

Consolidated Financial Results for the First Quarter of the Year Ending December 31, 2016 (Three Months Ended March 31, 2016)

[Japanese GAAP]

May 9, 2016

Company name: Carna Biosciences, Inc. Stock exchange listing: Tokyo Stock Exchange (JASDAQ Growth)
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 Scheduled date of Quarterly Report Filing: May 10, 2016
 Scheduled date of dividend payment: -
 Supplementary materials for quarterly financial results: Yes
 Financial results meeting: None

(Rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Three Months of the Year Ending December 31, 2016 (January 1, 2016 to March 31, 2016)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended Mar. 31, 2016	225	(32.6)	(114)	-	(121)	-	(11)	-
Three months ended Mar. 31, 2015	334	98.8	98	-	97	-	94	-

Note: Comprehensive income

Three months ended Mar. 31, 2016: (74) million yen (- %)

Three months ended Mar. 31, 2015: 109 millions of yen (- %)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Mar. 31, 2016	(1.28)	-
Three months ended Mar. 31, 2015	11.30	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Mar. 31, 2016	2,297	1,973	85.7
As of Dec. 31, 2015	2,337	1,870	79.7

Reference: Shareholders' equity As of Mar. 31, 2016: 1,968 millions of yen As of Dec. 31, 2015: 1,862 millions of yen

2. Dividends

	Dividend per share				
	End of 1 st quarter	End of 2 nd quarter	End of 3 rd quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2015	-	0.00	-	0.00	0.00
FY2016	-	-	-	-	-
FY2016 (Forecast)	-	0.00	-	0.00	0.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Financial Forecast for the Year Ending December 31, 2016 (January 1, 2016 to December 31, 2016)

The Group has not announced its consolidated financial forecast for FY2016 as disclosure of earnings estimates 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 (Net Sales 858 million yen (10.0% year-on-year decrease), Operating Income 320 million yen (22.4% year-on-year decrease)). The forecast has not been revised since last announcement.

*** Notes**

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

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

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

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

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

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of shares outstanding (common stock)

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

As of Mar. 31, 2016:	9,120,300 shares	As of Dec. 31, 2015:	8,892,700 shares
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2) Number of treasury stock at the end of the period

As of Mar. 31, 2016:	- shares	As of Dec. 31, 2015:	- shares
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3) Average number of shares outstanding during the period

Three months ended Mar. 31, 2016:	8,981,549 shares	Three months ended Mar. 31, 2015:	8,321,256 shares
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* Information regarding the implementation of quarterly review procedures

The current quarterly financial report is not subject to the quarterly review procedures based on the Financial Instruments and Exchange Act. At the time of disclosure, the review procedures based on the Financial Instruments and Exchange Act for the quarterly financial statements have been completed.

* Note to ensure appropriate use of forecasts and other remarks

The forecasts and other forward-looking statements in this document are based on the information currently available to the management and on certain assumptions considered by the management to be reasonable. Actual operating results may differ significantly 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 “(3) Consolidated Forecast and Other Forward-looking Statements” on page 3.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Analysis of Operating Results

In the first three months ended March 31, 2016, the global economy continued to show a move toward recovery as the U.S. economy remained healthy and additional monetary easing measures were implemented in Europe. However, the outlook remained uncertain as the growth of emerging markets continued to slow down. In Japan, the outlook of the economy also remained uncertain due to lackluster capital expenditures and consumer spending.

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 in 2015 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 Support business, has worked to expand sales by attracting new customers and deepening relationship with the existing customers. In the Drug Discovery and Development business, the Group has actively conducted research and development activities to discover kinase inhibitors and engaged in out-licensing activities.

In the Drug Discovery Support business, the Group has focused on providing technical support to leading biotech companies and major pharmaceutical companies in order to expand its market shares in Europe and the U.S., two primary markets for the Group, while working to secure new contracts for large-scale kinase screening services from pharmaceutical companies both in Japan and overseas. In the Drug Discovery and Development business, the Group has actively engaged in out-licensing activities to win a new licensing agreement to follow an out-licensing agreement with a mega-pharma in June 2015 while continuing research and development activities focusing on cancer and autoinflammatory diseases.

As a result, in the first three months ended March 31, 2016, the Group recorded net sales of 225 million yen (32.6% year-on-year decrease), an operating loss of 114 million yen (compared with operating income of 98 million yen in the same period of FY2015), an ordinary loss of 121 million yen (compared with ordinary income of 97 million yen in the same period of FY2015), and a loss attributable to owners of parent of 11 million yen (compared with profit attributable to owners of parent of 94 million yen in the same period of FY2015).

