Disclaimer: This translation is prepared and provided for readers' convenience only. This summary does not constitute any guarantee, and the Company will not compensate any losses and/or damage stemming from actions taken based on these statements. In the case that there is any discrepancy between the Japanese and English versions, the Japanese version is assumed to be correct.

August 10, 2016

Summary of Non-consolidated Financial Results for the First Six Months of the Fiscal Year Ending December 31, 2016 (JGAAP)

Listed company's name: RaQualia Pharma Inc.
Listed on: Tokyo Stock Exchange (TSE)
Stock code: 4579
URL: http://www.raqualia.com/
Representative: Naoki Tani, President and CEO
Contact: Kiichiro Kawada, Director and Executive Vice President (TEL) +81-52-446-6100
Scheduled date of filing of quarterly securities report: August 12, 2016
Scheduled date of dividend payment: —
Supplementary documents for quarterly results: Yes
Quarterly results briefing: Yes (for institutional investors and analysts)

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

1. Non-consolidated financial results for the first six months of the fiscal year ending December 31, 2016 (January 1, 2016 to June 30, 2016)

(1) Non-consolidated operating results (cumulative)

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

	Net sales		Operating income		Ordinary income		Profit	
First six months ended	million yen	%	million yen	%	million yen	%	million yen	%
June 30, 2016	617	—	(173)	—	(235)	—	(241)	—
June 30, 2015	45	—	(948)	—	(897)	—	(922)	—

	Earnings per share (Basic)	Earnings per share (Diluted)
First six months ended	yen	yen
June 30, 2016	(12.88)	—
June 30, 2015	(62.07)	—

Note: The financial figure that the Company presents as business revenues in the statement of income is displayed above as net sales.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	million yen	million yen	%	yen
June 30, 2016	4,581	4,149	90.3	220.41
December 31, 2015	4,752	4,514	94.8	239.96

Reference: Equity As of June 30, 2016: 4,136 million yen As of December 31, 2015: 4,503 million yen

2. Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended December 31, 2015	—	0.00	—	0.00	0.00
Fiscal year ending December 31, 2016	—	0.00			
Fiscal year ending December 31, 2016 (forecast)			—	0.00	0.00

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

3. Forecasts of non-consolidated financial results for the fiscal year ending December 31, 2016 (January 1, 2016 to December 31, 2016)

(Percentage figures represent changes from the previous year.)

	Net sales		Operating income		Ordinary income		Profit		Earnings per share (Basic)
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Fiscal year ending December 31, 2016	950	552.9	(819)	—	(823)	—	(832)	—	(44.37)

Note: Revisions to the forecasts of results most recently announced: Yes

* As the Company manages financial results annually, forecasts of results for the first six months ended June 30, 2016 are omitted.

*** Notes**

(1) Application of special accounting for preparing quarterly non-consolidated financial statements: None

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

a. Changes in accounting policies due to the revisions to accounting standards and other regulations: Yes

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

c. Changes in accounting estimates: None

d. Restatements of prior financial statements: None

(3) Number of issued shares (common shares)

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

As of June 30, 2016	18,767,200 shares
As of December 31, 2015	18,767,200 shares

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

As of June 30, 2016	— shares
As of December 31, 2015	— shares

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

For the first six months ended June 30, 2016	18,767,200 shares
For the first six months ended June 30, 2015	14,857,200 shares

*** Status of review procedures for quarterly reports**

This Summary of Quarterly Financial Results is exempt from the external auditor's review procedures for quarterly non-consolidated financial statements under the Financial Instruments and Exchange Act. However, review procedures for quarterly non-consolidated financial statements under the said Act are completed at the time of disclosure of this Summary of Quarterly Financial Results.

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

(Caution concerning forward-looking statements)

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

(How to obtain the documents for the supplementary material for the quarterly results and for the quarterly results briefing)

The Company plans to hold a briefing for institutional investors and analysts on Friday, August 12, 2016.

The Company plans to post the documents for quarterly results to be used on the day of the briefing on its website promptly after the briefing is held.

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

(1) Qualitative information regarding non-consolidated operating results

1) Overall trend

During the first six months ended June 30, 2016, the Japanese economy encountered a sharp appreciation of the yen against other major currencies following the United Kingdom European Union membership referendum that ended in victory, albeit by a small margin, for those wanting the country to leave the European Union. Meanwhile, the Chinese economy, which had served as the driver for the world economy, was faced with worsening conditions, making future prospects challenging.

