

Consolidated Financial Results for the Year Ended December 31, 2017

[Japanese GAAP]

February 9, 2018

Company name: Carna Biosciences, Inc. Stock Exchange listing: Tokyo Stock Exchange(JASDAQ Growth)
 Stock code: 4572 URL: <http://www.carnabio.com/english/>
 Representative: Kohichiro Yoshino, President and CEO
 Contact: Emi Yamamoto, Director, Business Administration Division TEL: +81-78-302-7075
 Scheduled date of Annual General Shareholders' Meeting: March 28, 2018
 Scheduled date of dividend payment: –
 Scheduled date of Annual Securities Report filing: March 29, 2018
 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 FY2017 (from January 1, 2017 to December 31, 2017)

(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	%
FY2017	657	(19.0)	(699)	–	(711)	–	(737)	–
FY2016	811	(48.3)	(423)	–	(440)	–	(289)	–

Note: Comprehensive income FY2017: (738) million yen (–%) FY2016: (406) million yen (–%)

	Profit per share	Diluted profit per share	Return on equity	Return on assets	Operating income to net sales
	Yen	Yen	%	%	%
FY2017	(78.53)	–	(47.6)	(29.9)	(106.3)
FY2016	(31.64)	–	(16.1)	(18.0)	(52.2)

Reference: Equity in earnings (losses) of associates FY2017: – FY2016: –

(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, 2017	2,190	1,377	62.2	142.68
As of Dec. 31, 2016	2,566	1,739	67.6	187.73

Reference: Shareholders' equity As of Dec. 31, 2017: 1,362 million yen As of Dec. 31, 2016: 1,734 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
FY2017	(561)	(38)	295	1,856
FY2016	(452)	248	754	2,161

2. Dividends

	Dividend per share					Total cash dividends	Dividend payout ratio (consolidated)	Dividends on equity (consolidated)
	End of 1 st quarter	End of 2 nd quarter	End of 3 rd quarter	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2016	–	0.00	–	0.00	0.00	–	–	–
FY2017	–	0.00	–	0.00	0.00	–	–	–
FY2018 (Forecast)	–	0.00	–	0.00	0.00	–	–	–

3. Consolidated Financial Forecast for FY2018 (January 1, 2018 to December 31, 2018)

(Percentages show changes from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
FY2018	1,190	81.1	(679)	–	(694)	–	(758)	–	(79.39)

*** 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, 2017: 9,551,300 shares As of Dec. 31, 2016: 9,239,900 shares
 - 2) Number of treasury stock at the end of the period
As of Dec. 31, 2017: 44 shares As of Dec. 31, 2016: – shares
 - 3) Average number of shares outstanding during the period
FY2017: 9,388,725 shares FY2016: 9,162,414 shares

Reference: Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for FY 2017 (from January 1, 2017 to December 31, 2017)

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

	Net sales		Operating income		Ordinary income		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2017	560	(23.1)	(692)	–	(703)	–	(762)	–
FY2016	729	(50.4)	(401)	–	(414)	–	(262)	–

	Profit per share	Diluted profit per share
	Yen	Yen
FY2017	(81.26)	–
FY2016	(28.70)	–

(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, 2017	2,185	1,377	62.4	142.66
As of Dec. 31, 2016	2,585	1,763	68.0	190.31

Reference: Shareholders' equity As of Dec. 31, 2017: 1,362 million yen As of Dec. 31, 2016: 1,758 million yen

*** Implementation of audit procedures**

This financial report is exempt from audit procedures under the Financial Instruments and Exchange Act.

