



**Non-Consolidated Financial Results (Japanese GAAP)  
for the Fiscal Year Ended December 31, 2017**

February 14, 2018

Company Name: Chiome Bioscience Inc.

Tokyo Stock Exchange

Stock Code: 4583

URL <http://www.chiome.co.jp>

Representative: Shigeru Kobayashi, President & CEO

Inquiries: Arihiko Bijohira, Executive officer, Head of Corporate Administration

TEL: +81-3-6383-3746

Scheduled date of the Annual General Meeting of Shareholders : March 26, 2018

Scheduled dividend payment commencement date: —

Scheduled filing date of the Securities Report : March 26, 2018

Supplementary materials prepared for the financial results : Yes

Holding of a financial results explanatory meeting : Yes (For institutional investors and securities analysts)

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

**1. Financial Results for the Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)**

**(1) Operating Results**

(% figures are the increase / (decrease) compared with the previous fiscal year)

|                                 | Net Sales   |        | Operating Income |   | Ordinary Income |   | Net Income  |   |
|---------------------------------|-------------|--------|------------------|---|-----------------|---|-------------|---|
|                                 | Million yen | %      | Million yen      | % | Million yen     | % | Million yen | % |
| Fiscal year ended Dec. 31, 2017 | 259         | 3.0    | (887)            | — | (883)           | — | (882)       | — |
| Fiscal year ended Dec. 31, 2016 | 252         | (10.0) | (1,042)          | — | (1,047)         | — | (1,491)     | — |

|                                 | 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 Dec. 31, 2017 | (33.48)              | —                            | (20.3)           | (19.2)                          | (341.6)                       |
| Fiscal year ended Dec. 31, 2016 | (65.91)              | —                            | (32.9)           | (21.6)                          | (413.3)                       |

(Reference) Equity in earnings (losses) of affiliates:

Fiscal year ended Dec. 31, 2017: — million yen

Fiscal year period Dec. 31, 2016: — million yen

Notes:

- Despite the existence of shares with a dilutive effect, diluted net income per share is not stated because Chiome incurred a loss for each respective period.

**(2) Financial Position**

|                     | Total Assets | Net Assets  | Equity Ratio | Net Assets per Share |
|---------------------|--------------|-------------|--------------|----------------------|
|                     | Million yen  | Million yen | %            | Yen                  |
| As of Dec. 31, 2017 | 4,419        | 4,217       | 94.6         | 156.15               |
| As of Dec. 31, 2016 | 4,789        | 4,565       | 94.5         | 177.87               |

(Reference) Equity As of Dec. 31, 2017: 4,181 million yen

As of Dec. 31, 2016: 4,527 million yen

**(3) Cash Flows**

|                                 | Cash Flow from Operating Activities | Cash Flow from Investing Activities | Cash Flow from Financing Activities | Cash and Cash Equivalents as of the End of the Period |
|---------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---|
|                                 | Million yen                         | Million yen                         | Million yen                         | Million yen   |
| Fiscal year ended Dec. 31, 2017 | (867)                               | (137)                               | 478                                 | 4,027   |
| Fiscal year ended Dec. 31, 2016 | (969)                               | 1,988                               | 1,433                               | 4,553   |

## 2. Dividends

|   | Annual Dividend |        |        |        |       | Total Dividend (Annual) | Dividend Payout Ratio | Dividends to Net Assets |
|---|-----------------|--------|--------|--------|-------|-------------------------|-----------------------|-------------------------|
|   | 1Q-End          | 2Q-End | 3Q-End | FY-End | Total |                         |                       |                         |
|   | Yen             | Yen    | Yen    | Yen    | Yen   | Million yen             | %                     | %                       |
| Fiscal period ended Dec. 31, 2016           | —               | 0.00   | —      | 0.00   | 0.00  | —                       | —                     | —                       |
| Fiscal year ended Dec. 31, 2017             | —               | 0.00   | —      | 0.00   | 0.00  | —                       | —                     | —                       |
| Fiscal year ending Dec. 31, 2018 (forecast) | —               | 0.00   | —      | 0.00   | 0.00  |                         | —                     |                         |

## 3. Forecast of Financial Results for the Fiscal Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

As it is difficult to provide reasonable estimates for Drug Discovery and Development Business at present, Chiome discloses only business forecasts for Drug Discovery Support Business (net sales of ¥220 million). For details, please refer to “1. Overview of Operating Results (1) Overview of Operating Results in the Fiscal Year under Review iii. Outlook for the Fiscal Year Ending December 31, 2018” on page 3 of the attached materials.

