CARNA BIOSCIENCES

Consolidated Financial Results for the Year Ended December 31, 2015

[Japanese GAAP]

February 12, 2016

Company name: Carna Biosciences, Inc. Stock Exchange listing: Tokyo Stock Exchange(JASDAQ Growth)
Stock code: 4572 URL: http://www.carnabio.com/english/
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Scheduled date of Annual General Shareholders' Meeting: March 24, 2016
Scheduled date of dividend payment : -
Scheduled date of Annual Securities Report filing: March 25, 2016
Supplementary materials for financial results: Yes
Financial results briefing: Yes (for institutional investors and analysts)

(Rounded down to the nearest million yen)

1. Consolidated Financial Results for FY2015 (from January 1, 2015 to December 31, 2015)

(1) Consolidated operating results (Percentages show changes from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2015	1,569	156.5	472	-	492	-	456	-
FY2014	611	(20.7)	(634)	-	(607)	-	(846)	-

Note: Comprehensive income FY2015: 488 million yen (-%) FY2014: (814) million yen (-%)

	Net income per share	Diluted net income per share	Return on equity	Return on assets	Operating income to net sales
	Yen	Yen	%	%	%
FY2015	52.61	50.05	34.0	27.7	30.1
FY2014	(102.18)	-	(70.3)	(39.0)	(103.8)

Reference: Equity in earnings (losses) of associates FY2015: - FY2014: -

(2) Consolidated financial position

	Total assets	Net assets	Shareholder' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Dec. 31, 2015	2,337	1,870	79.7	208.78
As of Dec. 31, 2014	1,221	830	67.2	98.69

Reference: Shareholders' equity As of Dec. 31, 2015:1,862 million yen As of Dec. 31, 2014: 820 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the fiscal year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2015	401	(3)	602	1,624
FY2014	(468)	(41)	66	626

2. Dividends

	Dividend per share					Total cash dividends	Dividend payout ratio (consolidated)	Dividends on equity (consolidated)
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2014	-	0.00	-	0.00	0.00	-	-	-
FY2015	-	0.00	-	0.00	0.00	-	-	-
FY2016 (Forecast)	-	0.00	-	0.00	0.00		-	

3. Consolidated Financial Forecast for FY2016 (January 1, 2016 to December 31, 2016)

The Group has not announced its consolidated financial forecast for FY2016 as disclosure of earnings estimate for the Drug Discovery and Development business may inhibit out-licensing activities of this business, preventing maximization of value. Therefore, the Group discloses a forecast for the Drug Discovery Support business only (see 1. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results, 2) Outlook for FY2016" on page 4 of the accompanying materials).

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in the scope of consolidation): None

(2) Changes in accounting policies, accounting estimates and restatements

1) Changes in accounting policies due to revisions in accounting standards, etc.: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

(3) Number of shares outstanding (common stock)

1) Number of shares outstanding at the end of the period (including treasury stock)

As of Dec. 31, 2015:	8,892,700 shares	As of Dec. 31, 2014:	8,318,100 shares

2) Number of treasury stock at the end of the period

As of Dec. 31, 2015:	- shares	As of Dec. 31, 2014:	- shares

3) Average number of shares outstanding during the period

FY2015:	8,675,111 shares	FY2014:	8,286,592 shares

Reference: Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for FY 2015 (from January 1, 2015 to December 31, 2015)

(1) Non-consolidated operating results (Percentages show changes from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2015	1,469	182.2	455	-	476	-	440	-
FY2014	520	(25.6)	(546)	-	(517)	-	(869)	-

	Net income per share	Diluted net income per share
	Yen	Yen
FY2015	50.81	48.34
FY2014	(104.94)	-

(2) Non-consolidated financial position

	Total assets	Net assets	Shareholder’ equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Dec. 31, 2015	2,322	1,863	79.9	208.04
As of Dec. 31, 2014	1,222	838	67.8	99.68

Reference: Shareholders’ equity As of Dec. 31, 2015: 1,856 million yen As of Dec. 31, 2014: 829 million yen

* Implementation of audit procedures

This financial report is exempt from audit procedures under the Financial Instruments and Exchange Act. As of the date of this financial statement, audit procedure for financial statements under the Financial Instruments and Exchange Act had not been completed.

* Note to ensure appropriate use of forecasts and other remarks

The forecasts and other forward-looking statements included in this document are based on the information currently available to the management and certain assumptions considered by the management to be reasonable. Actual operating results may differ materially from these statements for various factors. For details of the assumptions used in the forecast of financial results and a cautionary note concerning appropriate use, please refer to “1. Analysis of Operating Results and Financial Position” on pages 3-11.

Contents

1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

1) Summary of 2015

In 2015, the global economy remained stagnant as the growth of emerging markets including China slowed markedly while consumer spending and housing investment in the U.S. remained robust and Europe was in a moderate recovery phase. The Japanese economy was continuing to recover moderately thanks to yen depreciation and decline in oil price. On the other hand, the outlook remained unclear as capital expenditure and consumer spending slowed.

In the pharmaceutical industry, mega pharma companies are actively in-licensing pipelines from biotech companies to develop next-generation blockbuster drugs while major drugs are being replaced by generic drugs due to patent expiry and “Open Innovation” is becoming mainstream of drug discovery. In Japan, the Japan Agency for Medical Research and Development (AMED) was established to combine wisdom of medical and pharmaceutical sectors, which is expected to boost the creation of breakthrough results.

In an effort to strengthening its drug discovery platform technologies involving kinase inhibitors, the Group, in the Drug Discovery and Development business, out-licensed drug candidate compounds for autoimmune diseases to Janssen Biotech, Inc., one of the Janssen Pharmaceutical companies of Johnson & Johnson. In the Drug Discovery Support business, the Group has worked to deepen the relationship with the existing customers, such as concluding a large-scale screening project contract with Ono Pharmaceuticals Co., Ltd., and to build business with new customers, while strengthening new product and service development and technical support of customers, aiming at sales expansion.

As a result, net sales for the fiscal year ended December 2015 increased 156.5% compared to the previous fiscal year to a record 1,569 million yen. By region, sales in Japan increased 90.3% to 584 million yen and overseas sales increased 223.4% to 984 million yen. Thanks to the significant increase in sales, the Group has become profitable for the first time since its establishment with operating income of 472 million yen (compared with an operating loss of 634 million yen in the previous fiscal year). The group posted ordinary income of 492 million yen (compared with an ordinary loss of 607 million yen in the previous fiscal year) and net income of 456 million yen (compared with a net loss of 846 million yen in the previous fiscal year).

<Operating Results by Business Segment>

(a) Drug Discovery Support business

By providing kinase proteins, assay development, profiling and screening services, and cell-based assay services, sales of the Drug Discovery Support business increased 56.0% year-on-year to 954 million yen and operating income increased 720.4% to 412 million yen.

By region, the Group posted sales of 584 million yen in Japan (90.3% year-on-year increase), 258 million yen in North America (33.8% year-on-year increase), 86 million yen in Europe (11.2% year-on year decrease), and 24 million yen in other regions (76.4% year-on-year increase). In Japan, sales from a large-scale screening service to Ono Pharmaceutical Co., Ltd that entered into the contract in February 2015 and other factors contributed to the significant increase in sales. In North America, sales were boosted by strong sales of kinase proteins and profiling and screening services. The significant improvement in segment operating income was due to sales growth of overall segment and a significant improvement in productivity as a result of increased sales in profiling and screening services.

(b) Drug Discovery and Development business

In June 2015, the Company succeeded in out-licensing its in-house developed drug candidate compounds to Janssen Biotech, Inc. (Janssen), one of the Janssen Pharmaceutical companies of Johnson & Johnson, and received an initial payment. Out-licensing activities for other drug discovery programs and other R&D activities including pre-clinical trials are also under way. As a result, the Drug Discovery and Development business posted sales of 614 million yen (no sales posted in the previous fiscal year) and operating income of 60 million yen (compared with an operating loss of 685 million yen in the previous fiscal year).

<Research and Development>

In the Drug Discovery and Development business, the Group has conducted drug discovery research and development of oral molecular targeted drugs targeting kinase proteins, while strengthening its drug discovery platform technologies needed to create kinase inhibitor drugs. At the same time, in the Drug Discovery Support business, the Group continued research and development activities in order to provide products and services that satisfy the needs of pharmaceutical companies.

In FY2015, the Group spent 417 million yen on R&D (down 25.7% from FY2014). Major R&D activities in FY2015 are as follows.

<Drug Discovery and Development business>

The Company's drug discovery activities are focused on cancer and autoinflammatory diseases. Currently, two of its discovery programs are in the pre-clinical trial stage. TNIK inhibitor program (NCB-0846), a joint research with the National Cancer Center, was selected by the Department of Innovative Drug Discovery and Development of AMED as a grant program for the Project of Drug Discovery and Development and pre-clinical trials are being conducted led by AMED together with the National Cancer Center. The Company is also conducting a joint research with the National Cancer Center on backup compounds (NCB-0594) of NCB-0846, aiming to advance the program to the pre-clinical trial stage. In addition, CDC7 kinase inhibitor program (AS-141), the Company's proprietary program, is in the pre-clinical trial stage, utilizing an outsourcing contractor. Furthermore, the Company started a joint drug discovery research with Hiroshima University, targeting leukemic stem cells. The joint research is in the early drug discovery stage, currently focusing on lead compound optimization. Other programs are in the exploratory research phase to discover candidate compounds for pre-clinical trials. Drug discovery research is underway in other therapeutic areas as well, on promising target kinases identified, in order to establish a foundation for next-generation research programs.

The Company aims to discover drug candidate compounds with new and breakthrough characteristic by focusing on the drug discovery research of kinase inhibitors and by strengthening its drug discovery platform technologies through its proprietary research activities and joint research with partners.
Research and development expenses of this business were 403 million yen in FY2015.

<Drug Discovery Support business>

The main R&D objectives of the Drug Discovery Support business are to improve the quality of kinase proteins as well as to improve the operation efficiency of profiling and screening services. Receiving positive feedbacks from customers for the quality of its kinase proteins, the Company is conducting research and development to earn higher confidence of its customers. The Company is also working on the development of new assay systems based on the current technology and profiling services having higher throughput.
Research and development expenses of this business were 13 million yen in FY2015.

2) Outlook for FY2016

In order to improve the success rate of drug discovery and to reduce the time spent on research, the Company invests its resources intensively on the most promising research programs. In the core therapeutic area of oncology, the Company is strengthening pharmacology infrastructure, including evaluation platform for various cancer cells and animal model of cancer, to assess compounds' efficacy on cancer stem cells. Thanks to these efforts, NCB-

0846, compounds targeting TNIK kinase that discovered through joint research with the National Cancer Center, has been selected for funding from the drug discovery booster grant program of AMED. The National Cancer Center and AMED are conducting pre-clinical trials of NCB-0846, which has a potential of advancing to the clinical trial phase promptly. The Company plans to carry out the further joint research with Hiroshima University on the new drug discovery program targeting leukemic stem cells, aiming to discover an innovative new drug. Pre-clinical trials of the CDC7 kinase inhibitor (AS-141) will be accelerated so that it will be successfully out-licensed as soon as possible. Moreover, the Company is seeking to advance its early-stage autoimmune program to the next phase as fast as possible. Other research programs for next-generation research targets include a new joint research program with the Kitasato Institute for Life Sciences targeting malaria, which was selected by the Japan Science and Technology Agency (JST) as a granted program (A-STEP), for which optimization studies on lead compounds are under way.

In the Drug Discovery Support business, the Company’s target is to increase its market shares in the United States and Europe. In order to create new sources of demand, the Company is further committed to providing technical support and building stronger ties with customers. Furthermore, on top of sales to research groups studying cancer, which account for a large share of sales, the Company seeks to increase sales to research groups studying autoimmune diseases, central nervous system disorders, and other diseases. In addition, the Company aims to acquire customized orders and high-volume orders.

Based on this outlook, in FY2016, sales of the Drug Discovery Support business are expected to decrease by 10.0% from the previous fiscal year to 858 million yen and operating income is expected to decrease by 22.4% from the previous fiscal year to 320 million yen. The Company is not announcing earnings forecasts for the Drug Discovery and Development business because disclosing such information could inhibit out-licensing activities of this business, preventing maximization of value. Accordingly, consolidated earnings forecasts are not disclosed.

