May 12, 2017

# Summary of Consolidated Financial Results for the First Three Months of the Fiscal Year Ending December 31, 2017 (JGAAP)

**Listed company's name:** RaQualia Pharma Inc.
**Listed on:** Tokyo Stock Exchange (TSE)
**Stock code:** 4579
**URL:** http://www.raqualia.com/
**Representative:** Naoki Tani, President and CEO
**Contact:** Kiichiro Kawada, Director and Executive Vice President (TEL) +81-52-446-6100
**Scheduled date of filing of quarterly securities report:** May 15, 2017
**Scheduled date of dividend payment:** —
**Supplementary documents for quarterly results:** None
**Quarterly results briefing:** None

(Amounts are rounded down to the nearest million yen.)

## 1. Consolidated financial results for the first three months of the fiscal year ending December 31, 2017 (January 1, 2017 to March 31, 2017)

### (1) Consolidated operating results (cumulative)

(Percentage figures represent changes from the same period of the previous fiscal year.)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | |
|---|---|---|---|---|---|---|---|---|
| First three months ended | million yen | % | million yen | % | million yen | % | million yen | % |
| March 31, 2017 | 417 | — | (59) | — | (74) | — | (65) | — |
| March 31, 2016 | — | — | — | — | — | — | — | — |

Note: Comprehensive income Three months ended March 31, 2017: (113) million yen [–%]
Three months ended March 31, 2016: – million yen [–%]

| | Earnings per share (Basic) | Earnings per share (Diluted) |
|---|---|---|
| First three months ended | yen | yen |
| March 31, 2017 | (3.44) | — |
| March 31, 2016 | — | — |

* Year-on-year changes are not presented as the Company has begun preparing quarterly consolidated financial statements since the first quarter of the fiscal year ending December 31, 2017.

### (2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| As of | million yen | million yen | % | yen |
| March 31, 2017 | 4,140 | 3,865 | 93.0 | 200.04 |
| December 31, 2016 | — | — | — | — |

Reference: Equity As of March 31, 2017: 3,850 million yen As of December 31, 2016: – million yen

* Year-on-year changes are not presented as the Company has begun preparing quarterly consolidated financial statements since the first quarter of the fiscal year ending December 31, 2017.

## 2. Dividends

| | Annual dividends per share | | | | |
|---|---|---|---|---|---|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Total |
| | yen | yen | yen | yen | yen |
| Fiscal year ended December 31, 2016 | — | 0.00 | — | 0.00 | 0.00 |
| Fiscal year ending December 31, 2017 | — | | | | |
| Fiscal year ending December 31, 2017 (forecast) | | 0.00 | — | 0.00 | 0.00 |

Note: Revisions to the forecast of dividends most recently announced: None

**3. Forecasts of consolidated financial results for the fiscal year ending December 31, 2017 (January 1, 2017 to December 31, 2017)**

(Percentage figures represent year-on-year changes)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | | Earnings per share (Basic) |
|---|---|---|---|---|---|---|---|---|---|
| | million yen | % | million yen | % | million yen | % | million yen | % | yen |
| Fiscal year ending December 31, 2017 | 1,176 | — | (791) | — | (777) | — | (778) | — | (40.45) |

Note: Revisions to the forecasts of results most recently announced: None

* As the Company manages financial results annually, forecasts of results for the first six months ending June 30, 2017 are omitted.
* Year-on-year changes are not presented as the Company has begun preparing quarterly consolidated financial statements since the first quarter of the fiscal year ending December 31, 2017.

*** Notes**

(1) Changes in significant subsidiaries during the first three months ended March 31, 2017 (changes in specified subsidiaries resulting in the change in scope of consolidation): Yes

Newly included: 1 company TMRC Co., Ltd.

During the first quarter ended March 31, 2017, the Company made TMRC Co., Ltd. (TMRC) a wholly owned subsidiary company by share exchange. In conjunction with this, the Company prepares consolidated financial statements from the first quarter of the fiscal year under review.