Results by business segment are as follows.

(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 decreased 32.6% year-on-year to 225 million yen and operating income decreased 63.5% to 76 million yen. Sales and operating income decreased significantly mainly because sales related to a large-scale screening service provided to Ono Pharmaceutical Co., Ltd. were concentrated in the first quarter of FY2015. By region, sales in Japan decreased 40.8% year-on year to 148 million yen, sales in North America decreased 9.6% to 55 million yen, sales in Europe decreased 16.3% to 14 million yen, and sales in other regions increased 52.5% to 6 million yen.

(b) Drug Discovery and Development business

In the first quarter of FY2016, no sales were recorded in this segment as in the first quarter of FY2015, and an operating loss of 190 million yen was recorded compared with a 111 million yen loss in the same period last fiscal year.

(2) Analysis of Financial Position

(Millions of yen)

	FY2015 (As of Dec. 31, 2015)	First quarter of FY2016 (As of Mar. 31, 2016)	Change
Total assets	2,337	2,297	(40)
Net assets	1,870	1,973	103
Shareholder's equity ratio (%)	79.7	85.7	6.0

As of the end of the first quarter of FY2016, total assets decreased by 40 million yen from the end of FY2015 to 2,297 million yen, mainly due to an increase of 180 million yen in cash and deposits, and decreases of 70 million yen in accounts receivable-trade, and 142 million yen in investment securities.

Total liabilities decreased 143 million yen to 323 million yen. This was mainly due to decreases of 36 million yen in accounts payable-other, 33 million yen in income taxes payable, and 13 million yen in long-term loans payable.

Net assets increased 103 million yen to 1,973 million yen, mainly due to 11 million yen of loss attributable to owners of parent, an increase of 92 million yen in capital stock, an increase of 92 million yen in capital surplus, and a decrease of 57 million yen of valuation difference on available-for-sale securities.

Shareholder's equity ratio was 85.7% (compared with 79.7% at the end of 2015).

(3) Consolidated Financial Forecast and Other Forward-looking Statements

The Company maintains its financial forecast for the Drug Discovery Support business presented in the Consolidated Financial Results for the Year Ended December 31, 2015 (Japanese GAAP) that was announced on February 12, 2016.

2. Matters Related to Summary Information (Notes)**(1) Changes in Significant Subsidiaries during the Period**

Not applicable.

(2) Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements

Not applicable.

(3) Changes in Accounting Policies, Accounting Estimates, and Restatements

(Change in Accounting Policies)

The Company has applied the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), etc. from the first quarter of the current fiscal year. Accordingly, difference arising from changes in the Company's ownership interests in subsidiaries in cases where control is retained is recognized in capital surplus, and the acquisition costs in connection with business combinations are recognized as expenses in the fiscal year in which they arise. Regarding business combinations that take place on or after the beginning of the first quarter of the current fiscal year, the Company has revised the method to reflect reviewed allocation of the acquisition costs arising from determination of the provisional accounting treatment on the quarterly consolidated financial statements to which the date of the business combination belongs.

In addition, the presentation of net income and other items has been revised. For consistency with these changes, the consolidated financial statements for the first quarter of the previous fiscal year have been revised.

The Company has adopted these accounting standards, etc. from the beginning of the first quarter of the current fiscal year, in accordance with the transitional accounting treatments set forth in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures.

There is no impact on the quarterly consolidated financial statements for the first quarter of the current fiscal year.

3. Quarterly Consolidated Financial Statements**(1) Quarterly Consolidated Balance Sheet**

	(Thousands of yen)	
	FY2015 (As of Dec. 31, 2015)	First quarter of FY2016 (As of Mar. 31, 2016)
Assets		
Current assets		
Cash and deposits	1,624,941	1,805,677
Accounts receivable-trade	191,740	120,899
Merchandise and finished goods	91,445	86,917
Work in process	7,459	8,844
Raw materials and supplies	26,415	18,163
Other	53,788	45,004
Total current assets	1,995,790	2,085,505
Non-current assets		
Property, plant and equipment	37,251	47,730
Intangible assets	1,451	1,266
Investments and other assets		
Investment securities	286,382	143,663
Other	16,733	19,426
Total investments and other assets	303,115	163,090
Total non-current assets	341,819	212,087
Total assets	2,337,609	2,297,592