(2) Analysis of Financial Position

1) Assets, Liabilities and Net Assets

At the end of FY2015, total assets increased 1,116 million yen from the end of previous fiscal year to 2,337 million yen, mainly due to increases of 998 million yen in cash and deposits, 96 million yen in accounts receivable-trade, and 45 million yen in investment securities.

Total liabilities increased 75 million yen to 467 million yen. This is mainly because the current portion of long-term loans payable increased by 26 million yen, income taxes payable by 31 million yen, and long-term loans payable by 26 million yen while accounts payable-other decreased by 38 million yen.

Net assets increased 1,040 million yen to 1,870 million yen. This is mainly because of an increase of 547 million yen in capital stock and capital surplus due to issuance of shares resulting from exercise of subscription rights to shares and an increase in retained earnings owning to net income of 456 million yen.

Shareholders’ equity ratio was 79.7% (compared with 67.2% at the end of the previous fiscal year).

2) Cash Flows

Cash and cash equivalents (net cash) at the end of FY2015 totaled 1,624 million yen, an increase of 998 million yen from the end of the previous fiscal year. There was a net cash inflow of 401 million yen from operating activities, net cash outflow of 3 million yen from investing activities, and net cash inflow of 602 million yen from financing activities.

(Cash flows from operating activities)

Net cash inflow from operating activities totaled 401 million yen (compared to net cash outflow of 468 million yen in the previous fiscal year). This is mainly the result of income before income taxes and minority interests of 486 million yen, an increase in notes and accounts receivable-trade of 96 million yen, a decrease in accounts payable-other of 46 million yen, and depreciation of 19 million yen.

(Cash flows from investing activities)

Net cash outflow from investing activities totaled 3 million yen (compared to net cash outflow of 41 million yen in the previous fiscal year), mainly attributable to payment of 2 million yen for purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash inflow from financing activities totaled 602 million yen (net cash inflow of 66 million yen in the previous fiscal year). This was mainly due to proceeds of 543 million yen from issuance of shares resulting from exercise of subscription rights to shares.

Reference: Cash flow indicators

	FY2011	FY2012	FY2013	FY2014	FY2015
Shareholders' equity ratio (%)	77.4	78.9	84.1	67.2	79.7
Shareholder's equity ratio on a market value basis (%)	133.5	148.6	324.7	513.5	1,035.5
Interest-bearing debt to cash flow ratio (%)	-	-	-	-	53.2
Interest coverage ratio (Times)	-	-	-	-	17,555.6

Shareholders' equity ratio: Shareholders' equity / Total assets
Shareholder's equity ratio on a market value basis: Market capitalization / Total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt / Operating cash flow
Interest coverage ratio: Operating cash flow / Interest payments

Notes:
1. All indicators are calculated based on consolidated figures.
2. Market capitalization is calculated by multiplying the closing share price at the end of the period by the number of shares outstanding at the end of the period, excluding treasury shares.
3. Figures for interest-bearing debt to cash flow ratio for fiscal years from 2011 to 2014 are not presented because operating cash flows were negative.
4. Operating cash flows are calculated using the figures for operating cash flows in the consolidated statement of cash flows. Interest-bearing debt includes all liabilities on the consolidated balance sheet that incur interest. Interest payments are calculated using the figures for interest expenses in the consolidated statement of income.
5. Interest coverage ratios for fiscal years from 2011 to 2014 are not presented because operating cash flows were negative.

(3) Profit Distribution Policy and Dividend for FY2015 and FY2016

The basic policy for profit distribution is to pay a year-end dividend and, based on the results of operations, an interim dividend. However, no dividend has been paid since the Company was established because retained earnings are negative. No dividend payment is planned for FY2015.

The Group has made large amount of upfront investment on drug discovery research and development of drug discovery platform technologies. To build a stronger base of operations and enhance corporate value, the Group will continue to invest in R&D programs aggressively. Since the Company is fully aware of the importance of profit distribution to shareholders, dividend payment will be considered in the future based on the results of operations and financial condition.

(4) Business Risks

This section explains the potential operational risk factors for the Group. In order to provide investors information potentially important for investment decisions proactively, this section also includes items that the Company does not consider as significant operational risks. Recognizing the potential risks, the Group plans to take actions to prevent these risks and to address such risks in case they occur. However, investors should take risks described in this section and other risks not included in this section into consideration before making decision to invest in the Company's shares.

Forward-looking statements included in this section are based on the Group's judgments as of the submission date of this document. Actual performance may differ from these statements due to uncertainties.

1) Risks associated with the Group's business activities

i) Drug Discovery Support business

a. Risks related to specializing in products and services for kinase inhibitor research

The main business of the Drug Discovery Support business is to provide products and services associated with kinase proteins. A potential decline in the number of pharmaceutical companies and biotech companies that research and develop kinase inhibitors may force the Group to change management direction and may affect the Group's business performance. In addition, if the outsourcing market for kinase inhibitors research of pharmaceutical companies and biotech companies does not expand as expected, the Group's business performance may be affected.

b. Risks related to ProbeX business

ProbeX, a wholly owned subsidiary of the Company, is mainly engaged in development and provisioning of stable cell lines that applies split luciferase technology associated with GPCR inhibitors research and other fields. If ProbeX is unable to develop and sell stable cell lines and other products as planned, the Group's business performance may be affected.

c. Risks related to competition

If competitors enhance the types of kinase proteins they offer, the types of kinase proteins offered solely by the Group may be reduced or be lost. In addition, price competition may intensify if more competitors enter this market. Furthermore, the Group's competitive advantage may be deteriorated if competitors lead the Company in offering innovative technologies. These competitions may affect the Group's business performance.

d. Risks related to influences from business partners and suppliers

In order to create synergy effects of alliance, the Group and its partners are required to complement technologies of each other. Therefore, a significant difference in the progress of technical development between the Group and the partners may cause a delay in development of the Group's products and services, which may affect the Group's business performance. In addition, if the Group is unable to operate LabChip® EZ Reader stably, used to provide profiling services, or face difficulties in purchasing its chips due to a potential change in management policy of PerkinElmer, the manufacturer of the screening instrument, the Group's business performance may be affected.

e. Risks related to the fact that the primary customers are the research divisions of pharmaceutical companies

The primary customers of the Group are the research divisions of pharmaceutical companies that do not disclose drug discovery activities for their high confidentiality and uncertainties. For example, their research focus may be dramatically altered depending on the progress of research activities. If the Group is unable to receive orders as expected due to issues involving the progress of customers' projects, the Group's business performance may be affected. Pharmaceutical companies in North America and Europe generally have more research programs than Japanese pharmaceutical companies do. As a result, while the market size of Europe and North America is large, there may be significant changes in the activities of individual pharmaceutical companies, which may affect the Group's business performance.

f. Risks related to the Drug Discovery Support business in overseas

In North America, CarnaBio USA, a U.S. subsidiary of the Company, is in charge of sales activities. In other regions, the Group's products are distributed mainly by sales agencies or agents. If the overseas sales agents fail to operate efficiently, the Group's business performance may be affected.

g. Risks from relying on products and services of alliance partners

As an agent of alliance partners, the Group provides the products and services of CRELUX of Germany, Advanced Cellular Dynamics, Cell Assay Innovations of the United States, and Netherlands Translational Research Center in designated regions. If the Group is no longer able to sell any of these products or services due to the change in alliance relationships with the Group or other reasons, the Group’s business performance may be affected.

ii) Drug Discovery and Development business

a. Risks related to out-licensed candidate compounds for kinase inhibitors
In some cases, kinase inhibitor candidate compounds of the Company may be out-licensed to other companies earlier than initially planned. For example, despite the initial plan to license compounds at the phase IIa clinical trial stage, the licensing agreement may instead be signed at the pre-clinical or phase I clinical trial stage. In such cases, an initial payment received when the licensing agreement is signed may become smaller than originally expected. In addition, if the Company is unable to conclude a license agreement with a pharmaceutical company in the terms and conditions originally expected due to differences in requirements, the earnings of the Group may be affected.

b. Risks related to out-licensing schedule in the Drug Discovery and Development business
Out-licensing negotiations of the Company’s kinase inhibitor candidate compounds with pharmaceutical companies and biotech companies may be delayed due to the changes in management policy, R&D or other policies of the negotiating partners. In addition, negotiating partners may value the Company’s kinase inhibiter candidate compounds lower than the expectation of the Company, which may affect schedule or the success of the out-licensing agreement.

c. Risks related to engaging both Drug Discovery Support business and Drug Discovery and Development business
The Group is engaged in the Drug Discovery Support business and Drug Discovery and Development business at the same time. The Group allocates the fund generated from the Drug Discovery Support business to the upfront investment in the Drug Discovery and Development business. If sales and earnings from the Drug Discovery Support business fall short of plans, the Group may need to change its policy on the Drug Discovery and Development business, which may affect the Group’s business performance.

d. Risks related to out-licensed compounds or drug candidates
After the Company licenses out compounds or drug candidates to a large pharmaceutical company or biotech company, the licensee company mainly performs the subsequent drug development. The Company receives milestone payments from the licensee company according to the progress of the development. After successful launch of the drug, the Company also receives royalty income based on the sales of the drug. If the licensee company changes the development schedule or suspends the development, the earnings of the Group may be affected.

2) Risks associated with R&D activities

i) Risks related to R&D progress and joint research with universities, public research institutes, companies and other partners

If R&D activities of the Drug Discovery Support business and Drug Discovery and Development business do not progress as planned, the Group’s business policies and business performance may be affected. Also, if R&D of joint research partners, universities, public research institutes, pharmaceutical companies, and other partners do not progress as planned, or if joint R&D contracts are suspended or terminated for some reason, the Group’s business policies and business performance may be affected.

ii) Risks related to advisory contracts with universities and public research institutes

The Group has entered into advisory contracts with research scientists (professors and others) at universities to receive advice concerning R&D programs. Because these professors and others concurrently serve as research advisers at the Group, the Group will strictly comply with laws and regulations in order to prevent conflicts of interest. The Group plans to continue such advisory contracts with professors and others. However, if any of these contracts are cancelled because of a revision to a law or regulation or any other event, the Group will no longer be able to receive advice and other support from these advisers. Such event may negatively affect the Group’s business activities.

3) Price volatility risk of CrystalGenomics’ stock

The Group owns the stock of CrystalGenomics, Inc., a joint research partner of the Company. If CrystalGenomics goes bankrupt or the valuation of the stock declines significantly, the Group’s business performance and financial condition may be affected. Furthermore, since the investment in CrystalGenomics is in Korean won, a substantial fluctuation in the yen-won exchange rate may affect the Group’s business performance.

4) Risks associated with organization

i) Risks related to the human resources as a small organization

The Group conducts business activities with limited personnel resources and relies on the specialized knowledge, technologies and experiences of directors and employees. As a result, departure of directors and employees due to retirement or other reasons may affect the Group’s business activities. In addition, if the Group is unable to hire personnel as planned, the business may not expand as planned.

ii) Risks related to recruiting personnel needed for business expansion

Recruiting skilled personnel is critical to the development of the Group. If the Group is unable to hire personnel as planned, the business may not expand as planned.

5) Foreign currency risk

The Group generates substantial sales in overseas, which account for 62.7% of consolidated sales in FY2015. The Group has been expanding the Drug Discovery Support business and Drug Discovery and Development business targeting pharmaceutical companies not only in Japan but also in North America, Europe and other regions. If sales are generated in foreign currencies, such as in U.S. dollars or euros, volatility in foreign exchange rates may affect the Group’s business performance.

6) Risks associated with intellectual property

i) Intellectual property risk in the Drug Discovery and Development business

Regarding compounds discovered by the Group, the Group may not be able to receive patents as expected if a third party had already filed for patent applications or due to some other reasons. Furthermore, if a third party files a patent infringement suit against the Group, business direction and business performance of the Group may be affected.

ii) Risks related to intellectual property in the Drug Discovery Support business

If the Group’s technical knowledges on kinase become outdated due to technological innovation or other reasons or if such knowledges are patented by a third party, technological competitiveness of the Group may be negatively affected and the performance of the Drug Discovery Support business may be affected.

iii) Litigation risk concerning patents

If a patented technology is included in kinase proteins, assay kits, profiling services, cell-based assay services and other products and services that the Drug Discovery Support business offers, the patent holder may file a patent infringement suit against the Group. In such cases, sales or provision of the products or the services may be suspended or the Group may be asked to pay a large amount of compensation.

