English translation

SymBio Pharmaceuticals Limited

Summary of Financial Statements for the Fiscal Year Ended December 31, 2016
[Japanese GAAP] (Non-consolidated)

February 9, 2017

Company Name	**SymBio Pharmaceuticals Limited**	Listing: Tokyo Securities Exchange	
Securities Code	4582	URL http://www.symbiopharma.com/	
Representative	Representative Director, President and Chief Executive Officer	Fuminori Yoshida	
Contact Person	Director, Finance & Accounting	Kenji Murata	TEL +81-3-5472-1125
Ordinary Annual General Meeting of Shareholders	March 29, 2017	Date of dividend payment (plan)	‚
Scheduled Date to File Securities Report	March 30, 2017		

Supplementary materials for the financial statements: Yes [No]

Holding of earnings performance review: [Yes] No (For securities analysts and institutional investors)

(millions of yen ï rounded down, unless otherwise stated)

1. Business Results for FY 2016 (January 1, 2016 to December 31, 2016)

(1) Operating Results (Percentages indicate year-on-year changes)

	Net Sales		Operating Income (loss)		Ordinary Income (loss)		Net Income (loss)	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
FY 2016	2,368	22.5	(2,127)	—	(2,316)	—	(2,313)	—
FY 2015	1,933	(1.1)	(2,551)	—	(2,630)	—	(2,632)	—

	Net Income (loss) per share	Diluted Net Income per share	Ratio of Net Income (loss) to equity (ROE)	Ratio of Ordinary Income (loss) to total assets (ROA)	Ratio of Operating Income (loss) to net sales
	Yen	Yen	%	%	%
FY 2016	(58.82)	—	(50.4)	(39.1)	(89.8)
FY 2015	(81.26)	—	(48.3)	(42.3)	(132.0)

(Reference) Equity in earnings: FY 2016 — million yen FY 2015 — million yen

(2) Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	millions of yen	millions of yen	%	Yen
FY 2016	6,878	5,484	73.5	108.61
FY 2015	4,984	4,431	82.9	127.56

(Reference) Equity: FY 2016 5,053 million yen FY 2015 4,131 million yen

(3) Cash Flow

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at the end of the year
	millions of yen	millions of yen	millions of yen	millions of yen
FY 2016	(1,960)	(43)	3,658	5,719
FY 2015	(2,271)	1,489	(2)	4,261

2. Dividends

	Annual Dividend per Share					Total Dividends	Payout ratio	Ratio of dividends to net assets
	1st Quarter	2nd Quarter	3rd Quarter	Fiscal Year End	Full Year			
	Yen	Yen	Yen	Yen	Yen	millions of yen	%	%
FY 2015	—	0.00	—	0.00	0.00	—	—	—
FY 2016	—	0.00	—	0.00	0.00	—	—	—
FY 2017 (Forecast)	—	0.00	—	0.00	0.00		—	

3. Earnings Forecasts for FY 2017 (January 1, 2017 to December 31, 2017)

(Percentages indicate year-on-year changes)

	Net Sales		Operating Income (loss)		Ordinary Income (loss)		Net Income (loss)		Net Income (loss) per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full Year	2,903	22.6	(3,238)	—	(3,303)	—	(3,306)	—	(71.07)

Notes:

(1) Changes in accounting policies, changes in accounting estimates and restatements after error corrections

(a) Changes in accounting polices due to revision of accounting standards:	Yes	No
(b) Changes in accounting polices due to other reasons:	Yes	No
(c) Changes in accounting estimates:	Yes	No
(d) Restatements after error correction:	Yes	No

(2) Number of shares outstanding (common stock)

(i) Number of shares outstanding at the end of the year (including treasury stock)	FY 2016	46,530,824 shares	FY 2015	32,390,923 shares
(ii) Number of shares of treasury stock at the end of the year	FY 2016	75 shares	FY 2015	75 shares
(iii) Average number of shares during the year	FY 2016	39,329,706 shares	FY 2015	32,390,848 shares

(Note) Refer to ñPer share informationò on Page 55 for the number of shares that forms the basis for calculating net income (loss) per share.

* Status of the annual audit

The audit of financial statements as required by the Financial Instruments and Exchange Act was underway as of the date of this summary of financial statements.

* Explanation regarding the appropriate use of earnings forecasts and other matters

(Notes on forward-looking statements)

All forecasts presented in this document, including earnings forecasts, are based on information currently available to management and assumptions judged to be reasonable. Actual results may differ substantially from these forecasts due to various factors. Regarding the assumptions on which the Companyôs earnings forecasts are based and their usage, please refer to ñBusiness results analysisò on Page 1 of the attachment.

Index of the attachment

1. Business results

(1) Business results analysis

(Business Results for FY 2016)

The accelerated decline in birthrate and aging of the population as well as increasing medical expenses due to the advancement of medicine have long been pointed out as major economic and financial challenges facing Japan. Promoting the use of generic drugs, conducting appropriate evaluation of drugs, and rectifying the problem of excessive drug administration and left-over drugs, are the areas which enable further efficiency in medical expenditures.

In such an environment, as a symbolic measure during FY 2016, the authorities declared a policy via an urgent NHI price revision in which new drugs with expected annual sales of over 100 billion yen on the NHI price basis would be subject to price revisions. Fundamental reforms of the NHI price scheme are required for the further revisions of medical fees.

Thus, while the environment surrounding the Japanese pharmaceutical industry has been changing at an unprecedented pace, progress in the Companyôs business for FY 2016 is as follows.

(i) Domestic

[Anticancer agent: SyB L-0501 (generic name: bendamustine hydrochloride, trade name: TREAKISYM®)]

The Company markets TREAKISYM® in Japan through its business partner, Eisai Co., Ltd. (ñEisaiò), for the indications of recurrent/refractory low-grade non-Hodgkinôs lymphoma and mantle cell lymphoma, the first-line treatment of low-grade non-Hodgkinôs lymphoma and mantle cell lymphoma, and chronic lymphocytic leukemia. Although net sales showed a slight decrease of 99.2% year-on-year (NHI price basis), net sales through Eisai were generally as planned.

By pursuing four indications, the Company has already obtained approvals for three indications, and continues to pursue approval for the remaining one additional indication, for patients who need new therapies and for maximizing the product value of these agents.

The Company filed a supplemental New Drug Application (sNDA) in Japan to the Pharmaceuticals and Medical Devices Agency (ñPMDAò) in December 2015 for the indication of chronic lymphocytic leukemia, and obtained approval for the additional indication in August 2016. The Company has developed and applied for this indication upon request of the Ministry of Health, Labour and Welfare in Japan as one of the ñUnapproved or Off-Label Drugs with High Medical Needs.ò This is the second approval after the approval of an sNDA for the indication of recurrent/refractory low-grade non-Hodgkinôs lymphoma and mantle cell lymphoma which the Company has already received in October 2010.

Regarding the first-line treatment of low-grade non-Hodgkinôs lymphoma and mantle cell lymphoma, the Company filed an sNDA in Japan in December 2015 and received approval for additional indications in December 2016. In Europe, while the Company received a notice from Astellas Pharma GmbH (Head office: Germany) that they withdrew their application in January 2016, the Company, upon consultation with the PMDA, went ahead with the procedures for obtaining approval for the additional indications in Japan and was able to obtain such approval.

Lastly, regarding the indication of recurrent/refractory intermediate/high-grade non-Hodgkinôs lymphoma, the Company continues to discuss the path forward for approval with the PMDA.

[Anticancer agents: SyB L-1101 (intravenous formulation) and SyB C-1101 (oral formulation), generic name: rigosertib sodium]

Regarding these agents, for which a license agreement was entered into in July 2011, the Company has changed their generic name from ñrigosertibò to ñrigosertib sodiumò in accordance with the notice of decision on its Japanese Accepted Names for Pharmaceuticals (JAN) received in October 2016. For the global Phase III trial of the intravenous formulation of rigosertib sodium conducted by Onconova Therapeutics, Inc. (Head office: Pennsylvania, U.S.; ñOnconovaò), the U.S. Licensor, the Company is in charge of the clinical development in Japan and started the domestic trial in December 2015. The global Phase III trial is conducted with clinical trial sites in more than ten countries worldwide, for higher-risk myelodysplastic syndromes (HR-MDS) which do not respond to the current standard treatment with hypomethylating agents (HMAs) or which relapse after treatment under the current standard of care (ñprimary HMA failureò). The Company completed the first patient enrollment in Japan in July 2016. Enrollments are currently accumulating.

Regarding the oral formulation of rigosertib, the Company started its domestic Phase I clinical trial of the oral formulation of rigosertib sodium in combination with azacitidine (Note 1) for the target indication of HR-MDS in December 2015. However, the provision of the investigational drug of this clinical trial by Onconova has been delayed. At present, patient enrollment has not yet been started. As soon as this issue on the provision of the investigational drug is resolved, the Company will resume patient enrollment, complete this clinical trial as planned, and consider its participation in the global Phase III clinical trial to be conducted by Onconova.

(Note 1) About azacitidine (Vidaza®: currently marketed by Nippon Shinyaku Co., Ltd.): This drug was approved in 2011 upon successful confirmation of extended overall survival for the first time in the Phase III clinical trial for the indication of MDS, and is currently used as a first-line drug for MDS patients who have difficulties in hematopoietic stem cell transplantation.

[Patient-controlled iontophoretic transdermal system for the short-term management of acute post-operative pain: SyB P-1501]

In October 2015, the Company entered into an agreement with Incline Therapeutics, Inc., a wholly-owned subsidiary of U.S.-based The Medicines Company (Head Office: New Jersey, U.S.) for an exclusive license to develop and commercialize in Japan SyB P-1501. The Company commenced a domestic Phase III clinical trial for SyB P-1501 in June 2016 and completed the first patient enrollment in November 2016. The Company intends to complete the Phase III clinical trial at the earliest possible time, with the aim of obtaining approval by the end of 2019.

[New drug candidates]

The Company continued with search and evaluation activities to acquire license rights of new drug candidates in global terms, aiming to grow into a biopharmaceutical company with both profitability and growth potential, always from a medium-to-long-term perspective. Negotiations for multiple licensing agreements are currently underway.

Meanwhile, in May 2016, the Company established a wholly-owned subsidiary, SymBio Pharma USA, Inc. (Head office: Menlo Park, California, U.S., ñSymBio Pharma USAò), as the Companyõs strategic base for its overseas business development. By actively acquiring the worldwide rights concerning new drug candidates with SymBio Pharma USA as the base of global business, the Company will accelerate its transformation into a global specialty biopharmaceutical company with the aim of developing and commercializing new drugs in the U.S., Japan, Europe and other major global markets.

(ii) Overseas

SyB L-0501 is also marketed in South Korea, Taiwan and Singapore, and sales in these countries have been strong.

(iii) Business results

As a result of the above, net sales totaled 2,368,112 thousand yen for the fiscal year ended December 31, 2016, primarily reflecting product sales of TREAKISYM® in Japan. Product sales showed a year-on-year increase of 10.6%, and the Company recorded non-recurring revenue including resulting from achieving the sales milestone of SyB L-0501 in Taiwan. Accordingly, overall net sales rose 22.5% year-on-year.

Selling, general and administrative expenses totaled 3,031,242 thousand yen (a year-on-year decrease of 3.3%), including research and development (ñR&Dò) expenses of 1,667,098 thousand yen (a year-on-year decrease of 18.1%) primarily due to expenses associated with the clinical trial for TREAKISYM®, the intravenous and oral formulations of rigosertib as well as SyB P-1501, and other selling, general and administrative expenses of 1,364,143 thousand yen (a year-on-year increase of 24.0%).

As a result, operating loss of 2,127,049 thousand yen was recognized for the fiscal year ended December 31, 2016 (operating loss of 2,551,662 thousand yen for the previous fiscal year). In addition, the Company recorded non-operating expenses totaling 196,467 thousand yen primarily comprising foreign exchange loss of 158,514 thousand yen, stock issuance costs of 11,658 thousand yen and commission fees of 8,975 thousand yen, and non-operating income totaling 6,710 thousand yen primarily due to interest income of 5,235 thousand yen and dividends income of insurance of 1,221 thousand yen. This resulted in an ordinary loss of 2,316,806 thousand yen (ordinary loss of 2,630,386 thousand yen for the previous fiscal year) and net loss of 2,313,233 thousand yen (net loss of 2,632,095 thousand yen for the previous fiscal year).

Segment information has been omitted as the Company operates within a single segment of the pharmaceutical industry which includes the development and commercialization of drugs, manufacturing, marketing and other related activities.

(Forecast for FY 2017)

The Company expects net sales of 2,903 million yen in FY 2017, a 22.6% increase from FY 2016, mainly as a result of growth in sales of TREAKISYM® in Japan and overseas. Meanwhile, in R&D, along with its efforts for development aimed at obtaining marketing approval for the intravenous and oral formulations of rigosertib as well as SyB P-1501, the Company plans to continue active discussions for additional indications of TREAKISYM®. With the aim of further enhancing its corporate value in the long-term, the Company will consider negotiating license agreements for new drug candidates and will advance the development of its pipeline as a whole. To this end, the Company anticipates R&D

expenses of 2,286 million yen (1,667 million yen in FY 2016) and selling, general and administrative expenses of 4,062 million yen (3,031 million yen in FY 2016), including R&D expenses.

Major development plans of the Companyôs pipeline are as follows:

[TREAKISYM®]

Regarding recurrent/refractory intermediate/high grade non-Hodgkinôs lymphoma, the Phase II clinical trial has been completed, and the Company continues to discuss the path forward for approval with the PMDA.

[Intravenous and oral formulation of rigosertib]

As for the intravenous formulation of rigosertib, the Company is currently accumulating patient enrollments in Japan as part of the global Phase III trial, and will continue to actively pursue development.

As for the oral formulation of rigosertib, the Company will resume the domestic Phase I clinical trial in combination with azacitidine once the provision of the investigational drug commences, and will aim for first patient enrollment at an early date. The Company will look into development for the target indication of transfusion-dependent lower-risk MDS, while Onconova is making progress with development.

[Patient-controlled iontophoretic transdermal system for the short-term management of acute post-operative pain: SyB P-1501]

With respect to SyB P-1501 for which a license agreement was concluded in October 2015, the Company completed first patient enrollments in November 2016, and will actively accumulate enrollments, in an effort to swiftly complete the Phase III clinical trial.

As a result of these planned activities, net sales of 2,903 million yen, operating loss of 3,238 million yen, ordinary loss of 3,303 million yen, and net loss of 3,306 million yen are projected for FY 2017.