Notes:

### (1) Changes in Accounting Policies, Changes in Accounting Estimates, and Retrospective Restatements

- 1) Changes in accounting policies in line with revisions to accounting and other standards : No
- 2) Changes in accounting policies other than 1) above : No
- 3) Changes in accounting estimates : No
- 4) Retrospective restatements : No

### (2) Number of Shares Issued (Common Stock)

|   |                                 |                   |                                   |                   |
|---|---------------------------------|-------------------|-----------------------------------|-------------------|
| 1) Number of shares issued as of the end of the period (including treasury stock) | As of Dec. 31, 2017             | 26,781,500 shares | As of Dec. 31, 2016               | 25,455,500 shares |
| 2) Number of treasury stock as of the end of the period                           | As of Dec. 31, 2017             | 146 shares        | As of Dec. 31, 2016               | 146 shares        |
| 3) Average number of shares for the period (cumulative total for the period)      | Fiscal year ended Dec. 31, 2017 | 26,358,221 shares | Fiscal period ended Dec. 31, 2016 | 22,625,200 Shares |

\* This summary report on Chiome’s financial statements is not subject to quarterly review procedures.

### \* Explanation Concerning the Proper Use of Financial Results Forecasts and Other Relevant Specific Items

1. Forward-looking statements including forecasts of financial results contained in this report are based on management’s assumptions and beliefs that are determined to be reasonable in light of currently available information. Chiome cautions readers that due to a variety of factors actual results may differ materially from forecasts. For the assumptions that underpin financial results forecasts as well as other related items, please refer to “1. Overview of Operating Results (1) Overview of Operating Results in the Fiscal Year under Review iii. Outlook for the Fiscal Year Ending December 31, 2018” on page 3 of the attached materials.
2. Chiome plans to hold a financial results explanatory meeting for institutional investors and securities analysts on February 16, 2018. Plans are also in place to post a copy of the supplementary materials distributed at the meeting on Chiome’s website in conjunction with disclosure to the Tokyo Stock Exchange today.

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## 1. Overview of Operating Results

### (1) Overview of Operating Results in the Fiscal Year under Review

In the fiscal year under review, the biopharmaceuticals market continued to grow steadily with the appearance of Immune checkpoint inhibitor typified by Opdivo. In the field of antibody drug discovery and development, which is driver for biopharmaceutical, seven novel antibody pharmaceutical products were newly approved domestically in 2017. Furthermore, technologies related to antibody generation and modification have been advanced extensively in various field. Such technologies, if advanced further, are expected to boost commercialization of antibody drugs with greatly improved effectiveness or fewer side effects, as well as expand treatment for diseases with unmet medical needs.

Under these external circumstances, concerning LIV-1205 naked antibody, Chiome has undertaken the preparation for licensing activities and first clinical development, gathering basic data to improve its product value. Meanwhile, it has proactively engaged in marketing and sales activities aimed at creating new antibody generation business at home and abroad, with the goal of boosting sales in the Drug Discovery Support Business.

As a consequence, in the fiscal year under review, Chiome posted net sales of ¥259,895 thousand (an increase of ¥7,680 thousand year-on-year), an operating loss of ¥887,868 thousand (a decrease of ¥154,489 thousand year-on-year), ordinary loss of ¥883,627 thousand (a decrease of ¥163,530 thousand year-on-year), and net loss of ¥882,570 thousand (a decrease of ¥608,591 thousand year-on-year). Research and development expenses stood at ¥592,384 thousand in the fiscal year under review (a decrease of ¥34,314 thousand year-on-year).

Every facet of Chiome's business development activities is based on its drug discovery platform technology ADLib® system and multiple antibody generation technologies. As a result, and taking into consideration that all of Chiome's assets are used in unison to generate cash flows, research and development expenses are not allocated to individual reportable segments.

Operating results by segment are as follows.

#### i. Drug Discovery and Development Business

In the Drug Discovery and Development Business, in September 2017, Chiome executed a License Agreement with Switzerland-based ADC Therapeutics SA (ADCT) for the development, manufacture, and commercialization of an antibody drug conjugate (ADC) of LIV-1205. Under the License Agreement, ADCT obtained the exclusive, worldwide, and sub-licensable rights to LIV-1205, and Chiome received an up-front payment. With the steady progress of development by ADCT, Chiome received a payment upon the completion of the first milestone in November. Regarding LIV-1205 naked antibody, in September 2017, Chiome selected Germany-based ProBioGen AG as an entrusted partner for the Master cell banking and GMP manufacturing toward clinical development, and launched its manufacture. By leveraging the partner's unique technology named GlymaxX®, Chiome started to develop antibody-producing cells which has greater antibody-dependent cellular cytotoxicity (ADCC) activity.

Meanwhile, Chiome was advised by ADCT in June 2017 that it would not exercise its option right for LIV-2008b, which resulted in the termination of the Option License Agreement with ADCT. Accordingly, Chiome has continued to conduct research and development and licensing activities based on our pre-clinical data obtained previously.

Concerning BMAA (Anti Semaphorin 3A), Chiome has continued licensing activities aiming at a new facet.