7) Risks associated with technological innovation in the biotechnology industry

If the Group fails to keep up with rapid technological innovation in the field of biotechnology, the Group's technologies and other knowledge may become outdated. In addition, a large amount of investment on R&D expense and time is needed to seek technological advancement, which may affect the Group's business performance.

8) Risks associated with the regulatory environment (laws concerning genetically modified organisms)

The Act on the Conservation and Sustainable Use of Biological Diversity through Regulations on the Use of Living Modified Organisms was enacted in Japan in February 2004. The act applies to some of the Group's facilities because kinase proteins manufactured by the Company are genetically modified (recombinant) proteins. If the act is amended to tighten the regulations, the Group's business performance may be affected.

9) Other risk factors

i) Reliance on a particular supplier

Yashima Pure Chemicals Co., Ltd. has been supplying reagents, equipment, and other items that are used to provide kinase products and services and to conduct R&D programs in the Drug Discovery Support business and Drug Discovery and Development business. The Group has consistently maintained a sound relationship with Yashima Pure Chemicals since start of a business with the company, and plans to continue purchasing from the company. However, if stable supply from Yashima Pure Chemicals is halted due to a natural disaster or other unexpected events or due to a change in the company's management policies, the Group's business performance may be affected if the Group cannot secure alternate supplier promptly.

ii) Financing

Because the Group is aggressively promoting R&D programs in the Drug Discovery and Development business, securing funds to promote R&D is one of the management issues. Since initial public offering, the Company has raised funds through public offering, third party allotment of new shares and stock subscription rights, or through other ways. To strengthen its business infrastructure, the Company will review the needs for raising funds for R&D investment as necessary based on the business plan. However, if the Company cannot raise funds as planned when needed, the Group may be forced to change its business plan.

iii) Potential dilution of per share value due to exercise of subscription rights to shares

The Company has granted subscription rights to shares to executives, employees, and external contributors who supported the Group's business. The Company may continue to issue subscription rights to shares as a stock option in order to recruit skilled personnel, to motivate executives and employees to improve business performance, and to raise mid to long-term corporate value. In addition, as a way of raising funds, the Group may issue subscription rights to shares based on its financial strategy. If the existing subscription rights to shares or the subscription rights to shares issued in the future are exercised, the Company's per share value may be diluted. As of December 31, 2015, outstanding subscription rights to shares represented 899,400 shares of the Company, or 10.1% of the outstanding 8,892,700 shares at that time.

iv) Concentration of business operations

The head office and R&D operations of the Group are located at the Business Support Center for Biomedical Research Activities (BMA) on Port Island in the city of Kobe. Based on the lessons learned from the Great Hanshin-Awaji Earthquake in 1995, BMA, completed in 2004, is equipped with adequate quake resistance, fire prevention system, and emergency power generation system, with 24-hour security. All kinase genes, critical assets for the Group's business operations, are stored in two different rooms of BMA to ensure that they are not lost. Furthermore, equipment required for business operations is insured. The Group has an emergency internal communication system to minimize damage. However, if the head office and R&D operations are damaged simultaneously by a major earthquake, typhoon, flood or by other natural disasters, the Group’s financial results and financial condition may be seriously affected due to damage to the R&D equipment or stagnation of the business.

v) Impact of extended power outage on business schedule and products

If the Group is forced to suspend production and storage of kinase proteins and the evaluation equipment of compounds due to an extended power outage in Kobe, where the Group’s Drug Discovery Support business office, distribution center, and R&D facilities are located, production of kinase protein may be delayed and the Group’s business performance may be affected. There is also a possibility that an extended power outage shuts down the kinase protein storage freezers. As a result, the Group may not be able to ship the proteins to customers and the business may be affected. Furthermore, an extended power outage may halt the operation of compound evaluation equipment (measuring instruments, dispensing units, and other devices), resulting in a delay in delivery of products and services. Such cases may affect the Group’s business performance.

vi) Leakage of technologies

The technological information of the Group concerning kinase protein production and assay development may flow out to outsiders due to departure of employees. Such outflow may affect the development and manufacture of products. In addition, if knowledges of the Group flow out to outsiders due to employee’s departure to join a competitor, a counterfeit product may be distributed. If the Group is unable to maintain its competitive edge as a result, the Group’s financial results and financial condition may be affected.

vii) Leakage of confidential business information

The Drug Discovery Support business receives compounds from pharmaceutical companies and other customers in order to provide profiling and screening services. To prevent customers’ information from leaking, all employees of the Group are required to sign confidentiality agreements that include protection of information received from customers. Furthermore, employees resigning from the Group must sign confidentiality agreements as well. If confidential information is leaked despite of these preventive measures, the credibility of the Group may be harmed, which may negatively influence the Group’s business.

viii) Latent constraint on business due to engaging in drug discovery research and the Drug Discovery Support business

When the Group signs a profiling or screening service contract with a customer (a pharmaceutical company or other organization), the customer may have a concern on the Group’s ability to protect the confidentiality of the customer’s information because the Group is engaged in drug discovery research itself. If such concern leads to severe restrictions of the contract, the profitability of the Group’s services may be deteriorated. Furthermore, the Group may need to consider splitting the Group by business segment. In such cases, the Group’s financial results and financial condition may be affected.

2. Status of the Corporate Group

The Group consists of the Company, a subsidiary in Japan and a subsidiary in the United States. The Group is engaged in the Drug Discovery Support business and Drug Discovery and Development business targeting kinase proteins and the Drug Discovery Support business associated with stable cell lines applying split luciferase technology.

3. Management Policy

(1) Corporate Philosophy

The Group aims to contribute to better health of people as lifeguards through drug discovery activities. In addition, based on the trusting relationship with stakeholders, the Group strives to enhance corporate value by contributing to drug discovery.

(2) Target Management Indicators

In order to achieve sustainable growth and to expand revenue base, the Drug Discovery Support business, as a base business of the Group, sets sales growth and gross profit margin as important management indicators.

As to the Drug Discovery and Development business, monitoring the business performance using short-term management indicators is inappropriate since securing stable earnings from out-licensed drug candidate compounds requires time. The Company plans to announce a business plan, business results, and corporate value of this business segment when it is ready to disclose outlook for regulatory approval and marketing of out-licensed drug candidates, using management indicators such as ROE (Return on Equity) to focus on the efficient use of shareholders' equity.

(3) Mid- to Long-term Management Strategy

The Group aims to out-license new drug candidate compounds at early stages of clinical development and start clinical trials as early as possible and to increase operating income of the Drug Discovery Support business by expanding sales and improving productivity.

In the Drug Discovery and Development business, thanks to the license agreement with Janssen Biotech, one of the Janssen Pharmaceutical companies of Johnson & Johnson, the number of inquiries from pharmaceutical companies about its drug discovery pipeline has increased. The Group plans to continue out-licensing negotiations with these companies to maximize the value, and aims to out-license at an early stage. In R&D operations, the Group seeks to advance research programs to the next step as early as possible while developing new core technologies for creating innovative drugs. Based on these measures, the Group intends to enhance its pipeline for next-generation drug discovery research. Furthermore, the Group plans to establish an infrastructure to conduct clinical trials by in-house initiative.

In the Drug Discovery Support business, the Group aims at annual sales of 1 billion yen by increasing sales in Europe and North America and winning more orders for in-house protein products and large-scale screening services. Furthermore, the Group aims to enhance sales organization and distribution network, thereby deepening relationships with existing customers and gaining new customers.

The Group strives to increase corporate value by starting clinical trials as early as possible and out-licensing drug candidate compounds to pharmaceutical companies while allocating the revenue from the Drug Discovery Support business to R&D activity of the Drug Discovery and Development business.

(4) Issues to be Addressed

1) Issues to be addressed by the Group

Securing surplus sustainably

In FY2015, the Group recorded its first ordinary income since its establishment, achieving the highest-priority goal. The Group is aware that establishing a business foundation to generate ordinary income sustainably is an issue. In order to address the issue, the Drug Discovery Support business plans to increase profits by expanding sales while the Drug Discovery and Development business works to minimize a fluctuating factor by promoting R&D activities and out-licensing multiple programs.

2) Issues to be addressed by each business segment

i) R&D and drug discovery

(Drug Discovery and Development business)

As of the end of December 2015, the Group had two programs in the pre-clinical trial stage: AS-141 (CDC7 inhibitor) and NCB-0846 (TNIK inhibitor). Pre-clinical trials require efficacy evaluations of compounds and safety and toxicity evaluation of drugs. Furthermore, before start manufacturing active pharmaceutical ingredients, salts and polymorphism as well as production processes must be examined. The Group is performing such assessments and studies as quickly as possible, partnering with external organizations, and aims to start clinical trials as soon as possible. In addition, the Group is working to establish next-generation research targets by enhancing drug discovery platform technologies.

(Drug Discovery Support business)

The Group provides products and services produced from its drug discovery platform technologies involving kinase proteins to pharmaceutical companies and other customers in Japan, North America, Europe and other countries. In order to increase market share and the number of customers in this business, the Group needs to expand and improve the lineup of products and services to reflect customers' needs. The Group will identify precise customer's needs by focusing on the technical supported sales activities based on academic information, and strengthen customized products and services by utilizing the Group's accumulated technological expertise involving kinase protein production methods, assay platform, and other know-hows. Furthermore, developing new kinase products and creating new evaluation methods are critical targets of the Group.

By applying split luciferase technology, ProbeX, a subsidiary of the Company, is developing and improving stable cell lines that facilitate the real time visualization of protein-protein interactions. ProbeX aims for the profitability at an early stage and is reinforcing the platform technologies.

ii) Business development

Leveraging the track record of successful out-licensing to a mega pharma in FY2015, the Company is actively working to out-license other drug candidate compounds.
Furthermore, the Group will enhance new products and services based on its unique drug discovery platform technologies more aggressively. Building stronger ties with universities and other academic institutions is of importance for the Group's business.

iii) Development, manufacture and distribution of products and services

The Group will upgrade its quality management system and increase productivity for the purposes of responding to the diversifying needs of customers and improving quality further.

iv) Sales structure

Although the Drug Discovery Support business of the Group has a high market share in Japan, its shares in the U.S. and Europe, two major markets, are relatively low. The Group realizes that expanding its shares in the U.S. and Europe is an issue. One important approach is to reinforce ties with the current U.S. and European customers and to build relationship with new customers in these regions. The second important approach is to elicit new potential demand from customers and to strengthen the technical support in order to provide even better support to customers. The third important approach is to increase sales to research groups of autoimmune diseases, neurodegenerative disease, and other diseases since research groups of cancer field are accounting for a large share of its customers. The Group especially aims to enhance sales of the Drug Discovery Support business through aggressive promotion of proprietary products and services with higher profit margins. The Group also aims to winning orders for large-scale screening services to secure stable sales.

(5) Other Important Management Matters

Not applicable.

