



Consolidated Financial Results
for the First Six Months of Fiscal Year Ending December 31, 2016
(Japanese GAAP)

July 29, 2016

Company name UMN Pharma Inc. Stock listings Mothers of TSE
 Securities code 4585 URL <http://www.umnpharma.com/en/>
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 Supplementary materials for financial results: Yes
 Briefing session of financial results: Yes (For institutional investors and analysts)

(Rounded down to nearest million yen)

1. Consolidated Financial Results for the First Six Months of FY2016 (From January 1, 2016 to June 30, 2016)

(1) Consolidated operating results (cumulative) (Percentage indications show changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First six months of FY2016	56	24.3	(1,754)	—	(1,861)	—	(1,611)	—
First six months of FY2015	45	(95.8)	(2,157)	—	(2,186)	—	(2,183)	—

(Note) Comprehensive First six months of First six months of
 income FY2016 (1,861) Million yen (—%) FY2015 (2,183) Million yen (—%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
First six months of FY2016	(167.62)	—
First six months of FY2015	(228.17)	—

(2) Consolidated financial position

	Total assets	Net assets	Net assets as percentage of total assets
	Million yen	Million yen	%
As of June 30, 2016	12,647	(791)	(6.3)
As of December 31, 2015	11,808	333	2.8

(Reference) Shareholders' equity As of June 30, 2016 (803) Million yen As of December 31, 2015 333 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
FY2015	—	0 00	—	0 00	0 00
FY2016	—	0 00	—	—	—
FY2016(Forecast)	—	—	—	0 00	0 00

(Note) Revisions to the latest dividend forecast: None

3. Forecasts for the Fiscal Year Ending December 31, 2016(from January 1, 2016 to December 31, 2016)

(Percentages show changes from corresponding figures for the previous period)

	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
FY2016	2,044~ 2,428	—	(2,315)~ (2,282)	—	(2,608)~ (2,575)	—	(2,366)~ (2,332)	—	(246.68)~ (243.22)

(Note) Revisions to the latest performance forecasts: 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 : Yes
- 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)

As of June 30,2016	9,896,500	As of December 31,2015	9,581,500
As of June 30,2016	50	As of December 31,2015	50
For the first six months of FY2016	9,614,252	For the first six months of FY2015	9,569,027

2) Number of treasury shares

3) Average number of shares issued

* 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.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

During the six months ended June 30, 2016, the operational resources of UMN Pharma Inc. (“the Company”) continued to be 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 (recombinant norovirus VLP single vaccine, hereinafter referred to as “UMN-2002”) for the prevention for norovirus. As for the above pipeline, the Company carried out development of UMN-0502 and UMN-0501 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 during the period.

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.

In addition, on June 28, 2016, the Company signed a partnership agreement with Protein Sciences Corporation (“PSC”) in which the Company has a right to participate in ‘International Zika Vaccine Consortium’ that PSC has taken an initiative and is now preparing for the final partnership agreement among prospective participants including Sinergium Biotech & Mundo Sano of Argentina. In the Consortium, PSC and the participants would cooperatively develop Zika virus vaccine for the prevention of Zika virus infectious disease, which has been currently spreading in Latin American area. The Company is regarding this opportunity as a chance to enrich the portfolio of in-house pipeline.

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 outsource. 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 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[®] drug substance 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.

As for financial aspects, the Board of Directors of the Company approved a resolution, on May 25, 2016, to enter into #19 warrant (with provision for revising exercise price) purchase agreement with the Evolution Biotech Fund. Number of dilutive share on issuance of #19 warrants was 1,800,000 shares when issued, and as of July 28, 2016, the cumulative number of share issued upon exercise of the warrants has reached 797,000 shares with ¥1,153,769 thousands raised. The funds raised through exercise of the warrants will be used for the additional capital investment at UNIGEN Gifu plant to enhance manufacturing capacity, in order to meet the projected future demands including Flublok[®] for the US market, conducting R&D for existing in-house pipeline and prospective new pipelines, and repayment of loans for reinforced financial position.

As a result, consolidated net sales for the first six months of FY2016 totaled ¥56,373 thousand (net sales increased by

24.3% compared to the same period of the previous fiscal year). Reflecting the costs incurred for answering the inquiries from PMDA for the approval of UMN-0502, R&D activities for other projects and the activities preparing for the commercial production at Gifu plant, and also reflecting facility related fixed costs of Gifu plant, which had booked as work in process on Balance Sheet, was recognized as R&D expenses during 2nd quarter after the decision made not to start commercial production during 2016, operating loss reached to ¥1,754,502 thousand (compared to operating loss of ¥2,157,270 thousand in the same period of the previous fiscal year), with ordinary loss of ¥1,861,779 thousand (compared to ordinary loss of ¥2,186,674 thousand in the same period of the previous year) and loss attributable to owners of parent of ¥1,611,538 thousand (compared to loss attributable to owners of parent of ¥2,183,313 thousand in the same period of the same fiscal year).