Chiome has also actively engaged in a number of exploratory research and development programs. In addition, in order to expand its pipelines, Chiome has made a public offering to the scientists at academic/public institutions focusing on the research themes related to refractory cancer, rare diseases, and designated intractable diseases. Chiome has also striven to create contacts with academic/public institutions and institutions devoted to academic-industrial collaboration organization. As a result, the number of projects on the stage of drug discovery has achieved 8 projects including joint research and development. Furthermore, in December 2017, Chiome executed a Joint Research and Development Agreement with Trans Chromosomics Inc., which Chiome had capitalized in February 2017. From now on, Chiome will speed up more the drug discovery activities by utilizing animals (mice and rats) producing a fully human antibody, which Trans Chromosomics Inc. has, added to Chiome's technology.

Taking all of these factors into account, the Drug Discovery and Development Business posted net sales of ¥59,561 thousand (an increase of ¥32,146 thousand year-on-year) and gross profit of ¥57,006 thousand (an increase of ¥36,821 thousand year-on-year) in the fiscal year under review.

## ii. Drug Discovery Support Business

In the Drug Discovery Support Business, transactions under the agreement with Chugai Pharmaceutical Co., Ltd. and its overseas subsidiary Chugai Pharmabody Research Pte. Ltd. (Chugai Pharmaceutical Group) have served as a major business line. Although the Business terminated the joint research and development activity on antibody isolation with Chugai Pharmaceutical Co., Ltd. as of December 31, 2017, it has continued transactions with the counterpart with respect to entrusted research, a core part sustaining sales of the Business. In addition, the Business has been working on an antibody generation project under an agreement with Mitsubishi Tanabe Pharma Corporation and Tanabe Research Laboratories U.S.A., Inc. (Mitsubishi Tanabe Pharma Group). Furthermore, the Business has engaged in new entrusted projects and joint research activities that involve the use of Chiome's own antibody generation technology, including the ADLib® system and relevant technical skills.

As a result, the Drug Discovery Support Business posted net sales of ¥200,334 thousand (a decrease of ¥24,466 thousand year-on-year), which resulted in the same level as the previously disclosed sales forecast (net sales of ¥201,000 thousand), and gross profit of ¥117,407 thousand (an increase of ¥23,175 thousand year-on-year) in the fiscal year under review.

## iii. Outlook for the Fiscal Year Ending December 31, 2018

In the Drug Discovery and Development Business, Chiome will accelerate the out-licensing activities or the development toward early clinical study for the pre-clinical stage pipelines and will make effort to push forward the discovery stage projects to pre-clinical stage. Chiome will also bolster collaborative work with academic/public institutions, bio-venture firms, and other entities at home and abroad to secure new drug targets and will seek projects to open new pipelines with a focus on areas with greater unmet needs. Furthermore, to expand near-term clinical pipeline development, Chiome will initiate projects, including in-licensing of drug candidate from outside. As for LIV-1205 naked, which is at the preparatory stage for clinical development, expenses of the GMP manufacturing for clinical development are expected to increase in the fiscal year ending December 31, 2018.

In the Drug Discovery Support Business, Chiome will address customer needs more proactively, leveraging its own multiple core technologies for drug discovery and accumulated technical know-how. In addition, it will continue to expand entrusted businesses, including transactions for new antibody generation and antigen preparation for pharmaceutical companies, diagnostic pharmaceutical firms, and academic/public institutions. Chiome forecasts, as seen in the past operating results, that sales and profits will be attributed mainly to continued business with Chugai Pharmaceutical Group and Mitsubishi Tanabe Pharma Group.

As a consequence, Drug Discovery Support Business is forecasted to produce net sales of ¥220 million for the fiscal year ending December 31, 2018.

## (2) Overview of Financial Position in the Fiscal Year under Review

### i. Assets, Liabilities, and Net Assets

#### (Current assets)

As of December 31, 2017, current assets stood at ¥4,196,681 thousand, down ¥484,836 thousand compared to the balance as of December 31, 2016. This decline could be primarily attributed to a decrease in cash and deposits due to payments of selling, general and administrative expenses.

#### (Non-current assets)

As of December 31, 2017, non-current assets stood at ¥222,783 thousand, up ¥115,147 thousand compared to the balance as of December 31, 2016. This increase was mainly due to a rise in investment securities due to contributions

to Trans Chromosomics Inc.

(Liabilities)

As of December 31, 2017, liabilities stood at ¥201,890 thousand, down ¥22,184 thousand compared to the balance as of December 31, 2016. The major contributing factors were decreases in the current portion of long-term loans payable and a decrease in assets retirement obligation.

(Net assets)

As of December 31, 2017, net assets stood at ¥4,217,574 thousand, down ¥347,503 thousand compared to the balance of December 31, 2016. This was because the decrease in the amount of retained earnings resulted from net loss was greater than the increase in the amount of capital stock and capital reserves due to exercises of subscription rights to shares.