(2) Financial position analysis

(Analysis of assets, liabilities, net assets, and cash flow)

Total assets as of December 31, 2016 stood at 6,878,384 thousand yen, an increase of 1,894,095 thousand yen from the previous fiscal year end. This was primarily due to increases of 1,457,886 thousand yen in cash and deposits, 186,728 thousand yen in accounts receivable-trade, 139,695 thousand yen in merchandise and finished goods, 40,513 thousand yen in prepaid expenses, 13,888 thousand yen in lease and guarantee deposits, 12,381 thousand yen in tools, furniture and fixtures, net, 11,603 thousand yen in forward exchange contracts and 10,421 thousand yen in long-term prepaid expenses, offsetting decreases of 13,173 thousand yen in advances paid and 8,521 thousand yen in software. Liabilities stood at 1,393,514 thousand yen, an increase of 841,037 thousand yen from the previous fiscal year end, primarily reflecting increases of 450,000 thousand yen in bonds payable, 368,819 thousand yen in accounts payable-other, and 22,403 thousand yen in income taxes payable, offsetting a decrease of 14,999 thousand yen in forward exchange contracts.

Under net assets, the decrease of 2,313,233 thousand yen in retained earnings (accumulated deficits) due to recording of net loss was offset mainly by an increase of 1,617,522 thousand yen in common stock, an increase of 1,617,522 thousand yen in legal capital surplus and an increase of 131,247 thousand yen in stock acquisition rights; thus, total net assets increased by 1,053,058 thousand yen from the previous fiscal year end to 5,484,870 thousand yen. As a result, the equity ratio decreased by 9.4 percentage points from the previous fiscal year end to 73.5%.

Cash and cash equivalents (ñcashò) as of December 31, 2016 stood at 5,719,325 thousand yen, an increase of 1,457,886 thousand yen from the previous fiscal year end. This was mainly due to a cash increase resulting from issuance of bonds with stock acquisition rights, despite a cash decrease resulting from loss before income taxes.

Cash flow from each activity and factors for this fiscal year end are as follows:

(Cash flow from operating activities)

Cash flow from operating activities showed an overall decrease of 1,960,089 thousand yen (a decrease of 2,271,686 thousand yen in the previous fiscal year) due to decreasing factors such as loss before income taxes of 2,309,433 thousand yen, an increase in accounts receivable-trade of 186,728 thousand yen, an increase in inventories of 139,695 thousand yen, an increase in prepaid expenses of 40,513 thousand yen, an increase in consumption taxes receivable of 34,766 thousand yen and an increase in long-term prepaid expenses of 10,421 thousand yen, despite increasing factors such as an increase in accounts payable-other of 357,949 thousand yen, foreign exchange losses of 196,365 thousand yen, share-based compensation expenses of 137,010 thousand yen, and depreciation of 25,649 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities showed an overall decrease of 43,836 thousand yen (an increase of 1,489,141 thousand yen in the previous fiscal year) mainly due to purchase of property, plant and equipment of 23,856 thousand yen and payments of lease and guarantee deposits of 15,923 thousand yen.

(Cash flow from financing activities)

Cash flow from financing activities showed an increase of 3,658,177 thousand yen (a decrease of 2,632 thousand yen in the previous fiscal year) due mainly to proceeds from issuance of bonds with stock acquisition rights of 3,000,000 thousand yen and proceeds from issuance of stock resulting from exercise of stock acquisition rights of 678,018 thousand yen.

(Index trend related to cash flow)

	8th Term Fiscal year ended December 2012	9th Term Fiscal year ended December 2013	10th Term Fiscal year ended December 2014	11th Term Fiscal year ended December 2015	12th Term Fiscal year ended December 2016
Equity ratio (%)	88.6	95.4	90.7	82.9	73.5
Equity ratio on a fair market value basis (%)	104.3	151.4	155.1	150.8	165.1
Debt redemption period (years)	—	—	—	—	—
Interest coverage ratio	—	—	—	—	—

Equity ratio: Equity (total shareholdersô equity)/total assets
Equity ratio on a fair market value basis: Total market value of common stock/total assets
Debt redemption period: Interest-bearing debt/cash flow from operating activities
Interest coverage ratio: Cash flow from operating activities/interest payments

(Notes) 1. Total market value was calculated based on the number of shares issued, excluding treasury stocks.
2. Debt redemption period and interest coverage ratio are not available due to negative cash flow from operating activities.

(3) Basic policies concerning profit distribution and dividends

Since the foundation of the Company, dividends have not been distributed.

Although the Company has recorded product sales of TREAKISYM®, the Company continues to use funds for development activities. Therefore, it is our policy to attempt to improve the balance sheet and retain funds for sustainable development activities rather than profit distribution. However, we recognize that the return of profit to shareholders is an important management issue and will consider the distribution of profit based on future business performance and financial conditions.

The articles of incorporation state that the Company can pay an interim dividend, based on a corporate resolution by the Board of Directors, on June 30 every year as the record date. The Company can also distribute surplus by designating a record date in addition to year end and interim dividends. The decision making body is the Board of Directors for the interim dividend, and shareholders (shareholdersô meeting) for the year end dividend.

(4) Business risks

Described below are major issues that may lead to potential risks in the Companyôs business activities. Issues that are not necessarily considered significant by the Company are also disclosed in view of our commitment to actively provide information to investors and shareholders as these issues may carry weight in making investment decisions or in understanding our business

activities. The Company is fully aware of the potential risks, and will make utmost efforts to prevent such risks from materializing, but should they occur, we intend to take appropriate action. However, we realize that investment decisions regarding our stock should be made carefully by evaluating the following matters, as well as other matters mentioned in other sections of this document. We would add that the following descriptions do not purport to cover all possible risks associated with investment in our stock. The future perspectives mentioned below reflect our understanding of our business circumstances as of the date of publication of this summary of financial statements.

(i) Risks associated with pharmaceutical development in general

The Companyôs main business is to in-license new drug candidate compounds created by pharmaceutical companies and bioventures, and to develop these into pharmaceutical products. The R&D field of pharmaceuticals is replete with strong competition, including pharmaceutical giants. What is more, specialty pharmaceutical companies, including the Company, emulate each other in quality and speed within the sector. The process from development to manufacturing and marketing involves many regulatory hurdles, necessitating a vast amount of capital input over a long period of time in business operations. Their future prospects involve uncertainty and these risk factors are associated with the Companyôs present and future business activities.

a) Uncertainty involved in pharmaceutical development

Generally speaking, the pharmaceutical development process leading up to the launch of a drug requires a vast amount of expenditure over a long period. The probability of success is by no means high. In every stage of development, it is not uncommon for a decision to be made to halt or delay progress. In pharmaceutical development, the different stages of development have to be conducted in phases, and at each phase a decision is made regarding whether or not development should continue. Therefore, it is not rare for a decision to be made to stop development in mid-process. The probability is low for development to progress successfully and for a product to be launched. Even after a product is successfully developed and launched onto the market, there remains the risk that product approval is revoked due to the potential to damage a patientôs health (for details, refer to ñ(f) risk associated with side effectsò). To reduce these risks, the Company aims to possess several drug candidates in its pipeline and endeavors to prioritize insofar as possible the in-licensing of drug candidates with confirmed POC (Note 2) in human subjects. For small specialty pharmaceutical business such as the Companyôs, the impact is huge if a single drug candidate is removed from its pipeline. This could have a significant effect on the Companyôs financial position, business performance, and cash flow.

(Note 2) POC (Proof of Concept) means confirming the efficacy and safety of a new drug candidate in clinical trials, and verifying the appropriateness of its concept.

b) Uncertainty of income

In order to raise income from the drugs we are developing, we need to succeed at all the stages of new drug candidate development, namely obtaining approval from regulatory authorities, manufacturing and marketing either on our own or in partnership with a third-party. However, we may not necessarily succeed in these activities, or even if we do succeed, we may not be able to ensure the margin of profitability needed to continue our business. Of the products currently in the development pipeline, SyB L-0501 achieved approval for manufacturing and marketing in Japan on October 27, 2010, for the indications of recurrent/refractory low-grade non-Hodgkinôs lymphoma and mantle cell lymphoma, and was launched as the anticancer agent TREAKISYM® in December 2010. For additional indications, in December 2015, we filed supplemental New Drug Applications (sNDAs) in Japan for the target indications of first-line treatment of low-grade non-Hodgkinôs lymphoma and mantle cell lymphoma, and chronic lymphocytic leukemia, and received marketing approval for chronic lymphocytic leukemia in August 2016, and for first-line treatment of low-grade non-Hodgkinôs lymphoma and mantle cell lymphoma, in December 2016. Furthermore, we have completed the Phase II clinical trial for recurrent/refractory intermediate/high-grade non-Hodgkinôs lymphoma. With respect to rigosertib, we are currently conducting a global Phase III clinical trial in Japan with the SyB L-1101 intravenous formulation for the target indication of recurrent/refractory higher-risk MDS and a Phase I clinical trial with the SyB C-1101 oral formulation in combination with azacitidine for the target indication of higher-risk MDS. For the patient-controlled iontophoretic transdermal system for the management of acute post-operative pain SyB P-1501 for which a license agreement was concluded in October 2015, the Company is currently conducting a Phase III clinical trial for the indication of short-term management of acute post-operative pain in the hospital. We are promoting the development of these compounds, aiming to successfully launch the products onto the market to obtain income. In some cases, we may consider entering into an alliance with other pharmaceutical companies in development and marketing so as to expedite the inflow of income. Notwithstanding our

efforts, these drug candidates in our pipeline will require a considerable amount of time under development before they reach the marketplace. There is no guarantee that they will make it onto the market as viable products, or that an alliance agreement can be signed with other pharmaceutical companies. We are of the opinion that the selection of indications and the methods of alliance and marketing identified thus far promise sufficient future profitability after considering the market size and marketing performance of approved drugs. However, should we prove to be wrong in our assessment, or should there be any change in the conditions on which the assessment is based and we fail to promptly adapt to such changes, there could be a significant impact on our financial position, business performance, and cash flow.

c) Uncertainty in legislation and regulations requiring compliance, and the health insurance system

The pharmaceutical industry, the Companyôs core business, is subject to various regulatory restrictions imposed by laws and administrative guidance related to pharmaceutical drugs as well as other relevant legislation regarding all aspects of business operations (i.e., research, development, manufacturing, marketing). We formulate our business plans in accordance with the PMD Act and other current legislative regulations as well as the health insurance system, together with drug pricing guidelines that derive from this legislation. Notwithstanding, there is a possibility that these regulations, regulatory systems and pricing will change before the products that we are developing reach the marketplace. If any major change does occur, there may be a significant impact on our financial position, business performance, and cash flow.

d) Risk concerning development and marketing overseas

We conduct our pharmaceutical business in Asian and other countries globally, not exclusively in Japan, where we anticipate the growth of healthcare needs and our position in certain therapeutic areas. In overseas markets, as in Japan, pharmaceutical development and marketing generally require a vast amount of expenditure and are associated with business risk. To reduce investment expenditure and business risk, we out-license the development and marketing of some of our drug candidates to other overseas companies. Before out-licensing the rights we possess, we select a licensee after careful due diligence and careful monitoring when necessary. The development and sales of out-licensed products are subject to business conditions of the licensee or any changes in the regulatory and competitive environment in respective countries, and may fall below initial expectations, resulting in lower milestone revenue and royalty income. In such cases, there may be an impact on our financial position, business performance, and cash flow.

e) Competition in the pharmaceutical industry

The pharmaceutical industry is an intensely competitive sector. A large number of both Japanese and foreign pharmaceutical companies and research institutions, including giant multinational pharmaceuticals, compete in the arena. Technological innovation is progressing rapidly. Many competitors have a comparative advantage over the Company in terms of technology, marketing and financial position. Thus, these companies may more efficiently produce and sell competitor products which are more effective than the Companyôs developed products. This means that what transpires in the competitive landscape with regards to development, manufacturing and marketing operations may have a significant impact on our financial position, business performance, and cash flow.

f) Risk associated with side effects

Unexpected side effects may occur from the use of pharmaceutical products, from their clinical trial stage to post-marketing stage. When serious and unexpected side effects occur, compensation claims may arise, or depending on the situation, there is the risk of a delay in clinical trial timelines or even discontinuation of product development. In the case where such side effects could lead to further damage to the health of patients, there is the risk of cancellation of approval or discontinuation of sales. Regarding compensation claims, the Company has in place the liability insurance necessary to minimize the financial damage should such claims arise. However, this does not exclude the possibility that the compensation awarded exceeds the amount insured. If this should occur, it could have a significant impact on the Companyôs financial position, business performance, and cash flow.

g) Product liability

The development and manufacture of pharmaceutical products involves product liability risk. If in the future any products that we have developed cause damage to health or any adverse events are discovered during clinical trials, manufacturing, sales or marketing of the drug, the Company will be subject to product liability. This may have a significant impact on the Companyôs financial position, business performance, and cash flow. Indeed, if a product liability suit is filed against the Company, the Companyôs corporate image could be damaged, leading to a loss of confidence in the Company and the drugs it develops, impacting future business.

(ii) Risk in business operations

a) Risk concerning the Companyôs business model

The Company does not own research and manufacturing facilities, instead, mainly targeting orphan drugs (Note 3) in the areas of oncology, hematology and pain management, in-licensing drug candidates having POC established in human subjects from pharmaceutical companies and bioventures, developing and marketing pharmaceutical products in Japan, Asian and other countries globally (China, South Korea, Taiwan, Singapore, etc.). The Company has adopted a business model to raise income and profit from such activities. In developing the pipeline and marketing, the Company plans to engage in alliances with other pharmaceutical companies. However, there is no guarantee that the Company can continuously in-license drug candidate compounds that satisfy in-house criteria and secure these partner companies. In addition, as the Company mainly targets orphan drugs for in-licensing (Note 4), it may not be able to generate expected sales turnover. Furthermore, in the event that development at a licensor is delayed or fails, there may be impact on the corresponding development in Japan. These factors could impact the Companyôs financial position, business performance, and cash flow. Needless to say, intense competition within the pharmaceutical sector and changes in the Companyôs financial position may force the Company to revise its business model. Should this occur, there may be a significant impact on the Companyôs business.

(Note 3) The rare-disease field is one in which the number of patients requiring drugs are small. Drugs for this field are termed ñorphan drugs.ò The Japanese Ministry of Health, Labour and Welfare has established an orphan drug designation system for drugs meeting the criteria of (1) a drug to treat a disease that affects less than 50,000 people in Japan, and (2) for which there is a great need for medical treatment. Once designation is obtained, the drug will enjoy various advantages including shortening of the time from regulatory submission for review of the drug to approval and the extension of the re-examination period for up to 10 years.

