Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2018 [Japanese GAAP]

August 9, 2018

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Scheduled date of Ordinary General Meeting of Shareholders: September 27, 2018
Scheduled filing date of securities report: September 28, 2018
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, 2018 (July 1, 2017 to June 30, 2018)

(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, 2018	6,426	31.3	2,910	16.9	3,154	20.2	2,335	23.5
Fiscal Year ended June 30, 2017	4,895	13.1	2,490	(2.3)	2,624	10.6	1,890	19.6

	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, 2018	19.35	17.79	17.4	20.9	45.3
Fiscal Year ended June 30, 2017	16.54	14.56	16.9	20.5	50.9

(Reference) Equity in earnings (losses) of affiliates Fiscal Year ended June 30, 2018: (26) million yen
Fiscal Year ended June 30, 2017: - 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, 2018	16,502	14,708	88.6	119.31
As of June 30, 2017	13,628	12,180	89.4	106.39

(Reference) Equity As of June 30, 2018: 14,623 million yen
As of June 30, 2017: 12,178 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, 2018	1,022	(4,245)	170	3,505
Fiscal Year ended June 30, 2017	1,530	(1,939)	45	6,556

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, 2017	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year ended June 30, 2018	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year ending June 30, 2019 (forecast)	-	0.00	-	0.00	0.00		-	

3. Financial Forecasts for the Fiscal Year Ending June 30, 2019 (July 1, 2018 to June 30, 2019)

	Net sales	Operating income	Ordinary income	Net income
	Million yen	Million yen	Million yen	Million yen
Fiscal Year	7,200 or more	3,300 or more	3,600 or more	2,600 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.	:	Yes
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, 2018	122,714,400 shares	As of June 30, 2017	114,618,400 shares
2) Number of treasury stock at the end of the period	As of June 30, 2018	143,417 shares	As of June 30, 2017	150,200 shares
3) Average number of shares during the period	Fiscal Year ended June 30, 2018	120,662,551 shares	Fiscal Year ended June 30, 2017	114,290,144 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, 143,400 shares as of June 30, 2018). 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, 148,337 shares for the fiscal year ended June 30, 2018).

*These financial results are outside the scope of audit by a certified public accountant or an audit firm.

*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 24, 2018.

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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 twelve months ended June 30, 2018 (from July 1, 2017 to June 30, 2018), the Company continued to make excellent progress in leveraging the PDPS (Peptide Discovery Platform System) technology, its proprietary drug finding platform, across its three business segments; 1) Collaboration Discovery and Development, 2) PDPS Technology Transfer, and 3) In-House/Strategic Discovery and Development.

【The Company's business strategy】		Companies at the end of the fiscal year under review
1	Discovery and optimization agreements	18
2	PDPS non-exclusive technology license agreements	6
3	Expansion of in-house pipeline through strategic alliances	6

As of June 30, 2018, the Company's pipeline consisted of 84 discovery & development programs (representing an increase of 24 programs from the end of the prior fiscal year ending June 30, 2017). The below table is a snapshot of the number of program(s) currently at each stage of the discovery and development process, compared to the end of the prior fiscal year.

【Company's Discovery & Development Pipeline】

	As of June 30, 2017	As of June 30, 2018
Total Number of Programs	60	84
Hit-to-Lead Stage	23	34
Lead-to-Pre-Clinical Stage	8	8
Clinical Candidate Stage	3	4
Phase I	1	2
Phase II	0	0
Phase III	0	0

In the Collaboration Discovery and Development segment; On April 25, 2018, the Company announced the achievement of a discovery milestone in the drug discovery alliance with MSD (U.S.-Merck & Co. Kenilworth, NJ, USA), for the identification of hit peptides meeting pre-defined criteria in an undisclosed program. This represents the third discovery program between the companies to achieve this milestone and this achievement entitles the Company to receive an undisclosed milestone payment, which was received in Q4. This program moves into the Hit-to-Lead Stage and continues to make rapid progress toward the identification of a lead candidate for clinical testing.

On June 25, 2018, the Company announced the expansion of its discovery alliance with Genentech. The companies originally entered into the multi-target discovery collaboration in December 2015, and the current expansion allows Genentech to nominate a significant number of additional targets to the discovery collaboration, beyond those set forth in the original agreement. The expansion entitles PeptiDream to receive an undisclosed upfront payment, which was received in Q4.