*** 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.

Contents

Consolidated Financial Statements	2
(1) Consolidated Balance Sheet.....	2
(2) Consolidated Statements of Income and Comprehensive Income	4
(3) Consolidated Statement of Changes in Equity	6
(4) Consolidated Statement of Cash Flows.....	8
(5) Notes to Consolidated Financial Statements.....	9
(Going Concern Assumption)	9
(Segment Information)	9
(Per Share Information).....	10
(Material Subsequent Events).....	11

Consolidated Financial Statements**(1) Consolidated Balance Sheet**

(Thousands of yen)

	FY2016 (As of Dec. 31, 2016)	FY2017 (As of Dec. 31, 2017)
Assets		
Current assets		
Cash and deposits	2,161,186	1,856,218
Accounts receivable–trade	122,924	92,283
Merchandise and finished goods	86,920	82,650
Work in process	4,573	4,847
Raw materials and supplies	30,399	30,469
Other	86,686	67,779
Total current assets	2,492,690	2,134,250
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,959	9,132
Machinery, equipment and vehicles, net	55	45
Total property, plant and equipment	24,121	11,203
Total property, plant and equipment	35,136	20,381
Intangible assets	787	405
Total investments and other assets	37,681	35,349
Total non-current assets	73,605	56,136
Total assets	2,566,295	2,190,386

(Thousands of yen)

	FY2016 (As of Dec. 31, 2016)	FY2017 (As of Dec. 31, 2017)
Liabilities		
Current liabilities		
Accounts payable–trade	3,495	3,026
Current portion of bonds	28,000	28,000
Current portion of long-term loans payable	142,260	153,997
Accounts payable-other	76,907	124,727
Income taxes payable	4,959	19,259
Other	15,805	12,956
Total current liabilities	271,428	341,966
Non-current liabilities		
Bonds payable	172,000	144,000
Long-term loans payable	355,459	298,122
Asset retirement obligations	25,669	26,179
Other	2,416	2,209
Total non-current liabilities	555,545	470,511
Total liabilities	826,974	812,477
Net assets		
Shareholders' equity		
Capital stock	3,042,759	3,226,487
Capital surplus	1,860,826	2,044,512
Retained earnings	(3,169,633)	(3,906,897)
Treasury shares	—	(99)
Total shareholders' equity	1,733,952	1,364,003
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	57	(55)
Foreign currency translation adjustment	459	(1,131)
Total accumulated other comprehensive income	516	(1,186)
Subscription rights to shares	4,853	15,092
Total net assets	1,739,321	1,377,908
Total liabilities and net assets	2,566,295	2,190,386

(2) Consolidated Statements of Income and Comprehensive Income**Consolidated Statement of Income**

(Thousands of yen)

	FY2016 (Jan. 1 - Dec. 31, 2016)	FY2017 (Jan. 1 - Dec. 31, 2017)
Net sales	811,598	657,516
Cost of sales	254,425	222,502
Gross profit	557,172	435,013
Selling, general and administrative expenses	981,149	1,134,074
Operating income (loss)	(423,977)	(699,060)
Non-operating income		
Interest income	115	40
Subsidy income	8,692	5,381
Other	1,577	1,165
Total non-operating income	10,385	6,587
Non-operating expenses		
Interest expenses	5,660	6,901
Share issuance cost	1,467	1,858
Bond issuance cost	2,617	—
Issuance cost of subscription rights to shares	—	6,178
Foreign exchange losses	15,967	2,133
Other	1,353	1,950
Total non-operating expenses	27,066	19,023
Ordinary income (loss)	(440,657)	(711,496)
Extraordinary income		
Gain on sales of investment securities	177,543	—
Total extraordinary income	177,543	—
Extraordinary losses		
Impairment loss	25,811	21,884
Total extraordinary losses	25,811	21,884
Profit (loss) before income taxes	(288,926)	(733,380)
Income taxes-current	1,349	4,065
Income taxes-deferred	(335)	(181)
Total income taxes	1,014	3,883
Profit (loss)	(289,940)	(737,264)
Profit (loss) attributable to owners of parent	(289,940)	(737,264)

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY2016 (Jan. 1 – Dec. 31, 2016)	FY2017 (Jan. 1 – Dec. 31, 2017)
Profit (Loss)	(289,940)	(737,264)
Other comprehensive income		
Valuation difference on available-for-sale securities	(114,427)	(113)
Deferred gains or losses on hedges	1,696	—
Foreign currency translation adjustment	(3,389)	(1,590)
Total other comprehensive income	(116,120)	(1,703)
Comprehensive income	(406,060)	(738,967)
Comprehensive income attributable to owners of parent	(406,060)	(738,967)

