholders is one of the most important managerial issue. However, in order to steadily increase corporate value in the future, it is also important to enhance internal reserves for upgrading existing pipelines, developing new pipelines and investing in production facilities, so that the Company would make sure its mid to long-term growth. So, the Company would determine redistribution of profits comprehensively, taking into account capital needs for operation, financial condition and business plan.

The Company determined that it declares no dividends for the Fiscal Year 2016, taking the current financial performances into consideration.

Regarding the dividends for the Fiscal Year 2017, the Company has also determined that it declares no dividend as the Company will have recorded negative retained earnings at the end of the fiscal year.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen)

	FY2015 (Dec. 31, 2015)	FY2016 (Dec. 31, 2016)
Assets		
Current assets		
Cash and cash equivalent	842,121	978,152
Accounts receivable	17,897	6,130
Work-in-process	417,590	5,634
Raw materials and supplies	1,685,139	0
Advance payments	25,390	65,339
Prepaid expenses	46,200	57,774
Consumption taxes receivable	166,943	241,260
Other	102,476	102,188
Total current assets	3,303,759	1,456,480
Noncurrent assets		
Tangible fixed assets		
Buildings and structures	5,949,172	1,661,309
Accumulated depreciation	(1,268,716)	(1,661,309)
Buildings and structures, net	4,680,456	0
Machinery and equipment	5,465,422	3,552,351
Accumulated depreciation	(2,909,877)	(3,552,351)
Machinery and equipment, net	2,555,545	0
Tools, furniture and fixtures	339,727	291,863
Accumulated depreciation	(266,823)	(291,863)
Tools, furniture and fixtures, net	72,904	0
Lease assets	744,359	425,248
Accumulated depreciation	(318,126)	(425,248)
Lease assets, net	426,233	0
Construction in progress	401,254	0
Total tangible fixed assets	8,136,395	0
Intangible fixed assets		
Software	171,510	0
Other	285	0
Total intangible assets	171,795	0
Investments and other assets		
Rental and guarantee deposits	56,053	54,053
Long-term account receivable	100,000	—
Other	40,302	346
Total investments and other assets	196,356	54,400
Total noncurrent assets	8,504,547	54,400
Total assets	11,808,306	1,510,880

(Thousands of yen)

	FY2015 (Dec. 31, 2015)	FY2016 (Dec. 31, 2016)
Liabilities		
Current liabilities		
Accounts payable	342,886	177,935
Short-term loan payable	3,600,000	6,000000
Current portion of long-term loan payable	1,119,000	1,069,000
Lease obligations	106,054	111,870
Other accounts payable	82,842	57,100
Income taxes payable	21,819	45,598
Advances received	37,498	37,342
Deposits received	9,812	9,645
Other	10,114	10,536
Total current liabilities	5,330,029	7,519,029
Noncurrent liabilities		
Long-term loan payable	5,210,000	4,141,000
Lease obligations	351,707	239,836
Long-term deposit received	340,332	340,332
Deferred tax liabilities	47,697	43,384
Asset retirement obligations	175,482	178,733
Other	19,277	12,825
Total noncurrent liabilities	6,144,496	4,956,111
Total liabilities	11,474,525	12,475,140
Net assets		
Shareholders' equity		
Capital stock	8,697,869	10,117,021
Capital surplus	8,366,869	9,786,021
Retained earnings	(16,730,760)	(30,873,226)
Treasury stock	(197)	(197)
Total shareholders' equity	333,781	(10,970,379)
Subscription rights to shares	—	6,120
Total net assets	333,781	(10,964,259)
Total liabilities and net assets	11,808,306	1,510,880

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated statements of income and loss

(Thousands of yen)

	FY2015 (From Jan. 1, 2015 to Dec. 31, 2015)	FY2016 (From Jan. 1, 2016 to Dec. 31, 2016)
Net sales	202,637	71,301
Cost of sales	52,708	39,266
Gross profit	149,929	32,034
Selling, general and administrative expenses	3,357,211	3,596,125
Operating loss (-)	(3,207,281)	(3,564,090)
Non-operating income		
Interest income	393	55
Gain on sales of securities	2,226	9
Income from grants	76,263	66,362
Other	3,901	835
Total non-operating income	82,785	67,263
Non-operating expenses		
Interest expenses	150,867	190,629
Stock issuance cost	102	25,998
Commission paid	114,572	144,454
Total non-operation expenses	265,542	361,081
Ordinary loss (-)	(3,390,038)	(3,857,909)
Extraordinary loss		
Loss on liquidation of business	—	10,532,848
Total extraordinary losses	—	10,532,848
Loss before income tax and minority interests (-)	(3,390,038)	(14,390,757)
Income taxes	6,282	6,022
Income taxes-adjustment	(6,043)	(4,313)
Total income taxes	238	1,708
Net loss before minority interest (-)	(3,390,277)	(14,392,466)
Loss attributable to minority interests (-)	—	(250,000)
Net loss (-)	(3,390,277)	(14,142,466)