In the country's pharmaceutical sector, initiatives are now under way to rein in medical expenses in response to an aging society, as evidenced by the fact that the Ministry of Health, Labour and Welfare set a target of raising the volume-based market share of generic drugs to 80% or over by the end of fiscal 2020. In the fiscal 2016 National Health Insurance drug price revision, the average drug price was reduced by a significant 6.47%, meaning that the Japanese pharmaceutical industry is now faced with a challenging business environment. Consequently, individual pharmaceutical companies have been increasing their efforts in the selection process for compounds developed as pharmaceuticals. This situation has a non-negligible effect on the licensing activities of drug discovery venture companies such as the Company.

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

On the business side, in May 2016 Aratana Therapeutics Inc. (headquartered in the State of Kansas, U.S. and hereafter "Aratana (U.S.)"), a licensed partner of the Company, obtained approval from the Food and Drug Administration (FDA) for Entyce®, a product that had been under development as a treatment drug for dog anorexia. Preparations are thus underway for the commencement of sales coinciding with the North American Veterinary Community Conference slated for February 2017.

In the area of collaboration with academia, multiple joint research activities are currently underway at laboratories relocated to the Higashiyama Campus of Nagoya University, as an academic-industrial collaboration with Nagoya University.

Accordingly, financial results for the first six months, the reporting period, were as follows. Business revenue for the period was 617 million yen (business revenue of 45 million yen a year ago), operating loss totaled 173 million yen (operating loss of 948 million yen a year earlier), ordinary loss totaled 235 million yen (ordinary loss of 897 million yen a year earlier) and loss was 241 million yen (loss of 922 million yen a year earlier). Total business expenses were 790 million yen (a decrease of 20.5% year on year), of which 117 million yen in royalty payments was recorded under cost of business revenue. Moreover, research and development expenses were 406 million yen (a decrease of 33.7% year on year) and other selling, general and administrative expenses totaled 265 million yen (down 30.2% year on year).

2) Research and development activities

Research and development expenses of the Company during the first six months were 406 million yen (down 33.7% year on year). The main components of these activities were as follows:

A. RaQualia's research and development and collaborative research

Exploratory and discovery phase

The Company continued to examine a suitable administration method for a compound discovered in a project to evaluate a selective sodium channel blocker compound for indications such as inflammatory pain and neuropathic pain. In addition, the Company explored new lead compounds and discovered several candidate compounds.

In a project to develop TRPM8 blocker compounds primarily for indications such as neuropathic pain, the Company continued an investigation of preclinical efficacy for clinical development candidates.

The Company continued collaborative research with four companies.

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

Note: Effective April 1, 2016, EA Pharma Co., Ltd., the new integrated company, was established through the splitting off of a portion of Eisai Co., Ltd.'s gastrointestinal disease treatment business and its subsequent succession by Ajinomoto Pharmaceuticals Co., Ltd.

Preclinical development phase

(a) Ghrelin receptor agonist (RQ-00433412)

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

(b) Motilin receptor agonist (RQ-00201894)

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

Clinical development phase

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

The compound is under development for functional gastrointestinal disorders (FGID). The Company obtained IND approval from the U.S. Food and Drug Administration (FDA) to conduct investigator-initiated clinical trials at Virginia Commonwealth University (VCU) and it was decided that a research grant would be awarded by The Michael J. Fox Foundation for the said investigator-initiated clinical trials, and thus the final preparations for conducting trials are currently underway at the University.

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

The compound is under development for gastro-esophageal reflux disease (GERD), and the Company completed the Phase I clinical trials in Japan, following those in the U.S. We will continue consultations toward licensing out the compound by utilizing data in South Korea where development has been underway.
(Note: The compound in the program, previously called acid pump antagonist, has been renamed potassium-competitive acid blocker, a name that is in more general use.)

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

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

(d) Anti-MRSA antibacterial agent (dalbavancin)

The Company is now in the process of having consultations with the view to licensing out the agent in Japan. This agent was put on the U.S. market as a drug to treat acute bacterial skin and skin structure infections (ABSSSI) under the trademark of DALVANCE™. In Europe, in March 2015, we obtained regulatory approval for the distribution of this agent under the trademark of XYDALBA™.

B. Status of development at licensee corporation

(a) Potassium-Competitive Acid Blocker (RQ-00000004, tegoprazan)

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

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

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

(c) EP4 antagonist (Galliprant®, RQ-00000007, AT-001, grapiprant, animal drug)
The compound is under development for pain management for pets by Aratana (U.S.). Following favorable results of clinical trials with dogs in the U.S., Aratana (U.S.) has obtained manufacturing and marketing approval with the FDA. The preparation for the commencement of sales in fall 2016 is underway. In Europe, the compound is now under application with EMA for approval for sales with approval expected to be obtained in 2017.

(d) Ghrelin receptor agonist (Entyce®, RQ-00000005, AT-002, capromorelin, animal drug)
The compound is under development for anorexia management for pets by Aratana (U.S.). Following favorable results of clinical trials with dogs, Aratana (U.S.) has obtained manufacturing and marketing approval with the FDA. Preparations are underway for the commencement of sales coinciding with the North American Veterinary Community Conference slated for February 2017.