## ii. Analysis of Cash Flows

The balance of cash and cash equivalents (hereinafter, “funds”) as of December 31, 2017 stood at ¥4,027,466 thousand, down ¥525,711 thousand compared to the balance as of December 31, 2016. Details of cash flows of each activity and major factors are outlined as follows.

(Cash flows from operating activities)

For the fiscal year ending December 31, 2017, net funds used in operating activities were ¥867,201 thousand. The major movements were loss before income taxes and a decrease in accrued expenses.

(Cash flows from investing activities)

For the fiscal year ending December 31, 2017, net funds used in investing activities amounted to ¥137,113 thousand. The major movement was due to the purchase of investment securities.

(Cash flows from financing activities)

For the fiscal year ending December 31, 2017, net funds obtained in financing activities amounted to ¥478,603 thousand. The movements were proceeds from issuance of common shares and the repayments of long-term loans payable.

## (3) Significant Events Relating to Going Concern Assumptions

Not applicable

## 2. Fundamental View on Selection of Accounting Standards

Chiome currently adopts Japanese GAAP as its accounting standards. With regard to adoption of International Financial Reporting Standards (IFRS) in the coming years, Chiome will look at various cases globally and make an appropriate decision.

### 3. Financial Statements

#### (1) Balance Sheets

|                                    | Thousand yen           |                        |
|------------------------------------|------------------------|------------------------|
|                                    | As of<br>Dec. 31, 2016 | As of<br>Dec. 31, 2017 |
| Assets                             |                        |                        |
| Current assets                     |                        |                        |
| Cash on hand and in banks          | 4,553,178              | 4,027,466              |
| Accounts receivable                | 46,950                 | 43,722                 |
| Inventories                        | 35,475                 | 34,979                 |
| Prepaid expenses                   | 10,856                 | 46,263                 |
| Consumption taxes receivable       | 31,926                 | 31,923                 |
| Other current assets               | 3,129                  | 12,325                 |
| Total current assets               | 4,681,517              | 4,196,681              |
| Non-current assets                 |                        |                        |
| Property and equipment             |                        |                        |
| Machinery                          | 459,689                | 345,381                |
| Accumulated depreciation           | (437,473)              | (330,266)              |
| Machinery, net                     | 22,216                 | 15,115                 |
| Tools and equipment                | 118,453                | 107,520                |
| Accumulated depreciation           | (105,353)              | (99,670)               |
| Tools and equipment, net           | 13,100                 | 7,850                  |
| Total property and equipment       | 35,316                 | 22,965                 |
| Investments and other assets       |                        |                        |
| Investment Securities              | —                      | 150,000                |
| Long-term prepaid expenses         | —                      | 2,333                  |
| Lease deposits and others          | 71,995                 | 47,485                 |
| Other investment securities        | 324                    | —                      |
| Total investments and other assets | 72,319                 | 199,818                |
| Total non-current assets           | 107,635                | 222,783                |
| Total assets                       | 4,789,153              | 4,419,465              |

Thousand yen

|  | As of<br>Dec. 31, 2016 | As of<br>Dec. 31, 2017 |
|--|------------------------|------------------------|
| Liabilities                                |                        |                        |
| Current liabilities                        |                        |                        |
| Accounts payable, trade                    | 22,565                 | 27,638                 |
| Current portion of long-term loans payable | 50,004                 | 4,159                  |
| Accounts payable, other                    | 34,705                 | 64,858                 |
| Accrued expenses                           | 20,546                 | 20,748                 |
| Income taxes payable                       | 20,702                 | 29,481                 |
| Deposits received                          | 5,815                  | 4,014                  |
| Unearned revenue                           | 2,815                  | —                      |
| Provision for bonuses                      | 11,932                 | 10,376                 |
| Total liabilities                          | 169,088                | 161,276                |
| Non-current liabilities                    |                        |                        |
| Long-term loans payable                    | 4,159                  | —                      |
| Asset retirement obligations               | 50,827                 | 40,613                 |
| Total non-current liabilities              | 54,986                 | 40,613                 |
| Total liabilities                          | 224,075                | 201,890                |
| Net assets                                 |                        |                        |
| Shareholders' equity                       |                        |                        |
| Capital stock                              | 5,186,379              | 5,454,775              |
| Capital reserve                            |                        |                        |
| Legal Capital reserve                      | 5,176,379              | 5,444,775              |
| Total capital reserve                      | 5,176,379              | 5,444,775              |
| Retained earnings                          |                        |                        |
| Other retained earnings                    |                        |                        |
| Retained earnings brought forward          | (5,834,757)            | (6,717,328)            |
| Total retained earnings                    | (5,834,757)            | (6,717,328)            |
| Treasury stock                             | (292)                  | (292)                  |
| Total shareholders' equity                 | 4,527,709              | 4,181,929              |
| Subscription rights to shares              | 37,368                 | 35,645                 |
| Total net assets                           | 4,565,078              | 4,217,574              |
| Total liabilities and net assets           | 4,789,153              | 4,419,465              |