Consolidated statements of comprehensive income

(Thousands of yen)

	FY2015 (From Jan. 1, 2015 to Dec. 31, 2015)	FY2016 (From Jan. 1, 2016 to Dec. 31, 2016)
Loss before minority interest (-)	(3,390,277)	(14,392,466)
Comprehensive income (losses)	(3,390,277)	(14,392,466)
(Breakdown)		
Comprehensive income(losses) attributable to owners of the parent company	(3,390,277)	(14,142,466)
Comprehensive income(losses) attributable to minority interests	—	(250,000)

(3) Consolidated Statement of Changes in Net Assets

FY2015 (from Jan. 1, 2015 to Dec. 31, 2015)

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income(loss)		Subscription right to shares	Minority interest	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity	Net unrealized gains(losses) on available for sale securities	Total accumulated other comprehensive income(loss)			
Balance at beginning of the fiscal year	8,688,544	8,357,544	(13,340,482)	(197)	3,705,408	—	—	—	—	3,705,408
Changes during fiscal year										
Issuance of new shares-exercise of subscription rights to shares	9,325	9,325			18,650					18,650
Net income(loss)			(3,390,277)		(3,390,277)					(3,390,277)
Net changes of items other than shareholders' equity										
Total changes during the fiscal year	9,325	9,325	(3,390,277)	—	(3,371,627)	—	—	—	—	(3,371,627)
Balance at end of the fiscal year	8,697,869	8,366,869	(16,730,760)	(197)	333,781	—	—	—	—	333,781

FY2016 (from Jan. 1, 2016 to Dec. 31, 2016)

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income(loss)		Subscription right to shares	Minority interest	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity	Net unrealized gains(losses) on available for sale securities	Total accumulated other comprehensive income(loss)			
Balance at beginning of the fiscal year	8,697,869	8,366,869	(16,730,760)	(197)	333,781	—	—	—	—	333,781
Changes during fiscal year										
Issuance of new shares										
Issuance of new shares-exercise of subscription rights to shares	1,419,152	1,419,152			2,838,305					2,838,305
Net income(loss)			(14,142,466)		(14,142,466)					(14,142,466)
Net changes of items other than shareholders' equity								6,120	0	6,120
Total changes during the fiscal year	1,419,152	1,419,152	(14,142,466)	—	(11,304,161)	—	—	6,120	—	(11,298,041)
Balance at end of the fiscal year	10,117,021	9,786,021	(30,873,226)	(197)	(10,970,379)	—	—	6,120	—	(10,964,259)

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	FY2015 (From Jan. 1, 2015 to Dec. 31, 2015)	FY2016 (From Jan. 1, 2016 to Dec. 31, 2016)
Net cash provided by (used in) operating activities		
Loss before income taxes and minority interests (-)	(3,390,038)	(14,390,757)
Depreciation	1,524,361	1,237,256
Interest income	(393)	(55)
Interest expenses	150,867	190,629
Commission fee	114,572	144,454
Stock issuance cost	102	25,998
Subsidy income	(76,263)	(66,362)
Loss on liquidation of business	—	10,532,848
Decrease(increase) in notes and accounts receivable-trade	(3,394)	11,767
Decrease(increase) in inventories	(1,415,866)	379,248
Increase(decrease) in notes and accounts payable-trade	342,886	(164,951)
Increase(decrease) in deposits received	(8,966)	(167)
Other	(580,922)	20,577
Subtotal	(3,343,055)	(2,079,513)
Interest income received	393	56
Interest expenses paid	(149,343)	(190,569)
Proceeds from subsidy	176,263	166,362
Income taxes paid	(6,387)	(6,263)
Other	(71,667)	(155,277)
Net cash provided by (used in) operating activities	(3,393,796)	(2,265,204)
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(407,064)	(1,843,678)
Purchase of intangible assets	(2,600)	(459)
Collection of guarantee deposits	600	—
Payments for lease deposits	(8,045)	—
Collection of lease deposits	18,684	2,000
Net cash provided by (used in) investing activities	(398,425)	(1,842,137)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	2,972,222	2,400,000
Repayment of long-term loans payable	(336,000)	(1,119,000)
Proceeds from issuance of common stock	18,548	2,794,976
Proceeds from share issuance to non-controlling shareholders	—	248,250
Repayment of lease obligations	(100,647)	(106,054)
Other	—	25,200
Net cash provided by (used in) financing activities	2,554,122	4,243,372
Net increase(decrease) in cash and cash equivalents	(1,238,099)	136,030
Cash and cash equivalent at beginning of the period	2,080,221	842,121
Cash and cash equivalent at end of the period	842,121	978,152