(e) EP4 antagonist (RQ-00000007, AAT-007, grapiprant)
Preparations are currently underway at a licensee of AskAt, Inc. for implementing clinical trials.

(f) cyclooxygenase-2 (COX-2) inhibitor (RQ-00317076, AAT-076)
Preparations are currently underway at a licensee of AskAt, Inc. for implementing clinical trials.

(2) Qualitative information regarding non-consolidated financial position

1) Analysis of assets, liabilities and net assets

Assets

Total assets as of June 30, 2016 were 4,581 million yen. The major components were 1,143 million yen in cash and deposits, 514 million yen in accounts receivable - trade, 404 million yen in securities, and 1,843 million yen in investment securities.

Liabilities

Total liabilities as of June 30, 2016 were 432 million yen. The major components were 102 million yen in accounts payable - trade, 234 million yen in accounts payable - other, and 40 million yen in accrued expenses.

Net assets

Total net assets as of June 30, 2016 were 4,149 million yen. The major components were 2,237 million yen in capital stock, 2,237 million yen in capital surplus, negative 241 million yen in retained earnings, and negative 96 million yen in valuation difference on available-for-sale securities. The equity ratio was 90.3%.

2) Analysis of cash flows

The balance of cash and cash equivalents (hereafter "cash") as of June 30, 2016 amounted to 1,345 million yen (compared with 1,598 million yen used a year earlier), a decrease of 897 million yen compared with the end of the previous fiscal year.

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

Cash flows from operating activities

Net cash used in operating activities was 671 million yen (compared with 1,249 million yen used a year earlier). This is mainly attributable to the recording of loss before income taxes of 237 million yen, increase in notes and accounts receivable - trade of 441 million yen, increase in prepaid expenses of 100 million yen and increase in notes and accounts payable - trade of 102 million yen.

Cash flows from investing activities

Net cash used in investing activities was 163 million yen (compared with 851 million yen provided a year earlier). This is mainly attributable to the purchase of investment securities of 216 million yen, the purchase of securities of 200 million yen and proceeds from redemption of securities of 300 million yen.

Cash flows from financing activities

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

(3) Qualitative Information Regarding Earnings Forecasts

As for the non-consolidated earnings forecasts, please refer to the announcement of "Revisions of Non-consolidated Business Forecasts for the Current Full Year" on August 10, 2016.

2. Matters regarding summary information (Notes)

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

Changes in accounting policies

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, the Company has applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) from the second quarter ended June 30, 2016, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight line method.

These changes have no impact on the Company's profit and loss.

3. Quarterly non-consolidated financial statements

(1) Non-consolidated balance sheet

(Thousands of yen)

	As of December 31, 2015	As of June 30, 2016
Assets		
Current assets		
Cash and deposits	1,840,239	1,143,590
Accounts receivable - trade	72,866	514,800
Securities	503,037	404,774
Supplies	7,148	8,121
Advance payments - trade	179,368	209,765
Prepaid expenses	65,488	165,920
Other	39,639	23,559
Total current assets	2,707,787	2,470,532
Non-current assets		
Property, plant and equipment		
Buildings, net	129,853	121,636
Tools, furniture and fixtures, net	131,437	117,031
Total property, plant and equipment	261,290	238,667
Intangible assets		
Trademark right	2,306	2,069
Software	8,213	7,491
Other	3,708	3,954
Total intangible assets	14,228	13,515
Investments and other assets		
Investment securities	1,751,779	1,843,748
Long-term prepaid expenses	5,479	3,847
Other	11,545	11,175
Total investments and other assets	1,768,805	1,858,771
Total non-current assets	2,044,324	2,110,955
Total assets	4,752,112	4,581,487
Liabilities		
Current liabilities		
Accounts payable - trade	–	102,857
Accounts payable - other	123,405	234,536
Accrued expenses	57,067	40,690
Income taxes payable	15,071	7,520
Advances received	–	13,500
Deposits received	4,663	5,429
Total current liabilities	200,207	404,534
Non-current liabilities		
Asset retirement obligations	11,555	11,602
Deferred tax liabilities	25,985	16,266
Total non-current liabilities	37,540	27,868
Total liabilities	237,748	432,402
Net assets		
Shareholders' equity		
Capital stock	9,806,225	2,237,588
Capital surplus	5,090,225	2,237,588
Retained earnings	(10,421,274)	(241,751)
Total shareholders' equity	4,475,176	4,233,424
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	28,170	(96,868)
Total valuation and translation adjustments	28,170	(96,868)
Subscription rights to shares	11,017	12,529
Total net assets	4,514,364	4,149,085
Total liabilities and net assets	4,752,112	4,581,487