(2) Application of special accounting for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatements of prior financial statements

a. Changes in accounting policies due to the revisions to accounting standards and other regulations: None

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatements of prior financial statements: None

(4) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

| | |
|---|---|
| As of March 31, 2017 | 19,246,450 shares |
| As of December 31, 2016 | 18,767,200 shares |

b. Total number of treasury shares at the end of the period

| | |
|---|---|
| As of March 31, 2017 | — shares |
| As of December 31, 2016 | — shares |

c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

| | |
|---|---|
| For the first three months ended March 31, 2017 | 19,070,725 shares |
| For the first three months ended March 31, 2016 | 18,767,200 shares |

*** Summary of quarterly financial results is not required to be subjected to quarterly reviews.**

*** Appropriate use of financial forecasts and other special remarks**

(Caution concerning forward-looking statements)

Forward-looking statements provided in this document, including financial forecasts, are based on the information currently available to the Company and certain assumptions considered reasonable. Such statements are included without any guarantee as to their future achievement. Actual results, etc. may differ materially from the forecasts depending on various factors.

**Contents of attachment**

## 1. Qualitative information regarding settlement of accounts for the first three months

### (1) Qualitative information regarding consolidated operating results

#### 1) Financial results

During the first three months ended March 31, 2017, the Japanese economy was on a moderate recovery track with export-oriented companies reviving, in particular, against the backdrop of the global economic recovery. Meanwhile, the outlook for the Japanese economy remained uncertain amid a sense of caution about the economic policies of U.S. President Donald Trump, who won the 58th U.S. presidential election conducted on November 8, 2016, coupled with political turmoil in Europe and concerns over potential deceleration of the Chinese and other emerging economies.

In the country's pharmaceutical sector, domestic pharmaceutical companies actively sought to buy or sell mainly long-listed drug products or businesses, pursuing business restructuring, with a focus on products whose patents had expired. The movement toward becoming specialty pharmaceutical companies specializing in the fields of specific disease has a non-negligible effect on the licensing-out activities of drug discovery venture companies such as the Company.

Against this backdrop, the Company pushed ahead with research and development and sales activities, aiming to continuously generate compounds developed as pharmaceuticals, to expand its research and development portfolio, and to license out developed compounds.

As for the status of clinical trials at our licensees, Aratana Therapeutics Inc. (U.S.) ("Aratana (U.S.)") started, in January 2017, to sell Galliprant®, a pain management compound for dog osteoarthrosis, together with Elanco Animal Health, an animal pharmaceutical division of Eli Lilly and Company.
On February 3, 2017, the Company made TMRC a wholly owned subsidiary company by share exchange. TMRC is a bio venture specializing in the fields of cancer and rare disease, and is mainly engaged in TM-411 (generic name: Tamibarotene) in-licensed from Toko Pharmaceutical Industries Co., Ltd. and out-licensing it to Syros Pharmaceuticals, Inc. (headquarters: Massachusetts, U.S.). Through making TMRC a subsidiary, the Company is able to use TMRC's know-how on research and development, and licencing activities relating to new treatment drugs in the fields of cancer and rare disease, the Company will aim to expand its business domains by conducting research and development and licensing activities based on new mechanisms of action created in academia.

Accordingly, financial results for the first three months, the reporting period, were as follows. Business revenue for the period was 417 million yen, operating loss totaled 59 million yen, ordinary loss totaled 74 million yen and loss attributable to owners of parent was 65 million yen. Total business expenses were 476 million yen, of which 113 million yen in royalty payments was recorded under cost of business revenue. Moreover, research and development expenses were 197 million yen and other selling, general and administrative expenses totaled 165 million yen. In the first three months, interest on securities of 13 million yen, foreign exchange losses of 27 million yen, gain on sales of investment securities of 5 million yen, and gain on bargain purchase of 3 million yen were recognized.

#### 2) Research and development activities

Research and development expenses of the Company during the first three months were 197 million yen. The main components of these activities were as follows:

**i. RaQualia's research and development and collaborative research**

**Exploratory and discovery phase**

The Company discovered two promising candidate compounds suitable for external medical preparations and began conducting exploratory toxicity studies in a project to evaluate a selective sodium channel blocker compound for indications such as inflammatory pain and neuropathic pain. In addition, the Company explored new lead compounds used for oral medications and discovered several candidate compounds.