4. Basic Approach to the Selection of Accounting Standards

The Group has been preparing consolidated financial statements in accordance with Japan GAAP and continues to do so for the time being to allow historical and peer comparisons.
With regard to the application of IFRS (International Financial Reporting Standards), the Company plans take suitable actions considering domestic and international accounting circumstances.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

	FY2014 (As of Dec. 31, 2014)	FY2015 (As of Dec. 31, 2015)
Assets		
Current assets		
Cash and deposits	626,742	1,624,941
Accounts receivable-trade	95,313	191,740
Merchandise and finished goods	93,772	91,445
Work in process	8,167	7,459
Raw materials and supplies	17,261	26,415
Other	66,331	53,788
Total current assets	907,589	1,995,790
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	14,882	12,871
Machinery, equipment and vehicles, net	83	68
Tools, furniture and fixtures, net	37,538	24,311
Total property, plant and equipment	*1 52,505	*1 37,251
Intangible assets	2,193	1,451
Investments and other assets		
Investment securities	241,339	286,382
Other	17,818	16,733
Total investments and other assets	259,157	303,115
Total non-current assets	313,856	341,819
Total assets	1,221,446	2,337,609

(Thousands of yen)

	FY2014 (As of Dec. 31, 2014)	FY2015 (As of Dec. 31, 2015)
Liabilities		
Current liabilities		
Accounts payable-trade	4,343	15,466
Current portion of long-term loans payable	38,928	65,344
Accounts payable-other	107,707	69,531
Income taxes payable	7,073	38,767
Other	37,504	46,882
Total current liabilities	195,558	235,992
Non-current liabilities		
Long-term loans payable	121,948	148,273
Deferred tax liabilities	47,458	57,148
Asset retirement obligations	24,677	25,168
Other	1,575	525
Total non-current liabilities	195,659	231,115
Total liabilities	391,218	467,107
Net assets		
Shareholders’ equity		
Capital stock	2,627,070	2,900,784
Deposit for subscriptions to shares	-	5,946
Capital surplus	1,445,230	1,718,888
Retained earnings	(3,336,081)	(2,879,693)
Total shareholders’ equity	736,219	1,745,925
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	79,954	114,484
Deferred gains or losses on hedges	-	(1,696)
Foreign currency translation adjustment	4,764	3,848
Total accumulated other comprehensive income	84,718	116,637
Subscription rights to shares	9,289	7,940
Total net assets	830,227	1,870,502
Total liabilities and net assets	1,221,446	2,337,609

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Thousands of yen)

	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
Net sales	611,760	1,569,205
Cost of sales	*1 232,956	*1 269,594
Gross profit	378,803	1,299,611
Selling, general and administrative expenses	*2 1,013,753	*2 826,829
Operating income (loss)	(634,949)	472,781
Non-operating income		
Interest income	220	188
Subsidy income	24,800	29,240
Foreign exchange gains	4,473	-
Other	2,649	1,760
Total non-operating income	32,143	31,190
Non-operating expenses		
Interest expenses	2,313	2,287
Share issuance cost	342	2,452
Issuance cost of subscription rights to shares	-	1,674
Foreign exchange losses	-	4,576
Other	1,715	747
Total non-operating expenses	4,371	11,739
Ordinary income (loss)	(607,177)	492,233
Extraordinary income		
Gain on reversal of subscription rights to shares	-	2,282
Total extraordinary income	-	2,282
Extraordinary losses		
Impairment loss	*3 237,658	*3 8,425
Total extraordinary losses	237,658	8,425
Income (loss) before income taxes and minority interests	(844,836)	486,090
Income taxes-current	2,148	30,235
Income taxes-deferred	(267)	(533)
Total income taxes	1,880	29,701
Income (loss) before minority interests	(846,717)	456,388
Net income (loss)	(846,717)	456,388

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
Income (loss) before minority interests	(846,717)	456,388
Other comprehensive income		
Valuation difference on available-for-sale securities	31,066	34,530
Deferred gains or losses on hedges	-	(1,696)
Foreign currency translation adjustment	1,440	(915)
Total other comprehensive income	*1 32,507	*1 31,918
Comprehensive income	(814,210)	488,307
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(814,210)	488,307

(3) Consolidated Statement of Changes in Equity

FY2014 (Jan. 1 – Dec. 31, 2014)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Deposit for subscriptions to shares	Capital surplus	Retained earnings	Total shareholders' equity
Balance at beginning of current period	2,602,728	-	1,422,375	(2,489,364)	1,535,739
Changes of items during period					
Issuance of new shares-exercise of subscription rights to shares	24,342		22,854		47,197
Net income (loss)				(846,717)	(846,717)
Net changes of items other than shareholders' equity					
Total changes of items during period	24,342	-	22,854	(846,717)	(799,519)
Balance at end of current period	2,627,070	-	1,445,230	(3,336,081)	736,219

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	48,887	-	3,323	52,211	9,911	1,597,862
Changes of items during period						
Issuance of new shares-exercise of subscription rights to shares						47,197
Net income (loss)						(846,717)
Net changes of items other than shareholders' equity	31,066		1,440	32,507	(622)	31,884
Total changes of items during period	31,066	-	1,440	32,507	(622)	(767,634)
Balance at end of current period	79,954	-	4,764	84,718	9,289	830,227

FY2015 (Jan. 1 – Dec. 31, 2015)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Deposit for subscriptions to shares	Capital surplus	Retained earnings	Total shareholders' equity
Balance at beginning of current period	2,627,070	-	1,445,230	(3,336,081)	736,219
Changes of items during period					
Issuance of new shares-exercise of subscription rights to shares	273,713	5,946	273,657		553,317
Net income (loss)				456,388	456,388
Net changes of items other than shareholders' equity					
Total changes of items during period	273,713	5,946	273,657	456,388	1,009,705
Balance at end of current period	2,900,784	5,946	1,718,888	(2,879,693)	1,745,925

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	79,954	-	4,764	84,718	9,289	830,227
Changes of items during period						
Issuance of new shares-exercise of subscription rights to shares						553,317
Net income (loss)						456,388
Net changes of items other than shareholders' equity	34,530	(1,696)	(915)	31,918	(1,349)	30,569
Total changes of items during period	34,530	(1,696)	(915)	31,918	(1,349)	1,040,275
Balance at end of current period	114,484	(1,696)	3,848	116,637	7,940	1,870,502

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	(844,836)	486,090
Depreciation	31,211	19,219
Impairment loss	237,658	8,425
Amortization of goodwill	36,309	-
Interest income	(220)	(188)
Interest expenses	2,313	2,287
Foreign exchange losses (gains)	(8,249)	263
Subsidy income	(24,800)	(29,240)
Share issuance cost	342	2,452
Issuance cost of subscription rights to shares	-	1,674
Gain on reversal of subscription rights to shares	-	(2,282)
Decrease (increase) in notes and accounts receivable-trade	28,578	(96,028)
Decrease (increase) in inventories	315	(6,095)
Increase (decrease) in notes and accounts payable-trade	105	11,179
Increase (decrease) in accounts payable-other	56,565	(46,871)
Other, net	(14,554)	46,394
Subtotal	(499,260)	397,279
Interest income received	257	155
Interest expenses paid	(2,282)	(2,344)
Proceeds from subsidy income	36,112	8,692
Income taxes (paid) refund	(3,802)	(2,137)
Net cash provided by (used in) operating activities	(468,976)	401,645
Cash flows from investing activities		
Purchase of property, plant and equipment	(40,985)	(2,768)
Purchase of intangible assets	(865)	(232)
Other, net	24	-
Net cash provided by (used in) investing activities	(41,826)	(3,000)
Cash flows from financing activities		
Proceeds from long-term loans payable	100,000	100,000
Repayments of long-term loans payable	(79,658)	(47,259)
Proceeds from issuance of subscription rights to shares	-	6,265
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	46,232	543,932
Net cash provided by (used in) financing activities	66,574	602,938
Effect of exchange rate change on cash and cash equivalents	3,400	(3,385)
Net increase (decrease) in cash and cash equivalents	(440,827)	998,198
Cash and cash equivalents at beginning of period	1,067,570	626,742
Cash and cash equivalents at end of period	*1 626,742	*1 1,624,941

(5) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Basis for Preparing Consolidated Financial Statements)

1. Scope of consolidation

All subsidiaries are included in the consolidation.
Number of consolidated subsidiaries: 2
Names of consolidated subsidiaries:
CarnaBio USA, Inc.
ProbeX, Inc.

2. Fiscal year of consolidated subsidiaries

Fiscal years of each consolidated subsidiary coincide with the fiscal year of the consolidated fiscal year.

3. Accounting standards

(1) Valuation standards and methods for principal assets

1) Marketable securities
Available-for sale securities
Securities with market quotations
Market value method based on the market price of the fiscal year end (Available-for sale securities denominated in foreign currencies are translated into yen at the spot exchange rate of the fiscal year end. Foreign exchange gain or loss is recognized as valuation difference. Valuation difference is booked directly into net assets. Cost of securities sold is determined by the moving-average method.)
Securities without market quotations
Cost method based on the moving-average method

2) Inventories
Finished goods and work in process
Specific-identification cost method (Method in which book values are lowered based on declines in profitability.)

Raw materials
First-in first-out method (Method in which book values are lowered based on declines in profitability.)

Supplies
First-in first-out method (Method in which book values are lowered based on declines in profitability.)

(2) Depreciation and amortization of principal assets

1) Property, plant and equipment
Declining-balance method
Useful lives of principle assets are as follows:

Buildings and structures	3-38 years
Machinery, equipment and vehicles	2-11 years
Tools, furniture and fixtures:	2-15 years

2) Intangible assets
Straight-line method
Software for internal use is amortized over an expected useful life of three to five years.

(3) Accounting for significant deferred assets

Share issuance cost is accounted for as the full amount at the time of the expenditure.

(4) Recognition of significant allowances

Allowance for doubtful accounts
To prepare for credit losses on accounts receivable, allowances are provided based on the historical write-off rate for ordinary receivables, and the estimated amount of irrecoverable debt based on recoverability of the individual cases for

specified receivables such as doubtful accounts.

(5) Standard for translation of significant foreign currency-denominated assets and liabilities applied for the preparation of financial statements of consolidated companies

Foreign currency-denominated receivables and payables are translated into yen at the spot exchange rate in effect on the consolidated balance sheet date. Foreign exchange gain or loss is accounted for as profit or loss. Assets and liabilities of overseas subsidiaries are translated into yen at the spot exchange rate on the consolidated balance sheet date, and income and expenses at the average foreign exchange rate for the fiscal year. Foreign exchange gain or loss is included in the foreign currency translation adjustments in net assets.

(6) Significant hedge accounting methods

1) Hedge accounting method

The Company primarily applies the deferred hedge accounting method. Certain foreign currency forward contracts are subject to appropriated treatment if they satisfy the requirements of appropriated treatment.

2) Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts and foreign currency deposits
Hedged items: Accounts receivables and forecasted transactions denominated in foreign currencies

3) Hedging policy

Forward exchange contracts and foreign currency deposits are used to reduce exposure to foreign exchange volatility associated with significant accounts receivables and forecasted transactions denominated in foreign currencies.

4) Evaluation method for the effectiveness of hedges

The evaluation of hedge effectiveness is omitted since the terms of hedged items are substantially same as those of hedging instruments.

(7) Amortization method and amortization period of goodwill

Goodwill is amortized over a period of seven years based on the straight-line method.

(8) Scope of cash and cash equivalents on consolidated statement of cash flows

Cash and cash equivalents in the consolidated statement of cash flows consist of cash in hands, deposits that can be withdrawn on demand, and short-term investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are near maturity and that they present insignificant risk of change in value.

(9) Other important items for preparing consolidated financial statements

Accounting for consumption taxes
National and local consumption taxes are accounted based on the tax-exclusion method.

(Reclassifications)

Consolidated Statement of Income

“Guarantee commission” under “Non-operating expenses,” which was presented as a separate line item in FY2014, is included in “Other” in FY2015 since the amount is less than 10% of total non-operating expenses. The consolidated financial statements for the previous fiscal year are restated to conform to the presentation of the current fiscal year.

As a result, “Guarantee commission” (1,715 thousand yen) under “Non-operating expenses” shown in the consolidated statement of income for FY2014 is reclassified and included in “Other” (1,715 thousand yen).

(Notes to Consolidated Balance Sheet)

*1. (Thousands of yen)

	FY2014 (As of Dec. 31, 2014)	FY2015 (As of Dec. 31, 2015)
Accumulated depreciation of property, plant and equipment	598,066	624,369

The amounts of accumulated depreciation include accumulated impairment losses.

(Notes to Consolidated Statement of Income)

*1. Amount written down due to a decline in profitability of inventories held for regular sales purpose is as follows.

(Thousands of yen)

	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
Cost of sales	15,572	14,507

*2. Major items of selling, general and administrative expenses

(Thousands of yen)

	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
R&D expenses	561,433	417,249
Salaries and allowances	98,430	105,639
Commission fee	122,272	114,406
Amortization of goodwill	36,309	-

R&D expenses above are the total amount of R&D expenditures and the entire amount is included in general and administrative expenses.