The Company continues to receive various R&D support payments from its big pharma discovery and development partners, in addition to being eligible for potential pre-clinical and clinical milestones payments as the programs advance. The Company looks forward to announcing future updates as additional milestones are met, and as allowed by the partner companies. In addition, the Company continues to receive considerable interest from multiple big pharma companies interested in partnering with the Company on discovery and development programs.

In the PDPS Technology Transfer segment; as of June 30, 2018, the Company has non-exclusively licensed its PDPS technology to 6 companies; Bristol-Myers Squibb (2013), Novartis (2015), Lilly (2016), Genentech (2016), Shionogi (2017), and MSD (U.S.-Merck & Co. Kenilworth, NJ, USA)(2018).

On May 17, 2018, the Company announced that Shionogi had completed transfer of the PDPS technology and that the technology was now fully operational at Shionogi.

On June 29, 2018, the Company announced the non-exclusive license of its PDPS technology to MSD (U.S.-Merck & Co. Kenilworth, NJ, USA), marking the 6th company to non-exclusively license the Company's PDPS technology. Initiation of the technology transfer is scheduled to begin in July of 2018.

In accordance with all PDPS technology license agreements, the Company is not informed as to what specific discovery and development programs are being prosecuted by the licensee company until certain initial pre-clinical milestones are achieved. The Company continues to receive various technology license and management payments from the licensee companies, in addition to potential preclinical and clinical milestone payments as programs advance. In addition, the Company continues to receive interest from multiple companies interested in licensing the PDPS technology.

In the In-House/Strategic Discovery and Development segment; the Company's move to its new headquarters and research facilities in Kanagawa in August of 2017 provided much needed lab space and equipment capabilities for the Company to significantly expand its efforts in this segment, which the Company views as an important 3rd segment for future revenue growth. The Company continues to expand the number of In-House/Strategic Discovery and Development programs. The goal of these efforts is to develop the programs to at least the pre-Phase I stage, or potentially post-Phase I/II stage, before seeking to license these programs out to big pharma companies, leveraging the Company's strong big pharma network, for significantly higher financials than can be attained from standard discovery and development deals. The Company has continually been expanding its capabilities in turning hit candidates identified from the PDPS technology into 1) peptide therapeutics, 2) peptide drug conjugates ("PDCs"), and 3) small molecule therapeutics. Programs being developed with Strategic partners, Strategic partners being companies that bring proprietary technology/know-how to combine with the Company's, are under a cost-sharing agreement, in which the costs of discovery and development are equally shared, allowing for the Company to have a far larger share in the program and future revenues if successful.

The Company continues to pursue a number of in-house fully-owned programs, in addition to the influenza HA program, and looks forward to providing future updates on these programs progress toward the clinic.

The Company has previously announced strategic partnerships with four companies, one academic institution and one foundation; JCR Pharma, Modulus Discovery, Heptares, Kleo, Kawasaki Medical School, and the Bill & Melinda Gates Foundation.

The Company and JCR Pharma are jointly working to identify macrocyclic peptides capable of carrying therapeutic cargoes across the normally impenetrable blood-brain-barrier ("BBB"). Such peptides could be conjugated to small molecule, peptide/protein, and/or antibody therapeutics that classically do not cross the BBB and enter the brain, potential allowing for a number of new treatments for neurological disorders. The Company and JCR Pharma aim to validate the functionality of these peptides in animal models for multiple therapeutic cargo types, and then seek to license these peptides out to various companies for specific therapeutic indications. The Company believes that these peptides could be used in a large number of brain targeting products and have significant commercial and therapeutic potential in treating neurological diseases and skeletal-muscular disorders. The Company, in concert with JCR Pharma, is discussing out-licensing strategies, and has received considerable interest from many large pharmaceutical companies that would like access to such peptides.

The Company and Modulus Discovery are working to leverage the expertise of both companies to jointly discover and develop small molecule clinical candidates based on hit candidates identified from the PDPS technology against high value targets. Modulus Discovery is utilizing its computational chemistry technology and expertise to design small molecule candidates in collaboration with the Company and its our internal efforts. The companies jointly share the costs of the discovery and development programs and will co-own any resulting products. The Company has already identified hit candidate peptides against a number of high-value kinase targets, that exhibit the desired inhibition activity independent of ATP-binding (allosteric inhibitors), and the companies are working to attain the structural information needed to enable computational small molecule design efforts. These efforts continue to make excellent progress, and the companies have also discussed the potential for expanding the target space.