(3) Consolidated Statement of Changes in Equity

FY2016 (Jan. 1 – Dec. 31, 2016)

(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	2,900,784	5,946	1,718,888	(2,879,693)	1,745,925
Changes of items during period					
Issuance of new shares—exercise of subscription rights to shares	141,975	(5,946)	141,937		277,966
Profit (loss) attributable to owners of parent				(289,940)	(289,940)
Net changes of items other than shareholders' equity					
Total changes of items during period	141,975	(5,946)	141,937	(289,940)	(11,973)
Balance at end of current period	3,042,759	—	1,860,826	(3,169,633)	1,733,952

	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	114,484	(1,696)	3,848	116,637	7,940	1,870,502
Changes of items during period						
Issuance of new shares-exercise of subscription rights to shares						277,966
Profit (loss) attributable to owners of parent						(289,940)
Net changes of items other than shareholders' equity	(114,427)	1,696	(3,389)	(116,120)	(3,087)	(119,207)
Total changes of items during period	(114,427)	1,696	(3,389)	(116,120)	(3,087)	(131,180)
Balance at end of current period	57	—	459	516	4,853	1,739,321

FY2017 (Jan. 1 – Dec. 31, 2017)

(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	3,042,759	1,860,826	(3,169,633)	—	1,733,952
Changes of items during period					
Issuance of new shares—exercise of subscription rights to shares	183,728	183,686			367,414
Profit (loss) attributable to owners of parent			(737,264)		(737,264)
Acquisition of treasury shares				(99)	(99)
Net changes of items other than shareholders' equity					
Total changes of items during period	183,728	183,686	(737,264)	(99)	(369,948)
Balance at end of current period	3,226,487	2,044,512	(3,906,897)	(99)	1,364,003

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	57	459	516	4,853	1,739,321
Changes of items during period					
Issuance of new shares-exercise of subscription rights to shares					367,414
Profit (loss) attributable to owners of parent					(737,264)
Purchase of treasury shares					(99)
Net changes of items other than shareholders' equity	(113)	(1,590)	(1,703)	10,239	8,535
Total changes of items during period	(113)	(1,590)	(1,703)	10,239	(361,413)
Balance at end of current period	(55)	(1,131)	(1,186)	15,092	1,377,908

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY2016 (Jan. 1 – Dec. 31, 2016)	FY2017 (Jan. 1 – Dec. 31, 2017)
Cash flows from operating activities		
Profit (loss) before income taxes	(288,926)	(733,380)
Depreciation	21,801	12,114
Impairment loss	25,811	21,884
Interest income	(115)	(40)
Interest expenses	5,660	6,901
Foreign exchange losses (gains)	12,248	1,414
Subsidy income	(8,692)	(5,381)
Share issuance cost	1,467	1,858
Bond issuance cost	2,617	—
Issuance cost of subscription rights to shares	—	6,178
Loss (gain) on sales and valuation of investment securities	(177,543)	—
Decrease (increase) in notes and accounts receivable–trade	68,459	29,531
Decrease (increase) in inventories	4,059	3,925
Increase (decrease) in notes and accounts payable–trade	(11,904)	(482)
Increase (decrease) in accounts payable–other	(6,668)	67,168
Other, net	(59,525)	22,010
Subtotal	(411,251)	(566,297)
Interest income received	183	40
Interest expenses paid	(5,809)	(6,872)
Income taxes (paid) refund	(43,390)	11,824
Other	7,300	250
Net cash provided by (used in) operating activities	(452,967)	(561,055)
Cash flows from investing activities		
Purchase of property, plant and equipment	(31,070)	(38,013)
Purchase of intangible assets	—	(117)
Proceeds from sales of investment securities	281,876	—
Other, net	(2,802)	—
Net cash provided by (used in) investing activities	248,004	(38,131)
Cash flows from financing activities		
Proceeds from long-term loans payable	400,000	100,000
Repayments of long-term loans payable	(115,898)	(145,600)
Proceeds from issuance of bonds	197,382	—
Redemption of bonds	—	(28,028)
Proceeds from issuance of subscription rights to shares	—	7,930
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	273,412	361,611
Other	—	(99)
Net cash provided by (used in) financing activities	754,897	295,814
Effect of exchange rate change on cash and cash equivalents	(13,689)	(1,595)
Net increase (decrease) in cash and cash equivalents	536,244	(304,967)
Cash and cash equivalents at beginning of period	1,624,941	2,161,186
Cash and cash equivalents at end of period	2,161,186	1,856,218

