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November 10, 2017

## Summary of Consolidated Financial Results for the First Nine 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:** November 10, 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 nine months of the fiscal year ending December 31, 2017 (January 1, 2017 to September 30, 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 |   |
|--|-------------|---|------------------|---|-----------------|---|---|---|
|  | million yen | % | million yen      | % | million yen     | % | million yen                             | % |
| First nine months ended September 30, 2017 | 606         | — | (554)            | — | (487)           | — | (463)                                   | — |
| September 30, 2016                         | —           | — | —                | — | —               | — | —                                       | — |

Note: Comprehensive income  
 Nine months ended September 30, 2017: (499) million yen [–%]  
 Nine months ended September 30, 2016: – million yen [–%]

|  | Earnings per share (Basic) | Earnings per share (Diluted) |
|--|----------------------------|------------------------------|
| First nine months ended September 30, 2017 | yen (24.16)                | yen —                        |
| September 30, 2016                         | yen —                      | yen —                        |

\* Year-on-year changes are not presented as the Company began preparing quarterly consolidated financial statements in the first quarter ended March 31, 2017.

#### (2) Consolidated financial position

|                          | Total assets      | Net assets        | Equity ratio |
|--------------------------|-------------------|-------------------|--------------|
| As of September 30, 2017 | million yen 3,672 | million yen 3,492 | % 94.6       |
| December 31, 2016        | —                 | —                 | —            |

Reference: Equity As of September 30, 2017: 3,475 million yen As of December 31, 2016: – million yen

\* Year-on-year changes are not presented as the Company began preparing quarterly consolidated financial statements in the first quarter ended March 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            | —                          | 0.00               | —                 |                 |       |
| Fiscal year ending December 31, 2017 (forecast) |                            |                    |                   | 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)                                   | — | (40.07)                    |

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 ended June 30, 2017 are omitted.

\* Year-on-year changes are not presented as the Company began preparing quarterly consolidated financial statements in the first quarter ended March 31, 2017.

**\* Notes**

(1) Changes in significant subsidiaries during the first nine months ended September 30, 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 began preparing quarterly consolidated financial statements in the first quarter ended March 31, 2017.

(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 September 30, 2017 | 19,255,236 shares |
| As of December 31, 2016  | 18,767,200 shares |

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

|                          |           |
|--------------------------|-----------|
| As of September 30, 2017 | 50 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 nine months ended September 30, 2017 | 19,190,161 shares |
| For the first nine months ended September 30, 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 nine months .....  | 2  |
| (1) Qualitative information regarding consolidated operating results .....                   | 2  |
| (2) Qualitative information regarding consolidated financial position.....                   | 4  |
| (3) Qualitative information regarding consolidated earnings forecasts.....                   | 4  |
| 2. Quarterly consolidated financial statements and significant notes thereto.....            | 5  |
| (1) Consolidated balance sheet.....  | 5  |
| (2) Consolidated statement of income and consolidated statement of comprehensive income..... | 7  |
| Consolidated statement of income (cumulative).....   | 7  |
| Consolidated statement of comprehensive income (cumulative) .....                            | 7  |
| (3) Consolidated statement of cash flows.....  | 8  |
| (4) Notes to quarterly consolidated financial statements.....                                | 9  |
| Notes on premise of going concern .....  | 9  |
| Notes on significant changes in the amount of shareholders' equity.....                      | 9  |
| Additional information .....   | 9  |
| Segment information, etc.....  | 10 |
| Significant subsequent event .....   | 10 |

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

Year-on-year comparison and analysis are not presented as the Company began preparing quarterly consolidated financial statements in the first quarter ended March 31, 2017.

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

#### 1) Financial results

During the first nine months ended September 30, 2017, the Japanese economy achieved six consecutive years of GDP growth thanks to a strong export growth, a recovery of personal consumption fueled by higher demand for replacing consumer electronics, etc., and labor-saving-oriented corporate investment, despite rising foreign exchange risks from uncertainty about the Trump administration's policy implementation in the U.S. and the current North Korea situation. The Japanese economy also started to eye the path toward overcoming deflation in line with the aim of the government and the Bank of Japan.

