Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2017 [Japanese GAAP]

August 9, 2017

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Stock code: 4587 URL http://www.peptidream.com/
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Scheduled date of Ordinary General Meeting of Shareholders: September 27, 2017
Scheduled filing date of securities report: September 28, 2017
Scheduled starting date of dividend payments: —
Supplementary briefing materials on financial results: No
Explanatory meeting on financial results: Yes

(Amounts of less than one million yen are rounded down)

1. Financial Results for the Fiscal Year Ended June 30, 2017 (July 1, 2016 to June 30, 2017)

(1) Operating results (% indicates changes from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal Year ended June 30, 2017	4,895	13.1	2,490	(2.3)	2,624	10.6	1,890	19.6
Fiscal Year ended June 30, 2016	4,327	74.9	2,548	83.2	2,372	58.5	1,581	57.5

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal Year ended June 30, 2017	16.54	14.56	16.9	20.5	50.9
Fiscal Year ended June 30, 2016	14.23	12.26	18.5	24.1	58.9

(Reference) Equity in earnings (losses) of affiliates Fiscal Year ended June 30, 2017: - million yen
Fiscal Year ended June 30, 2016: - million yen

(Note) Based on a resolution made by the Board of Directors of the Company at a meeting held on June 13, 2017, the Company conducted a share split of the Company's common stock at a ratio of 2-for-1, effective July 1, 2017. Net income per share and diluted net income per share are calculated assuming the share split was conducted at the beginning of the previous fiscal year.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2017	13,628	12,180	89.4	106.39
As of June 30, 2016	11,956	10,242	85.6	90.69

(Reference) Equity As of June 30, 2017: 12,178 million yen
As of June 30, 2016: 10,237 million yen

(Note) Based on a resolution made by the Board of Directors of the Company at a meeting held on June 13, 2017, the Company conducted a share split of the Company's common stock at a ratio of 2-for-1, effective July 1, 2017. Net assets per share are calculated assuming the share split was conducted at the beginning of the previous fiscal year.

(3) Cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Balance of cash and cash equivalents
	Million yen	Million yen	Million yen	Million yen
Fiscal Year ended June 30, 2017	1,530	(1,939)	45	6,556
Fiscal Year ended June 30, 2016	1,533	(981)	1,742	6,909

2. Payment of Dividends

	Annual dividends					Total dividends (Annual)	Dividend payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal Year ended June 30, 2016	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year ended June 30, 2017	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year ending June 30, 2018 (forecast)	-	0.00	-	0.00	0.00		-	

3. Financial Forecasts for the Fiscal Year Ending June 30, 2018 (July 1, 2017 to June 30, 2018)

	Net sales	Operating income	Ordinary income	Net income
	Million yen	Million yen	Million yen	Million yen
Fiscal Year	7,000 or more	2,900 or more	3,100 or more	2,100 or more

The Company manages business results on an annual basis, and therefore only the full-year financial forecasts are disclosed.

[Notes]

(1) Changes in accounting policies, changes in accounting estimates and retrospective restatements

1) Changes in accounting policies due to amendment to the accounting standards, etc.	:	None
2) Changes in accounting policies other than 1) above	:	None
3) Changes in accounting estimates	:	None
4) Retrospective restatements	:	None

(2) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury stock)	As of June 30, 2017	114,618,400 Shares	As of June 30, 2016	112,881,600 Shares
2) Number of treasury stock at the end of the period	As of June 30, 2017	150,200 shares	As of June 30, 2016	- shares
3) Average number of shares during the period	Fiscal Year ended June 30, 2017	114,290,144 shares	Fiscal Year ended June 30, 2016	111,152,409 shares

(Note) Based on a resolution made by the Board of Directors of the Company at a meeting held on June 13, 2017, the Company conducted a share split of the Company's common stock at a ratio of 2-for-1, effective July 1, 2017. Number of shares issued at the end of the period and average number of shares during the period have been calculated as if the stock split was conducted at the beginning of the previous fiscal year. The number of treasury shares at the end of the period includes shares in the Company held by the Trust & Custody Services Bank, Ltd. (Trust Account E) (150,200 shares as of June 30, 2017). In addition, the shares in the Company held by the Trust & Custody Services Bank, Ltd. (Trust Account E) are included in treasury shares excluded from calculating the average number of shares during the period (87,650 shares for the fiscal year ended June 30, 2017).

* Status of implementation of audit procedures

*Explanation on the appropriate use of operating forecasts and other special instructions

- Financial forecasts and other statements regarding the future presented in these materials are based on information currently available and certain assumptions deemed to be reasonable, and are not meant to be taken as commitment of the Company to achieve such results. Actual performance may differ substantially due to various factors.
- The Company plans to hold an explanatory meeting on financial results for institutional investors on August 23, 2017.

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1. Analysis of Operating Results and Financial Position

(1) Overview of Business Results for the Fiscal Year Under Review

During the fiscal year ended June 30, 2017, the Company promoted three business strategies that leverage the PDPS (Peptide Discovery Platform System) technology, its proprietary drug discovery and development platform system.

【The Company's business strategy】		Companies at the end of the fiscal year under review
1	Discovery and optimization agreements	17
2	PDPS non-exclusive technology license agreements	5
3	Expansion of in-house pipeline through strategic alliances	3

Regarding the first business strategy, discovery and optimization agreements that leverage the PDPS with pharmaceutical companies both in Japan and abroad, in April 2017, the Company entered into a discovery and optimization agreement with US-based Janssen Pharmaceuticals, Inc. ("Janssen"), one of the Janssen Pharmaceutical Companies of the US-based Johnson & Johnson Group, one of the largest healthcare companies in the world, to develop and discover nonstandard constrained/macrocyclic peptides against multiple therapeutic target proteins. As a result, the Company has entered into discovery and optimization agreements with 17 companies (six pharmaceutical companies in Japan and eleven pharmaceutical companies overseas). In addition to the fact that Janssen will use data obtained from the nonstandard constrained/macrocyclic peptides created using the PDPS for the research and development of low-molecular weight pharmaceuticals, this agreement also includes the rights to use Peptide Drug Conjugates (PDC).

Furthermore, many pre-defined milestones have occurred as pre-defined criteria of biological activities and other related PK properties were met in individual discovery and optimization agreements.

In December 2016, the nonstandard constrained/macrocyclic peptides identified by the agreement with Novartis (extended in March 2013) met the criteria and the Company received the pre-defined milestone.

In March 2017, the fifth lead compound was acquired from one of the programs between the Company and US-based Bristol-Myers Squibb, and the Company received the milestone. In addition, although the pre-defined milestone has yet to occur, in February 2017, an optimized candidate based on the Company's lead candidate was chosen as a development candidate under an agreement between the Company and Daiichi Sankyo Co., Ltd.

Additionally, nonstandard constrained/macrocyclic peptides discovered in agreements with the following four companies met the initial criteria defined in advance and the Company received pre-defined milestones. Development and optimization partner and timing of approval: Teijin Pharma, Ltd. (September 2016), Shionogi & Co., Ltd. (March 2017), US-based Merck & Co., Inc. (June 2017), and KYORIN Pharmaceutical Co., Ltd. (June 2017).