*3. Impairment loss

The Group recognized an impairment loss on the following groups of assets.

FY2014 (Jan. 1 – Dec. 31, 2014)

Location	Use	Item
Carna Biosciences, Inc. (Chuo-ku, Kobe)	Drug Discovery and Development business	Tools, furniture and fixtures
ProbeX, Inc. (Chuo-ku, Kobe)	Drug Discovery Support business	Goodwill and patent rights

In principle, the grouping of assets is based on business segments.

In the Drug Discovery and Development business, recoverable value of assets used in this business was reduced to zero because the business had been generating negative operating cash flows consistently. An impairment loss of 692 thousand yen was recorded as an extraordinary loss due to write-off of entire book value of assets used in this business.

In the Drug Discovery Support business, a business plan of ProbeX, Inc., a consolidated subsidiary, was revised because the subsidiary was taking longer than expected time to become profitable. As a result, the recoverable value of goodwill associated with the subsidiary and non-current assets of the subsidiary was reduced to zero because the aggregate future cash flows at the subsidiary, before discounting to present value, turned out be lower than the book value. Therefore, an impairment loss of 236,966 thousand yen was recorded.

The impairment loss on tools, furniture and fixtures, goodwill, and patent rights were 692 thousand yen, 208,780 thousand yen, and 28,185 thousand yen, respectively.

FY2015 (Jan. 1 – Dec. 31, 2015)

Region	Use	Item
Carna Biosciences, Inc. (Chuo-ku, Kobe)	Drug Discovery and Development business	Tools, furniture and fixtures

In principle, the grouping of assets is based on business segments.

In the Drug Discovery and Development business, recoverable value of assets used in this business was reduced to zero because the future sales are unpredictable at this stage considering the nature of this business. As a result, an impairment loss of 8,425 thousand yen was recorded as an extraordinary loss.

The impairment loss on tools, furniture and fixtures was 8,425 thousand yen.

(Notes to Consolidated Statement of Comprehensive Income)

*1. Reclassification adjustments and tax effect with respect to other comprehensive income

(Thousands of yen)

	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
Valuation difference on available-for-sale securities		
Amount incurred during the year	48,251	44,754
Reclassification adjustments	-	-
Before tax effect adjustments	48,251	44,754
Tax effect	(17,185)	(10,223)
Valuation difference on available-for-sale securities	31,066	34,530
Deferred gains or losses on hedges		
Amount incurred during the year	-	(1,696)
Foreign currency translation adjustment		
Amount incurred during the year	1,440	(915)
Total other comprehensive income	32,507	31,918

(Notes to Consolidated Statement of Changes in Equity)

FY2014 (Jan. 1 – Dec. 31, 2014)

1. Types and number of outstanding shares (Shares)

Type	Number of shares as of Jan. 1, 2014	Increase	Decrease	Number of shares as of Dec. 31, 2014
Common stock	82,650	8,235,450	-	8,318,100

Outline of changes

Increase due to the stock split on January 1, 2014: 8,182,350 shares

Increase due to exercise of the 14th series of subscription rights to shares:46,100 shares

Increase due to exercise of stock options: 7,000 shares

2. Subscription rights to shares

Company name	Breakdown of subscription rights to shares	Type of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (Shares)				Balance as of Dec. 31, 2014 (Thousands of yen)
			Number of shares as of Jan. 1, 2014	Increase	Decrease	Number of shares as of Dec. 31, 2014	
The Company	The 13th series of subscription rights to shares	Common stock	7,090	701,910	-	709,000	2,282
	The 14th series of subscription rights to shares	Common stock	5,651	559,449	46,100	519,000	7,006
Total			12,741	1,261,359	46,100	1,228,000	9,289

Note: Outline of changes in the number of shares subject to subscription rights to shares

Increases in the 13th series and the 14th series of subscription rights to shares are due to the stock split on January 1, 2014.

Decrease in the 14th series of subscription rights to shares is due to the exercise of rights.

FY2015 (Jan. 1 – Dec. 31, 2015)

1. Types and number of outstanding shares (Shares)

Type	Number of shares as of Jan. 1, 2015	Increase	Decrease	Number of shares as of Dec. 31, 2015
Common stock	8,318,100	574,600	-	8,892,700

Outline of changes

Increase due to exercise of the 14th series of subscription rights to shares: 519,000 shares

Increase due to exercise of stock options: 55,600 shares

2. Subscription rights to shares

Company name	Breakdown of subscription rights to shares	Type of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (Shares)				Balance as of Dec. 31, 2015 (Thousands of yen)
			Number of shares as of Jan. 1, 2015	Increase	Decrease	Number of shares as of Dec. 31, 2015	
The Company	The 13th series of subscription rights to shares	Common stock	709,000	-	709,000	-	-
	The 14th series of subscription rights to shares	Common stock	519,000	-	519,000	-	-
	The 15th series of subscription rights to shares	Common stock	-	794,000	-	794,000	7,940
Total			1,228,000	794,000	1,228,000	794,000	7,940

Note: Outline of changes in the number of shares subject to subscription rights to shares

Decrease in the 13th series of subscription rights to shares is because the terms for the exercise of these rights were not fulfilled.

Decrease in the 14th series of subscription rights to shares is due to the exercise of rights.

Increase in the 15th series of subscription rights to shares is due to the issuance of shares.

(Notes to Consolidated Statement of Cash Flows)

*1. Reconciliation between cash and cash equivalents at end of the period and the amount booked in the consolidated balance sheet

(Thousands of yen)

	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
Cash and deposits	626,742	1,624,941
Cash and cash equivalents	626,742	1,624,941

(Financial Instruments)

1. Conditions of financial instruments

(1) Policy for financial instruments

The Group’s policy is to restrict investments in funds to short-term and highly safe financial instruments and to use bank loans as the primary means of procuring funds.

Derivative transactions are conducted with the objective of avoiding risks described below. The Group does not engage in speculative transactions.

(2) Details of financial instruments, their risks and risk management system

Receivables are vulnerable to credit risk associated with customers. Measures are taken to reduce this risk by supervising payment dates and balances of individual customers and taking other actions in accordance with credit management rules. Receivables denominated in foreign currencies are vulnerable to foreign exchange rate volatility risk. Hedges using forward exchange contracts and other instruments are established only for significant foreign currency-denominated receivables. No hedges are used for other foreign currency-denominated receivables because they are expected to be paid in a short term.

Investment securities are vulnerable to market price volatility risk and foreign exchange rate volatility risk. Market prices are monitored every quarter to manage this risk exposure.

Although payables are vulnerable to liquidity risk, the payment term is short. Payables denominated in foreign currencies are vulnerable to foreign exchange rate volatility risk. No hedges using forward exchange contracts or other instruments are used because payment term is short.

Loans payable are vulnerable to interest rate volatility risk. To reduce this risk exposure, some loans have fixed interest rates to prevent changes in interest payments. The repayment date of the longest loans comes on six year after the balance sheet date.

Significant forecasted transactions denominated in foreign currencies are vulnerable to foreign exchange rate volatility risk. Foreign currency deposits are used as hedging instruments to reduce the exposure to this risk.

All derivative transactions are forward exchange contracts to reduce exposure to the foreign exchange rate volatility risk. For the information on hedging instruments and hedged items, hedging policy, evaluation method for the effectiveness of hedges and others concerning hedge accounting, please refer to "Basis for Preparing Consolidated Financial Statements, Significant hedge accounting methods" mentioned above.

2. Items related to fair values of financial instruments

The book value, fair value, and their differences are shown as follows.

FY2014 (As of Dec. 31, 2014) (Thousands of yen)

	Book value	Fair value	Difference
(1) Cash and deposits	626,742	626,742	-
(2) Accounts receivable-trade	95,313	95,313	-
(3) Investment securities Available-for-sale securities	241,339	241,339	-
Assets total	963,395	963,395	-
(4) Accounts payable-trade	4,343	4,343	-
(5) Accounts payable-other	107,707	107,707	-
(6) Income taxes payable	7,073	7,073	-
(7) Long-term loans payable*	160,876	160,755	(120)
Liabilities total	280,001	279,881	(120)

* "(7) Long-term loans payable" include current portion of long-term loans payable of 38,928 thousand yen.

FY2015 (As of Dec. 31, 2015) (Thousands of yen)

	Book value	Fair value	Difference
(1) Cash and deposits	1,624,941	1,624,941	-
(2) Accounts receivable-trade	191,740	191,740	-
(3) Investment securities Available-for-sale securities	286,382	286,382	-
Assets total	2,103,063	2,103,063	-
(4) Accounts payable-trade	15,466	15,466	-
(5) Accounts payable-other	69,531	69,531	-
(6) Income taxes payable	38,767	38,767	-
(7) Long-term loans payable*	213,617	212,376	(1,240)
Liabilities total	337,382	336,142	(1,240)

* "(7) Long-term loans payable" include current portion of long-term loans payable of 65,344 thousand yen.

Notes 1. Matters concerning determination of fair value of financial instruments and marketable securities

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

Because these items are settled in a short period and their fair value is nearly equal to their book values, the fair value of these items is recorded based on their book value.

(3) Investment securities

For fair value of the financial instruments in this category, stocks are recorded based on the market prices. Investment trust beneficiary certificates are recorded based on the net asset values.

(4) Accounts payable-trade, (5) Accounts payable-other, and (6) Income taxes payable

Because these items are settled in a short period and their fair value is nearly equal to their book values, the fair value of these items is recorded based on their book value.

(7) Long-term loans payable

For long-term loans payable, the fair value of fixed-rate loans is calculated based on the present value of the total amount of principal and interests discounted by the interest rate that would be applied to a similar new loan. For floating-rate loans, book value is used because the fair value is believed to be nearly equal to the book value since these loans reflect market interest rates in a short period and the Company’s financial condition has not been changed significantly after these floating-rate loans were received.

Notes 2. The amount of money claims scheduled to be redeemed after the consolidated balance sheet date

FY2014 (As of Dec. 31, 2014)

(Thousands of yen)

	Due within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	626,742	-	-	-
Accounts receivable-trade	95,313	-	-	-
Total	722,056	-	-	-

FY2015 (As of Dec. 31, 2015)

(Thousands of yen)

	Due within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	1,624,941	-	-	-
Accounts receivable-trade	191,740	-	-	-
Total	1,816,681	-	-	-

Notes 3. Scheduled repayment of long-term loans payable after the consolidated balance sheet date

FY2014 (As of Dec. 31, 2014)

(Thousands of yen)

	Less than one year	More than one year to two years	More than two years to three years	More than three years to four years	More than four years to five years	More than five years
Long-term loans payable	38,928	32,020	22,272	22,272	20,354	25,030

FY2015 (As of Dec. 31, 2015)

(Thousands of yen)

	Less than one year	More than one year to two years	More than two years to three years	More than three years to four years	More than four years to five years	More than five years
Long-term loans payable	65,344	55,596	47,293	20,354	14,280	10,750

(Marketable Securities)

1. Available-for-sale securities

FY2014 (As of Dec. 31, 2014)

(Thousands of yen)

Category	Type	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book value exceeding acquisition cost	(1) Shares	229,451	105,871	123,579
	(2) Bonds	-	-	-
	(3) Others	11,887	11,315	572
	Sub-total	241,339	117,186	124,152
Securities with book value not exceeding acquisition cost	(1) Shares	-	-	-
	(2) Bonds	-	-	-
	(3) Others	-	-	-
	Sub-total	-	-	-
Total		241,339	117,186	124,152

FY2015 (As of Dec. 31, 2015)

(Thousands of yen)

Category	Type	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book value exceeding acquisition cost	(1) Shares	274,369	105,871	168,497
	(2) Bonds	-	-	-
	(3) Others	12,013	11,603	409
	Sub-total	286,382	117,475	168,906
Securities with book value not exceeding acquisition cost	(1) Shares	-	-	-
	(2) Bonds	-	-	-
	(3) Others	-	-	-
	Sub-total	-	-	-
Total		286,382	117,475	168,906

2. Available-for-sale securities sold during FY2015

Not applicable.