(Note 4) ñIn-licensed drug candidatesò are compounds or products for which the rights of development and commercialization are obtained from other companies.

b) Dependency on specific partners and suppliers

As a specialty pharmaceutical company without production facilities, the Company needs to depend on the supply of product from other companies when conducting clinical trials and marketing approved drugs. Given this fact, the financial position and production conditions of the product supplier may have a significant impact on the Companyôs financial position, business performance, and cash flow. In pipeline development and marketing, while the Company has plans to conduct sales on its own in the future, its current business plan focuses on forming alliances with pharmaceutical companies. However, if the partner companyôs management situation deteriorates unexpectedly or if management policies change, which are matters beyond the Companyôs control, initial business plans may not be realized. Also, if any breach of contract occurs that necessitates the termination of the license agreement as stipulated, the alliance may also end. In such cases, there may be a significant impact on the Companyôs financial position, business performance, and cash flow. Typically, in license agreements with partner companies, revenues to be gained before the drug reaches the marketplace will include an upfront payment upon signing the contract, funding for co-development and milestone payments. Of these, milestone payments are extremely unstable and unpredictable income as they are based on the attainment of predefined results. If development progress is delayed, there may be a significant impact on the Companyôs financial position, business performance, and cash flow.

c) Risk concerning intellectual property rights

During drug development activities, the Company makes use of various intellectual property rights. The use of these rights basically has been granted from other companies such as pharmaceuticals and bioventures. However, the possibility remains that the Companyôs in-licensed drug candidate does not succeed in the pending patent application made by the licensor. Moreover, it is difficult to completely avoid the possible creation of an intellectual property right by a third-party that supersedes the intellectual property right of the Companyôs in-licensed drug candidate. These situations could lead to a significant impact on the Companyôs financial position, business performance, and cash flow. To date, no lawsuit has been filed by a third-party against the Company concerning intellectual property rights, including patents in connection with product development. When in-licensing a product, the Company will seek advice from lawyers and conducts a thorough due diligence investigation through patent firms in order to reduce such intellectual property risks. Nevertheless, it is difficult to realize full protection from the occurrence of intellectual property right disputes involving the infringement of third-party rights, and these may have a significant impact on the Companyôs financial position, business performance, and

cash flow. The candidate compounds that the Company in-licenses are not necessarily protected by patent. On the other hand, even if a drug candidate is not protected by patent, the assignment of the compound for review by the regulatory authorities would virtually restrict the entry of generic drugs during the review period, realizing the monopolistic protection for a certain period of time.

d) Information protection

To reduce the risk of significant confidential information relating to pipeline development and other business activities from leaking outside the Company, the Company engages in rigorous information protection. The Company requires directors, Scientific Advisory Board (SAB) members, outsourcing partners, and other business partners to sign confidentiality agreements. Even with the agreement in place, directors, SAB members, outsourcing partners and other business partners may not adhere to confidentiality, and should this occur, significant confidential information may be divulged elsewhere, which may impact the Companyôs business, financial position, business performance, and cash flow.

e) Risk concerning important contracts

If any contracts that may have a significant impact on conducting the Companyôs business operations are terminated due to expiration, breach of contract or for any other reason, there may be a significant impact on the Companyôs financial condition, business performance, and cash flow.

(iii) Risk associated with organization

a) Risk of being a young company

SymBio is a young company founded in March 2005. Since inception, the Company has engaged in in-licensing activities of drug candidates for development. The founding President and CEO built up the pharmaceutical development business from scratch, and the Company recorded income from product sales in August 2010, for the first time in its history. There is the possibility that business issues that SymBio has never encountered arise in the future. At the moment, however, it is difficult to predict any changes in the external environmental factors that may affect the Companyôs business results. Therefore, the Company considers business results for the past several years to be an inadequate reference to pass judgment on whether or not the Company can continue to grow.

b) Risk of being a small corporation

The Company uses contract research organizations (CROs (Note 5)) in conducting R&D, thereby forming a development framework requiring relatively small staff numbers. With progress in the development of the pipeline already in place and with newly in-licensed drug candidates coming on line, the Companyôs human resources in R&D is likely to be further increased. However, for whatever reason should an alliance with a CRO terminate, or should the Company fail to secure the planned number of staff or should existing staff decide to leave, the Companyôs business operations may be hampered, leading to a possible impact on the Companyôs financial position, business performance, and cash flow.

(Note 5) A contract research organization (CRO) is an organization to which a pharmaceutical company commissions certain activities so as to avoid delays in the progress of its drug development activities. The details of the commissioned activities may include monitoring to ensure that clinical studies are carried out in full accordance with study protocols and clinical data management.

c) Dependency on a specific person

Fuminori Yoshida, the Representative Director, founding President and CEO, has played a key role since the Companyôs foundation in the implementation and execution of all operations in the Companyôs business management. Thus, in the event that he cannot continue to perform his corporate responsibilities for some unforeseen reason, this could have a significant impact on the Companyôs business operations.

d) Scientific Advisory Board (SAB)

The Scientific Advisory Board (ñSABò) is an advisory panel to the Company on the potential in-licensing of new drug candidates. The Company invites members of the panel from clinicians and scientists engaged in basic research who are highly regarded in the healthcare industry due to their successful track records and wealth of experience. The SAB meets two or three times a year to engage in active discussion and debate, with each member giving his/her own perspective on an in-licensed drug candidate. The Company will continue in its efforts to acquire members of excellence for the SAB. However, if difficulty should arise in procuring members for reasons such as the cancellation of contracts with existing

members, retirement or refusal to renew, or should a brain drain occur, there may be an impact on the Companyôs ability to evaluate and in-license quality drug candidates.

(iv) Business Results

a) Business performance in previous years

The Company's key business indicators are given below:

Term	8th Term	9th Term	10th Term	11th Term	12th Term
Fiscal Year Ended	December 2012	December 2013	December 2014	December 2015	December 2016
Net sales (thousand yen)	1,955,178	1,532,054	1,955,027	1,933,241	2,368,112
Operating income (loss) (thousand yen)	(1,700,273)	(1,680,528)	(1,303,279)	(2,551,662)	(2,127,049)
Ordinary income (loss) (thousand yen)	(1,729,480)	(1,601,424)	(1,110,316)	(2,630,386)	(2,316,806)

To date, with the exception of the 4th Term, the Companyôs total R&D expenses and other general administrative expenses exceeded the Companyôs income, resulting in the posting of operating loss, ordinary loss and net loss. For this reason, the Company does not consider the financial statements and indicators of previous years to provide adequate reference data in making timely comparisons of business performance or in forecasting future business performance.

b) Expected Increase in R&D Expenditures

The Companyôs R&D expenses for the past five fiscal years are provided below:

Term	8th Term	9th Term	10th Term	11th Term	12th Term
Fiscal Year Ended	December 2012	December 2013	December 2014	December 2015	December 2016
R&D expenses (thousands of yen)	1,438,125	1,052,790	774,103	2,034,714	1,667,098

The Company intends to continue with R&D activities, resulting in an increase of cumulative loss for the foreseeable future. With future increases in product sales revenue from additional indications of TREAKISYM®, the product sales channels upon early approval for the intravenous and oral formulations of rigosertib and SyB P-1501, and the income from alliances with pharmaceutical companies, the Company intends to improve business performance as soon as possible; however, there is no guarantee that such assumptions will materialize and swift performance improvement realized.

c) Negative retained earnings (accumulated deficits) brought forward

SymBio is a specialty pharmaceutical company. Until products under development at the clinical stage reach the market so that the Company can continuously earn stable income through product sales and royalty income, the Company will post a huge upfront outlay of R&D expenditures. Due to this, with the exception of the 4th Term (2008), the Company has posted net current losses since its foundation. At the end of the 12th Term, the fiscal year ended December 31, 2016, the Company recorded a negative balance of 14,812,843 thousand yen as accumulated deficits brought forward. SymBio intends to become a profitable business entity as early as possible by advancing its quality clinical programs in a rapid, precise and efficient manner as planned. However, the possibility still exists that profits may not be generated at the time initially planned. Should the Companyôs business fail to develop as planned and net profits are not generated, the Company faces the possibility of a considerable delay in negative retained earnings (accumulated deficits) brought forward turning positive.

d) Fundraising

As a specialty pharmaceutical company, the Company requires huge R&D funding. If SymBioôs business plan does not take shape as planned and it suffers a shortfall in funding, the Company will endeavor to procure funds by changing strategic alliances, securing new alliance contracts or issuing new stock. However, if the Company fails to generate funds exactly when they are required, there may be serious doubt cast over the continuation of its business operations.

e) Net operating loss for tax purposes

The Company currently has net operating loss carryforwards for tax purposes. For this reason, the Company is not subject to corporate tax, local inhabitant tax and local enterprise tax at the standard rates and expects this to continue for several terms into the future. However, if net operating loss expires earlier than expected and can no longer be used as an offset to taxable income due to such reasons as the revision of current tax treatment of net operating loss, the Company would become liable for the payments of corporate tax, local inhabitant tax and local enterprise tax at standard rates, which may have an impact on net profit/loss and cash flow currently planned.

(v) Other Risks

a) Profit distribution to shareholders

Since the foundation of the Company, dividends have not been distributed. SymBio is currently at the business stage of making upfront investment for the development of pharmaceutical drugs and continues to prioritize the use of funds for strengthening its financial position and for continued R&D activities. Thus, the Company has at present no plans for making dividend payouts. However, the Company recognizes that the return of profit to shareholders is an important management issue and will consider profit distribution based on future business performance and financial condition.

b) Procurement of funds

As the Company rapidly expands its business, it expects to see an increase in development funding requirements. One option for procuring funds is to issue new stock. By doing so, the number of outstanding stock will increase, potentially diluting the value per share of the Companyôs stock.

c) Stock value dilution by execution of stock acquisition rights

The Company adopted the stock option plan in order to motivate and encourage higher business performance of board directors, employees, and collaborators, and to attract human resources of excellence. In accordance with the Commercial Code of 1890 Article 280-19, 280-20 and 280-21, and the Companies Act Article 236, 238, 239 and 240, stock acquisition rights are granted to board directors and employees.

The Company made a resolution at the Board of Directors meeting held on December 27, 2012 to issue the first unsecured convertible bonds with stock acquisition rights (total issue price: 1 billion yen) and the 29th warrant (total issue price: 5.1 million yen by way of third-party allotment, total issue price of stocks when issued through the exercise of stock acquisition rights: 500 million yen). The Company made a resolution at the Board of Directors meeting held on November 14, 2014 to issue the second unsecured convertible bonds with stock acquisition rights (total issue price: 500 million yen) and the 34th warrant (total issue price 10,363 thousand yen by way of third-party allotment, total issue price of stocks when issued through the exercise of stock acquisition rights: 1 billion yen). Moreover, the Company made a resolution at the Board of Directors meeting held on April 6, 2016 to issue the third unsecured convertible bonds with stock acquisition rights (total issue price: 3 billion yen) and the 39th warrant (total issue price 9,776 thousand yen by way of third-party allotment, total issue price of stocks when issued through the exercise of stock acquisition rights: 943,592 thousand yen). Among these warrants, as of December 31, 2016, the following remained unexercised: 9,758 units of the 34th warrant (the number of shares issued upon the exercise of warrants: 975,800), 104 units of the 39th warrant (the number of shares issued upon the exercise of warrants: 4,472,000) and 6 units of the third unsecured convertible bonds with stock acquisition rights (the number of shares issued upon the exercise of warrants: 2,132,708).

As of December 31, 2016, the number of potential dilutive shares from the above-mentioned stock acquisition rights (ñnumber of potential sharesò) totaled 11,038,308 shares and comprised approximately 19.2% of the total number of outstanding shares and potential shares added together. There is the possibility that stock value per share for the Company will be diluted if these potential shares are exercised in the future. To attract talent, the Company may continue to offer similar incentives. This means that if these stock acquisition rights are exercised in the future, the stock value per share of the Company may be diluted.

d) Stock holding by venture capital

In general, venture capital and investment partnerships own shares for the purpose of realizing capital gains by selling shares after IPO. There is the possibility that venture capitals and investment partnerships that own SymBio shares may sell all or a portion of such shares, and should this occur, it could have an impact on the market price of the Companyôs shares.

e) Risk of loss on foreign exchange

While continuously performing research on drug candidates for new development to expand its pipeline, the Company arranges large amounts of fund procurements by means of deposits denominated in foreign currency or foreign exchange contracts based on the assumption that deposit payments in U.S. dollars will be required upon in-licensing. Where such assets denominated in foreign currency are stated at market value in financial statements at every year end, there is a risk of loss from fluctuating currency valuation in the future and this may have an impact on the Companyôs financial position, business performance, and cash flow.

f) Risk associated with natural disasters

Any disasters (earthquake, typhoon, fire, etc.) and plague that occur in the Companyôs geographic business domain, leading to the occurrence of human and material damage, or suspension and delay in business, fall in social credibility and compensation issues, may have an impact on the Companyôs financial position, business performance, and cash flow.

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2. Status of corporate group

None to be reported.

3. Management policies

(1) Basic policy of company management

SymBio Pharmaceuticals Limited was established in March 2005 by Fuminori Yoshida, who previously served concurrently as Corporate VP of Amgen Inc. (Note 6) (United States) and President of Amgen K.K., a wholly owned subsidiary of Amgen Inc., (now part of Takeda Pharmaceutical Company Limited) for 12 years since its establishment.

The Company aims to achieve social and management responsibilities by responding to unmet medical needs (Note 7) based on the guiding principle of mutual harmony, creating an intricate symbiotic relationship between patients, physicians, scientists, regulators and investors.

The Company regards underserved therapeutic areas with extremely significant medical needs as a business opportunity and remains focused on the areas of oncology, hematology, and pain management where high entry barriers exist due to the high degree of specialization required. In this sense, SymBio is the first specialty pharmaceutical company (Note 8) in Japan. Rather than exploring opportunities to in-license and develop new blockbuster drugs (with sales exceeding 100 billion yen), the Company channels its resources into the development of drugs in underserved markets where medical needs are high despite limited patient numbers. Securing multiple drug approvals in these key therapeutic areas will enable the Company to build a solid and diverse pipeline to ensure business sustainability.

(Note 6) Applied Molecular Genetics, or Amgen Inc., the worldôs largest company in the biopharmaceutical field, was founded in Thousand Oaks, California, in 1980, and started business in Japan as Amgen K.K. on May 1, 1993. After Takeda Pharmaceutical Company Limited (ñTakedaò) acquired 100% of Amgen K.K.ôs stock in February 2008, its operations were merged into Takeda.

(Note 7) ñUnmet medical needsò means requirements for medical treatment that have not yet been fulfilled. It refers to a situation in which no effective drugs or treatments are currently available, despite strong demand by patients and/or physicians.

(Note 8) ñSpecialty pharmaceutical companyò refers to a company that develops new drugs and has been given a consistently high international evaluation for a particular field of excellence. This is based on the definition in the Ministry of Health, Labour and Welfareôs ñVision for the pharmaceutical industryò (2002).

(2) Key performance index

In order to enhance SymBioôs enterprise value as a specialty pharmaceutical company, it is important to continually in-license drug candidates for development, to successfully complete clinical development and secure marketing approvals in order to sell drugs in the marketplace with the establishment of a sales and support system. To this end, the Company intends to continue aggressively investing resources into R&D activities.

For the current fiscal year end, the Company has recorded net sales from SyB L-0501 for the first time since the drug was initially approved for sale in Japan and Singapore in 2010. However, product sales have not generated sufficient revenue to cover the above-mentioned upfront investment at this time, and generating net profit has still to be realized. While the Company continuously seeks stable profitability through further expansion of sales and additional indications for TREAKISYM® in collaboration with Eisai, acquisition of early approvals for the intravenous and oral formulations of rigosertib and SyB P-1501, as well as introduction, promotion of development and acquisition of approval for new pipeline products, no performance index targets such as ROE or ROA will be set until profits are recorded in a single year through the achievement of these measures.