The Company and Heptares are working to discover, develop and commercialize novel therapeutics targeting Protease

Activated Receptor 2 (PAR2), which is a well validated target for multiple indications in pain, cancer, and inflammatory disease. The strategic partnership brings together two powerful technologies, Heptares's StaR platform for GPCR target protein production and the Company's PDPS hit finding technology, in addition to considerable preclinical and clinical development capabilities. Under the agreement, the companies will jointly share the costs and will co-own any resulting products. As reported on May 24, 2018, the companies have identified high affinity and selective inhibitors against PAR2 and are now in the Hit-to-Lead phase of the program.

The Company and Kleo Pharmaceuticals ("Kleo") are working to co-discover and develop novel immune-oncology products in multiple indications. The Company will identify macrocyclic peptides using its PDPS technology against multiple oncology targets selected by Kleo, and in turn, Kleo will engineer those candidates into novel Antibody Recruiting Molecule ("ARM") and Synthetic Antibody Mimic ("SyAM") products. The Company will receive a tiered share of the proceeds of any products based on the degree to which the Company funds development of the products. The companies have already assembled some of the first ARM and SyAM compounds and the results look extremely promising for the therapeutic potential of these compounds.

The Company and Kawasaki Medical School are working to develop a peptide therapeutic for the treatment of Duchenne Muscular Dystrophy ("DMD"), a genetic disorder characterized by progressive muscle degeneration and weakness to which there are no effective treatments. Administration of the jointly developed candidate peptide significantly reduced muscle degeneration and weakness in an animal model of DMD, validating this peptide candidate as a potentially breakthrough treatment for DMD. The Company and the Medical School are continuing preclinical development with the aim of bringing this candidate into human testing in the near future.

The Company and the Bill & Melinda Gates Foundation ("Gates Foundation") are working on multiple discovery and development programs aimed at identifying novel therapeutic macrocyclic peptide candidates to treat Malaria and Tuberculosis, two infectious diseases that disproportionately affect people in the world's poorest countries. Under the terms of the grant, any Gates Foundation-funded products will be made available by Company at an affordable price in poor countries, and the Company will be able to merchandise each Gates Foundation-funded product in developed countries on its own, through licensees or a combination of both.

The Company expects to continue to form strategic partnerships with select-technology-leading bioventures and leading institutions, both in Japan and abroad, to accelerate and expand our clinical pipeline of best-in-class and first-in-class medicines.

The Company has previously announced, along with Shionogi & Co., and Sekisui Chemical Co., Ltd, the formation of PeptiStar Inc., a Contract Manufacturing Organization ("CMO") for the research and commercial manufacture of peptide therapeutics. PeptiStar will bring together the most cutting-edge technologies and innovations in large-scale peptide production from various companies throughout Japan in order to manufacture therapeutic peptides of the highest quality and purity, while simultaneously driving down the cost of production. It is anticipated that PeptiStar will become the go-to CMO for all of the Company's discovery and development partners, in addition to the Company's own in-house/strategic partnered programs. The PeptiStar manufacturing facility will be located in Osaka, with a planned opening in 2019.

On June 29, 2018, the Company announced the resignation of Professor Hiroaki Suga from the Company's Board of Directors. Prof. Suga is the scientific founder of PeptiDream and has been a board member since the Company's founding in 2006. Professor Suga is leaving the board to focus on his lab at the University of Tokyo, and on a new startup company, Mira Biologics, which is investigating the commercial potential of a type of next-generation antibody, based on findings arising from a research collaboration between Professor Suga's lab and the University of Osaka. Professor Suga is a major investor in Mira Biologics and will serve on Mira Biologics's board of directors. Additionally, the Company and Mira Biologics are discussing a potential business relationship. Due to these reasons, and to avoid any apparent conflict of interest, the Company and Professor Suga mutually agreed to his resignation. Nothing will change regarding the Company's PDPS technology related patent licenses from the University of Tokyo, and additionally, the Company will continue to maintain its ability to license any new relevant technology arising from Professor Suga's lab from the University of Tokyo.

As of June 30, 2018, the Company had a total of 91 employees (approximately 40% of employees are women; 97 employees when including executive officers), representing an addition of 7 employees during the Q4 quarter. The Company also has the equivalent of 15 chemists in China, through a contract research organization ("CRO"), working on amino acid and small

molecule chemistry.