(Stock Options)

(1) Description, size and changes in stock options

1) Description of stock options

	Stock Options in 2005 (The 4th Series)	Stock Options in 2005 (The 5th Series)	Stock Options in 2006 (The 7th Series)
Classification and number of option grantees	Employees: 3	Employees: 5	Employees: 8
Number of stock options	Common stock: 6,000 shares (Note 3)	Common stock: 10,000 shares (Note 3)	Common stock: 18,000 shares (Note 3)
Grant date	January 25, 2005	April 1, 2005	April 3, 2006
Vesting conditions	Irrespective of the exercise period, individuals who have received a stock option cannot exercise these stock options until the day before Carna Biosciences stock is listed on an exchange market in Japan or registered by the Japan Securities Dealers Association. However, this restriction does not apply when there is a legitimate reason recognized by the Company’s Board of Directors. An individual who was a Company employee when stock options were received must be a Company director, auditor or employee when exercising the stock options. However, this restriction does not apply when an individual leaves after completing a term of office, reaches mandatory retirement age, leaves at the discretion of the Company, or for any other legitimate reason recognized by the Company’s Board of Directors.	Irrespective of the exercise period, individuals who have received a stock option cannot exercise these stock options until the day before Carna Biosciences stock is listed on an exchange market in Japan or registered by the Japan Securities Dealers Association. However, this restriction does not apply when there is a legitimate reason recognized by the Company’s Board of Directors. An individual who has received a stock option must be a Company director, auditor or employee when exercising the stock options. However, this restriction does not apply when an individual leaves after completing a term of office, reaches mandatory retirement age, leaves at the discretion of the Company, or for any other legitimate reason recognized by the Company’s Board of Directors.	Irrespective of the exercise period, individuals who have received a stock option cannot exercise these stock options until the day before Carna Biosciences stock is listed on an exchange market in Japan. However, this restriction does not apply when there is a legitimate reason recognized by the Company’s Board of Directors. An individual who has received a stock option must be a Company director, auditor or employee when exercising the stock options. However, this restriction does not apply when an individual leaves after completing a term of office, reaches mandatory retirement age, leaves at the discretion of the Company, or for any other legitimate reason recognized by the Company’s Board of Directors.
Subject period of employment	N/A	N/A	N/A
Exercise period	From January 25, 2007 to January 24, 2015	From April 1, 2007 to January 24, 2015	From April 3, 2008 to March 28, 2016 (Note 2)
Exercise price (Yen)	991 (Notes 1, 3)	991 (Notes 1, 3)	991 (Notes 1, 3)

Notes 1. The exercise price was adjusted due to the issuance of new shares (public offering) on December 2, 2009 and the issuance of new shares (third-party allotment) on December 25, 2009.

2. At the extraordinary shareholders meeting on August 31, 2007, a resolution was approved to change the exercise period from April 3, 2008 - April 2, 2016 to April 3, 2008 - March 28, 2016.

3. The Company conducted a common stock split according to a ratio of 1:100 effective on January 1, 2014. The exercise price reflects the adjustment caused by the stock split.

	Stock Options in 2006 (The 8th Series)	Stock Options in 2006 (The 9th Series)	Stock Options in 2006 (The 10th Series)
Classification and number of option grantees	Employees: 2	Employees: 1	Employees: 1
Number of stock options	Common stock: 19,000 shares (Note 2)	Common stock: 4,000 shares (Note 2)	Common stock: 5,000 shares (Note 2)
Grant date	July 18, 2006	October 16, 2006	January 4, 2007
Vesting conditions	Irrespective of the exercise period, individuals who have received a stock option cannot exercise these stock options until the day before Carna Biosciences stock is listed on an exchange market in Japan. However, this restriction does not apply when there is a legitimate reason recognized by the Company's Board of Directors. An individual who has received a stock option must be a Company director, auditor or employee when exercising the stock options. However, this restriction does not apply when an individual leaves after completing a term of office, reaches mandatory retirement age, leaves at the discretion of the Company, or for any other legitimate reason recognized by the Company's Board of Directors.	Irrespective of the exercise period, individuals who have received a stock option cannot exercise these stock options until the day before Carna Biosciences stock is listed on an exchange market in Japan. However, this restriction does not apply when there is a legitimate reason recognized by the Company's Board of Directors. An individual who has received a stock option must be a Company director, auditor or employee when exercising the stock options. However, this restriction does not apply when an individual leaves after completing a term of office, reaches mandatory retirement age, leaves at the discretion of the Company, or for any other legitimate reason recognized by the Company's Board of Directors.	Irrespective of the exercise period, individuals who have received a stock option cannot exercise these stock options until the day before Carna Biosciences stock is listed on an exchange market in Japan. However, this restriction does not apply when there is a legitimate reason recognized by the Company's Board of Directors. An individual who has received a stock option must be a Company director, auditor or employee when exercising the stock options. However, this restriction does not apply when an individual leaves after completing a term of office, reaches mandatory retirement age, leaves at the discretion of the Company, or for any other legitimate reason recognized by the Company's Board of Directors.
Subject period of employment	N/A	N/A	N/A
Exercise period	From July 18, 2008 to April 2, 2016	From October 16, 2008 to April 2, 2016	From January 4, 2009 to April 2, 2016
Exercise price (Yen)	991 (Notes 1, 2)	991 (Notes 1, 2)	991 (Notes 1, 2)

Notes 1. The exercise price was adjusted due to the issuance of new shares (public offering) on December 2, 2009 and the issuance of new shares (third-party allotment) on December 25, 2009.

2. The Company conducted a common stock split according to a ratio of 1:100 effective on January 1, 2014. The exercise price reflects the adjustment caused by the stock split.

	Stock Options in 2007 (The 11th Series)	Stock Options in 2007 (The 12th Series)
Classification and number of option grantees	Directors: 2 Employees: 21	Directors: 1 Employees: 4
Number of stock options	Common stock: 98,000 shares (Note 2)	Common stock: 39,000 shares (Note 2)
Grant date	April 16, 2007	July 17, 2007
Vesting conditions	Irrespective of the exercise period, individuals who have received a stock option cannot exercise these stock options until the day before Carna Biosciences stock is listed on an exchange market in Japan. However, this restriction does not apply when there is a legitimate reason recognized by the Company’s Board of Directors. An individual who has received a stock option must be a Company director, auditor or employee when exercising the stock options. However, this restriction does not apply when an individual leaves after completing a term of office, reaches mandatory retirement age, leaves at the discretion of the Company, or for any other legitimate reason recognized by the Company’s Board of Directors.	Irrespective of the exercise period, individuals who have received a stock option cannot exercise these stock options until the day before Carna Biosciences stock is listed on an exchange market in Japan. However, this restriction does not apply when there is a legitimate reason recognized by the Company’s Board of Directors. An individual who has received a stock option must be a Company director, auditor or employee when exercising the stock options. However, this restriction does not apply when an individual leaves after completing a term of office, reaches mandatory retirement age, leaves at the discretion of the Company, or for any other legitimate reason recognized by the Company’s Board of Directors.
Subject period of employment	N/A	N/A
Exercise period	From April 16, 2010 to March 29, 2017	From July 17, 2010 to March 29, 2017
Exercise price (Yen)	991 (Notes 1, 2)	991 (Notes 1, 2)

Notes 1. The exercise price was adjusted due to the issuance of new shares (public offering) on December 2, 2009 and the issuance of new shares (third-party allotment) on December 25, 2009.

2. The Company conducted a common stock split according to a ratio of 1:100 effective on January 1, 2014. The exercise price reflects the adjustment caused by the stock split.

2) Size and changes of stock options

The following describes the size and changes of stock options that existed during FY2015 (Jan. 1 – Dec. 31, 2015). The number of stock options is translated into the number of shares.

a. Number of stock options

(Shares)

	Stock Options in 2005 (The 4th Series)	Stock Options in 2005 (The 5th Series)	Stock Options in 2006 (The 7th Series)	Stock Options in 2006 (The 8th Series)
Stock options not yet vested				
As of the end of FY2014	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Balance of options not vested	-	-	-	-
Stock options already vested				
As of the end of FY2014	4,000	4,000	18,000	10,000
Vested	-	-	-	-
Exercised	4,000	-	4,000	10,000
Forfeited	-	4,000	-	-
Balance of options not exercised	-	-	14,000	-

	Stock Options in 2006 (The 9th Series)	Stock Options in 2006 (The 10th Series)	Stock Options in 2007 (The 11th Series)	Stock Options in 2007 (The 12th Series)
Stock options not yet vested				
As of the end of FY2014	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Balance of options not vested	-	-	-	-
Stock options already vested				
As of the end of FY2014	2,000	5,000	83,000	39,000
Vested	-	-	-	-
Exercised	2,000	-	21,800	13,800
Forfeited	-	-	-	-
Balance of options not exercised	-	5,000	61,200	25,200

b. Per share prices

(Yen)

	Stock Options in 2005 (The 4th Series)	Stock Options in 2005 (The 5th Series)	Stock Options in 2006 (The 7th Series)	Stock Options in 2006 (The 8th Series)
Exercise price	991	991	991	991
Average share price on exercise	716	-	3,170	3,170
Fair value as of the grant date	-	-	-	-

	Stock Options in 2006 (The 9th Series)	Stock Options in 2006 (The 10th Series)	Stock Options in 2007 (The 11th Series)	Stock Options in 2007 (The 12th Series)
Exercise price	991	991	991	991
Average share price on exercise	1,373	-	2,965	2,478
Fair value as of the grant date	-	-	-	-

(2) Method of calculating the fair value of stock options
Not applicable.

(3) Method of calculating the number of vested stock options
Because it is basically difficult to reasonably estimate the number of stock options that will be forfeited in future, the number of vested stock options reflects only the number of stock options that have been actually forfeited.

(4) The total intrinsic value at the end of FY2015 obtained by using the intrinsic value of stock options and the total intrinsic value as of the exercise dates of stock options exercised during FY2015

		(Thousands of yen)
1)	Total intrinsic value of stock options at the end of FY2015:	182,447
2)	Total intrinsic value of stock options exercised during FY2015:	94,821

(Deferred Tax Accounting)

1. Breakdown of major factors causing deferred tax assets and liabilities

(Thousands of yen)

	FY2014 (As of Dec. 31, 2014)	FY2015 (As of Dec. 31, 2015)
Deferred tax assets		
Impairment loss	16,045	14,473
Deferred loss	1,051,748	843,253
Accrued enterprise tax	1,683	4,821
Asset retirement obligations	8,785	8,109
Gain on valuation of assets	8,936	6,793
Other	10,933	9,594
Subtotal deferred tax assets	1,098,133	887,045
Valuation allowance	(1,098,133)	(887,045)
Total deferred tax assets	-	-
Deferred tax liabilities		
Payments for asset retirement obligations	3,260	2,726
Valuation difference on available-for-sale securities	44,198	54,421
Total deferred tax liabilities	47,458	57,148
Net deferred tax liabilities	47,458	57,148

2. Breakdown of major factors causing differences between the statutory tax rate and the effective tax rate after tax effect accounting

(%)

	FY2014 (As of Dec. 31, 2014)	FY2015 (As of Dec. 31, 2015)
Statutory tax rate	-	35.6
Adjustments:		
Increase (decrease) in valuation allowance	-	(50.4)
Per capita residential tax	-	0.5
Deductible experiment and research expenses	-	(1.5)
Adjustment due to tax rate change	-	23.1
Other	-	(1.2)
Effective tax rate after tax effect accounting	-	6.1

Note: Differences between the statutory tax rate and effective tax rate after tax effect accounting for FY2014 are not presented since the Company reported a loss before income taxes.

3. Revision of deferred tax assets and deferred tax liabilities following the change in the corporate tax rate, etc.

Following the promulgation on March 31, 2015 of the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 9 of 2015), and the “Act for Partial Revision of the Local Tax Act, etc.” (Act No. 2 of 2015), the statutory effective tax rate for the calculation of deferred tax assets and deferred tax liabilities for FY2015 (limited to those to be eliminated on or after January 1, 2016) was lowered from 35.6% to 33.0% for collection or payment to be scheduled from January 1, 2016 to

December 31, 2016, and to 32.2% for those scheduled on or after January 1, 2017.

The effect of this change is immaterial.