Regarding the second business strategy, PDPS non-exclusive technology license agreements, the Company agreed to give a non-exclusive technology license to US-based Genentech in July 2016. In addition, in June 2017, the Company agreed to give a non-exclusive technology license to Shionogi & Co., Ltd. As a result, the Company has given non-exclusive licenses for PDPS to five companies (one pharmaceutical company in Japan and four pharmaceutical companies overseas).

The transfer of technology to Genentech and the transfer of technology to US-based Eli Lilly & Company were fully completed in May 2017 and June 2017, respectively. As a result, Genentech and Eli Lilly are able to develop nonstandard constrained/macrocyclic peptides on their own.

For the third business strategy, the Company aims to expand its range of in-house drug candidates (pipeline) by forming strategic alliances (strategic discovery and optimization, etc.) with drug development companies and biotech startups with extraordinary technology worldwide. In the fiscal year ended June 30, 2017, the Company entered into new agreements with two companies, bringing the total number of companies with which the Company has such agreements to three, including JCR Pharmaceuticals Co., Ltd., with which the Company entered into a collaboration and license agreement in February 2016 for the development of nonstandard constrained/macrocyclic peptides as carriers for passing the blood brain barrier (BBB). In June 2017, the Company entered into a strategic discovery agreement with Modulus Discovery, Inc., which aims to utilize state-of-the-art computational technology to acquire low-molecular weight drug candidates quickly and efficiently, and in the same month entered into a strategic collaboration and license agreement with U.K.-based Heptares Therapeutics aimed at discovering, developing, and commercializing novel therapeutics targeting a G protein-coupled receptor (GPCR) for treating

inflammatory diseases.

With regard to in-house drug discovery, for the approach of using nonstandard constrained/macrocyclic peptides as pharmaceuticals, the Company has begun GLP-compliant pre-clinical trials of "PD-001," a nonstandard peptide targeting the influenza virus, and plans to finish collecting data by the end of 2017.

For the approach of using nonstandard constrained/macrocyclic peptides as PDC, the Company is developing an anticancer agent whose target protein is HER2 (human epidermal growth factor receptor 2). In the fiscal year ended June 30, 2017, under a fee-based agreement with the Japan Aerospace Exploration Agency ("JAXA") to conduct high resolution crystallography experiments using the International Space Station's "Kibo" Japanese Experiment Module, the Company succeeded in acquiring high-quality protein crystal from the crystallization of HER2 and nonstandard constrained/macrocyclic peptides in a bound state, and after conducting diffraction data measurement and structure determination, succeeded in determining the 3-D structure at a high resolution. The Company plans to use the 3-D structure obtained to design new drugs.

As a result, the Company reported net sales of 4,895,747 thousand yen (increased 567,868 thousand yen year on year), operating income of 2,490,415 thousand yen (decreased 57,664 thousand yen year on year), ordinary income of 2,624,446 thousand yen (increased 252,134 thousand yen year on year), and net income of 1,890,750 thousand yen (increased 309,462 thousand yen year on year) for the fiscal year ended June 30, 2017.

The Company operates in a single business segment, and thus statements for segment information are omitted.

(2) Overview of Financial Position for the Fiscal Year Under Review

Total assets at the end of the fiscal year under review increased by 1,672,050 thousand yen from the end of the previous fiscal year to 13,628,452 thousand yen. This was mainly because cash and deposits decreased by 352,470 thousand yen, accounts receivable-trade increased by 353,813 thousand yen and property, plant and equipment increased by 1,716,981 thousand yen.

Liabilities decreased by 265,994 thousand yen from the end of the previous fiscal year to 1,447,650 thousand yen. This was mainly because income taxes payable decreased by 464,496 thousand yen, advances received decreased by 115,751 thousand yen, and provision for directors' share benefits increased by 100,000 thousand yen.

Net assets increased by 1,938,045 thousand yen from the end of the previous fiscal year to 12,180,801 thousand yen. This was mainly because retained earnings increased by 1,890,750 thousand yen, capital stock increased by 240,585 thousand yen, and capital surplus increased by 240,585 thousand yen, despite a decrease owing to the recording of 430,869 thousand yen in treasury shares.

(3) Overview of Cash Flows for the Fiscal Year Under Review

Cash and cash equivalents at the end of the fiscal year under review decreased 352,470 thousand yen from the end of the previous fiscal year to 6,556,679 thousand yen.

Status of cash flows and the factors during the current fiscal year are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 1,530,776 thousand yen (decrease in inflow of 2,280 thousand yen year on year). This was mainly due to the recording of income before income taxes of 2,624,159 thousand yen for the year and the recording of depreciation of 174,617 thousand yen, despite income taxes paid amounting to 1,161,980 thousand yen, and an increase in notes and accounts receivable – trade of 353,813 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 1,939,399 thousand yen (decrease in outflow of 957,479 thousand yen year on year). This was due to 1,896,541 thousand yen for purchase of property, plant and equipment and 38,058 thousand yen for purchase of intangible assets.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 45,580 thousand yen (decrease in inflow of 1,697,276

thousand yen year on year). This was due to proceeds from issuance of shares resulting from exercise of subscription rights to shares amounting to 476,449 thousand yen, despite 430,869 thousand yen for purchase of treasury shares.

(Reference) Cash flow-related indices

	Fiscal Year ended June 30, 2013	Fiscal Year ended June 30, 2014	Fiscal Year ended June 30, 2015	Fiscal Year ended June 30, 2016	Fiscal Year ended June 30, 2017
Equity ratio (%)	96.1	97.7	89.1	85.6	89.4
Equity ratio based on market capitalization (%)	1,606.5	1,798.0	2,447.3	2,870.1	2,989.8
Ratio of interest-bearing liabilities to cash flows (%)	—	—	—	—	—
Interest coverage ratio (%)	—	—	—	—	—

Equity ratio: Shareholders' equity / total assets

Equity ratio based on market capitalization: Market capitalization of shares / total assets

Ratio of interest-bearing liabilities to cash flows: Interest-bearing liabilities / cash flows

Interest coverage ratio: Cash flows / interest expense

(Notes)

1. Market capitalization of shares is calculated by multiplying the closing share price at the end of the period by the number of shares issued at the end of the period (excluding treasury stock). It should be noted that the Company does not hold treasury stock.
2. For cash flows, operating cash flows are used.
3. Figures of ratio of interest-bearing liabilities to cash flows and interest coverage ratio for the fiscal years ended June 30, 2012 through 2017 are not stated because the Company did not hold interest-bearing liabilities.

(4) Forecast for the future

With regard to business results for the fiscal year ending June 30, 2018, by promoting the three business strategies utilizing the PDPS, the Company forecasts net sales of 7,000 million yen or more (an increase of 43.0% or more year on year), operating income of 2,900 million yen or more (an increase of 16.4% or more year on year), ordinary income of 3,100 million yen or more (an increase of 18.1% or more year on year), and net income of 2,100 million yen or more (an increase of 11.1% or more year on year).