The Company continued collaborative research with four companies.

| Company | Start date | Content |
|---|---|---|
| EA Pharma Co., Ltd. | October 2012 | Collaboration on a specific ion channel target for gastrointestinal treatments |
| Interprotein Corporation | February 2013 | Collaboration on a specific protein-protein interaction (PPI) inhibitor for pain treatments |
| XuanZhu Pharma Co., Ltd. | December 2015 | Collaboration on a specific ion channel target for pain treatments |
| Asahi Kasei Pharma Corporation | January 2016 | Collaboration on a specific ion channel target for pain treatments |

**Preclinical development phase**

**(a) Ghrelin receptor agonist (RQ-00433412)**

The compound is under development for cancer-related anorexia/cachexia syndrome. The Company has completed investigation of preclinical efficacy and has not detected any inadequacy for moving on to the next stage of performing preclinical development study.

**(b) TRPM8 blocker compounds (RQ-00434739)**

The compound is under development for neuropathic pain (chemotherapy-induced cold allodynia). The Company has completed investigation of preclinical efficacy and has not detected any inadequacy for moving on to the next stage of performing preclinical development study.

**(c) Motilin receptor agonist (RQ-00201894)**

The compound is under development for gastroparesis, functional dyspepsia and post-operative lleus. The Company has completed the preclinical studies, including in vivo pharmacology studies, metabolism and pharmacokinetics studies, toxicity studies (GLP) and safety pharmacology studies (GLP), which were the prerequisite studies for Phase I clinical trials. So far, the Company has not detected any inadequacy for moving on to the next clinical development stage.

**Clinical development phase**

**(a) 5-$HT_4$ partial agonist (RQ-00000010)**

The compound is under development for gastroparesis, functional dyspepsia and chronic constipation. In August 2016, Virginia Commonwealth University, Parkinson's and Movement Disorders Center ("VCU") of the United States, a research partner of the Company, launched investigator-initiated clinical trials of the compound. These trials, while obtaining a research grant from The Michael J. Fox Foundation for Parkinson's Research, are currently under way as a clinical research program aimed to examine the safety and efficacy of the compound for managing gastroparesis, a complication of Parkinson's disease patients.

**(b) Potassium-competitive acid blocker (RQ-00000004, tegoprazan)**

The compound is under development for gastro-esophageal reflux disease (RE/NERD), and the Company completed the Phase I clinical trials in Japan, following those in the U.S. Utilizing data on clinical trials in South Korea where development has been underway, we will continue consultations toward licensing out the compound.

**(c) 5-$HT_{2B}$ antagonist (RQ-00310941)**

For the compound, which is under development for irritable bowel syndrome with diarrhea (IBS-D), the Company launched the Phase I clinical trials for the first administration of the compound to human (involving healthy adults and patients) in July 2015 in U.K., which is currently ongoing.

**(d) Anti-MRSA antibacterial agent (dalbavancin)**

The Company is continuing activities for the licensing-out of this agent in Japan.

**ii. Status of development at licensee corporation**

**(a) Potassium-competitive acid blocker (RQ-00000004, tegoprazan)**

The compound is under development primarily for gastro-esophageal reflux disease (RE/NERD) by CJ Healthcare Corporation (headquarters: South Korea), and is undergoing Phase III clinical trials in South Korea. In addition, preparations are under way to start its development in China.

**(b) Serotonin 5-$HT_{2A}$ and dopamine $D_2$ receptor blocker (ziprasidone)**

The compound is under development for schizophrenia by Meiji Seika Pharma Co., Ltd., and is undergoing Phase III clinical trials in Japan. The agent has already been marketed in 83 countries by Pfizer Inc. in the U.S., and is listed as a first-line drug in the U.S. Treatment Guidelines.