(3) Pipeline

The Company currently has the following pipeline products under development: SyB L-0501, SyB L-1101, SyB C-1101 and SyB P-1501. The Company will continue to in-license candidate drugs to expand and build its pipeline portfolio with a balanced risk-return trade-off.

(i) [Anticancer agent: SyB L-0501 (generic name: bendamustine hydrochloride, trade name: TREAKISYM®)]

Bendamustine hydrochloride (the generic name), the active pharmaceutical ingredient of TREAKISYM®, is an anticancer agent that has been in use for a number of years in Germany under the trade name of Ribomustin® for the treatment of non-

Hodgkin's lymphoma (Note 9), multiple myeloma, and chronic lymphocytic leukemia. The Company decided to in-license this product because there is currently no effective medication for the indications of recurrent/refractory low-grade non-Hodgkin's lymphoma and mantle cell lymphoma. These are underserved therapeutic areas aligned with the Company's corporate mission and also fall within one of SymBio's targeted therapeutic fields (hematologic cancer). Astellas Pharma GmbH, a German subsidiary of Astellas Pharma Inc., is the worldwide licensor of bendamustine hydrochloride. Cephalon, Inc. (United States) licensed rights to bendamustine for North America from Astellas Pharma GmbH and obtained approvals from the U.S. Food and Drug Administration (FDA) to use the drug for the treatment of chronic lymphocytic leukemia and refractory B-cell non-Hodgkin's lymphoma in March 2008 and October 2008, respectively. Mundipharma International Corporation Limited (United Kingdom) and Janssen-Cilag (United Kingdom) are also licensed from Astellas Pharma GmbH and have obtained exclusive rights for the development and commercialization of bendamustine in Europe and other regions, respectively. The Company is licensed from Astellas Pharma GmbH with exclusive rights for the development and commercialization of bendamustine in Japan, China, Hong Kong, South Korea, Singapore and Taiwan. In Japan, the drug has received approval for the indications of recurrent/refractory low-grade non-Hodgkin's lymphoma and mantle cell lymphoma (October 27, 2010), and was launched under the trade name TREAKISYM® on December 10, 2010.

For additional indications, in December 2015, the Company filed sNDAs in Japan for the target indications of first-line treatment of low-grade non-Hodgkin's lymphoma and mantle cell lymphoma, and chronic lymphocytic leukemia. The Company received approval of an sNDA for the indication of chronic lymphocytic leukemia in August 2016 and of first-line treatment of low-grade non-Hodgkin's lymphoma and mantle cell lymphoma in December 2016. The Phase II clinical trial for recurrent/refractory intermediate/high-grade non-Hodgkin's lymphoma has been completed. The Company intends to maximize the commercial value of TREAKISYM® by further promoting life cycle management. Eisai has signed an agreement with SymBio for the right of joint development and exclusive marketing right in Japan, and is currently marketing TREAKISYM®.

In Asia, SyB L-0501 received the approval for the indication of low-grade non-Hodgkin's lymphoma and chronic lymphocytic leukemia in Hong Kong in December 2009. In Hong Kong, Cephalon, Inc. has the exclusive right to develop and sell bendamustine, and is currently generating sales. In addition, approval for the indications of low-grade non-Hodgkin's lymphoma and chronic lymphocytic leukemia was obtained in Singapore in January 2010. In South Korea, approval for the indications of chronic lymphocytic leukemia and multiple myeloma was obtained in May 2011, and approval for the indication of recurrent/refractory low-grade non-Hodgkin's lymphoma was achieved in June 2014.

In South Korea and Singapore, Eisai has agreements in place with SymBio for exclusive development and marketing rights. Eisai's subsidiaries launched the product in Singapore and South Korea in September 2010 and October 2011, respectively.

Cephalon, Inc. is making progress with clinical development in China, and in Taiwan SymBio's business partner, InnoPharmax Inc. (Taiwan), achieved approval for the indications of low-grade non-Hodgkin's lymphoma and chronic lymphocytic leukemia in October 2011, followed by product launch in February 2012.

(Note 9) Non-Hodgkin's lymphoma (NHL) is a cancer of the lymphatic system in which lymphocytes develop malignant growths other than Hodgkin's lymphoma. The majority of Japanese patients are suffering from NHL.

(ii) [Anticancer agents: SyB L-1101 (intravenous formulation) and SyB C-1101 (oral formulation) (generic name: rigosertib)]

Rigosertib is an anticancer agent with a unique type of multi-kinase inhibitory activity (Note 10). It is currently being developed in the U.S. and Europe by a U.S. company, Onconova Therapeutics, Inc. (ñOnconovaò), for the target indications of myelodysplastic syndromes (ñMDSò). MDS is the pre-pathological state for malignant tumors of blood cells, which has shown increasing numbers of patients in recent years; it frequently affects elderly people; and it is a refractory disease, with a high probability of developing into leukemia. No effective medication is available yet, especially for recurrent/refractory MDS, and it therefore constitutes an underserved therapeutic area. In July 2011, the Company signed a license agreement with Onconova, providing the exclusive right to develop and commercialize rigosertib in Japan and South Korea. Based on this agreement, the Company continues to develop the intravenous (IV) rigosertib formulation for the target indication of recurrent/refractory higher-risk MDS and the oral formulation for each target indication of higher-risk MDS (in combination with azacitidine) and transfusion-dependent lower-risk MDS.

In February 2014, Onconova released the results from the Phase III randomized ONTIME trial of IV rigosertib in patients with recurrent/refractory higher-risk MDS. Treatment with IV rigosertib plus Best Supportive Care (BSC) did not demonstrate a statistically significant improvement in median overall survival when compared to BSC only. However, a post-hoc analysis demonstrated a statistically significant increase in median overall survival in the subset of patients who had progressed on or failed previous treatment with hypomethylating agents (HMAs), thus demonstrating potential activity of rigosertib in these MDS patients.

Based on this, Onconova is conducting a global Phase III trial with clinical trial sites in more than ten countries worldwide, for HR-MDS patients who do not respond to treatment with HMAs (ñprimary HMA failureò) or who relapse after treatment under the current standard of care.

The Company is participating in the global Phase III trial and conducting the clinical trial in Japan.

As for the oral formulation of rigosertib, Onconova has been conducting a Phase II clinical trial for the target indication of transfusion-dependent lower-risk MDS and Phase I/II clinical trial for the indication of first-line higher-risk MDS (in combination with azacitidine).

The Company has completed its domestic Phase I clinical trial of the oral formulation of rigosertib as a monotherapy for the target indication of lower-risk MDS, and a Phase I clinical trial in combination with azacitidine is being conducted for the target indication of higher-risk MDS. The Company is considering participating in global clinical trials after completing the Phase I clinical trial. The development for the target indication of transfusion-dependent lower-risk MDS will be considered, with a view to development progress by Onconova.

While Onconova is making steady progress with development, we will look into the option of developing for indications other than MDS. By allocating development of the intravenous and oral formulations to different indications, it is hoped that progress will be made with development of treatment methods that are easy for patients to use, and that place sufficient importance on the need for compliance.

(Note 10) Multi-kinase inhibitors impede the growth, proliferation and metastasis of cancer cells, thereby eradicating them.

(iii) [Patient-controlled iontophoretic transdermal system for the short-term management of acute post-operative pain: SyB P-1501]

SyB P-1501 is a patient-controlled iontophoretic transdermal system for management of post-operative pain in patients. A patient recovering from surgery in the hospital simply presses the button on the credit-card-sized device attached to the upper arm or chest, and a certain amount of ionized drug is delivered transdermally to achieve an analgesic effect without using a needle (patient-controlled analgesia, ñPCAò). The Company acquired the exclusive development and distribution rights for SyB P-1501 in Japan from the U.S.-based The Medicines Company on October 2, 2015. Current PCA methods consist of the administration of an analgesic agent through an intravenous needle or the use of tubes to connect a catheter in the spinal canal and a PCA pump (intravenous PCA and epidural PCA). The number of cases in Japan of post-operative pain management by PCA is estimated to be approximately 700,000 a year. SyB P-1501 is attached to the skin, and delivers an ionized drug transdermally to achieve an analgesic effect after the patient presses the button on the controller when they feel pain (iontophoresis principle). The administration of an analgesic agent in this method achieves an analgesic effect in a manner as rapid as a needle while being needle-free and painless, and for this reason it is expected to substantially reduce the physical and mental burden on patients and improve the level of treatment satisfaction. In addition, because it is superior to traditional PCA methods in terms of simplicity and safety, it can also be expected to lead to reductions in labor and other costs at medical institutions. SyB P-1501 was approved by the U.S. Food and Drug Administration (FDA) on April 30, 2015, and sales have commenced in the U.S. It was also approved by the European Medicines Agency (EMA) on November 20, 2015. In Japan, a Phase I clinical trial of SyB P-1501 targeting healthy volunteers has been completed with a confirmed safety, and the Company initiated a Phase III clinical trial in June 2016. Establishment of innovative PCA methods using SyB P-1501 is expected to lead to significant improvements in convenience for patients and medical professionals and QOL (quality of life) of patients undergoing treatment for post-operative pain.

(4) Medium to long-term strategy

The Company is pursuing primarily the following five strategies in order to achieve our Long Range Plan (LRP).

(i) De-risking by post-POC strategy

We in-license drug candidates for which POC (proof of concept) is already confirmed in human subjects in principle. Accordingly, they should be drugs that are in a relatively late stage of clinical development or already on the market overseas. The advanced development is already conducted overseas for these drug candidates and their efficacy and safety are already confirmed in human subjects, thereby reducing the development risk. We utilize existing clinical data available overseas so as to compress development timelines, reduce the development costs, and increase the likelihood of regulatory approvals in Japan and Asian markets.

(ii) Building a high-quality pipeline with exceptional search and evaluation capabilities

Our new drug search engine is connected to the diverse network of pharmaceutical companies and bioventures, and enables us to select promising drug candidates from the vast amount of chemical compounds after the careful review by internal experts. Using their wealth of experience at the forefront of research and development, Scientific Advisory Board (SAB) members carefully evaluate and render final judgment on each drug candidate. The highly established screening process up to the final selection of drug candidates, coupled with the post-POC strategy, reduces the development risk and compresses timelines. It also helps to understand how satisfactorily the healthcare needs are met and to improve the accuracy of revenue projections after the product launch.

(iii) Containment of fixed costs by labless/fabless strategy

The Company does not own any research or production facilities, which are often regarded as the main cause of fixed costs. Once drug candidates are searched and selected, we focus on value-added activities such as the formulation and implementation of development strategy and outsource other necessary procedures. This enables us to reduce development costs of pharmaceutical drugs and secure a flexible financial strategy.

(iv) Realization of high business efficiency by ñBlue Ocean strategyò (Note 11)

There are many cases that the standard drug used overseas cannot be prescribed in Japan or a new drug is launched in Japan five years behind its initial approval overseas. This problem is called ñdrug lagò and is becoming aggravated, while the term ñcancer patient refugeeò has been created. This drug lag is particularly conspicuous in our strategic drug development areas of refractory cancer and hematological diseases, as well as moderate to severe pain management. The market of anticancer agents, in particular, is huge and still continues to grow with the aging population. However, anticancer agents have a wide range of indications and they are fragmented by the type of cancer. There is only a limited number of patients in some therapeutic areas depending on the type of cancer. The therapeutic area of pain management is an unsatisfied area with many current cases of undertreatment. Many patients who suffer pain are the elderly, and the pain management market is expected to grow. An extremely high degree of specialization is required for the development of new agents in these therapeutic areas, which are often financially unattractive for larger pharmaceutical companies to pursue despite the high degree of development difficulty. This partially accounts for the causes for the drug lag. Contrarily, once a new drug succeeds in receiving an approval and reaching the market for these therapeutic areas, we would be able to achieve superior growth and profitability due to the lack of fierce competition by continuously expanding the indications and bringing new products into the market.

(Note 11) ñBlue Ocean strategyò means a strategy of redefining the market, avoiding marketplaces where there is fierce competition to snatch pieces of a finite market-share ñpie,ò termed ñred oceans,ò and instead creating a ñblue ocean,ò which is a competition-free, entirely unexploited market, enabling profits to be maximized while providing customers with high-value products and services.

(v) Going global beyond Asia

The Company has been operating its businesses in Asia centered on Japan. However, there would be no significant growth expected if we stay in Asia, amid a rapidly changing environment surrounding healthcare in Japan. The Company will carry out search and evaluation activities to advance new drug candidates in light of global development.

(5) Issues to be addressed by the Company

The Company has a commitment to improve the following issues as a priority challenge for management.

(i) Further expansion of the pipeline

In order to enhance the enterprise value as a specialty pharmaceutical company, we need to expand the pipeline through continually in-licensing of new drug candidates for development.

Clinical trials are underway for our anticancer agents: SyB L-0501, SyB L-1101 (intravenous formulation)/SyB C-1101 (oral formulation) and patient-controlled iontophoretic transdermal system for the management of acute post-operative pain SyB P-1501. Currently we are in discussion with counterparties regarding the in-licensing of several new drug candidates, and will continue with our active efforts to in-license new products in order to further expand our pipeline.

(ii) Pursuit of life cycle management in the existing pipeline

In order to enhance the enterprise value, it is critical to maximize returns from each drug under development by adding indications for new drug candidates after their initial introduction in pursuit of life cycle management.

TREAKISYM® has received approval for manufacturing and marketing with the indications of recurrent/refractory low-grade non-Hodgkinôs lymphoma and mantle cell lymphoma, chronic lymphocytic leukemia and first-line treatment of low-grade non-Hodgkinôs lymphoma and mantle cell lymphoma. The Phase II clinical trial was completed for recurrent/refractory intermediate/high-grade non-Hodgkinôs lymphoma.

Progress is being made with development of intravenous and oral rigosertib formulations for the indication of myelodysplastic syndromes (MDS). No useful therapeutic agents are currently available for this indication, so it is an area with very high unmet medical needs.

As for the global Phase III trial of the intravenous formulation for the target indication of recurrent/refractory higher-risk MDS conducted by Onconova, the Company is conducting its clinical trial in Japan. As for the oral formulation, the Company has completed the domestic Phase I clinical trial as a monotherapy for the target indication of lower-risk MDS, and a Phase I clinical trial in combination with azacitidine for the target indication of higher-risk MDS is being conducted. The Company is considering participating in global clinical trials after completing the Phase I clinical trial. The development for the target indication of transfusion-dependent lower-risk MDS will be considered, with a view to development progress by Onconova.

For the patient-controlled iontophoretic transdermal system for the management of acute post-operative pain SyB P-1501, approval has already been granted for manufacturing and marketing by U.S. and European regulatory agencies, and the domestic Phase I clinical trial has also been completed, and the Phase III clinical trial is underway. The Company is aiming for the prompt acquisition of manufacturing and marketing approval for this drug and will consider subsequent additional indications.