(5) Notes to Consolidated Financial Statements**(Going Concern Assumption)**

Not applicable.

(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 its 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 of kinase inhibitors and others.

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 used to prepare 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

FY2016 (Jan. 1 – Dec. 31, 2016)

(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	712,670	98,928	811,598	—	811,598
Intersegment sales or transfers	—	—	—	—	—
Total	712,670	98,928	811,598	—	811,598
Segment profit (loss)	192,059	(616,036)	(423,977)	—	(423,977)
Segment assets	315,996	53,322	369,318	2,196,977	2,566,295
Other items					
Depreciation	8,924	12,876	21,801	—	21,801
Increase in property, plant and equipment and intangible assets	7,893	36,978	44,872	—	44,872

Notes: 1. The adjustment of 2,196,977 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 profits (losses) are consistent with operating loss shown on the consolidated statement of income.

FY2017 (Jan. 1 – Dec. 31, 2017)

(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	657,516	–	657,516	–	657,516
Intersegment sales or transfers	–	–	–	–	–
Total	657,516	–	657,516	–	657,516
Segment profit	142,804	(841,864)	(699,060)	–	(699,060)
Segment assets	293,448	34,867	328,316	1,862,070	2,190,386
Other items					
Depreciation	6,712	5,402	12,114	–	12,114
Increase in property, plant and equipment and intangible assets	4,294	14,579	18,873	–	18,873

Notes: 1. The adjustment of 1,862,070 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 profits are consistent with operating income shown on the consolidated statement of income.

(Per Share Information)

(Yen)

Item	FY2016 (Jan. 1 – Dec. 31, 2016)	FY2017 (Jan. 1 – Dec. 31, 2017)
Net assets per share	187.73	142.68
Profit (loss) per share	(31.64)	(78.83)

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

2. Net income (loss) per share is calculated as follows:

(Thousands of yen)

Item	FY2016 (Jan. 1 – Dec. 31, 2016)	FY2017 (Jan. 1 – Dec. 31, 2017)
Profit (loss) attributable to owners of parent	(289,940)	(737,264)
Profit (loss) not attributable to owner of common stock	–	–
Profit (loss) attributable to owners of common stock of parent	(289,940)	(737,264)
Average number of common stock outstanding during the period (Shares)	9,162,414	9,388,725
Summary of dilutive shares not included in the calculation of diluted net income per share since there was no dilutive effect	3 subscription rights to shares (5,451 subscription rights) (545,100 shares)	3 subscription rights to shares (5,577 subscription rights) (1,609,800 shares)

3. Net assets per share is calculated as follows.

(Thousands of yen)

Item	FY2016 (As of Dec. 31, 2016)	FY2017 (As of Dec. 31, 2017)
Total net assets	1,739,321	1,377,908
Deduction from total net assets	4,853	15,092
[of which subscription rights to shares]	(4,853)	(15,092)
Net assets attributable to owners of common stock at end of period	1,734,468	1,362,816
Number of common stock used in calculation of net assets per share (Shares)	9,239,000	9,551,256

(Material Subsequent Events)

Based on the resolution by the board of directors meeting held on January 25, 2018, the Group received a bank loan as follows.

(Bank loan)

1. Lender	The San-in Godo Bank, Ltd.
2. Total amount	300 million yen
3. Interest rate	1.70% per annum (fixed rate)
4. Date of loan	January 26, 2018
5. Term	3 years
6. Security	N/A
7. Use of funds	Research and development expense

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.