



TaKaRa

Annual Report  
2014

TAKARA HOLDINGS INC.



## Contributing to the creation of a vital society and a healthy lifestyle through our fermentation technology and biotechnology in a way that achieves harmony with nature

As a pure holding company, Takara Holdings Inc. maximizes its business results by coordinating and controlling the management of all Group companies under its umbrella. These are the Takara Shuzo Group, which develops the Alcoholic beverages and seasonings business; the Takara Bio Group, which advances the Biomedical business; and Takara Healthcare, which accelerates growth in the Health foods business.

Based on this holding company structure, the Takara Group has built a unique, robust business portfolio. It combines a core business that generates stable earnings, the Alcoholic beverages and seasonings business, with highly promising growth businesses, the Biomedical business and the Health foods business.

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### Forward-Looking Statements

Statements in this report, other than those based on historical fact, concerning the current plans, prospects, strategies, and expectations of the Company and its Group companies represent forecasts of future results, or forward-looking statements. While such statements are based on the conclusions of management according to information available at the time of writing, they reflect many assumptions and opinions derived from information that includes major risks and uncertainties. Actual results may vary significantly from these forecasts due to various factors.

Factors that could influence actual results include, but are not limited to, economic conditions, especially trends in consumer spending, as well as exchange rate fluctuations, changes in laws and government systems, pressure from competitors' prices and product strategies, declines in selling power of the Company's existing and new products, disruptions to production, violations of the Company's intellectual property rights, rapid advances in technology, and unfavorable verdicts in major litigation.

### Business Structure

#### Takara Holdings Inc.

As a pure holding company, Takara Holdings Inc. aims to grow the business and increase the corporate value of all Group companies by strengthening the Group management base, developing a corporate culture and personnel and promoting social and environmental activities, among others.

#### Takara Shuzo Group

Alcoholic beverages and seasonings business



The Takara Group's core business, the Takara Shuzo Group, manufactures shochu, sake, light-alcohol refreshers, seasonings, and raw alcohol, rolling out these products not only in Japan but also in markets worldwide. Moreover, the Takara Shuzo Group is working to build a business base for the sale of Japanese foods and seasonings to Japanese restaurants overseas.



#### Takara Bio Group

Biomedical business



The Takara Bio Group not only manufactures and sells reagents and instruments for biomedical researchers and provides contract research services, but it also develops health food ingredients and cultivates and sells mushrooms. Further, the Takara Bio Group is investing operating profits and working to commercialize technologies that play a key role in gene and cell therapies.



#### Takara Healthcare

Health foods business



In the health foods market, which is expanding due to the increase in the elderly population and increasing health consciousness, Takara Healthcare develops safe and reliable health foods, utilizing the Takara Group's unique ingredients and technologies, and sells them directly to customers mainly through online stores.



#### Other subsidiaries

### The Takara Group's Corporate History

- 1842 Founding (began manufacturing and selling sake)
- 1864 Began manufacturing shochu and mirin
- 1925 Established Takara Shuzo Co., Ltd.
- 1949 Listed stock on the exchange
- 1977 Launched *Takara Shochu Jun*
- 1979 Launched "restriction enzymes," the first Japanese made reagents for genetic engineering research (began Biomedical business)
- 1982 Began local sake manufacturing in the United States
- 1984 Launched *Takara Can Chu-Hi*
- 2002 Restructured to a holding company structure
- 2004 Takara Bio Inc. stock listed on The Tokyo Stock Exchange Mothers
- 2006 Restructured Group business and established Takara Healthcare Inc.
- 2010 Acquired the shares of FOODEX S.A.S. (France) and entered the Japanese food wholesale business in overseas markets
- 2011 Started the long-term management vision "Takara Group Vision 2020"  
Started the "Takara Group Medium-Term Management Plan FY2014"
- 2014 Started the "Takara Group Medium-Term Management Plan FY2017"

- Takara Shuzo Group
- Takara Bio Group
- Takara Healthcare



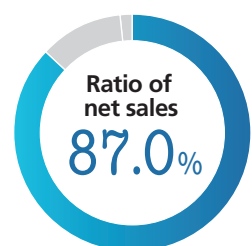
### Takara Holdings

Net sales **¥209,568 million**  
(+4.3% YoY)