In the 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 movements toward becoming specialty pharmaceutical companies specializing in the fields of specific disease and establishing carve-out ventures have 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 at our licensees, application for approval of potassium-competitive acid blocker, tegoprazan, licensed out to CJ HealthCare Corporation (South Korea) ("CJ HealthCare (South Korea)") has been submitted to South Korea's Ministry of Food and Drug Safety ("MFDS") on August 31, 2017. After completion of the new drug approval procedure and listing in that country's National Health Insurance Service drug price list, tegoprazan is scheduled to be officially launched in December 2018. Regarding Galliprant<sup>®</sup>, a pain management compound for dog osteoarthritis, licensed out to Aratana Therapeutics Inc. (U.S.) ("Aratana (U.S.)"), the number of sales contracts has steadily increased since its launch in January 2017 thanks to the strong sales network of its strategic partner Elanco Animal Health (U.S.) ("Elanco (U.S.)," an animal pharmaceutical division of Eli Lilly and Company). With regard to Entyce<sup>®</sup>, a ghrelin receptor agonist licensed out to Aratana (U.S.), it was announced that discussions on production transfer were held with the Center for Veterinary Medicine ("CVM") of the U.S. Food and Drug Administration ("FDA"). Necessary application documents for the production of Entyce<sup>®</sup> will be submitted again in accordance with the agreement with CVM. If these documents are accepted, Entyce<sup>®</sup> will be launched in fall 2017.

On the collaborative research front, the Company's collaborative research with Asahi Kasei Pharma Corporation reached a certain level in July 2017, and the lump-sum payment relating to the milestone attainment was recorded under business revenue.

As for industry-academia collaboration, the Company has conducted collaborative research since August 2011 on the "Assessment of Novel Therapeutic Mechanisms for Urologic Disease" together with the Department of Continence Medicine at the University of Tokyo Graduate School of Medicine (Yasuhiko Igawa, Professor and Chair), and extended this research collaboration agreement by one more year so that the two parties can continue to explore potential applications for the Company's research program in the urology fields such as overactive bladder treatments.

Accordingly, financial results for the first nine months, the reporting period, were as follows. Business revenue for the period was 606 million yen, operating loss totaled 554 million yen, ordinary loss totaled 487 million yen, loss attributable to owners of parent was 463 million yen and comprehensive income was negative 499 million yen. Total business expenses were 1,160 million yen, of which 130 million yen in royalty payments was recorded under cost of business revenue. Moreover, research and development expenses were 586 million yen and other selling, general and administrative expenses totaled 443 million yen. In the first nine months, interest on securities of 28 million yen, subsidy income of 44 million yen, foreign exchange losses of 7 million yen, gain on sales of investment securities of 17 million yen, and gain on bargain purchase of 3 million yen were recognized.

#### 2) Research and development activities

Research and development expenses of the entire Group during the first nine months were 586 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 continued 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 three companies.

| Company                        | Start date    | Content   |
|--------------------------------|---------------|---|
| 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 ileus. 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<sub>4</sub> 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<sub>2B</sub> 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., and it has completed the administration to subjects. Currently, the data is being analyzed.

**(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 (South Korea), and that company applied to MFDS for approval in August 2017. After it passes the new-drug approval procedure and gets listed in that country's National Health Insurance Service drug price list, it is scheduled to be officially launched in December 2018. In addition, development continued smoothly in China.

**(b) Serotonin 5-HT<sub>2A</sub> and dopamine D<sub>2</sub> 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 been marketed in 75 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<sup>®</sup>, RQ-0000007, AT-001, grapiprant, animal drug)**

The compound was developed for pain management for pets by our licensee, Aratana (U.S.). In January 2017, the Company started selling it in the U.S. through Aratana (U.S.) and Elanco (U.S.). In Europe, the compound is now under application with the European Medicines Agency (EMA) for approval for sales and approval is expected to be obtained in 2017.

**(d) Ghrelin receptor agonist (Entyce<sup>®</sup>, RQ-0000005, AT-002, capromorelin, animal drug)**

The compound was developed for anorexia management for pets by Aratana (U.S.). Regarding this compound, it was announced that discussions on production transfer were held with the CVM of the FDA. Necessary application documents for the production of Entyce<sup>®</sup> will be submitted again in accordance with the agreement with CVM. If these documents are accepted, Entyce<sup>®</sup> will be launched in fall 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-0000007, AAT-007, grapiprant)**

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

**(2) Qualitative information regarding consolidated financial position**

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

Assets

Total assets as of September 30, 2017 were 3,672 million yen. The major components were 1,534 million yen in cash and deposits, 232 million yen in property, plant and equipment, and 1,112 million yen in investment securities.

Liabilities

Total liabilities as of September 30, 2017 were 179 million yen. The major components were 56 million yen in accounts payable - other and 44 million yen in accrued expenses.