	(Thousands of yen)	
	FY2015 (As of Dec. 31, 2015)	First quarter of FY2016 (As of Mar. 31, 2016)
Liabilities		
Current liabilities		
Accounts payable-trade	15,466	3,909
Current portion of long-term loans payable	65,344	61,180
Accounts payable-other	69,531	33,512
Income taxes payable	38,767	5,603
Other	46,882	31,440
Total current liabilities	235,992	135,645
Non-current liabilities		
Long-term loans payable	148,273	134,374
Deferred tax liabilities	57,148	27,783
Asset retirement obligations	25,168	25,293
Other	525	525
Total non-current liabilities	231,115	187,976
Total liabilities	467,107	323,621
Net assets		
Shareholders' equity		
Capital stock	2,900,784	2,993,592
Deposit for subscriptions to shares	5,946	-
Capital surplus	1,718,888	1,811,676
Retained earnings	(2,879,693)	(2,891,178)
Total shareholders' equity	1,745,925	1,914,090
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	114,484	57,308
Deferred gains or losses on hedges	(1,696)	(2,124)
Foreign currency translation adjustment	3,848	(1,161)
Total accumulated other comprehensive income	116,637	54,021
Subscription rights to shares	7,940	5,859
Total net assets	1,870,502	1,973,971
Total liabilities and net assets	2,337,609	2,297,592

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income****(For the Three-month Period)**

(Thousands of yen)

	First three months of FY2015 (Jan. 1, 2015 – Mar. 31, 2015)	First three months of FY2016 (Jan. 1, 2016 – Mar. 31, 2016)
Net sales	334,252	225,320
Cost of sales	64,823	76,591
Gross profit	269,429	148,728
Selling, general and administrative expenses	170,489	263,059
Operating income (loss)	98,939	(114,330)
Non-operating income		
Interest income	28	58
Subsidy income	1,500	1,500
Other	181	109
Total non-operating income	1,709	1,667
Non-operating expenses		
Interest expenses	524	733
Foreign exchange losses	1,923	7,329
Other	263	985
Total non-operating expenses	2,712	9,049
Ordinary income (loss)	97,936	(121,712)
Extraordinary income		
Gain on sales of investment securities	-	110,789
Gain on reversal of subscription rights to shares	2,282	-
Total extraordinary income	2,282	110,789
Profit (loss) before income taxes	100,219	(10,923)
Income taxes-current	6,510	750
Income taxes-deferred	(362)	(187)
Total income taxes	6,147	562
Profit (loss)	94,071	(11,485)
Profit (loss) attributable to owners of parent	94,071	(11,485)

Quarterly Consolidated Statement of Comprehensive Income**(For the Three-month Period)**

	(Thousands of yen)	
	First three months of FY2015 (Jan. 1, 2015 – Mar. 31, 2015)	First three months of FY2016 (Jan. 1, 2016 – Mar. 31, 2016)
Profit (loss)	94,071	(11,485)
Other comprehensive income		
Valuation difference on available-for-sale securities	15,145	(57,176)
Deferred gains or losses on hedges	-	(428)
Foreign currency translation adjustment	(49)	(5,010)
Total other comprehensive income	15,095	(62,615)
Comprehensive income	109,167	(74,100)
Comprehensive income attributable to:		
Owners of parent	109,167	(74,100)

(3) Notes to Quarterly Consolidated Financial Statements**(Going Concern Assumption)**

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(Segment and Other Information)

[Segment Information]

I. First three months of FY2015 (Jan. 1, 2015 – Mar. 31, 2015)

Information related to net sales and profit or loss for each reportable segment

(Thousands of yen)

	Reportable segment		
	Drug Discovery Support	Drug Discovery and Development	Total
Net sales			
External sales	334,252	-	334,252
Intersegment sales or transfers	-	-	-
Total	334,252	-	334,252
Segment profit (loss)	210,080	(111,140)	98,939

Note: Total segment profit (loss) is consistent with operating income (loss) shown on the quarterly consolidated statement of income.

II. First three months of FY2016 (Jan. 1, 2016 – Mar. 31, 2016)

Information related to net sales and profit or loss for each reportable segment

(Thousands of yen)

	Reportable segment		
	Drug Discovery Support	Drug Discovery and Development	Total
Net sales			
External sales	225,320	-	225,320
Intersegment sales or transfers	-	-	-
Total	225,320	-	225,320
Segment profit (loss)	76,665	(190,996)	(114,330)

Note: Total segment profit (loss) is consistent with operating income (loss) shown on the quarterly consolidated statement of income.

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.