As a result, the Company reported net sales of 6,426,891 thousand yen (increased 1,531,143 thousand yen year on year), operating income of 2,910,980 thousand yen (increased 420,565 thousand yen year on year), ordinary income of 3,154,489 thousand yen (increased 530,042 thousand yen year on year), and net income of 2,335,216 thousand yen (increased 444,466 thousand yen year on year) for the fiscal year ended June 30, 2018. Research and development expenses for the fiscal year ended June 30, 2018 amounted to 921,343 thousand yen (an increase of 558,662 thousand yen year on year), largely attributable to the increased headcount and operation of the Company's new facility. Sales and income for the fiscal year were at record highs for the Company, driven by various partnered discovery and development payments and PDPS licensing income. In addition, operating income, ordinary income and net income were in line with the Company's full-year forecast announced in August 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 2,873,812 thousand yen from the end of the previous fiscal year to 16,502,264 thousand yen. This was mainly because cash and deposits decreased by 3,051,330 thousand yen, accounts receivable-trade increased by 1,338,922 thousand yen and property, plant and equipment increased by 1,287,137 thousand yen.

Liabilities increased by 345,898 thousand yen from the end of the previous fiscal year to 1,793,549 thousand yen. This was mainly because income taxes payable increased by 351,813 thousand yen, advances received decreased by 17,394 thousand yen, and provision for directors' share benefits decreased by 19,506 thousand yen.

Net assets increased by 2,527,913 thousand yen from the end of the previous fiscal year to 14,708,715 thousand yen. This was mainly because retained earnings increased by 2,335,216 thousand yen, capital stock increased by 45,214 thousand yen, and capital surplus increased by 45,214 thousand yen.

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

Cash and cash equivalents for the fiscal year under review decreased by 3,051,330 thousand yen from the end of the previous fiscal year to 3,505,349 thousand yen.

Status of cash flows and related 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 1,022,716 thousand yen (decrease in inflow of 508,060 thousand yen year on year). This was mainly due to the recording of income before income taxes of 3,151,730 thousand yen for the year and the recording of depreciation of 493,084 thousand yen, despite income taxes paid amounting to 544,333 thousand yen, and an increase in notes and accounts receivable – trade of 1,338,922 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 4,245,393 thousand yen (increase in outflow of 2,305,994 thousand yen year on year). This was due to 2,437,268 thousand yen for purchase of property, plant and equipment and 34,443 thousand yen for purchase of intangible assets and 1,900,000 thousand yen for purchase of shares of subsidiaries and associates, despite 136,323 thousand yen for proceeds from subsidy income.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 170,287 thousand yen (increase in inflow of 124,707 thousand yen year on year). This was due to proceeds from issuance of shares resulting from exercise of subscription rights to shares amounting to 88,936 thousand yen and proceeds from issuance of subscription rights to shares amounting to 81,410 thousand yen.

(Reference) Cash flow-related indices

	Fiscal Year ended June 30, 2014	Fiscal Year ended June 30, 2015	Fiscal Year ended June 30, 2016	Fiscal Year ended June 30, 2017	Fiscal Year ended June 30, 2018
Equity ratio (%)	97.7	89.1	85.6	89.4	88.6
Equity ratio based on market capitalization (%)	1,798.0	2,447.3	2,870.1	2,989.8	3,428.1
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, 2014 through 2018 are not stated because the Company did not hold interest-bearing liabilities.

(4) Forecast for the 2018-2019 Fiscal Year

With regards to Company's financial results for the fiscal year ending June 30, 2019, by promoting the three business strategies utilizing the Company's proprietary PDPS technology, the Company forecasts net sales of 7,200 million yen or more (an increase of 12.0% or more year on year), operating income of 3,300 million yen or more (an increase of 13.4% or more year on year), ordinary income of 3,600 million yen or more (an increase of 14.1% or more year on year), and net income of 2,600 million yen or more (an increase of 11.3% or more year on year).