Operating income **¥9,490 million**  
(+3.9% YoY)

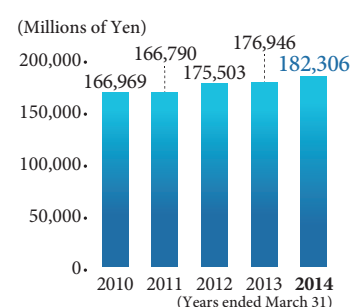
- In fiscal 2014, ended March 31, 2014, Takara Holdings recorded a 4.3% year-on-year increase in consolidated net sales, to ¥209,568 million. This is the third consecutive net sales record due to higher revenues from the Takara Shuzo Group and the Takara Bio Group.
- Consolidated operating income increased 3.9%, to ¥9,490 million, as higher income from the Takara Bio Group and the first operating profit for Takara Healthcare compensated for the decline in income from the Takara Shuzo Group.

### Takara Shuzo Group

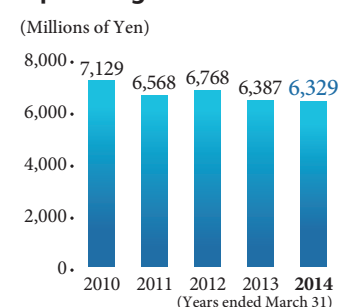


Net sales **¥182,306 million**  
(+3.0% YoY)  
Operating income **¥6,329 million**  
(-0.9% YoY)

#### Net Sales

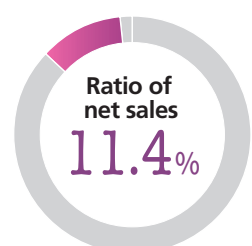


#### Operating Income



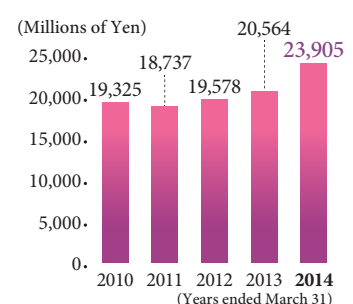
- While revenues from shochu decreased, sales of sake and light-alcohol refreshers grew and other business saw higher sales thanks to a significant revenue increase from the Japanese food wholesale business in overseas markets. As a result, net sales for the Takara Shuzo Group rose 3.0%, to ¥182,306 million.
- In income, higher raw material prices and other factors drove up the cost of sales ratio, and selling, general and administrative (SG&A) expenses rose due to higher personnel and transportation expenses, resulting in a 0.9% year-on-year decrease in operating income, to ¥6,329 million.

### Takara Bio Group

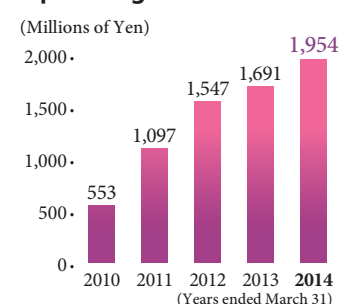


Net sales **¥23,905 million**  
(+16.2% YoY)  
Operating income **¥1,954 million**  
(+15.5% YoY)

#### Net Sales

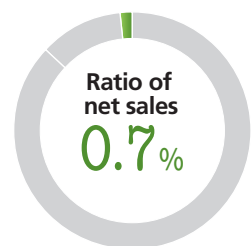


#### Operating Income



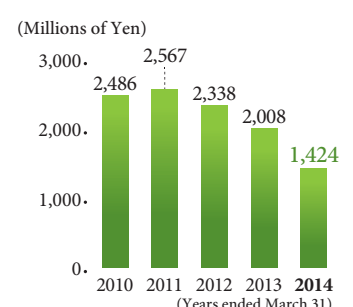
- The Takara Bio Group saw revenues decline in the AgriBio business due to a drop in sales in mushroom related products, but the Genetic Engineering Research business provided favorable results along with an increase in sales in the Gene Medicine business. As a result, net sales increased 16.2% year on year, to ¥23,905 million.
- In income, gross profit grew together with net sales. However, SG&A expenses rose due to higher personnel and R&D expenses. Regardless though, operating income rose 15.5%, to ¥1,954 million.