The Company has constructed a new headquarters and research facilities in the "Kawasaki City's Tonomachi International Strategic Zone (KING SKYFRONT)" in Kanagawa Prefecture, which commenced operations in July 2017. In the fiscal year ending June 30, 2018, the Company projects an increase in depreciation in line with the completion of the facility, and higher expenses which includes increased research and development personnel.

	Results for the full year ended June 30, 2016	Results for the full year ended June 30, 2017	Forecasts for the full year ending June 30, 2018
Capital expenditures（million）	1,890	1,890	2,639
Depreciation expense（million）	124	174	562
Research and development expenses（million）	228	362	922
Year-end headcount（people）	47	60	76

* The amount that will actually be paid is shown for capital expenditures.

For the fiscal year ended June 30, 2017, instead of disclosing financial forecasts at the beginning of the year, the Company presented targets for seven items, but these included items outside the Company's control, such as approval for clinical development candidate combinations and the commencement of clinical trials, and were judged to not be appropriate as targets set for a single fiscal year.

On the other hand, the Company has reexamined the content disclosed for its medium-term outlook, and shall continue to disclose medium-term targets. Medium-term targets for the fiscal year ending June 30, 2022, or in five years' time, are described below.

【Medium-term targets】		
1	Bringing to market new drugs (approval and sales)	1 or more
2	Number of companies with which the Company has discovery and optimization agreements	25 or more
3	Number of companies to which the Company gives PDPS non-exclusive technology license agreements	8 or more
4	Number of projects for which clinical trials begin	10 or more
5	Number of employees at the end of the fiscal year ending June 30, 2022	120 people

To realize the Company's dream of "we wish to work toward hearing 'Thank you' from people battling disease," measures to realize this dream will be accelerated.

(5) Basic Policy for Profit Distribution and Dividends for the Fiscal Year under Review and the Following Fiscal Year

The Company acknowledges that returning profits to shareholders is an essential management issue and intends to consider profit distribution taking into account its operating results and financial position. However, for the time being the Company is focusing on maintaining internal reserves and placing priority on securing research and development funds.

(6) Business Risks

The following are matters that could potentially become major risk factors associated with the business development and/or other activities of the Company. For the purpose of proactive information disclosure to investors, the Company has also included risks that are not necessarily perceived to be material to the Company and risks that are less likely to materialize, as long as they are thought to be significant from the perspective of investment decisions by the investor or for better understanding the business activities of the Company. Upon recognizing the possibility of these risks, the Company has set its policy to make every effort to prevent such risks from materializing and to minimize their impact when they occur, but does not guarantee that such risks will be prevented altogether. It should also be noted that the following is by no means an exhaustive list of all possible risks facing the Company.

Forward-looking statements hereunder are based on the Company's judgment as of the release date of this document and involve inherent uncertainties, and therefore the actual results may differ.

1) Risks arising from business environment

(i) Potential of nonstandard constrained/macrocyclic peptides as pharmaceuticals

The nonstandard constrained/macrocyclic peptides of the Company includes not only the 20 L-amino acids that are used to naturally make proteins, but also D-amino acids, N-methyl amino acids, and other amino acid derivatives, etc. collectively referred to as nonstandard amino acids. This ability enables the Company to create various highly diverse nonstandard constrained/macrocyclic peptide libraries from which nonstandard constrained/macrocyclic peptides that exhibit high affinity and specificity against the target protein, which maintain high in-vivo stability and cell membrane permeability, can be identified.

Owing to this feature, the nonstandard constrained/macrocyclic peptides of the Company are expected to represent a new therapeutic class of molecules, and such expectations have led to and continue to lead to discovery and development agreements with pharmaceutical companies.

The Peptide Discovery Platform System (PDPS) of the Company arose in 2010. Pharmaceuticals, in general, require a significant amount of development costs and time (10 years or more) from basic research until obtaining marketing authorizations, etc. It has not been long since the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology was created and thus to date, no novel drug generated from nonstandard constrained/macrocyclic peptides of the Company has been approved. (However, novel drugs generated from organic compounds incorporating nonstandard amino acids that exist in nature have been approved. For example, in 1983, Sandoz Pharmaceuticals AG of Switzerland launched an immunosuppressive drug named " Sandimmune," and this was created by a peptide (cyclosporine) with a nonstandard structure, produced by a fungus found in the soil of the Hardanger Plateau in southern Norway).

Going forward, in cases where novel drugs cannot be developed from nonstandard constrained/macrocyclic peptides of the Company, or in cases where the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology cannot beneficially contribute to the clients' drug development efforts, the Company's business strategies and operating results may be negatively impacted.

(ii) Technology innovation

The Peptide Discovery Platform System (PDPS) of the Company incorporates a variety of technologies that are necessary for using nonstandard constrained/macrocyclic peptides as therapeutic candidates (i.e., technologies (A) to produce nonstandard constrained/macrocyclic peptides, (B) to generate/produce libraries with high diversity compared with low-molecular weight pharmaceuticals and antibody pharmaceuticals and (C) to rapidly conduct screening). The Company considers that the technologies (A) to (C) are all superior to those technologies of other companies that also discover and develop peptides as therapeutic candidates.

However, technology is always evolving, and there is always a chance that a technology superior to the PDPS of the Company will be developed, by utilizing a technology that does not conflict with the patented technology of the Company.

The Company intends to continue to actively perform research and development and to endeavor to secure intellectual property rights necessary for the PDPS technology, for the continued upgrade and evolution of the PDPS technology. However, if a technology superior to the PDPS is developed, the Company's competitive advantage will decrease and, as a result, the Company's business strategies and operating results may be negatively impacted, with more of such cases where agreements under conditions desired by the Company can no longer be entered into with the clients.

2) Risks arising from business

(i)Business based on nonstandard constrained/macrocyclic peptide pharmaceuticals

The Company has been conducting its business operations specializing in nonstandard constrained/macrocyclic peptide pharmaceuticals. Therefore, nonstandard constrained/macrocyclic peptides produced by the Peptide Discovery Platform System (PDPS) of the Company have novelty and inventiveness leading to high originality, thus the Company believes that

it is unlikely that alternative technologies could be easily developed to put the existence value of the Company at risk. However, in cases where pharmaceutical companies' views change regarding the value of nonstandard constrained/macrocyclic peptides and also in cases where the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology cannot contribute to the clients' drug development efforts, the Company's business strategies and operating results may be negatively impacted.

Recently, by using nonstandard constrained/macrocyclic peptides as search markers, it has become apparent that this can lead to development of low-molecular weight pharmaceuticals, and the range of applicability for PDPS has significantly widened. As a result, business operations that specialized in nonstandard constrained/macrocyclic peptides is undergoing change, and while making inroads into the industry with PDPS as a foundation in drug discovery and development based on nonstandard constrained/macrocyclic peptides, the Company is attempting to expand use into development of low-molecular weight pharmaceuticals, in addition to nonstandard constrained/macrocyclic peptides. In cases where the Company cannot contribute to the development of low-molecular weight pharmaceuticals, the Company's business strategies and operating results may be negatively impacted.