## (2) Statements of Income

Thousand yen

|  | Fiscal Year<br>Ended Dec. 31, 2016<br>(Jan. 1, 2016<br>to Dec. 31, 2016) | Fiscal Year<br>Ended Dec. 31, 2017<br>(Jan. 1, 2017<br>to Dec. 31, 2017) |
|--|--|--|
| Net sales  | 252,215  | 259,895  |
| Cost of sales                                      | 137,798  | 85,481   |
| Gross profit                                       | 114,417  | 174,414  |
| Selling, general and administrative expenses       |  |  |
| Research and development expenses                  | 626,699  | 592,384  |
| Other, net   | 530,075  | 469,898  |
| Total selling, general and administrative expenses | 1,156,774  | 1,062,282  |
| Operating loss                                     | (1,042,357)  | (887,868)  |
| Non-operating income                               |  |  |
| Interest income                                    | 150  | 41   |
| Interest on securities                             | 2,156  | —  |
| Foreign exchange gains                             | 525  | 1,517  |
| Subsidy income                                     | 4,007  | 4,477  |
| Other, net   | 805  | 627  |
| Total non-operating income                         | 7,645  | 6,663  |
| Non-operating expenses                             |  |  |
| Interest paid                                      | 483  | 185  |
| Share issuance cost                                | 4,949  | 1,894  |
| Subscription rights issuance cost                  | 6,896  | —  |
| Other, net   | 115  | 343  |
| Total non-operating expenses                       | 12,445   | 2,423  |
| Ordinary loss                                      | (1,047,157)  | (883,627)  |
| Extraordinary income                               |  |  |
| Gain on sales of non-current assets                | —  | 2,050  |
| Gain on reversal of subscription rights to shares  | 6,228  | 3,181  |
| Total extraordinary income                         | 6,228  | 5,232  |
| Extraordinary loss                                 |  |  |
| Loss on sales of non-current assets                | —  | 1,755  |
| Impairment loss of non-current assets              | 321,466  | —  |
| Loss on valuation of investment securities         | 113,999  | —  |
| Special retirement expenses                        | 24,800   | —  |
| Other, net   | 84   | —  |
| Total extraordinary loss                           | 460,351  | 1,755  |
| Loss before income taxes                           | (1,501,280)  | (880,150)  |
| Income taxes-current                               | 2,420  | 2,420  |
| Income taxes-deferred                              | (12,537)   | —  |
| Total income taxes                                 | (10,117)   | 2,420  |
| Net loss   | (1,491,162)  | (882,570)  |

【Details of Cost of Sales】

|  |      | Fiscal Year<br>Ended Dec. 31, 2016<br>(Jan. 1, 2016<br>to Dec. 31, 2016) |  | Fiscal Year<br>Ended Dec. 31, 2017<br>(Jan. 1, 2017<br>to Dec. 31, 2017) |  |
|--|------|--|--|--|--|
| Category   | note | Amount (Thousand yen)  | Proportion<br>of cost of<br>sales<br>(%) | Amount (Thousand yen)  | Proportion<br>of cost of<br>sales<br>(%) |
| I Cost of materials  | * 1  | 45,135   | 33.3                                     | 30,321   | 36.1                                     |
| II Labor costs   |      | 41,805   | 30.9                                     | 24,116   | 28.7                                     |
| III Expenses   |      | 48,469   | 35.8                                     | 29,570   | 35.2                                     |
| Total manufacturing costs                                    |      | 135,410  | 100.0                                    | 84,007   | 100.0                                    |
| Opening balance of work-<br>in-progress under<br>inventories |      | 5,602  |  | 3,214  |  |
| Total  |      | 141,013  |  | 87,222   |  |
| Closing balance of work-<br>in-progress under<br>inventories |      | 3,214  |  | 1,741  |  |
| Cost of sales  |      | 137,798  |  | 85,481   |  |

Method of calculating cost of sales: Cost of sales is calculated based on the specific identification method by project

(Note)\*1 The following are major items.