The aim for the future is to maximize the value of TREAKISYM®, rigosertib, and SyB P-1501 by further expansion of indications and by following through with life cycle management.

(iii) Global expansion for further growth

The Company has been operating its businesses not only in Japan, but also in other Asian countries including China, Korea, Taiwan, and Singapore as our important strategic geographic domains.

However, with expanding medical expenditures due to the aging population in Japan, and the advent of the ñera of generic drugs comprising 80% of all drugs dispensedò as a national strategy, the business environment for innovator drug developers is expected to remain severe. Also, similar policies will possibly be implemented in other Asian countries as well.

Under these circumstances, the Company will promote global expansion aiming for further growth. The Company will carry out the search, evaluation, and negotiation activities for new drug candidates, in order to acquire global rights on such candidates, utilizing its experience fostered through its business development in Asia.

(iv) Securing personnel

The Company places the highest priority on personnel as the Companyôs principal management resource. We cannot make superior achievements in exploring and developing new drugs without talent. We have been continually recruiting talented people, especially after being listed; we have recruited the best and brightest people in order to strengthen the management organization. Going forward, we plan to further strengthen our human resources by providing development programs such as OJT and other trainings.

(v) Financial issue

It is necessary for the Company to raise funds required for business activities such as R&D expenditures as the pipeline development progresses and the number of drug candidates increases. Therefore, we make every effort to strengthen the financial base by continually diversifying the method for fund procurement and reducing costs through budget control.

(6) Other important matters concerning the Companyôs management

Issuance of the third unsecured convertible bonds with stock acquisition rights and the 39th stock acquisition rights

In order to secure the funds necessary for its research and development activities, the Company made a resolution at the Board of Directors meeting held on April 6, 2016 to issue the third unsecured convertible bonds with stock acquisition rights (total issue price: 3 billion yen) and the 39th warrant (total issue price 9,776 thousand yen by way of third-party allotment, total issue price of stocks when issued through the exercise of stock acquisition rights: 943,592 thousand yen), and completed the payment of 3,009,776 thousand yen.

4. Basic views on selection of accounting standards

Over the near term, the Company will prepare its financial statements based on Japanese GAAP, taking into account the inter-period comparability of financial statements and comparability across organizations.

In terms of the application of International Financial Reporting Standards (IFRS), the Company will take appropriate measures in consideration of circumstances in Japan and overseas.

5. Financial statements

(1) Balance sheets

(Unit: thousands of yen)

	FY 2015 (as of December 31, 2015)	FY 2016 (as of December 31, 2016)
Assets		
Current assets		
Cash and deposits	4,261,438	5,719,325
Accounts receivable-trade	300,742	487,471
Merchandise and finished goods	133,029	272,725
Supplies	167	663
Prepaid expenses	38,591	79,104
Advances paid	79,639	66,465
Consumption taxes receivable	—	34,766
Forward exchange contracts	—	11,603
Other	13,170	12,886
Total current assets	4,826,778	6,685,011
Non-current assets		
Property, plant and equipment		
Buildings	24,521	35,846
Accumulated depreciation	(2,313)	(4,451)
Buildings, net	22,208	31,395
Tools, furniture and fixtures	52,293	69,497
Accumulated depreciation	(21,545)	(26,367)
Tools, furniture and fixtures, net	30,747	43,129
Total property, plant and equipment	52,956	74,524
Intangible assets		
Software	50,506	41,985
Software in progress	900	—
Lease assets	594	—
Total intangible assets	52,001	41,985
Investments and other assets		
Shares of subsidiaries	—	0
Long-term prepaid expenses	1,227	11,649
Lease and guarantee deposits	51,326	65,214
Total investments and other assets	52,553	76,863
Total non-current assets	157,510	193,373
Total assets	4,984,289	6,878,384

(Unit: thousands of yen)

	FY 2015 (as of December 31, 2015)	FY 2016 (as of December 31, 2016)
Liabilities		
Current liabilities		
Accounts payable-trade	319,866	321,860
Lease obligations	642	—
Accounts payable-other	183,690	552,510
Income taxes payable	14,183	36,586
Forward exchange contracts	14,999	—
Other	17,558	31,161
Total current liabilities	550,940	942,118
Non-current liabilities		
Bonds payable	—	450,000
Provision for retirement benefits	1,537	1,396
Total non-current liabilities	1,537	451,396
Total liabilities	552,477	1,393,514
Net assets		
Shareholdersô equity		
Common stock	8,330,775	9,948,298
Capital surplus		
Legal capital surplus	8,300,775	9,918,298
Total capital surplus	8,300,775	9,918,298
Retained earnings (accumulated deficits)		
Other retained earnings		
Retained earnings (accumulated deficits) brought forward	(12,499,609)	(14,812,843)
Total retained earnings (accumulated deficits)	(12,499,609)	(14,812,843)
Treasury stock	(17)	(17)
Total shareholdersô equity	4,131,924	5,053,735
Stock acquisition rights	299,887	431,135
Total net assets	4,431,811	5,484,870
Total liabilities and net assets	4,984,289	6,878,384

(2) Statements of operations

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Net sales		
Net sales of goods	1,933,241	2,137,337
Rights income	—	230,775
Total net sales	1,933,241	2,368,112
Cost of goods sold		
Beginning goods	244,588	133,029
Cost of purchased goods	1,241,552	1,606,489
Purchase allowance and returns	2,867	2,873
Total	1,483,274	1,736,644
Ending goods	133,029	272,725
Cost of goods sold	1,350,244	1,463,919
Gross profit	582,996	904,192
Selling, general and administrative expenses *1 *2	3,134,659	3,031,242
Operating loss	(2,551,662)	(2,127,049)
Non-operating income		
Interest income	12,949	5,235
Interest on securities	3,316	249
Dividends income of insurance	1,072	1,221
Other	24	4
Total non-operating income	17,363	6,710
Non-operating expenses		
Interest expenses	13	4
Commission fees	9,000	8,975
Stock issuance costs	160	11,658
Foreign exchange losses	86,242	158,514
Other	671	17,315
Total non-operating expenses	96,087	196,467
Ordinary loss	(2,630,386)	(2,316,806)
Extraordinary gain		
Gain on reversal of stock acquisition rights	3,312	8,512
Total extraordinary gain	3,312	8,512
Extraordinary loss		
Loss on retirement of non-current assets *3	1,221	1,139
Total extraordinary losses	1,221	1,139
Loss before income taxes	(2,628,295)	(2,309,433)
Income taxes-current	3,800	3,800
Total income taxes	3,800	3,800
Net loss	(2,632,095)	(2,313,233)

(3) Statements of changes in net assets

FY 2015 (from January 1, 2015 to December 31, 2015)

(Unit: thousands of yen)

	Shareholdersô equity						
	Common stock	Capital surplus		Retained earnings (Accumulated deficits)		Treasury stock	Total shareholdersô equity
		Legal capital surplus	Total capital surplus	Other retained earnings Retained earnings (accumulated deficits) brought forward	Total retained earnings (accumulated deficits)		
Balance at the beginning of the year	8,330,775	8,300,775	8,300,775	(9,867,514)	(9,867,514)	(17)	6,764,019
Changes of items during the year							
Issuance of new shares (exercise of stock acquisition rights)							—
Net loss				(2,632,095)	(2,632,095)		(2,632,095)
Net changes of items other than shareholdersô equity							
Total changes of items during the year	—	—	—	(2,632,095)	(2,632,095)	—	(2,632,095)
Balance at the end of the year	8,330,775	8,300,775	8,300,775	(12,499,609)	(12,499,609)	(17)	4,131,924

(Unit: thousands of yen)

	Valuation and translation adjustments		Stock acquisition rights	Total net assets
	Unrealized holding gain (loss) on securities	Total valuation and translation adjustments		
Balance at the beginning of the year	(744)	(744)	200,300	6,963,576
Changes of items during the year				
Issuance of new shares (exercise of stock acquisition rights)				—
Net loss				(2,632,095)
Net changes of items other than shareholdersô equity	744	744	99,586	100,330
Total changes of items during the year	744	744	99,586	(2,531,764)
Balance at the end of the year	—	—	299,887	4,431,811

FY 2016 (from January 1, 2016 to December 31, 2016)

(Unit: thousands of yen)

	Shareholdersô equity						
	Common stock	Capital surplus		Retained earnings (accumulated deficits)		Treasury stock	Total shareholdersô equity
		Legal capital surplus	Total capital surplus	Other retained earnings Retained earnings (accumulated deficits) brought forward	Total retained earnings (accumulated deficits)		
Balance at the beginning of the year	8,330,775	8,300,775	8,300,775	(12,499,609)	(12,499,609)	(17)	4,131,924
Changes of items during the year							
Issuance of new shares (exercise of stock acquisition rights)	1,617,522	1,617,522	1,617,522				3,235,044
Net loss				(2,313,233)	(2,313,233)		(2,313,233)
Net changes of items other than shareholdersô equity							
Total changes of items during the year	1,617,522	1,617,522	1,617,522	(2,313,233)	(2,313,233)	—	921,811
Balance at the end of the year	9,948,298	9,918,298	9,918,298	(14,812,843)	(14,812,843)	(17)	5,053,735

(Unit: thousands of yen)

	Stock acquisition rights	Total net assets
Balance at the beginning of the year	299,887	4,431,811
Changes of items during the year		
Issuance of new shares (exercise of stock acquisition rights)		3,235,044
Net loss		(2,313,233)
Net changes of items other than shareholdersô equity	131,247	131,247
Total changes of items during the year	131,247	1,053,058
Balance at the end of the year	431,135	5,484,870

(4) Statements of cash flow

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Net cash provided by (used in) operating activities		
Loss before income taxes	(2,628,295)	(2,309,433)
Depreciation	24,244	25,649
Amortization of guarantee deposits	(1,092)	2,035
Share-based compensation expenses	102,898	137,010
Increase (decrease) in provision for retirement benefits	(97)	(141)
Interest income	(16,265)	(5,485)
Interest expenses	13	4
Foreign exchange losses (gains)	45,459	196,365
Commission fees	9,000	8,975
Stock issuance costs	160	11,658
Gain on reversal of stock acquisition rights	(3,312)	(8,512)
Loss on retirement of non-current assets	1,221	1,139
Decrease (increase) in accounts receivable-trade	(28,085)	(186,728)
Decrease (increase) in inventories	111,559	(139,695)
Decrease (increase) in prepaid expenses	(1,821)	(40,513)
Decrease (increase) in advances paid	(19,798)	13,173
Decrease (increase) in consumption taxes receivable	19,974	(34,766)
Decrease (increase) in other current assets	49,358	(27,297)
Decrease (increase) in long-term prepaid expenses	124	(10,421)
Increase (decrease) in accounts payable-trade	13,870	1,993
Increase (decrease) in accounts payable-other	51,013	357,949
Increase (decrease) in other current liabilities	(6,632)	53,763
Subtotal	(2,276,502)	(1,953,277)
Interest and dividends income received	17,654	5,967
Commitment fee paid	(9,024)	(8,975)
Interest expenses paid	(13)	(4)
Income taxes paid	(3,800)	(3,800)
Net cash provided by (used in) operating activities	(2,271,686)	(1,960,089)
Net cash provided by (used in) investing activities		
Proceeds from withdrawal of time deposits	600,000	―
Proceeds from redemption of securities	900,000	―
Purchase of property, plant and equipment	(22,546)	(23,856)
Purchase of intangible assets	(1,235)	(4,056)
Purchase of shares of subsidiaries	―	(0)
Payments for lease and guarantee deposits	(3,497)	(15,923)
Proceeds from collection of lease and guarantee deposits	16,420	―
Net cash provided by (used in) investing activities	1,489,141	(43,836)

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Net cash provided by (used in) financing activities		
Proceeds from issuance of stock resulting from exercise of stock acquisition rights	—	678,018
Proceeds from issuance of bonds with stock acquisition rights	—	3,000,000
Proceeds from issuance of stock acquisition rights	—	9,776
Payments for issuance of common stock	(1,850)	(11,658)
Repayments for lease obligations	(692)	(642)
Other payments	(90)	(17,315)
Net cash provided by (used in) financing activities	(2,632)	3,658,177
Effect of foreign exchange rate change on cash and cash equivalents	(45,459)	(196,365)
Net increase (decrease) in cash and cash equivalents	(830,636)	1,457,886
Cash and cash equivalents at the beginning of the year	5,092,075	4,261,438
Cash and cash equivalents at the end of the year *1	4,261,438	5,719,325

(5) Events and conditions that indicate there could be substantial doubt about the going concern assumption

None to be reported.

(6) Significant accounting policies

1. Valuation basis and method of marketable and investment securities
   Available-for-sale securities with determinable market value
   Available-for-sale securities with a determinable market value are stated at fair value with any changes in unrealized holding gain or loss, net of applicable income taxes, included directly in shareholdersô equity. Cost of securities sold is calculated by the moving-average method.
   Available-for-sale securities without determinable market value
   Available-for-sale securities without determinable market value are stated at cost determined by the moving-average method.

2. Valuation basis and method of derivative transactions
   Derivative financial instruments are stated at fair value.

3. Valuation basis and method of inventories
   Inventories held for the purpose of ordinary sale are measured at the lower of cost determined by the weighted-average method or net selling value.

4. Depreciation of non-current assets
   (1) Property, plant and equipment (excluding lease assets)
   Depreciation of property, plant and equipment is computed by the straight-line method.
   The useful lives of major property, plant and equipment are summarized as follows:

Buildings	3 to 18 years
Tools, furniture and fixtures	5 to 15 years

   (2) Intangible assets (excluding lease assets)
   Amortization of intangible assets is computed by the straight-line method.
   Capitalized software costs are being amortized over the period of the internal use of 5 years.
   (3) Lease assets
   Depreciation of lease assets is computed by the straight-line method over the lease term with no residual value.

5. Deferred assets
   Stock issuance costs and bond issuance costs are charged to income upon payment.

6. Foreign currency translation
   Monetary assets and liabilities denominated in foreign currencies are translated into yen at the spot exchange rates prevailing on the balance sheet dates, and resulting gains or losses are credited or charged to income.

7. Basis for reserves and provisions
   (1) Allowance for doubtful accounts
   The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.
   For FY 2016, no allowance for doubtful accounts is provided due to no historical experience of bad debt and no receivable balances that are deemed uncollectible.
   (2) Provision for retirement benefits
   The provision for retirement benefits is provided at an amount to be required as of the balance sheet date.
   The Company applies the simplified method to calculate amounts of retirement benefit obligation and retirement benefit expenses. That is, amounts of retirement benefit obligation are the payments required for voluntary retirement as of each fiscal year end.

8. Cash and cash equivalents in the statements of cash flow

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less that can easily be converted to cash and are subject to little risk of change in value.

9. Other significant basis for the preparation of financial statements

Accounting for consumption tax

Transactions are recorded at amounts exclusive of consumption tax.