From August of 2017 the Company started full-scale operations at its new headquarters/R&D center located directly across from Haneda Airport in Kanagawa Prefecture, allowing for the Company to expand not only its research staff but also necessary equipment and capabilities to meet its future growth targets and objectives. This expansion, started during the 2017-2018 fiscal year, will continue into the 2018-2019 fiscal year, as the Company expands its abilities to not only discovery and development constrained peptide therapeutics, but also to discover and development small molecule therapeutics and peptide-drug-conjugates (PDCs), both of which are anticipated to significantly add to future revenue and growth. The expanded capabilities and increased headcount will allow the Company to continue to meet all the needs of its current partners, while also allowing the Company to take on new partners and further expand on existing collaborations/partnerships.

In addition, the Company expects to continue to invest in the strategic expansion of both in-house drug discovery programs and strategic partnered programs to accelerate the progress of the Company's internal drug pipeline. These efforts are expected to contribute to the achievement of the Company's medium-term targets and generate significant future revenue and growth. The Company expects to provide more information regarding these efforts in the near future.

The Company expects to maintain double-digit growth in both sales and profits going forward, while looking to fully maximize the Company's global leadership position and drug discovery and development capabilities, from both short-term and medium- and long-term perspectives.

【Company Performance (Prior Five Fiscal Years and Current Forecast for 2018-2019 Fiscal Year) 】

	Fiscal Year ended June 30, 2014	Fiscal Year ended June 30, 2015	Fiscal Year ended June 30, 2016	Fiscal Year ended June 30, 2017	Fiscal Year ended June 30, 2018	Fiscal Year ending June 30, 2019
Net sales (JPY millions)	818	2,474	4,327	4,895	6,426	7,200 or more
Changes from the previous corresponding period (%)	20.7	202.2	74.9	13.1	31.3	12.0 or more
Operating profit (JPY millions)	201	1,391	2,548	2,490	2,910	3,300 or more
Changes from the previous corresponding period (%)	25.2	590.9	83.2	△2.3	16.9	13.4 or more
Operating income to net sales (%)	24.6	56.2	58.9	50.1	45.3	45.8

【Other key indices】

	Fiscal Year ended June 30, 2014	Fiscal Year ended June 30, 2015	Fiscal Year ended June 30, 2016	Fiscal Year ended June 30, 2017	Fiscal Year ended June 30, 2018	Fiscal Year ending June 30, 2019
Capital Expenditures (JPY millions)	72	1,303	1,890	1,890	2,436	350
Depreciation Expense (JPY millions)	52	73	124	174	493	496
Research and Development Expenses (JPY millions)	51	82	228	362	921	1,233
Year-end headcount (people)	33	46	52	67	91	106

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

The Company has re-evaluated 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 four 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 or more

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 eighteen companies (six domestic, twelve 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.

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

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) 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, 2018, the number of dilutive shares to be increased by the exercisable subscription rights to shares was 9,696,000 shares, which is equivalent to 7.32% of the aggregate number of shares issued and dilutive shares.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.

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

In September 2017, the Company established 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.

On March 30, 2018, the Company announced an investment of 1.8 billion yen into PeptiStar, giving the Company an ownership stake of 17.3% of PeptiStar, equal to that of both Shionogi and Sekisui Chemical. 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.

(vii) 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, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	6,556,679	3,505,349
Accounts receivable - trade	1,754,752	3,093,674
Raw materials and stocks	-	166,169
Prepaid expenses	74,247	99,115
Deferred tax assets	135,732	140,643
Other	-	1,193,791
Total current assets	8,521,412	8,198,742
Non-current assets		
Property, plant and equipment		
Buildings	42,585	4,056,681
Accumulated depreciation	(40,987)	(150,220)
Buildings, net	1,598	3,906,460
Structures	-	187,958
Accumulated depreciation	-	(12,261)
Structures, net	-	175,697
Tools, furniture and fixtures	789,562	1,926,137
Accumulated depreciation	(497,799)	(770,137)
Tools, furniture and fixtures, net	291,763	1,155,999
Land	1,000,000	904,628
Construction in progress	3,562,285	-
Total property, plant and equipment	4,855,647	6,142,785
Intangible assets		
Goodwill	62,456	42,200
Software	4,705	73,101
Other	54,710	1,819
Total intangible assets	121,872	117,121
Investments and other assets		
Shares of subsidiaries and associates	-	1,900,000
Long-term loans receivable	100,000	100,000
Long-term prepaid expenses	14,928	26,367
Deferred tax assets	966	9,626
Other	13,624	7,621
Total investments and other assets	129,520	2,043,615
Total non-current assets	5,107,040	8,303,522
Total assets	13,628,452	16,502,264