Net assets

Total net assets as of September 30, 2017 were 3,492 million yen. The major components were 2,243 million yen in capital stock, 2,433 million yen in capital surplus, negative 1,191 million yen in retained earnings, and 17 million yen in subscription rights to shares. The equity ratio was 94.6%.

**2) Analysis of cash flows**

The balance of cash and cash equivalents (hereafter "cash") as of September 30, 2017 amounted to 1,798 million yen, an increase of 553 million yen compared with the beginning of the fiscal year under review.

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

Cash flows from operating activities

Net cash used in operating activities was 392 million yen. This is mainly attributable to the recording of loss before income taxes of 466 million yen, increase in prepaid expenses of 59 million yen, depreciation of 61 million yen, and decrease in notes and accounts receivable - trade of 67 million yen.

Cash flows from investing activities

Net cash provided by investing activities was 940 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 1,096 million yen, purchase of investment securities of 320 million yen, and purchase of securities of 110 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 11 million yen. This is mainly attributable to the proceeds from issuance of shares resulting from exercise of subscription rights to shares of 11 million yen.

**(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 September 30, 2017

| Assets                              |           |
|-------------------------------------|-----------|
| Current assets                      |           |
| Cash and deposits                   | 1,534,095 |
| Securities                          | 227,319   |
| Supplies                            | 4,565     |
| Advance payments - trade            | 232,130   |
| Prepaid expenses                    | 115,672   |
| Deposits paid                       | 160,565   |
| Other                               | 29,721    |
| Total current assets                | 2,304,068 |
| Non-current assets                  |           |
| Property, plant and equipment       |           |
| Buildings, net                      | 104,025   |
| Tools, furniture and fixtures, net  | 128,041   |
| Total property, plant and equipment | 232,066   |
| Intangible assets                   |           |
| Trademark right                     | 5,168     |
| Software                            | 4,991     |
| Other                               | 626       |
| Total intangible assets             | 10,786    |
| Investments and other assets        |           |
| Investment securities               | 1,112,240 |
| Long-term prepaid expenses          | 2,432     |
| Other                               | 10,818    |
| Total investments and other assets  | 1,125,491 |
| Total non-current assets            | 1,368,345 |
| Total assets                        | 3,672,413 |

(Thousands of yen)

As of September 30, 2017

|   |             |
|---|-------------|
| Liabilities   |             |
| Current liabilities                                   |             |
| Accounts payable - trade                              | 16,818      |
| Accounts payable - other                              | 56,844      |
| Accrued expenses                                      | 44,643      |
| Income taxes payable                                  | 8,291       |
| Advances received                                     | 18,000      |
| Deposits received                                     | 5,666       |
| Total current liabilities                             | 150,263     |
| Non-current liabilities                               |             |
| Asset retirement obligations                          | 11,719      |
| Deferred tax liabilities                              | 17,541      |
| Total non-current liabilities                         | 29,261      |
| Total liabilities                                     | 179,524     |
| Net assets  |             |
| Shareholders' equity                                  |             |
| Capital stock   | 2,243,225   |
| Capital surplus                                       | 2,433,008   |
| Retained earnings                                     | (1,191,105) |
| Treasury shares                                       | (21)        |
| Total shareholders' equity                            | 3,485,106   |
| Accumulated other comprehensive income                |             |
| Valuation difference on available-for-sale securities | (9,354)     |
| Total accumulated other comprehensive income          | (9,354)     |
| Subscription rights to shares                         | 17,136      |
| Total net assets                                      | 3,492,888   |
| Total liabilities and net assets                      | 3,672,413   |

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

(Thousands of yen)