(2) Analysis of Financial Position

The consolidated financial position as of June 30, 2016 is as follows,

Total assets amounted to ¥12,647,958 thousand, which corresponds to an increase of ¥839,651 thousand compared to the end of the previous fiscal year.

Current assets amounted to ¥2,956,114 thousand, which corresponds to a decrease of ¥347,645 thousand compared to the end of the previous fiscal year, mainly due to an increase of ¥355,971 thousand in raw materials and supplies, a decrease of ¥187,894 thousand in cash and deposits, and a decrease of ¥368,413 thousand in work in process.

Noncurrent assets amounted to ¥9,691,844 thousand, which corresponds to an increase of ¥1,187,296 thousand compared to the end of the previous fiscal year, mainly due to an increase of ¥1,807,494 thousand in construction in progress.

Liabilities amounted to ¥13,439,915 thousand, which corresponds to an increase of ¥1,965,389 thousand compared to the end of the previous fiscal year, mainly due to a decrease of ¥547,000 thousand in long-term loans payable and an increase of ¥2,381,250 thousand in short-term loans payable.

Net assets amounted to (¥791,957) thousand, which corresponds to a decrease of ¥1,125,738 thousand compared to the end of the previous fiscal year, mainly due to net loss attributable to owners of parent of ¥1,611,538 thousand incurred during the period.

Cash and cash equivalents position

The balance of cash and cash equivalents stood at ¥654,227 thousand, which corresponds to a decrease of ¥187,894 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 FY2016 totaled ¥888,631 thousand, mainly due to loss before income taxes of ¥1,861,779 thousand, depreciation of ¥619,967 thousand, and an increase in notes and accounts payable-trade of ¥116,993 thousand.

(Cash flows from investment activities)

Net cash used in investment activities for the first six months of FY2016 totaled ¥1,807,477 thousand, due to ¥1,807,477 thousand used in purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities for the first six months of FY2016 totaled ¥2,508,215 thousand, mainly due to an increase in short-term loans payable of ¥2,400,000 thousand, repayment of long-term loans payable of ¥565,750 thousand, repayments of lease obligations of ¥52,319 thousand, proceeds from issuance of common stock of ¥463,634 thousand and proceeds from share issuance to non-controlling shareholders of ¥248,250 thousand.

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

There is no change in our forecast of financial results for fiscal year ending December 31, 2016, announced on May 25, 2016.

2. Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

No applicable items.

(2) Application of Simplified Accounting Methods and/or Special Accounting Methods

No applicable items.

(3) Changes in Accounting Policies, Changes in Accounting Estimates, Restatements

(Application of the Accounting Standard for Business Combination, etc.)

“ The Accounting Standard for Business Combination” (Corporate Accounting Standards No.21;September 13,2013) , “the Accounting Standard for Consolidated Financial Statements” (Corporate Accounting Standards No.22;September 13,2013) , “ the Accounting Standard for Business Divestitures” (Corporate Accounting Standards No.7;September 13,2013) ,etc. were adopted in the first quarter of this consolidated fiscal period. The indications of quarterly net income, etc. were changed, and nomenclature of minority interests was changed to non-controlling interests. In order to reflect the change of the indications, the quarterly consolidated financial statements of the prior cumulative consolidated second quarter and the consolidated financial statements of the prior consolidated fiscal year are reclassified.

These changes in accounting standards have no impact on profits.

(Adoption of practical solution on a change in depreciation method due to Tax Reform 2016)

UMN Pharma Inc. adopted the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ Practical Issue Task Force (PITF) No.32,issued on June 17,2016) from the second quarter ended June 30,2016,and changed the method for the depreciation of facilities attached buildings and structures acquired on or after April 1,2016 from the declining-balance method to the straight-line method.

There is no effect of this change on the quarterly consolidated financial statements for the six months ended June 30,2016.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (as of December 31, 2015)	Second quarter of FY2016 (as of June 30, 2016)
Assets		
Current assets		
Cash and deposits	842,121	654,227
Accounts receivable-trade	17,897	17,897
Work in process	417,590	49,176
Raw materials and supplies	1,685,139	2,041,111
Advance payments-trade	25,390	10,019
Other	315,620	183,682
Total current assets	3,303,759	2,956,114
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	4,680,456	4,484,373
Machinery and equipment, net	2,555,545	2,235,248
Tools, furniture and fixtures, net	72,904	60,859
Lease assets, net	426,233	372,672
Construction in progress	401,254	2,208,749
Total property, plant and equipment	8,136,395	9,361,903
Intangible assets	171,795	135,797
Investments and other assets	196,356	194,143
Total noncurrent assets	8,504,547	9,691,844
Total assets	11,808,306	12,647,958
Liabilities		
Current liabilities		
Accounts payable-trade	342,886	459,880
Short-term loans payable	3,600,000	6,000,000
Current portion of long-term loans payable	1,119,000	1,100,250
Accounts payable-other	82,842	132,502
Income taxes payable	21,819	30,066
Other	163,479	179,760
Total current liabilities	5,330,029	7,902,460
Noncurrent liabilities		
Long-term loans payable	5,210,000	4,663,000
Long-term deposits received	340,332	340,332
Assets retirement obligations	175,482	177,107
Other	418,682	357,015
Total noncurrent liabilities	6,144,496	5,537,455
Total liabilities	11,474,525	13,439,915
Net assets		
Shareholders' equity		
Capital stock	8,697,869	8,934,769
Capital surplus	8,366,869	8,603,769
Retained earnings	(16,730,760)	(18,342,298)
Treasury stock	(197)	(197)
Total shareholders' equity	333,781	(803,957)