(ii) Conducting joint research and development with multiple pharmaceutical companies

As of the release date of this document, the Company has entered into joint research and development agreements with seventeen companies (six domestic, eleven overseas). Each pharmaceutical company has its specific target(s) for drug discovery and development, for which the Company will prosecute by receiving proposals concerning the research and development of, but in rare cases, the target for drug discovery and development may be requested by multiple pharmaceutical companies. Whenever such cases arise, the Company has a formal process for determining which pharmaceutical company has priority. Until now, no issue with this process has occurred.

However, in cases hereafter where this kind of coordination becomes difficult, the Company will not be able to enter into new joint research and development agreements and to acquire new target proteins, and thus the Company's business strategies and operating results may be negatively impacted.

(iii) Revenue recognition

The sales category of the Company for joint research and development agreements is, in principle, composed sequentially of (A) upfront payments (technological access fees), (B) funding for research and development, (C) funding for additional research and development, (D) premiums for drug discovery and development (E) incentives for reaching preclinical and/or clinical development goals (milestones), (F) royalties on net sales, and (G) incentives for reaching sales targets.

Although (A) upfront payments (technological access fees), (B) funding for research and development, and (C) funding for additional research and development significantly rely on the operational success of the Company, for (B) and (C) in particular, project termination resulting from client's policy changes, can result in a situation where ongoing revenue cannot be recognized, as the research and development activities cease. As for (A), whose amount is often relatively larger than that of (B) and (C), such revenue is recognized at one time, which means that the operating results of the Company could be negatively impacted by (A).

(D) Premiums for drug discovery and development and (E) incentive for reaching goals significantly rely on the business progress and strategy of the client, which are sales categories that are largely out of the control of the Company.

Therefore, in cases where the client's development progress is slowed, deprioritized or delayed, or in cases where the client's development strategy is changed, etc., the Company's business strategies and operating results may be negatively impacted.

(iv) Possibility of legal disputes

The Company, during the course of conducting its business operations, in cases where it violates the rights or interests of a third party or in cases where the counterparty considers that it did, even though it actually did not, legal disputes such

as lawsuits for damages, etc. may occur.

As of the release date of this document, no legal dispute has occurred nor has any formal litigation initiated, however, a foreign bio-venture is arguing that the Company's business conflicts with the foreign company's patent rights, and thus a legal dispute with the bio-venture may occur in the future. The possibility that the Company might preemptively take legal action toward the invalidation of the patent right(s) of the foreign bio-venture in question remains possible. In the future, when a legal dispute occurs between a third party and the Company, dispute resolution may require certain resources in addition to time and money and the Company can also be exposed to reputation risks resulting from the legal dispute, regardless of the final outcome. In such cases, the Company's business strategies and operating results may be negatively impacted.

In the course of future business operations, conflicts with patent rights, etc. of other companies may limit the Company's business, and in such cases, the Company's business strategies and operating results may be negatively impacted.

Furthermore, there exist no examples of the Company's nonstandard constrained/macrocyclic peptide pharmaceuticals researched and developed jointly by the Company and a pharmaceutical company commercially launched as pharmaceuticals to date. Therefore, in the unlikely event that the pharmaceutical researched and developed jointly by the Company causes unforeseen health problems, the negative image/reputation may adversely affect the reliability of the Company and its Peptide Discovery Platform System (PDPS) and thus the Company's business strategies and operating results may be negatively impacted.

(v) Material business agreements

As for agreements considered to be important or material to the Company's business operations, in cases where such agreements are terminated or in cases where changes are made to the counterparty's strategic plans, the Company's business strategies and operating results may be negatively impacted.

Further, revenue/funding related to joint research and development agreements (corresponding to or represented as sales for the Company) are, in principle, received as advances to the Company, which in turn is not obligated to return the money even in cases of early termination of the agreements. In exchange for this benefit, the counterparty holds the right to terminate the agreement at its discretion.

(vi) Dependence on counterparties of joint research and development agreements

Revenue in the Alliance business of the Company is mostly from counterparties of joint research and development agreements (clients). Going forward, in cases where the joint research and development for novel target molecules are not commenced with the clients or in cases where results of the joint research and development do not meet the criteria required by the clients, the Company's business strategies and operating results may be negatively impacted.

In addition, for lead compounds licensed out by the Company, the client conducts the clinical trials and applies for regulatory approval and thus their progress and results significantly affect the Company's business strategies and operating results. Although the Company will support the client even after licensing out, clinical trials and applications for approval should be carried out by the client and those are beyond the control of the Company. Therefore, the possibility that the progress of clinical trials and/or applications for regulatory approval might be delayed due to reasons unexpected by the Company and that clinical trials and applications for approval might be terminated for various reasons, exists.

Furthermore, marketing plans after obtaining approval for manufacturing and sale rest solely with the clients, and thus there are possibilities such that marketing plan targets cannot be achieved due to factors such as changes in the clients' management policies or marketing plans and deterioration in the business environment.

Furthermore, as significant funds are required for the research and development of drugs, organizational restructuring and M&A are active in this industry. Clients may restructure organization or acquire competing firms (or acquired by competing firms), causing the competitive landscape within the industry to be changed drastically within short periods of time. If such large-scale corporate organizational restructuring occurs at the Company's clients, the Company's business

strategies and operating results may be negatively impacted.

(vii) Product pipeline of the Company (in-house drug discovery programs)

The Company is promoting research and development of its own in-house product pipeline (in-house drug discovery programs) utilizing the characteristics of nonstandard constrained/macrocyclic peptides.

As things stand, the Company takes a two-pronged approach to development: Use of nonstandard constrained/macrocyclic peptides as pharmaceuticals, and development of PDC for use in combination with other drugs, leveraging the excellent selectivity of nonstandard constrained/macrocyclic peptides. In addition, through using nonstandard constrained/macrocyclic peptides as search markers, this can lead to development of low-molecular weight pharmaceuticals, and the Company has begun development of low-molecular weight pharmaceuticals in its internal pipeline.

As an outcome of measures to use nonstandard constrained/macrocyclic peptides as drugs, the Company made an announcement in April 2014 regarding measures related to an anti-influenza agent, and progress conditions of the above were announced in February 2015. Subsequently, the Company designated development number “PD-001,” which significantly improves the active agent and internal dynamics of previous nonstandard constrained/macrocyclic peptides, as a new development candidate nonstandard constrained/macrocyclic peptide, and an announcement was made to conduct GLP-compliant pre-clinical trials following the acquisition of GLP-compliant progenitors.

Regarding PDCs, full-scale operations began from the fiscal year ended June 30, 2016, and joint research is already underway with several pharmaceutical companies.

With regard to the in-house product pipeline, if research and development progress smoothly and pre-clinical trials are conducted at the Company’s expense, the Company may find itself incurring significant development costs. However, if progress in research and development of the in-house product pipeline is not smooth, there is a risk of losing certain options for future commercialization.