### Takara Healthcare

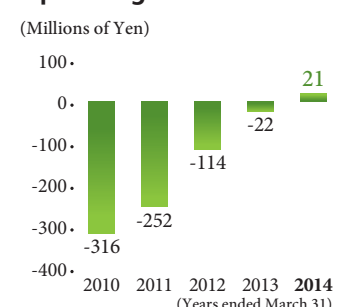


Net sales **¥1,424 million**  
(-29.1% YoY)  
Operating income **¥21 million**  
(improved ¥43 million YoY)

#### Net Sales










#### Operating Income



- Sales were up in Takara Healthcare's health care business, which is centered on fucoidan-related products. However, the end of the tea beverages private brand (PB) supply business adversely impacted sales, and net sales were down 29.1%, to ¥1,424 million, as a result.
- In income, the lower sales resulted in a decline in gross profit. However, thanks to cost cutting measures for each account item in SG&A expenses, operating income improved to ¥43 million, resulting in the first profit since Takara Healthcare's establishment posted as ¥21 million in operating income.

## Takara Holdings Prepares Takara Group Medium-Term Management Plan FY2017

<b>Basic Policy</b>	To achieve the Takara Group Vision 2020, we will improve domestic business profitability and expand our overseas business, while at the same time building a well-balanced business structure that can hold up well to business environment changes by accelerating the growth of our Biomedical business.		
<b>FY 2017 Tangible Goals</b>	Net sales: At least <b>¥230</b> billion	Operating income: At least <b>¥12</b> billion	Overseas sales over total net sales: At least <b>16%</b>
<b>Business Strategies</b>	 <b>Takara Shuzo Group</b>	Improve domestic business profitability by developing and cultivating products differentiated through technology application, while proactively expanding our Japanese food wholesale network and achieving dramatic overseas business growth.	
	 <b>Takara Bio Group</b>	Strategically invest in the field of regenerative medicine and cell therapy and speed up Biomedical business growth	
	 <b>Takara Healthcare</b>	Step up Health foods business growth through direct marketing	
<b>Priority Strategies</b>	 <b>Priority strategies (1) Takara Shuzo Group</b>	Expanding sake sales with a focus on <i>Mio</i>	
	 <b>Priority strategies (2) Takara Shuzo Group</b>	Building a Japanese food wholesale network in the U.S., Europe, and worldwide	
	 <b>Priority strategies (3) Takara Bio Group</b>	Expanding our development support services for bio-pharmaceuticals (CDMO business)	
	 <b>Priority strategies (4) Takara Bio Group</b>	Conducting clinical development for gene and cell therapy	
<b>Strengthen group's management base</b>	<b>Develop corporate culture/personnel</b>	<b>Promote social and environmental activities</b>	
Focus on enhancing quality control while supporting business strategies through cost reductions, business operation streamlining, and IT platform improvement	Leveraging and developing the diversity of human resources that help business strategies succeed while fostering a Group-wide corporate culture that respects laws and internal rules	We will meet our responsibilities to various stakeholders by advancing CSR initiatives and environmental initiatives through our business activities	
<ul style="list-style-type: none"> <li>● Enhancing quality control</li> <li>● Cost reduction and business process streamlining</li> <li>● IT platform improvement</li> </ul>	<ul style="list-style-type: none"> <li>● Leveraging and developing a diversity of human resources</li> <li>● Fostering a corporate culture that respects laws and internal rules</li> </ul>	<ul style="list-style-type: none"> <li>● Enhancing risk management</li> <li>● Improving quality assurance and internal auditing</li> <li>● Enhancing environmental activities</li> </ul>	
<b>Financial Policy</b>	Maintain a strong balance sheet with a focus on capital efficiency and engage in proactive investment into priority strategies to expand profits, while at the same time providing suitable returns to shareholders		

### Priority Strategies

**Priority strategies (1)**



**Expanding sake sales with a focus on *Mio***

- By establishing sparkling sake as a new segment with *Mio* sparkling sake by *Sho-Chiku-Bai Shirakabe-gura*, we bring new growth to the entire sake market as we look to expand Takara sake sales.
- As for *Mio*, although there had been an ongoing lack of product supply ever since the expansion of our sales channels in September 2013, increased capital investment into production facilities and the subsequent increase in production will dramatically turn sales around.
- The sales target for *Mio*, which we will be promoting as a core product, will be 2 million cases (1.4 million more cases than fiscal 2014; one case holds twelve 300 ml bottles) and ¥8 billion.