**(c) EP4 antagonist (Galliprant®, RQ-00000007, AT-001, grapiprant, animal drug)**

The compound was developed for pain management for pets by Aratana (U.S.). In January 2017, the Company started selling it in the U.S. through Aratana (U.S.) and Elanco Animal Health (headquarters: U.S.; an animal

pharmaceutical division of Eli Lilly and Company). In Europe, the compound is now under application with the European Medicines Agency (EMA) for approval for sales with approval is expected to be obtained in 2017.

**(d) Ghrelin receptor agonist (Entyce®, RQ-00000005, AT-002, capromorelin, animal drug)**

The compound was developed for anorexia management for pets by Aratana (U.S.). Following favorable results of clinical trials with dogs, Aratana (U.S.) has obtained manufacturing and marketing approval with the FDA. Preparations are underway for the commencement of sales in the latter half of 2017.
While continuing the program to develop the compound as a cat anorexia management drug, Aratana (U.S.) launched long-term toxicity studies on cats in December 2016.

**(e) EP4 antagonist (RQ-00000007, AAT-007, grapiprant)**

Preparations are currently underway at a licensee of AskAt, Inc. (Japan) which is our licensee for implementing clinical trials.

**(f) cyclooxygenase-2 (COX-2) inhibitor (RQ-00317076, AAT-076)**

Preparations are currently underway at a licensee of AskAt, Inc. (Japan) which is our licensee for implementing clinical trials.

## (2) Qualitative information regarding consolidated financial position

### 1) Analysis of assets, liabilities and net assets

Assets

Total assets as of March 31, 2017 were 4,140 million yen. The major components were 1,128 million yen in cash and deposits, 233 million yen in property, plant and equipment, and 1,816 million yen in investment securities.

Liabilities

Total liabilities as of March 31, 2017 were 274 million yen. The major components were 116 million yen in accounts payable - trade, 55 million yen in accounts payable - other, and 40 million yen in accrued expenses.

Net assets

Total net assets as of March 31, 2017 were 3,865 million yen. The major components were 2,237 million yen in capital stock, 2,427 million yen in capital surplus, negative 793 million yen in retained earnings, and negative 21 million yen in valuation difference on available-for-sale securities. The equity ratio was 93.0%.

### 2) Analysis of cash flows

The balance of cash and cash equivalents (hereafter "cash") as of March 31, 2017 amounted to 1,129 million yen, a decrease of 115 million yen compared with the beginning of the fiscal year under review.

The respective cash flows in the first three months and the factors thereof are as follows.

Cash flows from operating activities

Net cash used in operating activities was 376 million yen. This is mainly attributable to the recording of loss before income taxes of 65 million yen, increase in notes and accounts receivable - trade of 268 million yen, and increase in notes and accounts payable - trade of 116 million yen.

Cash flows from investing activities

Net cash provided by investing activities was 269 million yen. This is mainly attributable to the proceeds from withdrawal of time deposits of 340 million yen, proceeds from sales of investment securities of 128 million yen, purchase of investment securities of 170 million yen and purchase of property, plant and equipment of 42 million yen.

Cash flows from financing activities

There was no increase or decrease in cash resulting from financing activities.

## (3) Qualitative information regarding consolidated earnings forecasts

There has been no change to the figures contained in the "Record of Non-operating Income and Revisions of Consolidated and Non-consolidated Business Forecasts for the Fiscal Year Ending December 31, 2017" announced on May 11, 2017. The Company carefully examines business revenue and business expenses whenever necessary, and in the case that any revisions are made to the expected earnings forecasts due to changes made to the estimated amounts for the fiscal year under review, the Company will make relevant announcements immediately.