(Thousands of yen)

	As of June 30, 2017	As of June 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	23,792	36,219
Accounts payable - other	62,250	58,520
Accrued expenses	342,468	389,880
Income taxes payable	264,807	616,621
Advances received	357,204	339,809
Deposits received	76,311	80,660
Asset retirement obligations	15,600	-
Other	205,215	191,344
Total current liabilities	1,347,650	1,713,056
Non-current liabilities		
Provision for directors' share benefits	100,000	80,493
Total non-current liabilities	100,000	80,493
Total liabilities	1,447,650	1,793,549
Net assets		
Shareholders' equity		
Capital stock	3,870,769	3,915,983
Capital surplus		
Legal capital surplus	3,867,051	3,912,265
Total capital surplus	3,867,051	3,912,265
Retained earnings		
Other retained earnings		
Retained earnings brought forward	4,871,608	7,206,825
Total retained earnings	4,871,608	7,206,825
Treasury stock	(430,869)	(411,420)
Total shareholders' equity	12,178,559	14,623,653
Subscription rights to shares	2,242	85,062
Total net assets	12,180,801	14,708,715
Total liabilities and net assets	13,628,452	16,502,264

(2) Statements of Income

(Thousands of yen)

	Fiscal year ended June 30, 2017	Fiscal year ended June 30, 2018
Net sales	4,895,747	6,426,891
Cost of sales	1,359,801	1,778,626
Gross profit	3,535,946	4,648,264
Selling, general and administrative expenses	1,045,530	1,737,283
Operating income	2,490,415	2,910,980
Non-operating income		
Interest income	1,302	1,728
Foreign exchange gains	46,928	20,593
Operation consignment fee	86,665	224,890
Other	848	535
Total non-operating income	135,745	247,748
Non-operating expenses		
Share issuance cost	1,713	312
Other	-	3,928
Total non-operating expenses	1,713	4,240
Ordinary income	2,624,446	3,154,489
Extraordinary income		
Subsidy income	-	681,619
Total extraordinary income	-	681,619
Extraordinary losses		
Loss on retirement of non-current assets	287	3,642
Loss on reduction of property plant and equipment	-	680,735
Total extraordinary losses	287	684,378
Income before income taxes	2,624,159	3,151,730
Income taxes - current	674,386	830,083
Income taxes - deferred	59,021	(13,569)
Total income taxes	733,408	816,513
Net income	1,890,750	2,335,216

(3) Statements of Changes in Equity

Fiscal year ended June 30, 2017

(Thousands of yen)

	Shareholders' equity							Subscription rights to shares	Total net assets
		Capital surplus		Retained earnings					
	Capital stock	Legal capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity		
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)
Disposal of treasury stock									
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

Fiscal year ended June 30, 2018

(Thousands of yen)

	Shareholders' equity							Subscription rights to shares	Total net assets
		Capital surplus		Retained earnings					
	Capital stock	Legal capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity		
Balance at the beginning 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
Changes of items during period									
Issuance of new shares	45,214	45,214	45,214				90,428		90,428
Net income				2,335,216	2,335,216		2,335,216		2,335,216
Acquisition of treasury stock						(58)	(58)		(58)
Disposal of treasury stock						19,506	19,506		19,506
Net changes of items other than shareholders' equity								82,820	82,820
Total changes of items during period	45,214	45,214	45,214	2,335,216	2,335,216	19,448	2,445,092	82,820	2,527,913
Balance at the end of current period	3,915,983	3,912,265	3,912,265	7,206,825	7,206,825	(411,420)	14,623,653	85,062	14,708,715