(viii) About strategic alliances with other companies and success or failure of corporate acquisitions, etc.

With the intent of strengthening competitiveness and expanding business scope, etc., the Company may make strategic alliances, etc. through transferring business divisions from other companies, acquiring other companies, entering into business alliances with other companies, establishing joint ventures, or making investments in other companies (hereinafter “Strategic alliances, etc.”) Regarding such Strategic alliances, etc., there are possibilities such as the possibility that the alliance or integration does not proceed smoothly with the partner company due to differing views, the possibility that initially expected results cannot be attained, and the possibility that the investment amount cannot be recovered, either in part or in whole. Additionally, there is the possibility that the partner company may make decision that conflicts with the Company’s benefit, and in cases such as when the partner company makes changes to its business strategy, there is the possibility that it may become difficult for the Company to maintain the relationship under the Strategic alliance, etc., and the Company’s business strategies and operating results may be negatively impacted.

3) Intellectual property rights

(i) Acquisition of and application for patents

The Company engages in various inventions and patent rights in the course of its business, some of which have already been granted to the Company, the University of Tokyo or the State University of New York, while others are at various stages of the patent process.

However, it is possible that not all of the pending applications will be granted. In addition, even after receiving grant of patent rights, there remains the possibility that the item requested may be nullified via the patent objection claim system. There is also the possibility that a legal dispute concerning the patent right might arise, such as the filing of a patent violation lawsuit or request for a hearing on patent invalidation, resulting in some adverse effect to the right implemented by the Company. As of the date of announcement of these materials, one patent objection has been filed regarding a patent

for which the Company holds licensing rights.

There are other possibilities that the technology included in the patent right held by the Company might become obsolete due to emergence of a technology superior to the patent right held by the Company. When such a situation occurs, the Company's business strategies and operating results may be negatively impacted. In addition, the Company has obtained, through an agreement, the exclusive license, with the right to sublicense to a third party, with regard to various inventions or patent rights which the University of Tokyo or the State University of New York is the applicant. In such cases where the contents of the said agreement are subject to alterations or the agreement is terminated due to expiration or cancellation, etc., the Company's business strategies and operating results may be negatively impacted.

(ii) Internal assignment of employee inventions

When the Company receives a right to obtain a patent from an officer or employee, etc. who is the inventor of an invention, the Company will pay "reasonable consideration" that is provided for in the Patent Act. The Company has established rules for its handling in the internal rules, etc. and no disputes have occurred between the inventors and the Company. However, if issues such as payment claims for reasonable consideration arise in handling employee inventions, the Company's business strategies and operating results may be negatively impacted.

4) Risks related to the pharmaceutical research and development business

(i) Uncertainties in pharmaceutical development

Pharmaceutical development in general, not only requires a considerable amount of research and development investment and time, but also has a notably low success rate compared with other industries. Even for compounds considered to be promising at the early stages of research and development, research and development can fall behind schedule due to reasons such that useful effects are not discovered in the course of pre-clinical studies and clinical trials, leading to extension or cancellation of the development. When the development is extended, additional funding may be required and the remaining patent life will be shortened, affecting the recovery of funds invested. In addition, when the development is cancelled, the funds invested in the research and development may not be recovered.

(ii) Risks related to occurrence of adverse drug reactions

Pharmaceuticals can cause unexpected adverse drug reactions starting from the clinical trial stage to post-marketing. When such unexpected adverse drug reactions occur, claim litigation and loss of creditworthiness, etc. are all possible, to which the Company's business strategies and operating results may be negatively impacted.

(iii) Regulations concerning pharmaceutical affairs including the Pharmaceutical Affairs Act

The pharmaceutical industry is subject to various regulations including the Pharmaceutical Affairs Act of each country (the "Law on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices" in Japan) and other related laws and regulations regarding business activities of research, development, manufacturing and sales.

The product pipeline of the Company is now at the discovery and development, with no product yet having been approved for sale by the Ministry of Health, Labour and Welfare of Japan, U.S. Food and Drug Administration (FDA) and European Medicines Agency (EMA). However, the Company intends to apply for regulatory approval for manufacturing and sales of pharmaceuticals pursuant to various regulations of the Pharmaceutical Affairs Act of each country and to obtain such approval in the future.

Therefore, the Company is required to prepare an internal system that meets and adheres to the regulations from the various regulatory entities mentioned above. Moreover, the Pharmaceutical Affairs Act of each country and other related laws and regulations are subject to change from time to time, and it is possible that these changes can affect the class of peptides Company is developing in either a positive or negative way, and that further improvement and amendment of the internal system might become necessary.

Compliance with such regulations shall affect the Company's business strategies and operating results.

(iv) Product liability

Development and manufacturing of pharmaceuticals are subject to the underlying risks of product liability. If any developed pharmaceutical causes adverse health issues or unintended side effects are found, whether in the course of clinical trials, manufacturing, operating or sales, in the future, the Company shall bear product liability and thus the Company's business strategies and operating results may be negatively impacted.

In addition, the negative image resulting from the product liability compensation claim can adversely affect the credibility of the Company and its pharmaceuticals, and thus the Company's business strategies and operating results may be negatively impacted.

(vi) Drug administration

The selling prices of drugs for medical use are affected by the regulations relating to drug prices of Japan and the governments of other countries. Thus far, the Company has not conducted an in-house clinical trial, and has adopted a policy of licensing out candidates for early development to clients. As a result, the Company's drug price strategy depends on its clients, and is indirectly affected by the drug price policies of Japan and the governments of other countries. In the event that the Company's development candidates are brought to market, if there are negative amendments to drug prices for the relevant drugs, or other amendments to medical insurance systems, the Company's financial position and operating results may be negatively impacted.

5) Risks associated with human resources and the organization

(i) Risks from being a small organization

The Company is a small organization comprising eight officers (five Directors and three Audit and Supervisory Committee Members) and 60 employees (as of June 30, 2017) with an internal management system commensurate with the Company's size. While the Company upholds the policy of augmenting employees as necessary for operations and reinforcing its internal system, the Company's business strategies and operating results may be negatively impacted, should an outflow of human resources occur and the Company becomes incapable of replacing necessary personnel.

(ii) Securing human resources

The Company believes that securing superior human resources with expert knowledge and experience in the research and development field is indispensable for elevating its drug discovery platform technology and advancing its drug discovery research and development. Should the Company encounter any obstacles in securing its human resources as planned, or lose any of its superior human resources, the Company's business strategies and operating results may be negatively impacted.

6) Other risks

(i) Being a relatively young company

The Company, established in July 2006 and being a relatively young company, does not have sufficient financial data to conduct a comparison of its performance from period to period. Therefore, the operating results and financial position of prior periods alone do not cover the period required to provide sufficient materials on which to make decisions regarding the Company's future performance.

Additionally, since the Company commenced its Alliance business in the fifth fiscal year (the fiscal year that ended on June 30, 2011), nonstandard constrained/macrocyclic peptide pharmaceuticals have yet to reach the market launch phase.