## 2. Quarterly consolidated financial statements and significant notes thereto

### (1) Consolidated balance sheet

(Thousands of yen)

| | As of March 31, 2017 |
|---|---|
| Assets | |
| Current assets | |
| Cash and deposits | 1,128,488 |
| Accounts receivable - trade | 336,600 |
| Securities | 10,922 |
| Supplies | 6,957 |
| Advance payments - trade | 208,565 |
| Prepaid expenses | 219,049 |
| Other | 153,406 |
| Total current assets | 2,063,989 |
| Non-current assets | |
| Property, plant and equipment | |
| Buildings, net | 111,189 |
| Tools, furniture and fixtures, net | 121,843 |
| Total property, plant and equipment | 233,033 |
| Intangible assets | |
| Trademark right | 5,615 |
| Software | 6,208 |
| Other | 504 |
| Total intangible assets | 12,328 |
| Investments and other assets | |
| Investment securities | 1,816,987 |
| Long-term prepaid expenses | 3,112 |
| Other | 11,284 |
| Total investments and other assets | 1,831,385 |
| Total non-current assets | 2,076,746 |
| Total assets | 4,140,736 |

(Thousands of yen)

| | As of March 31, 2017 |
|---|---|
| Liabilities | |
| Current liabilities | |
| Accounts payable - trade | 116,394 |
| Accounts payable - other | 55,979 |
| Accrued expenses | 40,839 |
| Income taxes payable | 7,685 |
| Deferred tax liabilities | 1,192 |
| Advances received | 18,000 |
| Deposits received | 5,293 |
| Total current liabilities | 245,384 |
| Non-current liabilities | |
| Asset retirement obligations | 11,672 |
| Deferred tax liabilities | 17,769 |
| Total non-current liabilities | 29,442 |
| Total liabilities | 274,827 |
| Net assets | |
| Shareholders' equity | |
| Capital stock | 2,237,588 |
| Capital surplus | 2,427,371 |
| Retained earnings | (793,063) |
| Total shareholders' equity | 3,871,895 |
| Accumulated other comprehensive income | |
| Valuation difference on available-for-sale securities | (21,875) |
| Total accumulated other comprehensive income | (21,875) |
| Subscription rights to shares | 15,888 |
| Total net assets | 3,865,909 |
| Total liabilities and net assets | 4,140,736 |

**(2) Consolidated statement of income and consolidated statement of comprehensive income**

**Consolidated statement of income (cumulative)**

(Thousands of yen)

| | First three months ended March 31, 2017 |
|---|---|
| Business revenue | 417,790 |
| Business expenses | |
| Cost of business revenue | 113,614 |
| Research and development expenses | 197,573 |
| Other selling, general and administrative expenses | 165,711 |
| Total business expenses | 476,899 |
| Operating loss | (59,109) |
| Non-operating income | |
| Interest income | 1,397 |
| Interest on securities | 13,317 |
| Other | 119 |
| Total non-operating income | 14,835 |
| Non-operating expenses | |
| Foreign exchange losses | 27,278 |
| Loss on valuation of compound financial instruments | 2,370 |
| Other | 100 |
| Total non-operating expenses | 29,748 |
| Ordinary loss | (74,022) |
| Extraordinary income | |
| Gain on sales of investment securities | 5,448 |
| Gain on bargain purchase | 3,278 |
| Total extraordinary income | 8,727 |
| Loss before income taxes | (65,294) |
| Income taxes - current | 3,467 |
| Income taxes - deferred | (3,228) |
| Total income taxes | 238 |
| Loss | (65,533) |
| Profit attributable to non-controlling interests | – |
| Loss attributable to owners of parent | (65,533) |

**Consolidated statement of comprehensive income (cumulative)**

(Thousands of yen)

| | First three months ended March 31, 2017 |
|---|---|
| Loss | (65,533) |
| Other comprehensive income | |
| Valuation difference on available-for-sale securities | (48,059) |
| Total other comprehensive income | (48,059) |
| Comprehensive income | (113,592) |
| Comprehensive income attributable to | |
| Comprehensive income attributable to owners of parent | (113,592) |
| Comprehensive income attributable to non-controlling interests | – |