|   | First nine months ended<br>September 30, 2017 |
|---|---|
| Business revenue                                    | 606,009                                       |
| Business expenses                                   |   |
| Cost of business revenue                            | 130,826                                       |
| Research and development expenses                   | 586,314                                       |
| Other selling, general and administrative expenses  | 443,525                                       |
| Total business expenses                             | 1,160,666                                     |
| Operating loss                                      | (554,657)                                     |
| Non-operating income                                |   |
| Interest income                                     | 2,837   |
| Interest on securities                              | 28,622  |
| Subsidy income                                      | 44,072  |
| Other   | 1,054   |
| Total non-operating income                          | 76,586  |
| Non-operating expenses                              |   |
| Foreign exchange losses                             | 7,571   |
| Loss on valuation of compound financial instruments | 1,450   |
| Other   | 100   |
| Total non-operating expenses                        | 9,121   |
| Ordinary loss                                       | (487,192)                                     |
| Extraordinary income                                |   |
| Gain on sales of investment securities              | 17,647  |
| Gain on bargain purchase                            | 3,278   |
| Total extraordinary income                          | 20,926  |
| Extraordinary losses                                |   |
| Loss on sales of investment securities              | 199   |
| Total extraordinary losses                          | 199   |
| Loss before income taxes                            | (466,465)                                     |
| Income taxes - current                              | 1,722   |
| Income taxes - deferred                             | (4,612)                                       |
| Total income taxes                                  | (2,889)                                       |
| Loss  | (463,575)                                     |
| Profit attributable to non-controlling interests    | —   |
| Loss attributable to owners of parent               | (463,575)                                     |

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

(Thousands of yen)

|  | First nine months ended<br>September 30, 2017 |
|--|---|
| Loss   | (463,575)                                     |
| Other comprehensive income                                     |   |
| Valuation difference on available-for-sale securities          | (35,538)                                      |
| Total other comprehensive income                               | (35,538)                                      |
| Comprehensive income   | (499,113)                                     |
| Comprehensive income attributable to                           |   |
| Comprehensive income attributable to owners of parent          | (499,113)                                     |
| Comprehensive income attributable to non-controlling interests | —   |

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

(Thousands of yen)

First nine months ended  
September 30, 2017

|   |           |
|---|-----------|
| Cash flows from operating activities  |           |
| Loss before income taxes  | (466,465) |
| Depreciation  | 61,301    |
| Interest income   | (2,837)   |
| Interest income on securities   | (28,622)  |
| Foreign exchange losses (gains)   | 9,232     |
| Subsidy income  | (44,072)  |
| Loss (gain) on valuation of compound financial instruments                                | 1,450     |
| Gain on bargain purchase  | (3,278)   |
| Loss (gain) on sales of investment securities   | (17,448)  |
| Decrease (increase) in notes and accounts receivable - trade                              | 67,766    |
| Decrease (increase) in inventories  | (3,114)   |
| Increase (decrease) in notes and accounts payable - trade                                 | 16,818    |
| Decrease (increase) in advance payments   | (26,893)  |
| Decrease (increase) in prepaid expenses   | (59,804)  |
| Increase (decrease) in accounts payable - other   | (26,023)  |
| Decrease (increase) in consumption taxes refund receivable                                | 14,223    |
| Other, net  | 39,817    |
| Subtotal  | (467,950) |
| Interest and dividend income received   | 34,108    |
| Proceeds from subsidy income  | 44,072    |
| Income taxes paid   | (2,296)   |
| Net cash provided by (used in) operating activities                                       | (392,065) |
| Cash flows from investing activities  |           |
| Proceeds from withdrawal of time deposits   | 340,462   |
| Purchase of securities  | (110,049) |
| Purchase of property, plant and equipment   | (80,788)  |
| Purchase of intangible assets   | (940)     |
| Purchase of investment securities   | (320,068) |
| Proceeds from sales of investment securities  | 1,096,847 |
| Proceeds from redemption of investment securities   | 15,000    |
| Other, net  | (259)     |
| Net cash provided by (used in) investing activities                                       | 940,203   |
| Cash flows from financing activities  |           |
| Proceeds from issuance of shares resulting from exercise of subscription rights to shares | 11,274    |
| Proceeds from issuance of subscription rights to shares                                   | 60        |
| Purchase of treasury shares   | (21)      |
| Net cash provided by (used in) financing activities                                       | 11,313    |
| Effect of exchange rate change on cash and cash equivalents                               | (5,706)   |
| Net increase (decrease) in cash and cash equivalents                                      | 553,744   |
| Cash and cash equivalents at beginning of period  | 1,244,490 |
| Cash and cash equivalents at end of period  | 1,798,234 |

#### (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 nine months, the Company's capital surplus received an increase of 189,783 thousand yen as a result of the Company making TMRC a wholly owned subsidiary company following a share exchange. In addition, as a result of the exercise of subscription rights to shares, the Company's capital stock increased by 5,637 thousand yen and its capital surplus increased a further 5,637 thousand yen.

As a result, capital stock stood at 2,243,225 thousand yen and capital surplus stood at 2,433,008 thousand yen, as of September 30, 2017.