(ii) Dilution of the Company's stock value due to the exercise of stock acquisition rights

The Company has granted stock acquisition rights to its officers, employees and business partners, etc. Should such stock acquisition rights be exercised, the Company's number of shares outstanding would increase, and the value of the

shares held by existing shareholders and the ratio of voting rights may become diluted. As of June 30, 2017, the number of dilutive shares to be increased by the exercisable subscription rights to shares was 7,696,000 shares, which is equivalent to 11.84% of the aggregate number of shares issued and dilutive shares.

(iii) Dividend policy

The Company recognizes returning profits to shareholders through dividends as one of its important management tasks.

Once steady predictable revenues have been attained, and enough revenue exists to cover the costs of research and development, upon comprehensively taking into account the necessity of enhancing internal reserves in preparation for future research and development activities, the Company will consider the profit distribution to its shareholders.

(iv) Information security

The Company's business involves receiving information on targeted proteins from client pharmaceutical companies. For this reason, the Company makes every effort to prevent the leakage of corporate information by requiring its employees to sign confidentiality agreements relating to corporate information including customer information.

However, should a leak of corporate information including customer information occur, the Company may face a loss of public confidence and the Company's businesses, etc. may be negatively impacted.

(v) Fluctuation of foreign exchange rates

Due to the large number of overseas pharmaceutical companies among the Company's clients, much of its sales are denominated in foreign currencies (mainly in US dollar) and affected by fluctuations of foreign exchange rates. Therefore, should fluctuations in foreign exchange rates occur, the Company's operating results and financial position may be negatively impacted.

(vi) Occurrence of natural disasters, etc.

The Company has headquarters and research facilities in Tonomachi, Kawasaki, in Kanagawa Prefecture, and facilities and personnel relating to the Company's business activities and research and development activities are concentrated in the present location. As a result, if there is an earthquake, eruption, flood, or other natural damage, large-scale accident, terrorist attack, or other such incident in the vicinity of the present location, causing unexpected circumstances to occur, such as damage to the Company's facilities or supply restrictions from different types of infrastructure, the Company's business strategies and operating results may be negatively impacted.

(vii) Construction of headquarters and research facilities and relocation of headquarters

In order to expand the Company's businesses and strengthen its research and development capabilities, the Company has constructed new headquarters and research facilities in Tonomachi, Kawasaki, in Kanagawa Prefecture, which commenced operations in July 2017. A certain level of operational risk exists, partly because new facilities and equipment, etc. will be installed and operated, and employees might not be familiar with their handling in the first year of the transfer. In addition, there is a risk that expenses exceeding forecasts are needed for facility management, etc., and circumstances arise whereby additional personnel are necessary. In the event that these risks materialize, the Company's financial position and operating results may be negatively impacted.

(viii) Establishment of a CMO (Contract Manufacturing Organization)

In September 2017, the Company shall establish a CMO (trade name: "PeptiStar, Inc."; hereinafter, "PeptiStar") as a joint venture with Shionogi & Co., Ltd. and Sekisui Chemical Co., Ltd. in Settsu, Osaka Prefecture.

At present, the research and development of nonstandard peptide pharmaceuticals is conducted by pharmaceutical companies in Japan and overseas, but even on a global level, there is no CMO that can provide a stable supply of high quality raw materials for nonstandard peptides at a low cost. Under these circumstances, the Company believes that

establishing a CMO with specialist technology relating to nonstandard peptide pharmaceuticals can contribute to promoting the Company's business and, by extension, expanding the market for nonstandard peptide pharmaceuticals. By strategically consolidating the state-of-the-art technology held by each of the domestic companies participating in the PeptiStar joint venture, the Company aims to eliminate bottlenecks relating to the development and sale of nonstandard peptide pharmaceuticals.

The Company plans to invest between about 1,500 million yen and 1,900 million yen in PeptiStar. In addition, the Company intends to guarantee PeptiStar's debt, and assign a Representative Director to PeptiStar, thereby making PeptiStar an affiliate of the Company. As a result, if PeptiStar cannot develop its business in the manner forecast by the Company at the time of investment, the Company's financial position and operating results may be negatively impacted, including an impairment of shares.

(ix) Harmful rumors

Should negative rumors about the Company, or the Company's related parties or business partners be spread by Analyst report and media coverage or be posted on the Internet, public confidence of the Company may be affected, regardless of whether there was any truth in the rumors. Should negative rumors about the Company, or the Company's related parties or business partners be spread, the credibility of the Company may be adversely affected due to the negative image, and the Company's financial position and operating results may be negatively impacted.

2. Management Policies

(1) Basic Management Policy

The Company's basic management policy is to leverage its proprietary PDPS (Peptide Discovery Platform System) to discover and develop nonstandard constrained/macrocyclic peptide pharmaceuticals in order to address unmet medical needs (medical needs for which there are no effective treatments) and to improve the quality of life of patients worldwide. To this end, the Company will contribute to the creation of a market for "nonstandard constrained/macrocyclic peptide pharmaceuticals" as a third major market following "low-molecular weight pharmaceuticals" and "antibody pharmaceuticals," and contribute to the progress of medicine around the world.

(2) Medium- to Long-term Management Strategies

Please refer to Future Outlook for details of medium- to long-term management strategies.

(3) Issues to be Addressed

The Company leverages its proprietary PDPS (Peptide Discovery Platform System) to conclude joint research and development agreements with pharmaceutical companies both in Japan and abroad for the purpose of conducting development of drugs that utilize nonstandard constrained/macrocyclic peptides.

The Company recognizes the following as issues that need to be addressed in order to sustain growth as a going concern.

(Issues associated with sales activities)

The Company has built relationships (joint research and development systems) that are mutually amicable and economically beneficial with pharmaceutical companies both in Japan and abroad, and the Company projects the conclusion of further joint research and development agreements in the future. The Company believes that in order to maintain and expand a smooth joint research and development system, strategic sales activities that move in step with establishment and enrichment of the research and development system are important.

(Issues associated with research and development activities)

The Company maintains and utilizes PDPS, and believes this system at the moment has huge technological advantages. Additionally, there are significant possibilities for the use of nonstandard constrained/macrocyclic peptides that are created via PDPS. To continue to uphold the advantage of this in-house technology, the Company is committed to strengthening its in-house research and development system while undertaking joint research with pharmaceutical companies and research institutions, etc. in Japan and overseas.

(Issues associated with internal management and controls)

The Company recognizes the reinforcement of its corporate governance as a major issue that needs to be addressed in order to develop its corporate structure as a going concern. The Company is aware that enhancement of the efficiency, soundness and transparency of management, and the long-term, stable and continuous improvement of its share value will be indispensable in winning the trust of each stakeholder, including its shareholders. The Company will, therefore, make every effort to develop an organization equipped with agility and company-level efficiency while keeping in mind the adequacy of business execution, and the efficiency and efficacy of its management functions.

3. Basic Approach to Accounting Standards

To facilitate comparison of financial data between different periods and different companies, the Company policy at the moment is to prepare financial statements based on Japanese GAAP.