(4) Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended June 30, 2017	Fiscal year ended June 30, 2018
Cash flow from operating activities		
Income before income taxes	2,624,159	3,151,730
Depreciation	174,617	493,084
Amortization of goodwill	20,256	20,256
Increase (decrease) in provision for directors' share benefits	100,000	-
Interest and dividend income	(1,302)	(1,728)
Foreign exchange losses (gains)	(10,572)	(1,058)
Share issuance cost	1,713	312
Subsidy income	-	(681,619)
Loss on retirement of non-current assets	287	3,642
Loss on reduction of property plant and equipment	-	680,735
Decrease (increase) in notes and accounts receivable - trade	(353,813)	(1,338,922)
Decrease (increase) in inventories	-	(166,169)
Decrease (increase) in prepaid expenses	(16,313)	(24,868)
Increase (decrease) in notes and accounts payable - trade	13,594	12,427
Increase (decrease) in accounts payable - other	11,424	(2,567)
Increase (decrease) in accrued expenses	94,893	47,411
Increase (decrease) in advances received	(115,751)	(17,394)
Increase (decrease) in deposits received	13,800	4,349
Other, net	134,460	(614,298)
Subtotal	2,691,455	1,565,321
Interest and dividend income received	1,302	1,728
Income taxes paid	(1,161,980)	(544,333)
Net cash provided by (used in) operating activities	1,530,776	1,022,716
Cash flow from investing activities		
Purchase of shares of subsidiaries and associates	-	(1,900,000)
Proceeds from subsidy income	-	136,323
Purchase of property, plant and equipment	(1,896,541)	(2,437,268)
Purchase of intangible assets	(38,058)	(34,443)
Other	(4,799)	(10,005)
Net cash provided by (used in) investing activities	(1,939,399)	(4,245,393)
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	476,449	88,936
Proceeds from issuance of subscription rights to shares	-	81,410
Purchase of treasury shares	(430,869)	(58)
Net cash provided by (used in) financing activities	45,580	170,287
Effect of exchange rate change on cash and cash equivalents	10,572	1,058
Net increase (decrease) in cash and cash equivalents	(352,470)	(3,051,330)
Cash and cash equivalents at beginning of period	6,909,149	6,556,679
Cash and cash equivalents at end of period	6,556,679	3,505,349

(5) Notes to Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Changes in accounting policies)

(Application of Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions)

"Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions" (Practical Issues Task Force No. 36, January 12, 2018; hereinafter, "PITF No. 36"), etc. has become available for application from the date of its publication. Accordingly, the Group has adopted PITF No. 36 on or after the date of publication and decided to apply accounting methods conforming to the Accounting Standards for Stock Options (Accounting Standards Board of Japan Standard No. 8, December 27, 2005) for transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions.

In applying PITF No. 36, the Group followed the transitional treatments provided in Paragraph 10 (3) of PITF No. 36. Accordingly, transactions in which stock acquisition rights, which involve considerations, with vesting conditions, were granted to employees, etc. prior to the date of application of PITF No. 36 have continued to be accounted for using the previously adopted accounting treatment.

(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.)

(Thousands of yen)

	Fiscal year ended June 30, 2017	Fiscal year ended June 30, 2018
Investments in affiliates	—	1,900,000
Investments accounted for using the equity method	—	1,873,847
Losses on investments accounted for using the equity method	—	26,152

(Per share information)

	Fiscal year ended June 30, 2017	Fiscal year ended June 30, 2018
Net assets per share	106.39 yen	119.31 yen
Net income per share	16.54 yen	19.35 yen
Diluted net income per share	14.56 yen	17.79 yen

(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 ended June 30, 2017 and 148,337 shares for the fiscal year ended June 30, 2018. 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 ended June 30, 2017 and 143,400 shares for the fiscal year ended June 30, 2018.

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

Items	Fiscal year ended June 30, 2017	Fiscal year ended June 30, 2018
Net income per share		
Net income (thousands of yen)	1,890,750	2,335,216
Net income not attributable to common shareholders (thousands of yen)	—	—
Net income related to common stock (thousands of yen)	1,890,750	2,335,216
Average number of common stock during the period (shares)	114,290,144	120,662,551
Diluted net income per share		
Adjustments for net income (thousands of yen)	—	—
Number of increase of common stock (shares)	15,531,638	10,570,412
(Subscription rights to shares)	(15,531,638)	(10,570,412)
Dilutive shares that do not have a diluting effect and thus were not included in the calculation of diluted net income per share	—	Seventh series stock acquisition rights (Number of stock acquisition rights: 24,000)

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

Items	As of June 30, 2017	As of June 30, 2018
Total net assets (thousands of yen)	12,180,801	14,708,715
Amounts deducted from total net assets (thousands of yen)	2,242	85,062
(Subscription rights to shares) (thousands of yen)	(2,242)	(85,062)
Amounts of net assets related to common stock at the end of the period (thousands of yen)	12,178,559	14,623,653
Number of common stock at the end of the period used for the calculation of net assets per share (shares)	114,468,200	122,570,983

(Significant subsequent events)

Not applicable.