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(7) Notes on financial statements

(Balance sheets)

1. The Company has overdraft and commitment line contracts with three banks in a business relationship to efficiently procure working capital. The status of the bank overdraft and loan commitments based on these contracts at the end of each fiscal year is as follows:

(Unit: thousands of yen)

	FY 2015 (as of December 31, 2015)	FY 2016 (as of December 31, 2016)
Total amounts of bank overdraft limit and loan commitment line	1,350,000	1,350,000
Balance of borrowing outstanding	―	―
Unused balance	1,350,000	1,350,000

(Statements of operations)

* 1 The selling expenses ratio is roughly 0.4% and 0.6% for FY 2015 and FY 2016, respectively, and the administrative expenses ratio is roughly 99.6% and 99.4% for FY 2015 and FY 2016, respectively. Major expense items and amounts are as follows.

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Directorsô compensation	140,865	150,289
Salaries	346,954	477,271
Retirement benefit expenses	867	1,172
Research and development expenses	2,034,714	1,667,098
Depreciation expenses	11,625	10,822

* 2 Total amounts of research and development expenses included in general and administrative expenses

(Unit: thousands of yen)

FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
2,034,714	1,667,098

* 3 Details of loss on retirement of non-current assets

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Tools, furniture and fixtures	1,037	0
Software	183	1,139

(Statements of changes in net assets)

FY 2015 (from January 1, 2015 to December 31, 2015)

1. Shares issued and outstanding/Treasury stock

(Unit: number of shares)

	At the beginning of the fiscal year	Increase	Decrease	At the end of the fiscal year
Shares issued				
Common stock	32,390,923	—	—	32,390,923
Total	32,390,923	—	—	32,390,923
Treasury stock				
Common stock	75	—	—	75
Total	75	—	—	75

2. Stock acquisition rights and treasury acquisition rights

Company	Description	Type of shares to be issued	Number of shares to be issued				Balance as of December 31, 2015 (thousands of yen)
			At the beginning of the fiscal year	Increase	Decrease	At the end of the fiscal year	
The Company	The 29th warrant	Common stock	795,750	—	—	795,750	3,060
	The 34th warrant	Common stock	3,030,400	—	—	3,030,400	10,363
	Stock acquisition rights as stock options	—	—	—	—	—	286,463
Total			3,826,150	—	—	3,826,150	299,887

(Note) The information about type of shares to be issued and the number of shares to be issued is described in ñStock options.ò

3. Dividends

None to be reported.

FY 2016 (from January 1, 2016 to December 31, 2016)

1. Shares issued and outstanding/Treasury stock

(Unit: number of shares)

	At the beginning of the fiscal year	Increase	Decrease	At the end of the fiscal year
Shares issued				
Common stock	32,390,923	14,139,901	—	46,530,824
Total	32,390,923	14,139,901	—	46,530,824
Treasury stock				
Common stock	75	—	—	75
Total	75	—	—	75

(Note) The increase in common stock of 14,139,901 shares was due to exercise of stock acquisition rights.

2. Stock acquisition rights and treasury acquisition rights

Company	Description	Type of shares to be issued	Number of shares to be issued				Balance as of December 31, 2016 (thousands of yen)
			At the beginning of the fiscal year	Increase	Decrease	At the end of the fiscal year	
The Company	The 29th warrant	Common stock	795,750	—	795,750	—	—
	The 34th warrant	Common stock	3,030,400	—	2,054,600	975,800	3,337
	The 39th warrant	Common stock	—	4,472,000	—	4,472,000	9,776
	The third unsecured bonds with convertible bond type stock acquisition rights	Common stock	—	14,218,009	12,085,301	2,132,708	(Note 2)
	Stock acquisition rights as stock options	—	—	—	—	—	418,022
Total			3,826,150	18,690,009	14,935,651	7,580,508	431,135

(Notes) 1. The information about type of shares to be issued and the number of shares to be issued is described in ñStock options.ò
2. The third unsecured bonds with convertible bond type stock acquisition rights are computed by the lump-sum method.

3. Dividends

None to be reported.

(Statements of cash flow)

*1 Cash and cash equivalents as of the fiscal year end are reconciled to the accounts reported in the balance sheets as follows:

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Cash and deposits	4,261,438	5,719,325
Cash and cash equivalents	4,261,438	5,719,325

2 Details of significant non-cash transactions
Exercise of stock acquisition rights for bonds with convertible bond type stock acquisition rights:

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Amount of increase in common stock due to the exercise of stock acquisition rights	—	1,275,000
Amount of increase in capital surplus due to the exercise of stock acquisition rights	—	1,275,000
Amount of decrease in corporate bonds due to the exercise of stock acquisition rights	—	2,550,000

(Lease transactions)

Finance lease transactions
Finance lease transactions other than those which transfer the ownership of leased property
(1) Description of lease assets
Intangible assets ï Software

(2) Depreciation and amortization of lease assets
Depreciation and amortization of lease assets are described in ñ(6) Significant accounting policies, 4. Depreciation of non-current assets.ò

(Financial instruments)

1. Financial instruments

(1) Policies for financial instruments

The Company procures the funds necessary in light of the pipeline development plan (primarily by third-party allotment and offering by new stock issuance). A temporary surplus fund is invested in financial instruments which are highly safe and liquid.

As a principle, the Company does not enter into derivative transactions for speculative trading purposes but uses them within the scope prescribed in the Companyôs internal rules.

(2) Types of financial instruments and related risks

Operating receivables such as accounts receivable-trade and advances paid in connection with joint development are exposed to the credit risk of customers and joint development partners. Operating receivables denominated in foreign currencies are exposed to foreign exchange fluctuation risk.

The Company intends to invest in marketable and investment securities which have a relatively low risk of falling below initial investments, however, such might entail a finite risk.

Operating payables such as accounts payable-trade and accounts payable-other are mostly due within 75 days. Operating payables denominated in foreign currencies are exposed to foreign exchange fluctuation risk.

The Company uses derivative transactions to avoid foreign exchange fluctuation risks and enters into forward exchange contracts within the scope prescribed in the internal rules based on balances of receivables and payables denominated in foreign currencies as well as the actual volume of exports and imports transactions denominated in foreign currencies.

Lease and guarantee deposits are mostly security deposits related to leased office premises and their refunds are subject to the credit risk of the lessor.

Lease obligations are associated with the finance lease transactions that are intended to finance capital expenditures and the longest maturity of the lease term is one year after the current fiscal year end.

Bonds with convertible bond type stock acquisition rights are used primarily for financing relating to R&D and have a maturity of two years and four months after the current fiscal year end.

(3) Risk management for financial instruments

(i) Monitoring of credit risks (the risk that customers or counterparties may default on obligations)

In accordance with the Companyôs internal credit policies for managing credit risk arising from operating receivables, the Companyôs marketing department periodically monitors the creditworthiness of major customers and monitors due dates and outstanding balances by individual customers. In addition, the Company is making efforts to promptly identify and mitigate risks of bad debts from customers who are having financial difficulties.

The Company enters into derivative transactions only with financial institutions which have a sound credit profile in order to mitigate the counterparty risk.

(ii) Monitoring of market risk (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

The Company deposits cash primarily with financial institutions with high credit ratings.

For marketable and investment securities, the Company intends to avoid risks of falling below initial investments by investing in securities with a satisfactory credit rating and investment period in accordance with the Companyôs internal investment policies.

The Company enters into forward exchange contracts in order to avoid foreign exchange fluctuation risks in connection with receivables and payables denominated in foreign currencies.

Followed by appropriate authorization procedures prescribed in the Companyôs internal rules, the Finance & Accounting department executes and monitors derivative transactions. Monthly transaction performances are reported to the executive management committee.

(iii) Monitoring of liquidity risks (the risk that the Company may not be able to meet its obligations on the scheduled due date)

Based on the report from each department, the responsible department of the Company prepares and updates its cash flow plans on a timely basis and ensures to maintain the liquidity on hand to manage liquidity risk.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in notes to ñDerivative transactionsò are not necessarily indicative of the actual market risk involved in derivative transactions.

(5) Concentration of credit risk

As of December 31, 2016, all operating receivables are from one particular major customer.

2. Fair value of financial instruments

The carrying value on the balance sheets, fair values and their differences are as follows. The financial instruments whose fair value is extremely difficult to determine are not included. (See Note 2.)

FY 2015 (as of December 31, 2015)

(Unit: thousands of yen)

	Carrying value	Fair value	Differences
(1) Cash and deposits	4,261,438	4,261,438	―
(2) Accounts receivable-trade	300,742	300,742	―
(3) Advances paid	79,639	79,639	―
Assets, total	4,641,819	4,641,819	―
(1) Accounts payable-trade	319,866	319,866	―
(2) Lease obligations (current)	642	643	1
(3) Accounts payable-other	183,690	183,690	―
(4) Income taxes payable	14,183	14,183	―
Liabilities, total	518,383	518,384	1
Derivative transactions, total (*)	(14,999)	(14,999)	―

(*) Net assets and liabilities arising from derivative transactions are presented on a net basis and net liabilities are shown in parentheses.

FY 2016 (as of December 31, 2016)

(Unit: thousands of yen)

	Carrying value	Fair value	Differences
(1) Cash and deposits	5,719,325	5,719,325	―
(2) Accounts receivable-trade	487,471	487,471	―
(3) Advances paid	66,465	66,465	―
Assets, total	6,273,262	6,273,262	―
(1) Accounts payable-trade	321,860	321,860	―
(2) Lease obligations (current)	―	―	―
(3) Accounts payable-other	552,510	552,510	―
(4) Income taxes payable	36,586	36,586	―
(5) Bonds with convertible bond type stock acquisition rights	450,000	448,935	(1,064)
Liabilities, total	1,360,956	1,359,892	(1,064)
Derivative transactions, total (*)	11,603	11,603	―

(*) Net assets and liabilities arising from derivative transactions are presented on a net basis and net liabilities are shown in parentheses.

(Notes)

1. Fair value measurement of financial instruments and other matters related to securities and derivative transactions

Assets

(1) Cash and deposits, (2) Accounts receivable-trade and (3) Advances paid

The carrying value is deemed as the fair value since these are scheduled to be settled in a short period of time.

Liabilities

(1) Accounts payable-trade, (3) Accounts payable-other and (4) Income taxes payable

The carrying value is deemed as the fair value since these are scheduled to be settled in a short period of time.

(2) Lease obligations (current)

The fair value of lease obligations is determined at present value calculated by discounting total amounts of principal and interests at a presumable rate used for similar new lease transactions.

(3) Bonds with convertible bond type stock acquisition rights

The fair value of bonds with convertible bond type stock acquisition rights is calculated by discounting total amounts of principal and interests at a rate reflecting the remaining redemption period and credit risk.

Derivative transactions

See notes to ñDerivative transactions.ò

2. Financial instruments whose fair value is extremely difficult to determine

(Unit: thousands of yen)

	FY 2015 (as of December 31, 2015)	FY 2016 (as of December 31, 2016)
Lease and guarantee deposits	51,326	65,214

Lease and guarantee deposits and corporate bonds are not included in the above tables since no market quote is available and their fair value is extremely difficult to determine.

3. The redemption schedule for monetary assets and securities with maturities

FY 2015 (as of December 31, 2015)

(Unit: thousands of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	4,261,410	—	—	—
Accounts receivable-trade	300,742	—	—	—
Advances paid	79,639	—	—	—
Total	4,641,791	—	—	—

FY 2016 (as of December 31, 2016)

(Unit: thousands of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	5,719,293	—	—	—
Accounts receivable-trade	487,471	—	—	—
Advances paid	66,465	—	—	—
Total	6,273,230	—	—	—

4. Maturities of lease obligations and bonds with convertible bond type stock acquisition rights after the fiscal year end

FY 2015 (as of December 31, 2015)

(Unit: thousands of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Lease obligations (current)	642	—	—	—	—	—
Total	642	—	—	—	—	—

FY 2016 (as of December 31, 2016)

(Unit: thousands of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Bonds with convertible bond type stock acquisition rights	—	—	450,000	—	—	—
Total	—	—	450,000	—	—	—

(Derivative transactions)

1. Derivative transactions to which hedge accounting is not applied
Currency-related transactions

FY 2015 (as of December 31, 2015)

(Unit: thousands of yen)

Classification	Type	Notional amount	Portion due after one year included herein	Fair value	Unrealized gain
OTC transactions	Forward exchange contract				
	Buy				
	U.S. dollars	—	—	—	—
	Euro	783,735	—	(14,999)	(14,999)
Total		783,735	—	(14,999)	(14,999)

(Note) Fair value measurement

The fair value is measured based on the quoted prices obtained from financial institutions with which the Company has a business relationship.

FY 2016 (as of December 31, 2016)

(Unit: thousands of yen)

Classification	Type	Notional amount	Portion due after one year included herein	Fair value	Unrealized gain
OTC transactions	Forward exchange contract				
	Buy				
	U.S. dollars	—	—	—	—
	Euro	574,873	—	11,603	11,603
Total		574,873	—	11,603	11,603

(Note) Fair value measurement

The fair value is measured based on the quoted prices obtained from financial institutions with which the Company has a business relationship.

2. Derivative transactions to which hedge accounting is applied

None to be reported.

(Retirement benefits)

1. Outline of retirement benefit plans

The Company has adopted a defined contribution pension plan. A lump-sum payment plan (non-contributory plan) is applied for certain employees based on the Companyôs internal rules for retirement benefits.

The simplified method is applied to calculate amounts of retirement benefit obligation and retirement benefit expenses.

2. Retirement benefit plan under simplified method

(1) The reconciliation between the retirement benefit obligation at the beginning and the end of the fiscal year is as follows.

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Provision for retirement benefits at the beginning of the fiscal year	1,634	1,537
Service costs	235	219
Contribution made for defined contribution pension plan	(332)	(360)
Retirement benefit obligation at the end of the fiscal year	1,537	1,396

(2) The reconciliation between the retirement benefit obligation or provision for retirement benefits and the net defined benefit liability on the balance sheet is as follows.

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Unfunded retirement benefit obligation	1,537	1,396
Net defined benefit liability on the balance sheet	1,537	1,396

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Provision for retirement benefits	1,537	1,396
Net defined benefit liability on the balance sheet	1,537	1,396

(3) Retirement benefit expenses

Retirement benefit expenses calculated under the simplified method FY 2015: 235 thousand yen
FY 2016: 219 thousand yen

3. Defined contribution pension plan

The amount of the Companyôs contribution to the defined contribution pension plan for FY 2015 and FY 2016 were 1,693 thousand yen and 1,965 thousand yen, respectively.