While considering domestic and overseas needs, the Company intends to adopt the IFRS (International Financial Reporting Standards) when appropriate.

4. Financial Statements

(1) Balance Sheets

(Thousands of yen)

	As of June 30, 2016	As of June 30, 2017
Assets		
Current assets		
Cash and deposits	6,909,149	6,556,679
Accounts receivable - trade	1,400,938	1,754,752
Prepaid expenses	57,934	74,247
Deferred tax assets	194,410	135,732
Other	36,698	-
Total current assets	8,599,130	8,521,412
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings	40,941	42,585
Accumulated depreciation	(7,397)	(40,987)
Facilities attached to buildings, net	33,544	1,598
Tools, furniture and fixtures	679,358	789,562
Accumulated depreciation	(358,822)	(497,799)
Tools, furniture and fixtures, net	320,536	291,763
Land	1,000,000	1,000,000
Construction in progress	1,784,586	3,562,285
Total property, plant and equipment	3,138,666	4,855,647
Intangible assets		
Goodwill	82,712	62,456
Software	5,526	4,705
Other	17,352	54,710
Total intangible assets	105,591	121,872
Investments and other assets		
Long-term loans receivable	100,000	100,000
Long-term prepaid expenses	3,438	14,928
Deferred tax assets	1,311	966
Other	8,263	13,624
Total investments and other assets	113,013	129,520
Total non-current assets	3,357,271	5,107,040
Total assets	11,956,402	13,628,452
Liabilities		
Current liabilities		
Accounts payable - trade	10,197	23,792
Accounts payable - other	57,004	62,250
Accrued expenses	247,574	342,468
Income taxes payable	729,304	264,807
Advances received	472,955	357,204
Deposits received	62,510	76,311
Asset retirement obligations	-	15,600
Other	118,499	205,215
Total current liabilities	1,698,045	1,347,650
Non-current liabilities		
Asset retirement obligations	15,600	-

(Thousands of yen)

	As of June 30, 2016	As of June 30, 2017
Provision for directors' share benefits	-	100,000
Total non-current liabilities	15,600	100,000
Total liabilities	1,713,645	1,447,650
Net assets		
Shareholders' equity		
Capital stock	3,630,183	3,870,769
Capital surplus		
Legal capital surplus	3,626,465	3,867,051
Total capital surplus	3,626,465	3,867,051
Retained earnings		
Other retained earnings		
Retained earnings brought forward	2,980,857	4,871,608
Total retained earnings	2,980,857	4,871,608
Treasury stock	-	(430,869)
Total shareholders' equity	10,237,505	12,178,559
Subscription rights to shares	5,250	2,242
Total net assets	10,242,756	12,180,801
Total liabilities and net assets	11,956,402	13,628,452

(2) Statements of Income

(Thousands of yen)

	Fiscal year ended June 30, 2016	Fiscal year ended June 30, 2017
Net sales	4,327,878	4,895,747
Cost of sales	1,086,291	1,359,801
Gross profit	3,241,586	3,535,946
Selling, general and administrative expenses	693,506	1,045,530
Operating income	2,548,080	2,490,415
Non-operating income		
Interest income	1,734	1,302
Foreign exchange gains	-	46,928
Operation consignment fee	1,346	86,665
Other	161	848
Total non-operating income	3,241	135,745
Non-operating expenses		
Share issuance cost	6,180	1,713
Foreign exchange loss	172,829	-
Total non-operating expenses	179,009	1,713
Ordinary income	2,372,312	2,624,446
Extraordinary losses		
Loss on retirement of non-current assets	6,501	287
Total extraordinary losses	6,501	287
Income before income taxes	2,365,811	2,624,159
Income taxes - current	933,495	674,386
Income taxes - deferred	(148,972)	59,021
Total income taxes	784,522	733,408
Net income	1,581,288	1,890,750

(3) Statements of Changes in Equity

Fiscal year ended June 30, 2016

(Thousands of yen)

	Shareholders' equity						Subscription rights to shares	Total net assets
	Capital stock	Capital surplus		Retained earnings		Total shareholders' equity		
		Legal capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings			
Balance at the beginning of current period	2,750,336	2,746,618	2,746,618	1,399,569	1,399,569	6,896,523	15,908	6,912,431
Changes of items during period								
Issuance of new shares	879,847	879,847	879,847			1,759,694		1,759,694
Net income				1,581,288	1,581,288	1,581,288		1,581,288
Net changes of items other than shareholders' equity							(10,657)	(10,657)
Total changes of items during period	879,847	879,847	879,847	1,581,288	1,581,288	3,340,982	(10,657)	3,330,325
Balance at the end of current period	3,630,183	3,626,465	3,626,465	2,980,857	2,980,857	10,237,505	5,250	10,242,756

Fiscal year ended June 30, 2017

(Thousands of yen)

	Shareholders' equity							Subscription rights to shares	Total net assets
	Capital stock	Capital surplus		Retained earnings		Treasury stock	Total shareholders' equity		
		Legal capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings				
Balance at the beginning of current period	3,630,183	3,626,465	3,626,465	2,980,857	2,980,857	-	10,237,505	5,250	10,242,756
Changes of items during period									
Issuance of new shares	240,585	240,585	240,585				481,171		481,171
Net income				1,890,750	1,890,750		1,890,750		1,890,750
Acquisition of treasury stock						(430,869)	(430,869)		(430,869)
Net changes of items other than shareholders' equity								(3,008)	(3,008)
Total changes of items during period	240,585	240,585	240,585	1,890,750	1,890,750	(430,869)	1,941,053	(3,008)	1,938,045
Balance at the end of current period	3,870,769	3,867,051	3,867,051	4,871,608	4,871,608	(430,869)	12,178,559	2,242	12,180,801

(4) Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended June 30, 2016	Fiscal year ended June 30, 2017
Cash flow from operating activities		
Income before income taxes	2,365,811	2,624,159
Depreciation	124,431	174,617
Amortization of goodwill	18,568	20,256
increase (decrease) in provision for directors' share benefits	-	100,000
Interest and dividend income	(1,734)	(1,302)
Foreign exchange losses (gains)	64,463	(10,572)
Share issuance cost	6,180	1,713
Loss on retirement of non-current assets	6,501	287
Decrease (increase) in notes and accounts receivable - trade	(1,054,111)	(353,813)
Decrease (increase) in prepaid expenses	(18,389)	(16,313)
Increase (decrease) in notes and accounts payable - trade	(5,814)	13,594
Increase (decrease) in accounts payable - other	13,747	11,424
Increase (decrease) in accrued expenses	99,488	94,893
Increase (decrease) in advances received	458,273	(115,751)
Increase (decrease) in deposits received	24,929	13,800
Other, net	161,869	134,460
Subtotal	2,264,214	2,691,455
Interest and dividend income received	1,972	1,302
Income taxes paid	(733,130)	(1,161,980)
Net cash provided by (used in) operating activities	1,533,057	1,530,776
Cash flow from investing activities		
Decrease (increase) in time deposits	1,200,000	-
Payments of long-term loans receivable	(100,000)	-
Purchase of property, plant and equipment	(1,947,890)	(1,896,541)
Purchase of intangible assets	(20,765)	(38,058)
Payments for transfer of business	(105,000)	-
Other	(8,263)	(4,799)
Net cash provided by (used in) investing activities	(981,920)	(1,939,399)
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	1,742,856	476,449
Purchase of treasury shares	-	(430,869)
Net cash provided by (used in) financing activities	1,742,856	45,580
Effect of exchange rate change on cash and cash equivalents	(64,463)	10,572
Net increase (decrease) in cash and cash equivalents	2,229,530	(352,470)
Cash and cash equivalents at beginning of period	4,679,619	6,909,149
Cash and cash equivalents at end of period	6,909,149	6,556,679

(5) Notes to Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Changes in Accounting Policies)

(Changes in Accounting Standard for Business Combinations, etc.)