Takara Shuzo Group




**Priority strategies (2)**



**Building a Japanese food wholesale network in the U.S., Europe, and worldwide**

- With the Japanese food market expanding, FOODEX S.A.S. (France), TAZAKI FOODS LTD. (U.K.), and Cominport Distribución S.L. (a Spanish subsidiary of FOODEX) will lead the way in expanding and enhancing our Japanese food wholesale network in Europe while we strengthen coordination with Mutual Trading Co., Inc. (an affiliated company accounted for by the equity method).
- To expand our overseas Japanese food wholesale business to the Asia/Oceania region, we will be selecting partner companies for alliances and capitalization opportunities as part of proactive investment initiatives.
- In addition to further developing wholesalers in each area, we will leverage the synergies among wholesale companies in the Group with a focus on building the foundations for the optimal purchasing network that goes beyond any individual area.

Takara Shuzo Group



**Priority strategies (3)**



**Expanding our development support services for bio-pharmaceuticals (CDMO business)**

- Given Japanese governmental support for business in the field of regenerative medicine and cell therapy, we will be expanding the Bioindustry business as a stable revenue base by focusing more on development support services for bio-pharmaceuticals (CDMO business).
- The Center for Gene and Cell Processing (in Kusatsu City, Shiga Prefecture), which is scheduled to begin in October 2014, will be used as a core facility for the production of vectors for clinical trials of its own gene therapy projects and CDMO business as we look to further increase business growth.

Takara Bio Group



**Priority strategies (4)**



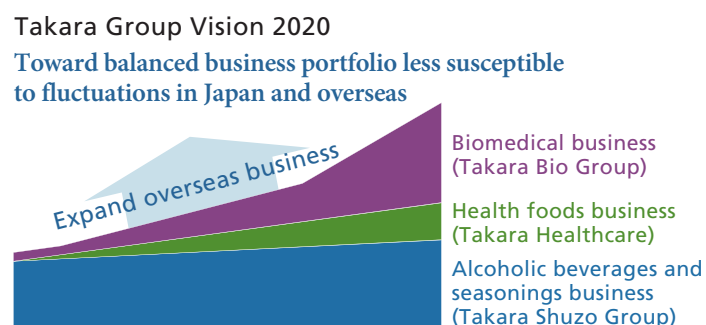
**Conducting clinical development for gene and cell therapy**

- In its Gene Therapy business, Takara is conducting several clinical trials of its own gene therapy projects. This includes fiscal 2015 commencement of phase 2 clinical trials for the HF10 anti-cancer therapy that targets malignant melanoma, with efforts underway to bring a product to market by fiscal 2019.

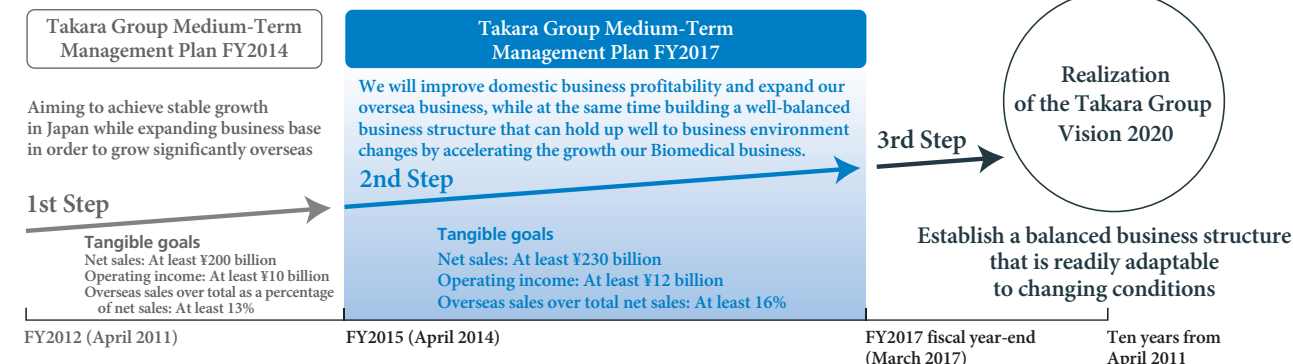
Takara Bio Group

### Long-Term Management Vision —Takara Group Vision 2020—

**Management Goal**  
Grow businesses in markets in Japan and overseas in which the Group can leverage its strengths, establish a balanced business structure that is readily adaptable to changing conditions