Thousand yen

|                      | Fiscal Year<br>Ended Dec. 31, 2016<br>(Jan. 1, 2016<br>to Dec. 31, 2016) | Fiscal Year<br>Ended Dec. 31, 2017<br>(Jan. 1, 2017<br>to Dec. 31, 2017) |
|----------------------|--|--|
| Royalties paid       | 374  | 251  |
| Outsourcing expenses | 178  | 214  |
| Other expenses       | 47,916   | 29,104   |

## (3) Statements of Changes in Net Assets

The Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)

Thousand yen

|  | Shareholders' Equity |                       |                       |                                   |                         |
|--|----------------------|-----------------------|-----------------------|-----------------------------------|-------------------------|
|  | Capital Stock        | Capital Reserve       |                       | Retained Earnings                 |                         |
|  |                      | Legal Capital reserve | Total capital reserve | Other retained earnings           | Total retained earnings |
|  |                      |                       |                       | Retained earnings brought forward |                         |
| Balance as of the beginning of the period            | 4,445,258            | 4,435,258             | 4,435,258             | (4,343,594)                       | (4,343,594)             |
| Changes during the period                            |                      |                       |                       |                                   |                         |
| Issuance of new stock                                | 741,121              | 741,121               | 741,121               |                                   |                         |
| Net loss   |                      |                       |                       | (1,491,162)                       | (1,491,162)             |
| Net changes of items other than shareholders' equity |                      |                       |                       |                                   |                         |
| Total changes during the period                      | 741,121              | 741,121               | 741,121               | (1,491,162)                       | (1,491,162)             |
| Balance as of the end of the period                  | 5,186,379            | 5,176,379             | 5,176,379             | (5,834,757)                       | (5,834,757)             |

|  | Shareholders' Equity |                            | Subscription rights to shares | Total Net Assets |
|--|----------------------|----------------------------|-------------------------------|------------------|
|  | Treasury Stock       | Total Shareholders' Equity |                               |                  |
| Balance as of the beginning of the period            | (292)                | 4,536,629                  | 27,611                        | 4,564,241        |
| Changes during the period                            |                      |                            |                               |                  |
| Issuance of new stock                                |                      | 1,482,242                  |                               | 1,482,242        |
| Net loss   |                      | (1,491,162)                |                               | (1,491,162)      |
| Net changes of items other than shareholders' equity |                      |                            | 9,757                         | 9,757            |
| Total changes during the period                      | —                    | (8,920)                    | 9,757                         | 837              |
| Balance as of the end of the period                  | (292)                | 4,527,709                  | 37,368                        | 4,565,078        |

The Fiscal Period Ended December 31, 2017 (January 1, 2017 to December 31, 2017)

Thousand yen

|  | Shareholders' Equity |                       |                       |  |                         |
|--|----------------------|-----------------------|-----------------------|--|-------------------------|
|  | Capital Stock        | Capital Reserve       |                       | Retained Earnings  |                         |
|  |                      | Legal Capital reserve | Total capital reserve | Other retained earnings<br>Retained earnings brought forward | Total retained earnings |
| Balance as of the beginning of the period            | 5,186,379            | 5,176,379             | 5,176,379             | (5,834,757)  | (5,834,757)             |
| Changes during the period                            |                      |                       |                       |  |                         |
| Issuance of new stock                                | 268,395              | 268,395               | 268,395               |  |                         |
| Net loss   |                      |                       |                       | (882,570)  | (882,570)               |
| Net changes of items other than shareholders' equity |                      |                       |                       |  |                         |
| Total changes during the period                      | 268,395              | 268,395               | 268,395               | (882,570)  | (882,570)               |
| Balance as of the end of the period                  | 5,454,775            | 5,444,775             | 5,444,775             | (6,717,328)  | (6,717,328)             |

|  | Shareholders' Equity |                            | Subscription rights to shares | Total Net Assets |
|--|----------------------|----------------------------|-------------------------------|------------------|
|  | Treasury Stock       | Total Shareholders' Equity |                               |                  |
| Balance as of the beginning of the period            | (292)                | 4,527,709                  | 37,368                        | 4,565,078        |
| Changes during the period                            |                      |                            |                               |                  |
| Issuance of new stock                                |                      | 536,791                    |                               | 536,791          |
| Net loss   |                      | (882,570)                  |                               | (882,570)        |
| Net changes of items other than shareholders' equity |                      |                            | (1,723)                       | (1,723)          |
| Total changes during the period                      | —                    | (345,779)                  | (1,723)                       | (347,503)        |
| Balance as of the end of the period                  | (292)                | 4,181,929                  | 35,645                        | 4,217,574        |