**(3) Consolidated statement of cash flows**

(Thousands of yen)

| | First three months ended March 31, 2017 |
|---|---|
| Cash flows from operating activities | |
| Loss before income taxes | (65,294) |
| Depreciation | 19,396 |
| Interest income | (1,397) |
| Interest income on securities | (13,317) |
| Foreign exchange losses (gains) | 13,899 |
| Loss (gain) on valuation of compound financial instruments | 2,370 |
| Gain on bargain purchase | (3,278) |
| Loss (gain) on sales of investment securities | (5,448) |
| Decrease (increase) in notes and accounts receivable - trade | (268,833) |
| Decrease (increase) in inventories | 168 |
| Increase (decrease) in notes and accounts payable - trade | 116,394 |
| Decrease (increase) in advance payments | (3,328) |
| Decrease (increase) in prepaid expenses | (163,182) |
| Increase (decrease) in accounts payable - other | (28,051) |
| Other, net | 13,509 |
| Subtotal | (386,395) |
| Interest and dividend income received | 12,320 |
| Income taxes paid | (2,296) |
| Net cash provided by (used in) operating activities | (376,370) |
| Cash flows from investing activities | |
| Proceeds from withdrawal of time deposits | 340,462 |
| Purchase of property, plant and equipment | (42,660) |
| Purchase of intangible assets | (760) |
| Purchase of investment securities | (170,000) |
| Proceeds from sales of investment securities | 128,000 |
| Proceeds from redemption of investment securities | 15,000 |
| Other, net | (259) |
| Net cash provided by (used in) investing activities | 269,782 |
| Effect of exchange rate change on cash and cash equivalents | (8,490) |
| Net increase (decrease) in cash and cash equivalents | (115,079) |
| Cash and cash equivalents at beginning of period | 1,244,490 |
| Cash and cash equivalents at end of period | 1,129,411 |

## (4) Notes to quarterly consolidated financial statements

### Notes on premise of going concern

No items to report.

### Notes on significant changes in the amount of shareholders' equity

During the first quarter ended March 31, 2017, the Company made TMRC a wholly owned subsidiary company by share exchange on February 3, 2017. In conjunction with this, as of March 31, 2017, capital surplus increased by 189,783 thousand yen.

### Additional information

*Significant changes in the scope of consolidations*

During the first quarter ended March 31, 2017, the Company made TMRC a wholly owned subsidiary company by share exchange on February 3, 2017. In conjunction with this, TMRC is included in the scope of consolidation from the first quarter ended March 31, 2017.

*Significant matters forming the basis of preparing the quarterly consolidated financial statements*

1. Scope of consolidation
   Number of consolidated subsidiaries: 1
   Name of consolidated subsidiary: TMRC Co., Ltd.
2. Balance sheet date of consolidated subsidiary
   The balance sheet date of the consolidated subsidiary is the same as the consolidated balance sheet date.
3. Accounting policies
   (1) Valuation bases and methods of significant assets
      1) Securities
         i) Held-to-maturity securities
            Stated at amortized cost (straight-line method).
         ii) Available-for-sale securities
            *Securities with readily determinable fair value*
            Stated at fair value based on the market price as of the consolidated balance sheet date (valuation differences are recognized in net assets and the cost of sales is calculated by the moving-average method).
            Note however that available-for-sale securities denominated in foreign currencies are translated into Japanese yen using the spot exchange rate as of the consolidated balance sheet date and the translation differences are treated as valuation difference. Valuation differences are recognized in net assets.
      2) Derivatives
         Stated at fair value.
      3) Inventories
         *Supplies*
         Stated at cost using the last purchase cost method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).
   (2) Depreciation and amortization of significant depreciable and amortizable assets
      1) Property, plant and equipment
         Depreciated by the declining balance method.
         Note however that facilities attached to buildings acquired on and after April 1, 2016, and buildings are depreciated by the straight-line method.
         The main useful lives are as follows:
         Facilities attached to buildings 8 to 15 years
         Tools, furniture and fixtures 4 to 6 years
      2) Intangible assets
         Amortized by the straight-line method.
         Software for internal use is amortized by the straight-line method over the internally estimated useful life (5 years).
      3) Long-term prepaid expenses
         Amortized by the straight-line method.
   (3) Criteria for translating assets or liabilities denominated in foreign currencies into Japanese currency
      Monetary claims and liabilities denominated in foreign currencies are translated into Japanese yen using the spot exchange rate as of the consolidated balance sheet date, and translation differences are included in gains or losses.
   (4) Scope of cash and cash equivalents in consolidated statements of cash flows
      Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.
   (5) Other significant matters for preparing the consolidated financial statements
      *Accounting for consumption taxes*
      Consumption taxes and local consumption taxes are accounted for based on the tax exclusion method.