(Stock options)

1. The account name and the amount of stock options charged as expenses

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Selling, general and administrative expenses	102,898	137,010

2. The account name and the amount of income recognized for vested shares that expired unexercised

(Unit: thousands of yen)

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Gain on reversal of stock acquisition rights	3,312	5,452

3. Description of stock options/Changes in the size of stock options

(1) Description of stock options

	The 9th Series	The 11th Series
Individuals covered by the plan and number of persons granted stock options	Directors of the Company 3 Auditors of the Company 2 Total 5	Employees of the Company 6 External collaborators 3 Total 9
Class and number of shares to be issued upon the exercise of the stock options	Common stock 66,000 shares	Common stock 34,000 shares
Grant date	February 1, 2007	March 15, 2007
Vesting conditions	1. The Person Granted* must have the status as the Companyôs director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the Person Granted retires due to the expiry of her/his term or compulsory retirement; if otherwise the Board of Directors approves; or if the Person Granted is an external collaborator. 2. The Companyôs stock must be listed on a stock exchange.	Same as on the left
Vesting period	The vesting period is not fixed	Same as on the left
Exercise period	From January 24, 2009 to January 23, 2017	From March 3, 2009 to March 2, 2017

* Refers to those who receive the allotment of stock acquisition rights

	The 12th Series	The 13th Series
Individuals covered by the plan and number of persons granted stock options	Directors of the Company 5 Auditor of the Company 1 Total 6	Employees of the Company 33 External collaborators 12 Total 45
Class and number of shares to be issued upon the exercise of the stock options	Common stock 82,000 shares	Common stock 170,000 shares
Grant date	August 29, 2007	August 29, 2007
Vesting conditions	1. The Person Granted must have the status as the Companyôs director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the Person Granted retires due to the expiry of her/his term or compulsory retirement; if otherwise the Board of Directors approves; or if the Person Granted is an external collaborator. 2. The Companyôs stock must be listed on a stock exchange.	Same as on the left
Vesting period	The vesting period is not fixed	Same as on the left
Exercise period	From August 29, 2009 to August 28, 2017	From August 29, 2009 to August 28, 2017

(This part is intentionally left blank)

	The 14th Series	The 16th Series
Individuals covered by the plan and number of persons granted stock options	Directors of the Company 5 Auditor of the Company 1 Total 6	External collaborators 14
Class and number of shares to be issued upon the exercise of the stock options	Common stock 207,000 shares	Common stock 85,000 shares
Grant date	October 1, 2008	October 1, 2008
Vesting conditions	1. The Person Granted must have the status as the Companyôs director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the Person Granted retires due to the expiry of her/his term or compulsory retirement; if otherwise the Board of Directors approves; or if the Person Granted is an external collaborator. 2. The Companyôs stock must be listed on a stock exchange.	Same as on the left
Vesting period	The vesting period is not fixed	Same as on the left
Exercise period	From October 1, 2010 to September 30, 2018	From October 1, 2010 to September 30, 2018

	The 17th Series	The 19th Series
Individuals covered by the plan and number of persons granted stock options	Directors of the Company 3 Auditor of the Company 1 Total 4	External collaborators 2
Class and number of shares to be issued upon the exercise of the stock options	Common stock 72,000 shares	Common stock 12,500 shares
Grant date	March 18, 2009	March 18, 2009
Vesting conditions	1. The Person Granted must have the status as the Companyôs director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the Person Granted retires due to the expiry of her/his term or compulsory retirement; if otherwise the Board of Directors approves; or if the Person Granted is an external collaborator. . 2. The Companyôs stock must be listed on a stock exchange.	Same as on the left
Vesting period	The vesting period is not fixed	Same as on the left
Exercise period	From March 19, 2011 to March 18, 2019	From March 19, 2011 to March 18, 2019

	The 20th Series	The 21st Series
Individuals covered by the plan and number of persons granted stock options	Directors of the Company 6 Auditor of the Company 1 Total 7	Employees of the Company 50
Class and number of shares to be issued upon the exercise of the stock options	Common stock 361,000 shares	Common stock 326,500 shares
Grant date	March 31, 2010	March 31, 2010
Vesting conditions	1. The Person Granted must have the status as the Companyôs director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the Person Granted retires due to the expiry of her/his term or compulsory retirement; if otherwise the Board of Directors approves; or if the Person Granted is an external collaborator. . 2. The Companyôs stock must be listed on a stock exchange.	Same as on the left
Vesting period	The vesting period is not fixed	Same as on the left
Exercise period	From April 1, 2012 to March 31, 2020	From April 1, 2012 to March 31, 2020

	The 22nd Series	The 23rd Series
Individuals covered by the plan and number of persons granted stock options	External collaborators 13	Employees of the Company 9
Class and number of shares to be issued upon the exercise of the stock options	Common stock 153,000 shares	Common stock 32,000 shares
Grant date	March 31, 2010	October 15, 2010
Vesting conditions	1. The Person Granted must have the status as the Companyôs director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the Person Granted retires due to the expiry of her/his term or compulsory retirement; if otherwise the Board of Directors approves; or if the Person Granted is an external collaborator. 2. The Companyôs stock must be listed on a stock exchange.	Same as on the left
Vesting period	The vesting period is not fixed	Same as on the left
Exercise period	From April 1, 2012 to March 31, 2020	From October 15, 2012 to October 14, 2020

	The 24th Series	The 25th Series
Individuals covered by the plan and number of persons granted stock options	Directors of the Company 5	Employees of the Company 59
Class and number of shares to be issued upon the exercise of the stock options	Common stock 192,000 shares	Common stock 195,000 shares
Grant date	March 31, 2011	March 31, 2011
Vesting conditions	1. The Person Granted must have the status as the Companyôs director, auditor & supervisory board member, advisor or employee at the time of exercise. However, this is not necessarily the case if the Person Granted retires due to the expiry of her/his term or compulsory retirement; if otherwise the Board of Directors approves; or if the Person Granted is an external collaborator. 2. The Companyôs stock must be listed on a stock exchange.	Same as on the left
Vesting period	The vesting period is not fixed	Same as on the left
Exercise period	From March 31, 2013 to March 30, 2021	From March 31, 2013 to March 30, 2021

(This part is intentionally left blank)

	The 26th Series	The 27th Series
Individuals covered by the plan and number of persons granted stock options	Directors of the Company 4	Employees of the Company 70
Class and number of shares to be issued upon the exercise of the stock options	Common stock 362,500 shares	Common stock 430,700 shares
Grant date	May 2, 2012	May 2, 2012
Vesting conditions	No specific conditions are prescribed in the allotment agreement for stock acquisition rights entered into between the Company and the Person Granted, except for certain vesting conditions stipulated in the exercise conditions. The exercise conditions are described in *(1) to (6).	Same as on the left
Vesting period	The period that fulfills the requirement of the exercise conditions *(2) and (3).	Same as on the left
Exercise period	From April 18, 2014 to April 17, 2022	From April 18, 2014 to April 17, 2022

	The 28th Series	The 30th Series
Individuals covered by the plan and number of persons granted stock options	Employees of the Company 5	Directors of the Company 5
Class and number of shares to be issued upon the exercise of the stock options	Common stock 16,500 shares	Common stock 116,000 shares
Grant date	September 28, 2012	May 29, 2013
Vesting conditions	No specific conditions are prescribed in the allotment agreement for stock acquisition rights entered into between the Company and the Person Granted, except for certain vesting conditions stipulated in the exercise conditions. The exercise conditions are described in *(1) to (6).	Same as on the left
Vesting period	The period that fulfills the requirement of the exercise conditions *(2) and (3).	Same as on the left
Exercise period	From September 14, 2014 to September 13, 2022	From May 15, 2015 to May 14, 2023

	The 31st Series	The 32nd Series
Individuals covered by the plan and number of persons granted stock options	Employees of the Company 68	Directors of the Company 5
Class and number of shares to be issued upon the exercise of the stock options	Common stock 124,000 shares	Common stock 252,000 shares
Grant date	May 29, 2013	April 30, 2014
Vesting conditions	No specific conditions are prescribed in the allotment agreement for stock acquisition rights entered into between the Company and the Person Granted, except for certain vesting conditions stipulated in the exercise conditions. The exercise conditions are described in *(1) to (6).	No specific conditions are prescribed in the allotment agreement for stock acquisition rights entered into between the Company and the Person Granted, except for certain vesting conditions stipulated in the exercise conditions. The exercise conditions are described in *(1), (3), (4), (7) and (8).
Vesting period	The period that fulfills the requirement of the exercise conditions *(2) and (3).	The period that fulfills the requirement of the exercise condition *(3).
Exercise period	From May 15, 2015 to May 14, 2023	From April 16, 2017 to April 15, 2024

	The 33rd Series	The 35th Series
Individuals covered by the plan and number of persons granted stock options	Employees of the Company 68	Directors of the Company 6
Class and number of shares to be issued upon the exercise of the stock options	Common stock 333,000 shares	Common stock 204,200 shares
Grant date	April 30, 2014	April 10, 2015
Vesting conditions	No specific conditions are prescribed in the allotment agreement for stock acquisition rights entered into between the Company and the Person Granted, except for certain vesting conditions stipulated in the exercise conditions. The exercise conditions are described in *(1), (3), (4), (7) and (8).	Same as on the left
Vesting period	The period that fulfills the requirement of the exercise condition *(3).	Same as on the left
Exercise period	From April 16, 2017 to April 15, 2024	From March 27, 2018 to March 26, 2025

	The 36th Series	The 37th Series
Individuals covered by the plan and number of persons granted stock options	Employees of the Company 61	Directors of the Company 6
Class and number of shares to be issued upon the exercise of the stock options	Common stock 312,000 shares	Common stock 236,500 shares
Grant date	April 10, 2015	April 14, 2016
Vesting conditions	No specific conditions are prescribed in the allotment agreement for stock acquisition rights entered into between the Company and the Person Granted, except for certain vesting conditions stipulated in the exercise conditions. The exercise conditions are described in *(1), (3), (4), (7) and (8).	Same as on the left
Vesting period	The period that fulfills the requirement of the exercise condition *(3).	Same as on the left
Exercise period	From March 27, 2018 to March 26, 2025	From March 31, 2019 to March 30, 2026

	The 38th Series
Individuals covered by the plan and number of persons granted stock options	Employees of the Company 73
Class and number of shares to be issued upon the exercise of the stock options	Common stock 395,000 shares
Grant date	April 14, 2016
Vesting conditions	No specific conditions are prescribed in the allotment agreement for stock acquisition rights entered into between the Company and the Person Granted, except for certain vesting conditions stipulated in the exercise conditions. The exercise conditions are described in *(1), (3), (4), (7) and (8).
Vesting period	The period that fulfills the requirement of the exercise condition *(3).
Exercise period	From March 31, 2019 to March 30, 2026

*(1) Fractions less than one unit of a stock acquisition right shall be unexercisable.

(2) The Person Granted may exercise all or part of the rights in accordance with the following classifications:

＜The 26th Series and the 27th Series stock option＞

(a) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-fourth (1/4) from April 18, 2014 to April 17, 2015.

(b) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-half (1/2) from April 18, 2015 to April 17, 2016.

(c) Those who were granted the stock acquisition rights may exercise the rights within the limit of three-fourths (3/4) from April 18, 2016 to April 17, 2017.

(d) Those who were granted the stock acquisition rights may exercise all the rights from April 18, 2017 to April 17, 2022.

＜The 28th Series stock option＞

(a) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-fourth (1/4) from September 14, 2014 to September 13, 2015.
(b) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-half (1/2) from September 14, 2015 to September 13, 2016.
(c) Those who were granted the stock acquisition rights may exercise the rights within the limit of three-fourths (3/4) from September 14, 2016 to September 13, 2017.
(d) Those who were granted the stock acquisition rights may exercise all the rights from September 14, 2017 to September 13, 2022.

＜The 30th and the 31st Series stock option＞

(a) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-fourth (1/4) from May 15, 2015 to May 14, 2016.
(b) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-half (1/2) from May 15, 2016 to May 14, 2017.
(c) Those who were granted the stock acquisition rights may exercise the rights within the limit of three-fourths (3/4) from May 15, 2017 to May 14, 2018.
(d) Those who were granted the stock acquisition rights may exercise all the rights from May 15, 2018 to May 14, 2023.

(3) The Person Granted shall exercise the rights starting from the date of resolution by the below-mentioned shareholdersô meeting or the Board of Directorsô meeting until one day before the effective date of the Organizational Restructuring as followed, regardless of the conditions of the exercise period originally stipulated, when the Organizational Restructuring is approved by the resolution of the Companyôs shareholdersô meeting (including the case where resolution of a shareholdersô meeting is deemed to exist pursuant to the provision of Article 319 of the Companies Act) or the Board of Directorsô meeting (limited to the case where no shareholdersô meeting is required for the said Organizational Restructuring) before the exercise period of the stock acquisition rights comes into effect: an absorption-type merger or an incorporation-type merger where the Company becomes a dissolving company and an absorption-type split or an incorporation-type company split where the Company becomes a split company or a share exchange or a share transfer where the Company becomes a wholly-owned subsidiary (collectively, ñOrganizational Restructuringò as mentioned above).

(4) The stock acquisition rights shall not be offered for pledge or disposed of in any other way.

(5) The Person Granted must have the status as the Companyôs director, auditor, or employee of the Company or its affiliates at the time of exercise. However, this is not necessarily the case where:

(a) The Person Granted is a director, auditor, or employee of the Company or its affiliates and retires due to the expiry of her/his term.
(b) The Person Granted is an employee of the Company or its affiliates and retires due to compulsory retirement.
(c) The Person Granted is a director, auditor, or employee of the Company or its affiliates and the Board of Directors resolves that he/she has resigned or retired with honorable recognition.

(6) In the event that:
(a) The Person Granted dies before the exercise period comes into effect, the beneficiary/ies shall exercise the rights of up to one-half (1/2) within six (6) months from the date of inheritance, or
(b) The Person Granted dies during the exercise period, the beneficiary/ies shall exercise all the rights within six (6) months from the date of inheritance.
However, in the event that the beneficiary/ies dies, the rights shall be discarded and shall not be exercised by his/her beneficiary/ies.

(7) The Person Granted must have the status as a director, auditor, or employee of the Company or its affiliates at the time of exercise. However, this is not necessarily the case if:

(a) The Person Granted is a director of the Company or its affiliates and retires due to the expiry of her/his term.
(b) The Person Granted is an employee of the Company or its affiliates and retires due to compulsory retirement.
(c) The Person Granted is a director or employee of the Company or its affiliates and the Board of Directors resolves that he/she has resigned or retired with honorable recognition.

(8) In the event that the Person Granted dies, the beneficiary/ies shall be able to succeed and exercise the stock acquisition rights as prescribed in the allotment agreement for stock acquisition rights entered into between the Company and the Person Granted. However, in the event that the beneficiary/ies dies, the rights shall be discarded and shall not be exercised by his/her beneficiary/ies.

(This part is intentionally left blank)

(2) Change in the size of stock options

The number of shares which may arise upon exercise of stock options as of December 31, 2016 is as follows.