(Asset Retirement Obligations)

Asset retirement obligations included in the consolidated balance sheet

(1) Summary of the asset retirement obligations

Obligations for returning leased space to its original condition in association with real estate leasing contracts.

(2) Method for calculation of the asset retirement obligations

The amount of asset retirement obligations is calculated using the estimated usage period of the buildings as the useful lives and the Japanese government bond yield as the discount rate.

(3) Changes in the total amount of the asset retirement obligations

(Thousands of yen)

	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
Beginning balance	24,196	24,677
Accretion	481	490
Ending balance	24,677	25,168

(Segment and Other Information)

[Segment Information]

1. General information about reportable segments

The reportable segments of the Group are components of business activities for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Group is engaged in the Drug Discovery Support business and the Drug Discovery and Development business based on the drug discovery platform technologies. These two businesses are two reportable segments of the Group.

Main activities of the Drug Discovery Support business include sale of kinase proteins, assay development, and profiling and screening services. The Drug Discovery and Development business conducts research and development involving kinase inhibitor drugs.

2. Calculation methods for net sales, profit or loss, assets, liabilities, and other items for each reportable segment

The accounting treatment methods for reportable segments are generally the same as those listed in the section “Basis for Preparing Consolidated Financial Statements.”

Segment profit (loss) for reportable segments are operating income figures in the consolidated statement of income.

3. Information about net sales, profit or loss, assets, liabilities, and other items for each reportable segment

FY2014 (Jan. 1 – Dec. 31, 2014)

(Thousands of yen)

	Reportable segment			Adjustments (Note 1)	Amounts recorded in the consolidated financial statements (Note 2)
	Drug Discovery Support	Drug Discovery and Development	Total		
Net sales					
External sales	611,760	-	611,760	-	611,760
Intersegment sales or transfers	-	-	-	-	-
Total	611,760	-	611,760	-	611,760
Segment profit (loss)	50,290	(685,240)	(634,949)	-	(634,949)
Segment assets	314,015	45,901	359,916	861,530	1,221,446
Other items					
Depreciation	21,618	9,593	31,211	-	31,211
Amortization of goodwill	36,309	-	36,309	-	36,309
Increase in property, plant and equipment and intangible assets	38,270	3,807	42,078	-	42,078

Notes: 1. The adjustment of 861,530 thousand yen to segment assets relates to the corporate assets and does not belong to any of the reportable segments. Corporate assets mainly consist of the Company's surplus funds (cash and deposits) and investment securities.

2. Segment profit (loss) is adjusted to be consistent with operating loss shown on the consolidated statement of income.

FY2015 (Jan. 1 – Dec. 31, 2015)

(Thousands of yen)

	Reportable segment			Adjustments (Note 1)	Amounts recorded in the consolidated financial statements (Note 2)
	Drug Discovery Support	Drug Discovery and Development	Total		
Net sales					
External sales	954,355	614,850	1,569,205	-	1,569,205
Intersegment sales or transfers	-	-	-	-	-
Total	954,355	614,850	1,569,205	-	1,569,205
Segment profit	412,610	60,171	472,781	-	472,781
Segment assets	453,436	48,390	501,827	1,835,782	2,337,609
Other items					
Depreciation	12,915	6,304	19,219	-	19,219
Increase in property, plant and equipment and intangible assets	1,294	10,355	11,650	-	11,650

Notes: 1. The adjustment of 1,835,782 thousand yen to segment assets relates to the corporate assets and does not belong to any of the reportable segments. Corporate assets mainly consist of the Company's surplus funds (cash and deposits) and investment securities.

2. Segment profit is adjusted to be consistent with operating income shown on the consolidated statement of income.

[Related information]

FY2014 (Jan. 1 – Dec. 31, 2014)

1. Information by product or service

(Thousands of yen)

	Drug Discovery Support				Drug Discovery and Development	Total
	Kinase proteins	Assay development	Profiling and screening services	Other		
External sales	238,211	41,424	193,490	138,633	-	611,760

2. Information by region

(1) Net sales (Thousands of yen)

Japan	North America	Europe	Other	Total
307,290	193,508	97,055	13,907	611,760

Note: Net sales are classified by country or region based on the location of customers.

(2) Property, plant and equipment

This information is omitted since property, plant and equipment located in Japan consists more than 90% of consolidated property, plant and equipment.

3. Information by major customers

This information is omitted since no external customer accounts for 10% or more of consolidated net sales.

FY2015 (Jan. 1 – Dec. 31, 2015)

1. Information by product or service (Thousands of yen)

	Drug Discovery Support				Drug Discovery and Development	Total
	Kinase proteins	Assay development	Profiling and screening services	Other		
External sales	324,627	29,092	457,693	142,942	614,850	1,569,205

2. Information by region

(1) Net sales (Thousands of yen)

Japan	North America	Europe	Other	Total
584,683	873,838	86,151	24,531	1,569,205

Note: Net sales are classified by country or region based on the location of customers.

(2) Property, plant and equipment

This information is omitted since property, plant and equipment located in Japan consists more than 90% of consolidated property, plant and equipment.

3. Information by major client (Thousands of yen)

Name	Net sales	Related segments
Janssen Biotech, Inc.	614,850	Drug Discovery and Development
Ono Pharmaceutical Co., Ltd.	317,478	Drug Discovery Support

[Information related to impairment loss of non-current assets for each reportable segment]

FY2014 (Jan. 1 – Dec. 31, 2014) (Thousands of yen)

	Reportable segment			Other	Elimination or corporate	Total
	Drug Discovery Support	Drug Discovery and Development	Total			
Impairment loss	236,966	692	237,658	-	-	237,658

FY2015 (Jan. 1 – Dec. 31, 2015) (Thousands of yen)

	Reportable segment			Other	Elimination or corporate	Total
	Drug Discovery Support	Drug Discovery and Development	Total			
Impairment loss	-	8,425	8,425	-	-	8,425

[Information related to goodwill amortization and the unamortized balance for each reportable segment]

FY2014 (Jan. 1 – Dec. 31, 2014) (Thousands of yen)

	Reportable segment			Other	Elimination or corporate	Total
	Drug Discovery Support	Drug Discovery and Development	Total			
Amortization for the period	36,309	-	36,309	-	-	36,309
Balance at the end of period	-	-	-	-	-	-

FY2015 (Jan. 1 – Dec. 31, 2015)
Not applicable.

[Information related to gain on bargain purchase for each reportable segment]
Not applicable.

(Related Party Information)

Transactions with related parties

Transaction between the Company and related parties
(a) Parent company, major corporate shareholders, etc. of the Company
FY2014 (Jan. 1 – Dec. 31, 2014)

Attribute	Major shareholder
Company name	Ono Pharmaceutical Co., Ltd.
Address	Osaka
Capital or invested amount	17,358 million yen
Business details or occupation	Manufacture and sale of prescription and over-the-counter pharmaceuticals
Proportion of voting rights held (or being held)	(Being held) Directly 16.94%
Details of relationship	Sales of the Company's products and services Joint R&D activities involving assay development of new kinases

(Thousands of yen)

Transaction details	Transaction amount	Account	Closing balance
Sales of the Company's products and services	44,354	Accounts receivable-trade	6,991

Notes: 1. The transaction amount does not include consumption taxes.
2. Transaction terms and the method of determining transaction terms.
Prices and other conditions are determined based on the general transaction conditions.

FY2015 (Jan. 1 – Dec. 31, 2015)

Attribute	Major shareholder
Company name	Ono Pharmaceutical Co., Ltd.
Address	Osaka
Capital or invested amount	17,358 million yen
Business details or occupation	Manufacture and sale of prescription and over-the-counter pharmaceuticals
Proportion of voting rights held (or being held)	(Being held) Directly 11.34%
Details of relationship	Sales of the Company's products and services Joint R&D activities involving assay development of new kinases

(Thousands of yen)

Transaction details	Transaction amount	Account	Closing balance
Sales of the Company's products and services	317,478	Accounts receivable-trade	78,305

Notes: 1. The transaction amount does not include consumption taxes.
2. Transaction terms and the method of determining transaction terms
Prices and other conditions are determined based on the general transaction conditions.

(b) Directors, major individual shareholders, etc. of the Company

FY2014 (Jan. 1 – Dec. 31, 2014)

Attribute	Director or his immediate relatives
Name	Kohichiro Yoshino
Address	-
Capital or invested amount	-
Business details or occupation	President and CEO of the Company
Proportion of voting rights held (or being held)	(Being held) Directly 2.40%
Details of relationship	Guarantee on the Company’s bank loan

(Thousands of yen)

Transaction details	Transaction amount	Account	Closing balance
Guarantee on the Company’s bank loans	160,876	-	-

Notes: 1. The transaction amount does not include consumption taxes.
2. Loan guarantees of the Company’s bank loans as of the end of 2014 are included in the transaction amount.
3. Transaction terms or method of determining transaction terms
The Company’s bank loans were guaranteed by Kohichiro Yoshino, President and CEO of the Company. No guarantee deposits were paid.

FY2015 (Jan. 1 – Dec. 31, 2015)

Attribute	Director or his immediate relatives
Name	Kohichiro Yoshino
Address	-
Capital or invested amount	-
Business details or occupation	President and CEO of the Company
Proportion of voting rights held (or being held)	(Being held) Directly 2.24%
Details of relationship	Guarantee on the Company’s bank loans

(Thousands of yen)

Transaction details	Transaction amount	Account	Closing balance
Guarantee on the Company’s bank loans	213,617	-	-

Notes: 1. The transaction amount does not include consumption taxes.
2. Loan guarantees of the Company’s bank loans as of the end of 2015 are included in the transaction amount.
3. Transaction terms or method of determining transaction terms
The Company’s bank loans were guaranteed by Kohichiro Yoshino, President and CEO of the Company. No guarantee deposits were paid.

(Per Share Information)

(Yen)

Item	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
Net assets per share	98.69	208.78
Net income (loss) per share	(102.18)	52.61
Diluted net income per share	-	50.05

Notes: 1. Despite the existence of dilutive shares, diluted net income per share for FY2014 is not presented because net loss was posted for the period.

2. Net income (loss) per share and diluted net income per share are calculated as follows:

(Thousands of yen)

Item	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
(1) Net income (loss) per share		
Net income (loss)	(846,717)	456,388
Net income (loss) not attributable to common shareholders	-	-
Net income (loss) attributable to common stock	(846,717)	456,388
Average number of common stock outstanding during the period (Shares)	8,286,592	8,675,111
(2) Diluted net income per share		
Increase in number of common stock (Shares)	-	443,219
[of which subscription rights to shares (Shares)]	[-]	[443,219]
Summary of dilutive shares not included in the calculation of diluted net income per share since there was no dilutive effect	13 types of subscription rights to shares (Number of subscription rights to shares: 13,930 units) (Number of shares subject to subscription rights to shares: 1,393,000 shares)	-

3. Net assets per share is calculated as follows.

(Thousands of yen)

Item	FY2014 (As of Dec. 31, 2014)	FY2015 (As of Dec. 31, 2015)
Total net assets	830,227	1,870,502
Deduction from total net assets	9,289	13,886
[of which deposit for subscriptions to shares]	[-]	[5,946]
[of which subscription rights to shares]	[9,289]	[7,940]
Net assets attributable to common stock at end of period	820,938	1,856,616
Number of common stock used in calculation of net assets per share (Shares)	8,318,100	8,892,700

(Material Subsequent Events)

Not applicable.

6. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheet

(Thousands of yen)

	FY2014 (As of Dec. 31, 2014)	FY2015 (As of Dec. 31, 2015)
Assets		
Current assets		
Cash and deposits	516,204	1,478,503
Accounts receivable-trade	*1 119,058	*1 204,684
Merchandise and finished goods	93,667	91,426
Work in process	8,167	5,186
Raw materials and supplies	16,013	26,420
Prepaid expenses	34,123	34,635
Other	*1 40,999	*1 24,617
Total current assets	828,235	1,865,474
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings	14,882	12,871
Machinery and equipment	83	68
Tools, furniture and fixtures	38,911	24,967
Total property, plant and equipment	53,878	37,907
Intangible assets		
Trademark right	47	38
Software	2,015	1,282
Other	131	131
Total intangible assets	2,193	1,451
Investments and other assets		
Investment securities	241,339	286,382
Shares of subsidiaries and associates	79,076	115,157
Long-term prepaid expenses	3,684	2,936
Other	13,629	13,654
Total investments and other assets	337,730	418,131
Total non-current assets	393,802	457,490
Total assets	1,222,037	2,322,964

(Thousands of yen)

	FY2014 (As of Dec. 31, 2014)	FY2015 (As of Dec. 31, 2015)
Liabilities		
Current liabilities		
Accounts payable-trade	2,172	13,766
Current portion of long-term loans payable	38,928	65,344
Accounts payable-other	104,602	*1 65,029
Accrued expenses	275	341
Income taxes payable	6,541	38,582
Deposits received	35,173	22,908
Other	1,859	22,452
Total current liabilities	189,554	228,424
Non-current liabilities		
Long-term loans payable	121,948	148,273
Deferred tax liabilities	47,458	57,148
Asset retirement obligations	24,677	25,168
Total non-current liabilities	194,084	230,590
Total liabilities	383,639	459,014
Net assets		
Shareholders' equity		
Capital stock	2,627,070	2,900,784
Deposit for subscriptions to shares	-	*2 5,946
Capital surplus		
Legal capital surplus	1,445,230	1,718,888
Total capital surpluses	1,445,230	1,718,888
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(3,323,147)	(2,882,397)
Total retained earnings	(3,323,147)	(2,882,397)
Total shareholders' equity	749,154	1,743,221
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	79,954	114,484
Deferred gains or losses on hedges	-	(1,696)
Total valuation and translation adjustments	79,954	112,788
Subscription rights to shares	9,289	7,940
Total net assets	838,398	1,863,949
Total liabilities and net assets	1,222,037	2,322,964

(2) Non-consolidated Statement of Income

(Thousands of yen)

	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
Net sales	*1 520,580	*1 1,469,074
Cost of sales	*1 197,737	*1 254,422
Gross profit	322,842	1,214,652
Selling, general and administrative expenses	*1, 2 869,332	*1, 2 759,482
Operating income (loss)	(546,489)	455,170
Non-operating income		
Interest income	202	152
Subsidy income	24,800	29,240
Foreign exchange gains	4,619	-
Other	*1 3,775	*1 3,427
Total non-operating income	33,397	32,820
Non-operating expenses		
Interest expenses	2,313	2,287
Share issuance cost	342	2,452
Issuance cost of subscription rights to shares	-	1,674
Foreign exchange losses	-	4,419
Other	1,715	747
Total non-operating expenses	4,371	11,581
Ordinary income (loss)	(517,463)	476,409
Extraordinary income		
Gain on reversal of subscription rights to shares	-	2,282
Total extraordinary income	-	2,282
Extraordinary losses		
Impairment loss	692	8,425
Loss on valuation of shares of subsidiaries and associates	349,360	-
Total extraordinary losses	350,052	8,425
Income (loss) before income taxes	(867,515)	470,266
Income taxes-current	2,344	30,050
Income taxes-deferred	(267)	(533)
Total income taxes	2,076	29,516
Net income (loss)	(869,592)	440,749

(3) Non-consolidated Statement of Changes in Equity

FY2014 (Jan. 1 – Dec. 31, 2014)

(Thousands of yen)

	Shareholders' equity						
			Capital surplus		Retained earnings		
					Other retained earnings		
	Capital stock	Deposit for subscriptions to shares	Legal capital surplus	Total capital surplus	Retained earnings brought forward	Total retained earnings	Total shareholders' equity
Balance at beginning of current period	2,602,728	-	1,422,375	1,422,375	(2,453,554)	(2,453,554)	1,571,549
Changes of items during period							
Issuance of new shares-exercise of subscription rights to shares	24,342		22,854	22,854			47,197
Net income (loss)					(869,592)	(869,592)	(869,592)
Net changes of items other than shareholders' equity							
Total changes of items during period	24,342	-	22,854	22,854	(869,592)	(869,592)	(822,394)
Balance at end of current period	2,627,070	-	1,445,230	1,445,230	(3,323,147)	(3,323,147)	749,154

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	48,887	-	48,887	9,911	1,630,348
Changes of items during period					
Issuance of new shares-exercise of subscription rights to shares					47,197
Net income (loss)					(869,592)
Net changes of items other than shareholders' equity	31,066		31,066	(622)	30,443
Total changes of items during period	31,066	-	31,066	(622)	(791,950)
Balance at end of current period	79,954	-	79,954	9,289	838,398

FY2015 (Jan. 1 – Dec. 31, 2015)

(Thousands of yen)

	Shareholders' equity						
	Capital stock	Deposit for subscriptions to shares	Capital surplus		Retained earnings		Total shareholders' equity
			Legal capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings	
Balance at beginning of current period	2,627,070	-	1,445,230	1,445,230	(3,323,147)	(3,323,147)	749,154
Changes of items during period							
Issuance of new shares-exercise of subscription rights to shares	273,713	5,946	273,657	273,657			553,317
Net income (loss)					440,749	440,749	440,749
Net changes of items other than shareholders' equity							
Total changes of items during period	273,713	5,946	273,657	273,657	440,749	440,749	994,067
Balance at end of current period	2,900,784	5,946	1,718,888	1,718,888	(2,882,397)	(2,882,397)	1,743,221

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	79,954	-	79,954	9,289	838,398
Changes of items during period					
Issuance of new shares-exercise of subscription rights to shares					553,317
Net income (loss)					440,749
Net changes of items other than shareholders' equity	34,530	(1,696)	32,834	(1,349)	31,484
Total changes of items during period	34,530	(1,696)	32,834	(1,349)	1,025,551
Balance at end of current period	114,484	(1,696)	112,788	7,940	1,863,949

(4) Notes to Non-consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Important Accounting Policies)

1. Valuation standards and methods for assets

(1) Valuation standards and methods for securities

1) Shares of subsidiaries
Cost method based on the moving-average method

2) Available-for sale securities
Securities with market quotations
Market value method based on the market price of the fiscal year end (Available-for sale securities denominated in foreign currencies are translated into yen at the spot exchange rate of the fiscal year end. Foreign exchange gain or loss is recognized as valuation difference. Valuation difference is booked directly into net assets. Cost of securities sold is determined by the moving-average method).

Securities without market quotations
Cost method based on the moving-average method.

(2) Valuation standards and methods for inventories

Inventories are determined at cost (book values are lowered based on declines in profitability).

The carrying value on the balance sheet is written down to reflect the effect of lower profit margins.)

1) Finished goods and work in process
Specific-identification method

2) Raw materials
First-in first-out method

3) Supplies
First-in first-out method

2. Depreciation and amortization of non-current assets

(1) Property, plant and equipment
Declining-balance method

(2) Intangible assets
Straight-line method
Software for internal use is amortized over an expected useful life of three to five years by the straight-line method.

3. Accounting for deferred assets

Share issuance cost is accounted for as the full amount at the time of the expenditure.

4. Standard for translation of foreign currency-denominated assets and liabilities

Foreign currency-denominated receivables and payables are translated into yen -on the spot exchange rate in effect on the balance sheet date. Foreign exchange gain or loss is accounted for as profit or loss.

5. Recognition of allowances

Allowance for doubtful accounts
To prepare for credit losses on accounts receivable, allowances are provided based on the historical write-off rate for ordinary receivables, and the estimated amount of irrecoverable debt based on recoverability of the individual cases for specified receivables such as doubtful accounts.

6. Other important items for preparing financial statements

(1) Hedge accounting method
The Company primarily applies the deferred hedge accounting method. Certain foreign currency forward contracts are subject to appropriated treatment, if they satisfy the requirements of appropriated treatment.

(2) Accounting for consumption taxes
National and local consumption taxes are accounted by the tax-exclusion method.

(Reclassifications)

Non-consolidated Statement of Income

“Guarantee commission” (1,715 thousand yen for FY2014), presented as a separate line item in FY2014, is included in “Other” (747 thousand yen for FY2015) in FY2015 given the reduced materiality in the context of financial statements.

(Notes to Non-consolidated Balance Sheet)

*1. Assets and liabilities relating to subsidiaries and associates (Thousands of yen)

	FY2014 (As of Dec. 31, 2014)	FY2015 (As of Dec. 31, 2015)
Short-term monetary claims	66,495	66,463
Short-term monetary liabilities	-	14,097

*2. Deposit for subscriptions to shares is as follows.
FY2015 (As of Dec. 31, 2015)

Number of shares issued:	6,000 shares
Date of increase in capital stock:	January 12, 2016
Amount to be added to legal capital surplus:	2,970 thousand yen

(Notes to Non-consolidated Statement of Income)

*1. Business and non-business transactions with subsidiaries and associates

(Thousands of yen)

	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
Amount of business transactions (income)	102,328	158,857
Amount of business transactions (expenses)	2,403	50,457
Amount of non-business transactions (income)	2,640	2,880

*2. Selling expenses represent approximately 3.2% and 3.4% of the total selling, general and administrative expenses in FY2014 and FY2015, respectively. General and administrative expenses represent approximately 96.8% and 96.6% of the total selling, general and administrative expenses in FY2014 and FY2015, respectively.

Major items of selling, general and administrative expenses are as follows.

(Thousands of yen)

	FY2014 (Jan. 1 – Dec. 31, 2014)	FY2015 (Jan. 1 – Dec. 31, 2015)
R&D expenses	540,915	401,937
Salaries and allowances	85,773	84,963
Commission fee	71,164	100,941
Depreciation	1,693	1,188

(Marketable Securities)

The fair value of shares of subsidiaries is not presented because it does have market prices and is deemed extremely difficult to measure the fair value.
The shares of subsidiaries, for which measuring the fair value is extremely difficult, are recorded on the non-consolidated balance sheet as follows.

(Thousands of yen)

	FY2014 (As of Dec. 31, 2014)	FY2015 As of Dec. 31, 2015)
Shares of subsidiaries	79,076	115,157

(Deferred Tax Accounting)

1. Breakdown of major factors causing deferred tax assets and liabilities

(Thousands of yen)

	FY2014 (As of Dec. 31, 2014)	FY2015 (As of Dec. 31, 2015)
Deferred tax assets		
Impairment loss	6,011	6,807
Deferred loss	990,766	780,906
Accrued enterprise tax	1,494	5,148
Asset retirement obligations	8,785	8,109
Shares of subsidiaries and associates	114,584	103,704
Other	4,044	4,235
Subtotal deferred tax assets	1,125,686	908,912
Valuation allowance	(1,125,686)	(908,912)
Total deferred tax assets	-	-
Deferred tax liabilities		
Payments for asset retirement obligations	3,260	2,726
Valuation difference on available-for-sale securities	44,198	54,421
Total deferred tax liabilities	47,458	57,148
Net deferred tax liabilities	47,458	57,148

2. Breakdown of major factors causing differences between the statutory tax rate and effective tax rate after tax effect accounting

(%)

	FY2014 (As of Dec. 31, 2014)	FY2015 (As of Dec. 31, 2015)
Statutory tax rate	-	35.6
Adjustments:		
Increase (decrease) in valuation allowance	-	(48.1)
Per capita residential tax	-	0.5
Deductible experiment and research expenses	-	(1.6)
Adjustment due to tax rate change	-	20.2
Other	-	(0.3)
Effective tax rate after tax effect accounting	-	6.3

Note: Differences between the statutory tax rate and effective tax rate after tax effect accounting for FY2014 are not presented since the Company reported a loss before income taxes.

3. Revision of deferred tax assets and deferred tax liabilities following the change in the corporate tax rate, etc.

Following the promulgation on March 31, 2015 of the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 9 of 2015), and the “Act for Partial Revision of the Local Tax Act, etc.” (Act No. 2 of 2015), the statutory effective tax rate used for the calculation of deferred tax assets and deferred tax liabilities for FY2015 (limited to those to be eliminated on or after January 1, 2016) was lowered from 35.6% to 33.0% for collection or payment to be scheduled from January 1, 2016 to December 31, 2016, and to 32.2% for those scheduled on or after January 1, 2017.

The effect of this change is immaterial.

(Material Subsequent Events)

Not applicable.

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.