*Application of Implementation Guidance on Recoverability of Deferred Tax Assets*

Effective from the first quarter ended March 31, 2017, the Company has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

**Segment information, etc.**

[Segment information]

For the first three months ended March 31, 2017 (January 1, 2017 to March 31, 2017)

This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.

**Significant subsequent event**

*Issuance of subscription rights to shares (compensatory stock options)*

At the meeting of the Board of Directors held on April 14, 2017, the Company resolved to issue the following subscription rights to shares to Directors of the Company in accordance with the provisions of Articles 236, 238, and 240 of the Companies Act (hereinafter "subscription rights to shares"), and implemented the allocation of subscription rights to shares on May 8, 2017.

| | |
|---|---|
| (1) Number of subscription rights to shares | 600 (100 shares per one subscription right to shares) |
| (2) Issue price of subscription rights to shares | 100 yen per one subscription right to shares |
| (3) Type and number of the shares subject to subscription rights to shares | 100 common shares of the Company per one subscription right to shares |
| (4) Exercise value of subscription rights to shares | 440 yen per share |
| (5) Matters concerning increase in capital stock and legal capital surplus | 1) The amount of increase in capital stock in the event of issuance of shares upon exercise of subscription rights to shares shall be an amount that is half of the upper limit for an increase in capital stock to be calculated in accordance with Article 17, paragraph 1 of the Ordinance on Accounting of Companies, and any fractions of less than one yen arising as a result of the calculation shall be rounded up to the nearest one yen.<br>2) The amount of increase in legal capital surplus in the event of issuance of shares upon exercise of subscription rights to shares shall be the upper limit for an increase in capital stock stated in 1) above less the amount of increase in capital stock stipulated therein. |
| (6) Exercise period | From May 8, 2017 to May 7, 2027 |
| (7) Restrictions on transfer | Acquisition by transfer of the subscription rights to shares requires approval of the Board of Directors of the Company. |
| (8) Persons to whom subscription rights to shares are allocated and number of rights allocated | 600 subscription rights to shares to 3 Directors of the Company |

| | |
|---|---|
| (9) Conditions for exercising subscription rights to shares | 1) On condition that the following conditions (a) and (b) are not met, the holder of the subscription rights to shares can freely exercise the rights during the period from the allocation date through May 7, 2022. The holder of the subscription rights to shares cannot exercise the rights in the period from May 8, 2022 through the end of the exercise period by their own intention; provided however that if any of the following conditions (a) and (b) are met, priority shall be given to the met condition and the unmet conditions shall be nullified.<br>a. The closing price of the ordinary trading of the Company's shares on the main market of the Tokyo Stock Exchange exceeded 200% of the exercise price, even momentarily, during the period from the allocation date until May 7, 2022.<br>In the event that the above condition is met, the holder of the subscription rights to shares must exercise all the remaining subscription rights to shares, and they all must be exercised at the exercise price.<br>b. The closing price of the ordinary trading of the Company's shares on the main market of the Tokyo Stock Exchange fell to below 60% of the exercise price, even momentarily, during the period from the allocation date until the end of the exercise period of the subscription rights to shares.<br>In the event that the above condition is met, after the time this condition is met, the Company may order that all the remaining subscription rights to shares be exercised at 60% of the exercise price; provided, however, that during the period from the time this condition is met until the end of the exercise period, the cases when the Company is able to order an exercise is limited to cases where the closing price of ordinary trading of the Company's shares on the main market of the Tokyo Stock Exchange has fallen below 60% of the exercise price<br>2) Subscription rights to shares may not be exercised by inheritors of subscription rights to shares.<br>3) Subscription rights to shares may not be exercised when doing so would result in the total number of the Company's issued shares exceeding the number of authorized shares at the time rights are exercised.<br>4) Any fraction of a subscription right to shares smaller than one may not be exercised. |