(a) Number of stock options

(Unit: number of shares)

	The 6th Series	The 7th Series	The 8th Series	The 9th Series
Grant date	April 18, 2006	July 1, 2006	December 4, 2006	February 1, 2007
Non-vested shares:				
At the beginning of the year	—	—	—	—
Granted	—	—	—	—
Expired	—	—	—	—
Vested	—	—	—	—
At the end of the year	—	—	—	—
Vested shares:				
At the beginning of the year	2,000	61,000	1,000	3,000
Vested	—	—	—	—
Exercised	—	—	—	—
Expired	2,000	61,000	1,000	—
At the end of the year	—	—	—	3,000

(Unit: number of shares)

	The 11th Series	The 12th Series	The 13th Series	The 14th Series
Grant date	March 15, 2007	August 29, 2007	August 29, 2007	October 1, 2008
Non-vested shares:				
At the beginning of the year	—	—	—	—
Granted	—	—	—	—
Expired	—	—	—	—
Vested	—	—	—	—
At the end of the year	—	—	—	—
Vested shares:				
At the beginning of the year	7,000	23,000	61,000	28,000
Vested	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
At the end of the year	7,000	23,000	61,000	28,000

(Unit: number of shares)

	The 16th Series	The 17th Series	The 19th Series	The 20th Series
Grant date	October 1, 2008	March 18, 2009	March 18, 2009	March 31, 2010
Non-vested shares:				
At the beginning of the year	—	—	—	—
Granted	—	—	—	—
Expired	—	—	—	—
Vested	—	—	—	—
At the end of the year	—	—	—	—
Vested shares:				
At the beginning of the year	70,000	4,000	2,500	344,500
Vested	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—

At the end of the year	70,000	4,000	2,500	344,500

(Unit: number of shares)

	The 21st Series	The 22nd Series	The 23rd Series	The 24th Series
Grant date	March 31, 2010	March 31, 2010	October 15, 2010	March 31, 2011
Non-vested shares:				
At the beginning of the year	—	—	—	—
Granted	—	—	—	—
Expired	—	—	—	—
Vested	—	—	—	—
At the end of the year	—	—	—	—
Vested shares:				
At the beginning of the year	197,500	153,000	10,000	192,000
Vested	—	—	—	—
Exercised	—	—	—	—
Expired	27,000	—	—	—
At the end of the year	170,500	153,000	10,000	192,000

(Unit: number of shares)

	The 25th Series	The 26th Series	The 27th Series	The 28th Series
Grant date	March 31, 2011	May 2, 2012	May 2, 2012	September 28, 2012
Non-vested shares:				
At the beginning of the year	—	161,250	116,800	6,000
Granted	—	—	—	—
Expired	—	—	8,850	500
Vested	—	80,625	61,525	3,000
At the end of the year	—	80,625	46,425	2,500
Vested shares:				
At the beginning of the year	117,000	201,250	159,700	6,000
Vested	—	80,625	61,525	3,000
Exercised	—	—	—	—
Expired	13,000	—	14,250	1,500
At the end of the year	104,000	281,875	206,975	7,500

(Unit: number of shares)

	The 30th Series	The 31st Series	The 32nd Series	The 33rd Series
Grant date	May 29, 2013	May 29, 2013	April 30, 2014	April 30, 2014
Non-vested shares:				
At the beginning of the year	71,250	56,400	252,000	213,900
Granted	—	—	—	—
Expired	—	6,675	—	26,100
Vested	23,750	20,625	—	14,900
At the end of the year	47,500	29,100	252,000	172,900
Vested shares:				
At the beginning of the year	44,750	25,900	—	7,000
Vested	23,750	20,625	—	14,900
Exercised	—	—	—	—
Expired	—	4,225	—	—
At the end of the year	68,500	42,300	—	21,900

(Unit: number of shares)

	The 35th Series	The 36th Series	The 37th Series	The 38th Series
Grant date	April 10, 2015	April 10, 2015	April 14, 2016	April 14, 2016
Non-vested shares:				
At the beginning of the year	204,200	272,500	—	—
Granted	—	—	236,500	395,000
Expired	—	33,500	—	49,500
Vested	10,300	25,500	—	12,500
At the end of the year	193,900	213,500	236,500	333,000
Vested shares:				
At the beginning of the year	—	—	—	—
Vested	10,300	25,500	—	12,500
Exercised	—	—	—	—
Expired	—	—	—	—
At the end of the year	10,300	25,500	—	12,500

(b) Per share prices

	The 6th Series	The 7th Series	The 8th Series	The 9th Series
Grant date	April 18, 2006	July 1, 2006	December 4, 2006	February 1, 2007
Exercise price (yen) (Note 1)	974	1,461	1,461	1,461
Average stock price at the time of exercise (yen)	—	—	—	—
Fair value price at grant date (yen)	—	0	0	0

	The 11th Series	The 12th Series	The 13th Series	The 14th Series
Grant date	March 15, 2007	August 29, 2007	August 29, 2007	October 1, 2008
Exercise price (yen) (Note 1)	1,461	1,461	1,461	1,169
Average stock price at the time of exercise (yen)	—	—	—	—
Fair value price at grant date (yen)	0	0	0	0

	The 16th Series	The 17th Series	The 19th Series	The 20th Series
Grant date	October 1, 2008	March 18, 2009	March 18, 2009	March 31, 2010
Exercise price (yen) (Note 1)	1,169	1,169	1,169	585
Average stock price at the time of exercise (yen)	—	—	—	—
Fair value price at grant date (yen)	0	0	0	0

	The 21st Series	The 22nd Series	The 23rd Series	The 24th Series
Grant date	March 31, 2010	March 31, 2010	October 15, 2010	March 31, 2011
Exercise price (yen) (Note 1)	585	585	585	682
Average stock price at the time of exercise (yen)	—	—	—	—
Fair value price at grant date (yen)	0	0	0	0

	The 25th Series	The 26th Series	The 27th Series	The 28th Series
Grant date	March 31, 2011	May 2, 2012	May 2, 2012	September 28, 2012
Exercise price (yen) (Note 1)	682	555	555	555
Average stock price at the time of exercise (yen)	—	—	—	—
Fair value price at grant date (yen) (Note 2)	0	(a) 179 (b) 187 (c) 195 (d) 202	(a) 179 (b) 187 (c) 195 (d) 202	(a) 203 (b) 208 (c) 213 (d) 217

	The 30th Series	The 31st Series	The 32nd Series	The 33rd Series
Grant date	May 29, 2013	May 29, 2013	April 30, 2014	April 30, 2014
Exercise price (yen)	(Note 1) 799	(Note 1) 799	1	1
Average stock price at the time of exercise (yen)	—	—	—	—
Fair value price at grant date (yen) (Note 2)	(a) 586 (b) 602 (c) 617 (d) 631	(a) 586 (b) 602 (c) 617 (d) 631	229	229

	The 35th Series	The 36th Series	The 37th Series	The 38th Series
Grant date	April 10, 2015	April 10, 2015	April 14, 2016	April 14, 2016
Exercise price (yen)	1	1	1	1
Average stock price at the time of exercise (yen)	—	—	—	—
Fair value price at grant date (yen)	306	306	272	272

(Notes) 1. The Company increased its capital through the public offering on December 4, 2013 and through the third-party allotment on December 25, 2013, at the per share amount less than the exercise price of options. Thus, the exercise amounts above are stated after the price adjustments clause.

2. (a), (b), (c) and (d) above correspond to each of (a), (b), (c) and (d) of the exercise periods as previously described in 3. (1) * (2).

4. Method for estimating the fair value of the stock options

The fair value of the stock options that were granted during this fiscal year is estimated based on the following method.

(1) Estimate technique used: Black-Scholes Option Pricing Model

(2) Major assumptions and estimate method

	The 37th Series	The 38th Series
Volatility of stock price (Note 1)	62.24%	62.24%
Estimated remaining outstanding period (Note 2)	3.0 years	3.0 years
Estimated dividend (Note 3)	0 yen per share	0 yen per share
Risk free interest rate (Note 4)	(0.24)%	(0.24)%

(Notes) 1. The volatility was calculated based on the actual stock prices from April 29, 2013 to April 14, 2016.

2. The period from the allotment date to the start date of the exercise period is used.

3. The Company estimates dividends to be zero since no dividends have been paid in the past.

4. This represents yields of Japanese government bonds corresponding to the estimated remaining outstanding period.

5. Estimate of the number of stock options vested

The number of expired shares is estimated based on the historical turnover ratio.

(Deferred tax accounting)

1. Significant components of deferred tax assets and liabilities

(Unit: thousands of yen)

	FY 2015 (as of December 31, 2015)	FY 2016 (as of December 31, 2016)
Deferred tax assets:		
Excess depreciation for lump-sum depreciable assets	2,357	2,192
Excess amortization for deferred assets	391,435	871,030
Research and development expenses	1,011,607	854,810
Accounts payable-other	8,458	243
Provision for retirement benefits	497	427
Enterprise tax payable	4,396	10,704
Asset retirement obligation	360	967
Share-based compensation expenses	59,480	95,125
Loss carried forward	1,818,206	1,881,788
Subtotal	3,296,798	3,717,291
Valuation allowance	(3,296,798)	(3,717,291)
Total deferred tax assets	—	—

2. The reconciliation between the effective tax rates reflected in the financial statements and the statutory tax rate is omitted since the Company reported loss before income taxes for the years ended December 31, 2015 and 2016.

3. Revision of amounts of deferred tax assets and liabilities due to changes in rates of corporate tax, etc.

Following the enactment of the ñAct for Partial Revision of the Income Tax Act, etc.ò and the ñAct for Partial Revision of the Local Tax Act, etc.ò on March 29, 2016 and the enactment of the ñAct for Partial Revision of the Consumption Tax Act and for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Securityò and the ñAct for Partial Revision of the Local Tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Securityò in the Diet on November 18, 2016, the statutory tax rate used in the calculation of deferred tax assets and liabilities for this fiscal year (however, limited to those expected to be reversed on or after January 1, 2017), has been changed from 32.34% of the previous fiscal year to 30.86% for those that are expected to be collected or paid during the period from January 1, 2017 to December 31, 2018, and to 30.62% for those that are expected to be collected or paid on or after January 1, 2019.

There is no impact from this change in the tax rate.

(Asset retirement obligations)

The Company has future restoration obligations related to leasehold contracts for office premises.
Carrying the balance of lease and guarantee deposits as an asset, the Company reasonably estimates non-recoverable amounts of lease and guarantee deposits under lease contracts and records the amount attributable to the respective fiscal year as expenses, instead of accounting for asset retirement obligations by recognizing a liability and an associated asset.

(Segment information)

【Segment information】

FY 2015 (from January 1, 2015 to December 31, 2015) and FY 2016 (from January 1, 2016 to December 31, 2016)

Segment information is omitted since the Company operates within a single segment of the pharmaceutical industry including research and development of pharmaceutical drugs as well as manufacturing and marketing and other related activities.

【Related information】

FY 2015 (from January 1, 2015 to December 31, 2015)

1. Information by product and service

Information by product and service is omitted since external sales of a single service category account for more than 90% of total net sales stated in the statement of income.

2. Information about geographical areas

(1) Net sales

Net sales information about geographical areas is omitted since external sales to Japanese customers account for more than 90% of total net sales stated in the statement of income.

(2) Property, plant and equipment

All property, plant and equipment are located in Japan.

3. Information by the major customer

(Unit: thousands of yen)

Name of customer	Net sales	Name of related segment
Eisai Co., Ltd.	1,852,304	Pharmaceutical businesses including research and development of pharmaceutical drugs as well as manufacturing and marketing and other related activities.

FY 2016 (from January 1, 2016 to December 31, 2016)

1. Information by product and service

Information by product and service is omitted since external sales of a single service category account for more than 90% of total net sales stated in the statement of income.

2. Information about geographical areas

(1) Net sales

Net sales information about geographical areas is omitted since external sales to Japanese customers account for more than 90% of total net sales stated in the statement of income.

(2) Property, plant and equipment

All property, plant and equipment are located in Japan.

3. Information by the major customer

(Unit: thousands of yen)

Name of customer	Net sales	Name of related segment
Eisai Co., Ltd.	2,264,541	Pharmaceutical businesses including research and development of pharmaceutical drugs as well as manufacturing and marketing and other related activities.

【Information about impairment loss on long-lived assets by reportable segment】

FY 2015 (from January 1, 2015 to December 31, 2015) and FY 2016 (from January 1, 2016 to December 31, 2016)

None to be reported.

【Information about the amortization and unamortized balance of goodwill by reportable segment】

FY 2015 (from January 1, 2015 to December 31, 2015) and FY 2016 (from January 1, 2016 to December 31, 2016)

None to be reported.

【Information about the gain recognized on negative goodwill by reportable segment】

FY 2015 (from January 1, 2015 to December 31, 2015) and FY 2016 (from January 1, 2016 to December 31, 2016)

None to be reported.

(Related party information)

Transactions with related parties

Director(s) and major individual shareholder(s) of the Company

FY 2015 (from January 1, 2015 to December 31, 2015)

None to be reported.

FY 2016 (from January 1, 2016 to December 31, 2016)

None to be reported.

(Per share information)

FY 2015 (from January 1, 2015 to December 31, 2015)		FY 2016 (from January 1, 2016 to December 31, 2016)	
Net assets per share	127.56 yen	Net assets per share	108.61 yen
Net loss per share	(81.26) yen	Net loss per share	(58.82) yen

(Notes) 1. While having potential dilutive stocks, diluted net income per share is not provided since the Company reported net loss per share.

2. The basis for calculating net loss per share is as follows:

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Net loss (thousand yen)	(2,632,095)	(2,313,233)
Amount not attributable to the shareholders of common stock (thousand yen)	—	—
Net loss attributable to the shareholders of common stock (thousand yen)	(2,632,095)	(2,313,233)
Average number of shares outstanding during the year (shares)	32,390,848	39,329,706
Description of potential dilutive stocks not included in the earning-per-share calculation due to anti-dilution	28 types of stock acquisition rights (6,901,550 units) in accordance with the Commercial Code of 1890 Article 280 (20) and (21), and the Companies Act Article 236, 238, and 239.	28 types of stock acquisition rights (11,038,308 units) in accordance with the Commercial Code of 1890 Article 280 (20) and (21), and the Companies Act Article 236, 238, and 239.

3. The basis for calculating net assets per share is as follows:

	FY 2015 (from January 1, 2015 to December 31, 2015)	FY 2016 (from January 1, 2016 to December 31, 2016)
Net assets (thousand yen)	4,431,811	5,484,870
Amount to be deducted from net assets (thousand yen)	299,887	431,135
[Of which, stock acquisition rights herein (thousand yen)]	[299,887]	[431,135]
Net assets attributable to the shareholders of common stock (thousand yen)	4,131,924	5,053,735
Number of shares used in the calculation of net assets per share (shares)	32,390,848	46,530,749

(Significant subsequent events)

Issuance of new shares through the exercise of stock acquisition rights regarding bonds with stock acquisition rights

During the period from January 1, 2017 to February 9, 2017, a portion of the third unsecured bonds with convertible bond type stock acquisition rights was converted into new shares through the exercise of the rights. The summary of such exercise of stock acquisition rights is as follows.

Number and type of shares issued:	1,421,800 shares of common stock
Total amount issued:	300,000 thousand yen
Amount of decrease in bonds with convertible bond type stock acquisition rights:	300,000 thousand yen
Amount transferred to common stock (capital):	150,000 thousand yen

6. Other

(1) Change in officers

None to be reported.

(2) Other

None to be reported.