##### Additional information

###### *Significant changes in the scope of consolidation*

During the first quarter ended March 31, 2017, the Company made TMRC a wholly owned subsidiary company following a 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 differences. 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 nine months ended September 30, 2017 (January 1, 2017 to September 30, 2017)

This information is omitted because the Company 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*

Based on the Board of Directors resolution on September 21, 2017, the Company issued the 14th series share options with exercise price amendment clause by allotment to third party (the “share options”) on October 10, 2017.

[Outline of share options]

|   |  |
|---|--|
| (1) Date of allotment   | October 10, 2017   |
| (2) Number of share options                                   | 1,000 share options  |
| (3) Paid-in amount  | 10,900 yen per share option<br>(Total amount paid in for share options: 10,900,000 yen)  |
| (4) Number of dilutive shares resulting from the issuance     | Number of dilutive shares: 1,000,000 shares (1,000 shares per share option)  |
| (5) Amount of funds raised                                    | 1,106,900,000 yen (Note)   |
| (6) Exercise price and amendment conditions of exercise price | Initial exercise price: 1,116 yen<br>The upper limit exercise price is not set.<br>The lower limit exercise price is 670 yen (the “lower limit exercise price”).<br>The exercise price is modified on the day on which each demand to exercise the share options becomes effective (the “modification date”), to the amount equivalent to 91% of the closing price of the ordinary trading of our common share (calculated to the second decimal place, and rounded up to the first decimal place) on the Tokyo Stock Exchange Inc. on the trading day immediately preceding the modification date (if no closing price is available on that day, the immediately preceding trading day on which the closing price is available applies; the “calculation base date”). However, when such modified amount falls below the lower limit exercise price, the lower limit exercise price is deemed to be the exercise price after the modification.  |
| (7) Offer or allotment  | Allotment to third party   |
| (8) Allottee  | Daiwa Securities Co. Ltd.  |
| (9) Others  | The Company concluded a contract to purchase the share options (the “Share Option Purchase Contract”) and a commitment contract with Daiwa Securities Co. Ltd. (“Daiwa Securities”) after the filing of a notification under the Financial Instruments and Exchange Act became effective.<br>The commitment contract stipulates the following contents:<br>- Request by the Company that the share options be exercised;<br>- Prohibition by the Company of exercising the share options; and<br>- Request by Daiwa Securities to acquire the share options.<br>The Share Option Purchase Contract and the commitment contract also stipulate that Daiwa Securities may not transfer the share options to any third parties other than the Company without advance approval of the Company’s Board of Directors and that if Daiwa Securities wishes to transfer the share options, it must make any transferee promise in advance to comply with the transfer restrictions and commitment contract details agreed upon by the Company. In addition, these contracts stipulate that if the said transferee wishes to transfer the share options to another third party, the same process applies. Furthermore, after the shares are issued through the exercise of the share options, there is no preventing the allottees from transferring them to third parties. |

Note: “Amount of funds raised” is the amount calculated by deducting the estimated amount of issue costs from the amount calculated by adding the total amount of the value of property contributed upon exercise of the share options to the total amount to be paid in for the share options.

*Capital increase through exercise of share options*

Following the end of the third quarter ended September 30, 2017 and before the release of this summary report, payment and issuance of new shares were carried out at the Company in line with the exercise of 14th series share options with exercise price amendment clause, which were issued on October 10, 2017, as shown below.

| Exercise date    | Number of share options exercised (Units) | Number of shares issued (Shares) | Exercise price (Yen) | Total amount of exercise price (Thousands of yen) | Increase in capital stock (Thousands of yen) | Increase in legal capital surplus (Thousands of yen) |
|------------------|---|----------------------------------|----------------------|---|--|--|
| October 11, 2017 | 100                                       | 100,000                          | 998.30               | 99,830  | 50,460                                       | 50,460   |
| October 12, 2017 | 180                                       | 180,000                          | 976.50               | 175,770   | 88,866                                       | 88,866   |
| October 13, 2017 | 20  | 20,000                           | 991.90               | 19,838  | 10,028                                       | 10,028   |
| October 16, 2017 | 700                                       | 700,000                          | 960.10               | 672,070   | 339,850                                      | 339,850  |
| Total            | 1,000                                     | 1,000,000                        | —                    | 967,508   | 489,204                                      | 489,204  |

Note: As a result of the above, the 14th series share options were fully exercised as of October 16, 2017.

As a result, as of the date of submission of this report, the total number of issued common shares is 20,255,236, capital stock is 2,732,429 thousand yen and capital surplus is 2,922,212 thousand yen.