## (4) Statements of Cash Flows

Thousand yen

|  | Fiscal Year<br>Ended Dec. 31, 2016<br>(Jan. 1, 2016<br>to Dec. 31, 2016) | Fiscal Year<br>Ended Dec. 31, 2017<br>(Jan. 1, 2017<br>to Dec. 31, 2017) |
|--|--|--|
| Cash flows from operating activities                       |  |  |
| Loss before income taxes                                   | (1,501,280)  | (880,150)  |
| Depreciation and amortization                              | 113,102  | 10,593   |
| Impairment loss  | 321,466  | —  |
| Loss (gain) on valuation of investment securities          | 113,999  | —  |
| Decrease (increase) in notes and accounts receivable-trade | (1,366)  | 3,228  |
| Decrease (increase) in inventories                         | 6,801  | 495  |
| Increase (decrease) in notes and accounts payable-trade    | (7,467)  | 5,072  |
| Increase (decrease) in unearned revenue                    | (27,031)   | —  |
| Increase (decrease) in accounts payable-other              | (22,998)   | 35,128   |
| Increase (decrease) in accrued expenses                    | (15,373)   | 201  |
| Other, net   | 70,026   | (43,743)   |
| Subtotal   | (950,120)  | (869,173)  |
| Interest income received                                   | 5,443  | 35   |
| Interest expenses paid                                     | (483)  | (185)  |
| Proceeds from subsidy income                               | 4,007  | 4,477  |
| Extra retirement payments                                  | (24,800)   | —  |
| Income taxes paid  | (4,294)  | (2,420)  |
| Income taxes refund  | 342  | 65   |
| Net cash used in operating activities                      | (969,906)  | (867,201)  |
| Cash flows from investing activities                       |  |  |
| Purchase of securities                                     | (300,568)  | —  |
| Proceeds from redemption of securities                     | 2,300,000  | —  |
| Purchase of property and equipment                         | (10,455)   | (4,975)  |
| Proceeds from sales of property and equipment              | —  | 2,051  |
| Purchase of intangible assets                              | (500)  | —  |
| Purchase of investment securities                          | —  | (150,000)  |
| Payments for asset retirement obligations                  | —  | (8,700)  |
| Proceeds from collection of lease and guarantee deposits   | —  | 24,510   |
| Other, net   | 150  | —  |
| Net cash provided by (used in) investing activities        | 1,988,626  | (137,113)  |
| Cash flows from financing activities                       |  |  |
| Repayments of long-term loans payable                      | (45,837)   | (50,004)   |
| Proceeds from issuance of common shares                    | 1,461,435  | 528,607  |
| Proceeds from issuance of subscription rights to shares    | 18,233   | —  |
| Net cash provided by financing activities                  | 1,433,831  | 478,603  |
| Net increase (decrease) in cash and cash equivalents       | 2,452,551  | (525,711)  |
| Cash and cash equivalents as of the beginning of the year  | 2,100,626  | 4,553,178  |
| Cash and cash equivalents as of the end of the year        | 4,553,178  | 4,027,466  |

(5) Notes to Financial Statements

(Notes regarding going concern assumptions)

No item to report.

(Equity in earnings or losses)

Not applicable as Chiome does not have non-consolidated subsidiaries and affiliates.

(Segment information)

i. Overview of reportable segments

The business segments for reporting purposes are the business units for which Chiome is able to obtain respective financial information separately in order for its Board of Directors to conduct periodic assessments and reviews to determine the proper allocation of management resources and to evaluate business results.

With the major business territory focused on the antibody research phase, covering investigation research, research for drug discovery, and early clinical development, Chiome puts forward comprehensive global strategies and runs business activities.

Every facet of Chiome's business development activities is based on its drug discovery platform technology ADLib® system and multiple antibody generation technologies and Chiome has two reportable segments, Drug Discovery and Development and Drug Discovery Support, centered on the technology for drug discovery ADLib® system. Under its Drug Discovery and Development business, Chiome produces specific antibodies based on new antigens and mechanisms for the purpose of out-licensing to pharmaceutical companies. Under its Drug Discovery Support Business, Chiome generates lead antibodies for the purpose of developing therapeutic drugs partnering with domestic and international pharmaceutical companies.

ii. Method for computing the amounts of operating revenue, income or loss, assets, and liabilities as well as other items for reportable segments:

The accounting method for reportable segments is pursuant to the accounting policies adopted for the preparation of financial statements."

Chiome records selling, general and administrative expenses, including research and development expenses for running business. Because these expenses are recognized as costs associated with all business segments, they are posted without allocations to particular reportable segments. Accordingly, earnings on each reportable segment reflect the numerical values of total sales.

- iii. Information relating to the amounts of operating revenue, income or loss, assets, and liabilities as well as other items for reportable segments:

The Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)

(Thousands of yen)

|  | Reportable Segments                           |                                    | Total   | Adjustments<br>(Note 1) | Amount Recorded<br>on the Balance<br>Sheet<br>(Note 2) |
|--|---|------------------------------------|---------|-------------------------|--|
|  | Drug Discovery<br>and Development<br>Business | Drug Discovery<br>Support Business |         |                         |  |
| Operating revenue                                  |   |                                    |         |                         |  |
| External customer<br>operating revenue             | 27,414  | 224,800                            | 252,215 | —                       | 252,215  |
| Intersegment<br>operating revenue<br>and transfers | —   | —                                  | —       | —                       | —  |
| Total  | 27,414  | 224,800                            | 252,215 | —                       | 252,215  |
| Segment income (loss)                              | 20,184  | 94,232                             | 114,417 | (1,156,774)             | (1,042,357)  |
| Segment assets                                     | —   | —                                  | —       | 4,789,153               | 4,789,153  |
| Others   |   |                                    |         |                         |  |
| Impairment loss                                    | —   | —                                  | —       | 321,466                 | 321,466  |

Notes:

- Details regarding adjustments are presented as follows:
  - Adjustments to segment income (loss) are mainly research and development expenses which do not belong to segment as well as selling, general and administrative expenses that relate to areas other than research and development.
  - Segment assets are not allocated between segments because all assets of the Company are unified in their generation of cash flows and apply to the technology for drug discovery ADLib® system and multiple antibody generation technologies. Accordingly, the amount of total assets recorded on the balance sheet and the amount of impairment loss on the statements of income is presented as the adjustment balance.
- The total amount of segment income (loss) is reconciled with operating loss recorded in the statement of income.

The Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)

(Thousands of yen)

|  | Reportable Segments                           |                                    | Total   | Adjustments<br>(Note 1) | Amount Recorded<br>on the Balance<br>Sheet<br>(Note 2) |
|--|---|------------------------------------|---------|-------------------------|--|
|  | Drug Discovery<br>and Development<br>Business | Drug Discovery<br>Support Business |         |                         |  |
| Operating revenue                                  |   |                                    |         |                         |  |
| External customer<br>operating revenue             | 59,561  | 200,334                            | 259,895 | —                       | 259,895  |
| Intersegment<br>operating revenue<br>and transfers | —   | —                                  | —       | —                       | —  |
| Total  | 59,561  | 200,334                            | 259,895 | —                       | 259,895  |
| Segment income (loss)                              | 57,006  | 117,407                            | 174,414 | (1,062,282)             | (887,868)  |
| Segment assets                                     | —   | —                                  | —       | 4,419,465               | 4,419,465  |
| Others   |   |                                    |         |                         |  |
| Impairment loss                                    | —   | —                                  | —       | —                       | —  |

Notes:

1. Details regarding adjustments are presented as follows:

- (1) Adjustments to segment income (loss) are mainly research and development expenses which do not belong to segment as well as selling, general and administrative expenses that relate to areas other than research and development.
- (2) Segment assets are not allocated between segments because all assets of the Company are unified in their generation of cash flows and apply to the technology for drug discovery ADLib® system and multiple antibody generation technologies. Accordingly, the amount of total assets recorded on the balance sheet is presented as the adjustment balance.

2. The total amount of segment income (loss) is reconciled with operating loss recorded in the statement of income.



(Per share information)

(Yen)

|                      | Fiscal Year<br>Ended Dec. 31, 2016<br>(Jan. 1, 2016 to<br>Dec. 31, 2016) | Fiscal Year<br>Ended Dec. 31, 2017<br>(Jan. 1, 2017 to<br>Dec. 31, 2017) |
|----------------------|--|--|
| Net assets per share | 177.87   | 156.15   |
| Net loss per share   | (65.91)  | (33.48)  |

Notes:

- Details regarding diluted net income per share are not provided despite the existence of shares with the potential to have a dilutive effect. This is because of the net loss for the period.
- The basis for calculations are presented as follows:
  - Net assets per share

(Thousands of yen unless otherwise stated)

|  | Fiscal Year<br>Ended Dec. 31, 2016<br>(Jan. 1, 2016 to<br>Dec. 31, 2016) | Fiscal Year<br>Ended Dec. 31, 2017<br>(Jan. 1, 2017 to<br>Dec. 31, 2017) |
|--|--|--|
| Total net assets   | 4,565,078  | 4,217,574  |
| Amount deducted from total net assets  | 37,368   | 35,645   |
| (New subscription rights to shares)  | (37,368)   | (35,645)   |
| Net assets allocated to capital stock  | 4,527,709  | 4,181,929  |
| Number of shares of capital stock used to<br>calculate net assets per share (shares) | 25,455,354   | 26,781,354   |

- Net loss per share

(Thousands of yen unless otherwise stated)

|  | Fiscal Year<br>Ended Dec. 31, 2016<br>(Jan. 1, 2015 to<br>Dec. 31, 2016)                                     | Fiscal Year<br>Ended Dec. 31, 2017<br>(Jan. 1, 2017 to<br>Dec. 31, 2017)                                     |
|--|--|--|
| Net loss   | (1,491,162)  | (882,570)  |
| Amount not attributable to shareholders<br>of capital stock  | —  | —  |
| Net loss allocated to capital stock  | (1,491,162)  | (882,570)  |
| Average number of shares for the period<br>(shares)  | 22,625,200   | 26,358,221   |
| Details of dilutive shares not included in<br>calculations relating to net income per<br>diluted share because there was no<br>dilutive effect | New subscription<br>rights to shares: 7<br>types<br>Number of new<br>subscription rights<br>to shares: 4,369 | New subscription<br>rights to shares: 5<br>types<br>Number of new<br>subscription rights<br>to shares: 1,985 |

(Important subsequent events)  
Not applicable.