Not applicable.

(Additional Information)

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) from the fiscal year under review.

(Transactions in which the Company's shares are issued to employees, etc., through a trust)

1. Board Benefit Trust (BBT)

The Company revised the officer compensation system from the fiscal year under review, and introduced a new stock compensation plan "Board Benefit Trust (BBT)" for Directors (excluding Outside Directors and Directors appointed as Audit and Supervisory Committee Members), in order to raise awareness among Directors on contributing to the improvement of the Company's performance over the medium to long term and the enhancement of its corporate value.

The Company applied the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issues Task Force (PITF) No. 30, March 26, 2015) in accounting for this trust agreement.

(1) Overview of the transaction

Under the Plan, the Company will pay shares in the Company to Directors of the Company who fulfill certain conditions, based on the Officer Stock Benefit Rules predetermined by the Company.

The Company will grant points to Directors in accordance with the Officer Stock Benefit Rules, and pay shares in the Company equivalent to the points granted upon retirement, in principle. The shares to be paid to Directors, including those required in future, are acquired with money held in the trust in advance and managed separately as trust assets.

(2) Shares in the Company remaining in the trust

Shares in the Company remaining in the trust are reported under net assets as treasury shares at the carrying value in the trust (excluding the amount of any associated expenses). The carrying value and number of these treasury shares were 299,489 thousand yen and 52,200 shares, respectively, at the end of the fiscal year under review.

2. Employee Stock Ownership Plan (J-ESOP)

From the fiscal year under review, the Company introduced an "Employee Stock Ownership Plan (J-ESOP)" incentive plan where shares in the Company are paid to employees, in order to cultivate a sense of belonging among employees and increase their motivation to improve share price and company performance.

The Company applied the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ PITF No. 30, March 26, 2015) in accounting for this trust agreement.

(1) Overview of the transaction

Under the Plan, the Company will pay shares in the Company to employees of the Company who fulfill certain conditions, based on the Stock Benefit Rules predetermined by the Company.

The Company will grant points to employees according to the individual's degree of contribution and other factors, and pay shares in the Company equivalent to the points granted when employees have acquired the right to receive shares by fulfilling certain conditions. The shares to be paid to employees, including those required in future, are acquired with money held in the trust in advance and managed separately as trust assets.

(2) Shares in the Company remaining in the trust

Shares in the Company remaining in the trust are reported under net assets as treasury shares at the carrying value in the

trust (excluding the amount of any associated expenses). The carrying value and number of these treasury shares were 131,379 thousand yen and 22,900 shares, respectively, at the end of the fiscal year under review.

(Segment information, etc.)

[Segment information]

The Company operates in a single business segment, the Alliance business segment. As such, statements for segment information are omitted because of immateriality.

(Equity in earnings and losses, etc.)

Not applicable.

(Per share information)

	Fiscal year ended June 30, 2016	Fiscal year ended June 30, 2017
Net assets per share	90.69yen	106.39yen
Net income per share	14.23yen	16.54yen
Diluted net income per share	12.26yen	14.56yen

(Notes) 1. Based on a resolution made by the Board of Directors of the Company at a meeting held on June 13, 2017, the Company conducted a share split of the Company's common stock at a ratio of 2-for-1, effective July 1, 2017. Net income per share and diluted net income per share are calculated assuming the share split was conducted at the beginning of the previous fiscal year.

2. Shares in the Company remaining in the trust and reported as treasury shares under shareholders' equity are included in treasury shares excluded when calculating the average number of shares during the period for the calculation of net income per share. In addition, these shares are included in the number of treasury shares excluded from the total number of shares issued at the end of the period for the calculation of net assets per share. When calculating net income per share and diluted net income per share, the average number of treasury shares during the period that is excluded is 87,650 shares for the fiscal year under review. When calculating net assets per share, the number of shares of treasury stock at the end of the period that is excluded is 150,200 shares for the fiscal year under review.

3. Net income per share and diluted net income per share are calculated based on the following basis:

Items	Fiscal year ended June 30, 2016	Fiscal year ended June 30, 2017
Net income per share		
Net income (thousands of yen)	1,581,288	1,890,750
Net income not attributable to common shareholders (thousands of yen)	—	—
Net income related to common stock (thousands of yen)	1,581,288	1,890,750
Average number of common stock during the period (shares)	111,152,409	114,290,144
Diluted net income per share		
Adjustments for net income (thousands of yen)	—	—
Number of increase of common stock (shares)	17,824,014	15,531,638
(Subscription rights to shares)	(17,824,014)	(15,531,638)
Dilutive shares that do not have a diluting effect and thus were not included in the calculation of diluted net income per share	—	—

4. Net assets per share is calculated based on the following basis:

Items	As of June 30, 2016	As of June 30, 2017
Total net assets (thousands of yen)	10,242,756	12,180,801
Amounts deducted from total net assets (thousands of yen)	5,250	2,242
(Subscription rights to shares) (thousands of yen)	(5,250)	(2,242)
Amounts of net assets related to common stock at the end of the period (thousands of yen)	10,237,505	12,178,559
Number of common stock at the end of the period used for the calculation of net assets per share (shares)	112,881,600	114,468,200

(Significant subsequent events)

(Share split)

Based on a resolution made by the Board of Directors of the Company at a meeting held on June 13, 2017, the Company issued new shares as a result of a share split. The details of the share split are described below.

1. Purpose of the share split

The purpose of the share split is to improve the liquidity of the Company's shares by lowering the investment amount per trading unit of the Company's shares.

2. Overview of the share split

(1) Method of share split

The Company conducted a share split at a ratio of 2-for-1, in relation to the number of shares held by shareholders recorded in the Shareholder Register on June 30, 2017.

(2) Increase in number of shares as a result of the split

1) Total number of shares issued before the share split	57,309,200 shares
2) Number of shares to increase as a result of the split	57,309,200 shares
3) Total number of shares issued after the share split	114,618,400 shares
4) Total number of shares authorized for issuance after the share split	342,400,000 shares

(3) Purpose of the transfer

July 1, 2017

3. Effect on per-share data

The effect of the share split is stated in (Per share information).