(Thousands of yen)

	Previous fiscal year (as of December 31, 2015)	Second quarter of FY2016 (as of June 30, 2016)
Subscription rights to shares	—	12,000
Total net assets	333,781	(791,957)
Total liabilities and net assets	11,808,306	12,647,958

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

	(Thousands of yen)	
	Six months ended June 30, 2015 (From January 1, 2015 to June 30, 2015)	Six months ended June 30, 2016 (From January 1, 2016 to June 30, 2016)
Net sales	45,367	56,373
Cost of sales	20,259	16,634
Gross profit	25,108	39,738
Selling, general and administrative expenses	2,182,378	1,794,241
Operating loss (-)	(2,157,270)	(1,754,502)
Non-operating income		
Interest income	217	52
Foreign exchange gains	1,790	330
Subsidy income	76,263	65,912
Other	3,831	155
Total non-operating income	82,103	66,451
Non-operating expenses		
Interest expenses	72,513	98,732
Stock issuance cost	72	9,515
Commission fee	38,922	65,481
Total non-operating expense	111,507	173,728
Ordinary loss (-)	(2,186,674)	(1,861,779)
Loss before income taxes and minority interests (-)	(2,186,674)	(1,861,779)
Income taxes-current	3,235	3,011
Income taxes-deferred	(6,596)	(3,252)
Total income taxes	(3,361)	(241)
Net loss (-)	(2,183,313)	(1,861,538)
Loss attributable to non-controlling interests(-)	—	(250,000)
Loss attributable to owners of parent(-)	(2,183,313)	(1,611,538)

Quarterly Consolidated Statements of Comprehensive Income

	(Thousands of yen)	
	Six months ended June 30, 2015 (From January 1, 2015 to June 30, 2015)	Six months ended June 30, 2016 (From January 1, 2016 to June 30, 2016)
Net loss before minority interest (-)	(2,183,313)	(1,861,538)
Comprehensive income (losses)	(2,183,313)	(1,861,538)
(Breakdown)		
Comprehensive income(losses) attributable to owners of parent	(2,183,313)	(1,611,538)
Comprehensive income(losses) attributable to non-controlling interests	—	(250,000)

(3) Quarterly Consolidated Statements of Cash Flows

	(Thousands of yen)	
	Six months ended June 30, 2015 (From January 1, 2015 to June 30, 2015)	Six months ended June 30, 2016 (From January 1, 2016 to June 30, 2016)
Net cash provided by (used in) operating activities		
Loss before income taxes and minority interests (-)	(2,186,674)	(1,861,779)
Depreciation	762,709	619,967
Interest income	(217)	(52)
Interest expenses	72,513	98,732
Commission fee	38,922	65,481
Stock issuance cost	72	9,515
Subsidy income	(76,263)	(65,912)
Decrease(increase) in notes and accounts receivable-trade	(2,151)	—
Decrease(increase) in inventories	(820,738)	12,442
Increase(decrease) in notes and accounts payable-trade	891,310	116,993
Increase(decrease) in deposits received	(13,868)	(4,632)
Other	(337,814)	165,620
Subtotal	(1,672,201)	(843,624)
Interest income received	217	53
Interest expenses paid	(71,583)	(99,128)
Proceeds from subsidy	76,263	65,912
Income taxes paid	(6,379)	(6,263)
Other	(26,641)	(5,581)
Net cash provided by (used in) operating activities	(1,700,323)	(888,631)
Net cash provided by (used in) investment activities		
Purchase of property, plant and equipment	(14,668)	(1,809,477)
Purchase of intangible assets	(216)	—
Payments for lease deposits	(7,993)	—
Proceeds from collection of guarantee deposits	57	2,000
Net cash provided by (used in) investment activities	(22,821)	(1,807,477)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	900,000	2,400,000
Repayment of long-term loans payable	(43,750)	(565,750)
Repayments of lease obligations	(49,705)	(52,319)
Proceeds from issuance of common stock	13,328	463,634
Proceeds from share issuance to non-controlling shareholders	—	248,250
Other	—	14,400
Net cash provided by (used in) financing activities	819,872	2,508,215
Net increase(decrease) in cash and cash equivalents	(903,272)	(187,894)
Cash and cash equivalents at beginning of the period	2,080,221	842,121
Cash and cash equivalents at end of the period	1,176,948	654,227