(2) Non-consolidated statement of income

Non-consolidated statement of income (cumulative)

(Thousands of yen)

	First six months ended June 30, 2015	First six months ended June 30, 2016
Business revenue	45,000	617,100
Business expenses		
Cost of business revenue	–	117,630
Research and development expenses	613,207	406,658
Other selling, general and administrative expenses	380,750	265,915
Total business expenses	993,958	790,203
Operating loss	(948,958)	(173,103)
Non-operating income		
Interest income	629	5,634
Interest on securities	52,367	25,805
Dividend income	186	–
Foreign exchange gains	18,199	–
Gain on sales of securities	1,075	–
Gain on valuation of compound financial instruments	–	15,100
Subsidy income	–	19,843
Other	388	1,121
Total non-operating income	72,849	67,504
Non-operating expenses		
Foreign exchange losses	–	130,385
Loss on valuation of compound financial instruments	19,367	–
Loss on redemption of securities	1,530	–
Total non-operating expenses	20,897	130,385
Ordinary loss	(897,006)	(235,985)
Extraordinary income		
Gain on sales of investment securities	22,838	–
Total extraordinary income	22,838	–
Extraordinary losses		
Special retirement expenses	37,042	–
Loss on redemption of investment securities	6,000	2,000
Total extraordinary losses	43,042	2,000
Loss before income taxes	(917,210)	(237,985)
Income taxes - current	5,016	673
Income taxes - deferred	–	3,093
Total income taxes	5,016	3,766
Loss	(922,226)	(241,751)

(3) Non-consolidated statement of cash flows

(Thousands of yen)

	First six months ended June 30, 2015	First six months ended June 30, 2016
Cash flows from operating activities		
Loss before income taxes	(917,210)	(237,985)
Depreciation	15,006	38,587
Interest income	(629)	(5,634)
Interest income on securities	(52,367)	(25,805)
Dividend income	(186)	–
Foreign exchange losses (gains)	(18,021)	78,335
Loss (gain) on sales of securities	(1,075)	–
Loss (gain) on valuation of compound financial instruments	19,367	(15,100)
Loss (gain) on redemption of securities	1,530	–
Subsidy income	–	(19,843)
Loss (gain) on sales of investment securities	(22,838)	–
Loss (gain) on redemption of investment securities	6,000	2,000
Extra retirement payment	37,042	–
Decrease (increase) in notes and accounts receivable - trade	6,500	(441,933)
Decrease (increase) in inventories	827	(972)
Increase (decrease) in notes and accounts payable - trade	–	102,857
Decrease (increase) in advance payments	(149,667)	(30,397)
Decrease (increase) in prepaid expenses	(131,308)	(100,432)
Increase (decrease) in accounts payable - other	(29,008)	(40,661)
Other, net	(32,001)	12,559
Subtotal	(1,268,043)	(684,426)
Interest and dividend income received	46,014	27,103
Income taxes paid	(20,865)	(1,892)
Payments for extra retirement payments	(6,268)	(32,440)
Proceeds from subsidy income	–	19,843
Net cash provided by (used in) operating activities	(1,249,162)	(671,812)
Cash flows from investing activities		
Payments into time deposits	–	(118,240)
Purchase of securities	(520,950)	(200,000)
Proceeds from sales of securities	50,854	–
Proceeds from redemption of securities	1,233,500	300,000
Purchase of property, plant and equipment	(40,029)	(27,167)
Purchase of intangible assets	(192)	(988)
Purchase of investment securities	(160,301)	(216,720)
Proceeds from sales of investment securities	138,168	–
Proceeds from redemption of investment securities	150,000	100,000
Net cash provided by (used in) investing activities	851,049	(163,116)
Cash flows from financing activities		
Net cash provided by (used in) financing activities	–	–
Effect of exchange rate change on cash and cash equivalents	5,440	(62,942)
Net increase (decrease) in cash and cash equivalents	(392,672)	(897,871)
Cash and cash equivalents at beginning of period	1,991,558	2,243,276
Cash and cash equivalents at end of period	1,598,885	1,345,405

(4) Notes to quarterly non-consolidated financial statements

Notes on premise of going concern

No items to report.

Notes on significant changes in the amount of shareholders' equity

The Company resolved at the 8th Ordinary General Meeting of Shareholders held on March 30, 2016 to conduct a reduction of capital without compensation in order to offset the deficit, which went into effect on May 1, 2016. As a result, in the second quarter ended June 30, 2016, capital stock decreased by 7,568,637,000 yen and capital surplus by 2,852,637,000 yen with capital stock standing at 2,237,588,000 yen and capital surplus at 2,237,588,000 yen as of June 30, 2016.

Significant subsequent event

No items to report.