### Position of the Takara Group Medium-Term Management Plan FY2017





## Business Strategies for Each Group

### Takara Shuzo Group

Increase domestic business profitability by using technologies to develop and cultivate differentiated products and proactively expand the Japanese food wholesale network to dramatically expand our overseas business segment

FY2017 Tangible goals

Net sales

¥200.0 billion

Operating income

¥8.5 billion

#### Domestic Alcoholic Beverages Business

##### Basic Policy

- Expand sales of sake centered on sparkling sake *Sho-Chiku-Bai Shirakabe-gura Mio*
- Develop differentiated products and nurture brands in order to strengthen profitability with increasing proprietary technological capabilities, product development capabilities and the ability to cultivate new and existing products.

##### Expand sales of sake centered on *Mio*

- Sho-Chiku-Bai Shirakabe-gura Mio* sparkling sake
- Sho-Chiku-Bai Ten*
- Sho-Chiku-Bai Gokai* ... and more.



##### Differentiated product development and brand nurturing

- Takara Shochu High Ball*
- Jelly-like liqueur *Carina*
- 100% sweet-potato-based shochu *Ikkomon Aka*
- Yokaichi Aka*
- Takara HonMirin* and cooking sake ... and more.



##### Strengthen profitability

- Improve profitability by revising product lineup and cutting manufacturing costs
- Continuously strengthen profit management and promote operational efficiency

#### Seasonings and Raw Alcohol Business

##### Basic Policy

We will promote growth in the seasonings business by expanding functional seasonings for the ready-made-meal market, which has high-growth potential, and efficiently respond to fluctuations in raw material prices in the raw alcohol business.

##### Seasonings business

- Broaden our lineup of products to answer the needs of processed food manufacturers targeting working women and the elderly, two groups of consumers expected to increase.
- Develop differentiated products supported by fermentation technology such as functional seasonings that utilize the physical property improvement characteristics of malted rice.

##### Raw alcohol business

- Strengthen our ability to adapt to fluctuations in crude alcohol purchase prices due to the depreciation of the yen and other factors.
- Accelerate the development of new customers with our 99% and 95% alcohol product lineup for industrial applications.
- Restrict the downward trend of sales volume through continuous development of users for alcoholic beverages other than sake

Accelerate the growth of B-to-B business by satisfying meticulous user needs while leveraging our strengths in the face of a growing user market and diversifying preferences.

#### Overseas Business

##### Basic Policy

As the Japanese food market expands, we will accelerate the increase of our market share in the overseas Japanese alcoholic beverage category and make proactive investments to build a Japanese food wholesale network in Europe, the United States, and worldwide.

##### Japanese food wholesale business in overseas markets

- Build and expand our overseas Japanese food wholesale network  
Expand our network in Europe and the United States and select new partner wholesalers with the aim of establishing operational alliances and capital investment and realize the formulation of a new sales network in the Asia/Oceania region.
- Build and utilize a Japanese food ingredient purchasing network infrastructure overseas  
Use the buying power of raw material purchasing network of our operating companies and our Japanese food wholesale network to promote low-cost, stable purchasing.

##### Overseas alcoholic beverages business

- United States and Europe
  - Expand and deepen our network of Japanese restaurants and volume seller channels centered on sake.
- China and Asia
  - Expand the number of restaurants that handle sake targeting Japanese eateries in the major cities of China.
  - We will increase the sales of seasonings to processed food manufacturers.
- Whisky
  - We will generate stable profits by expanding the sales of Blanton's and Tomatin.

Maximize the synergies of two business domains and accelerate the pace of their respective business growth by proposing to Japanese restaurants combinations of Japanese alcoholic beverages such as sake and shochu and Japanese foods.

### Takara Bio Group

Strategically invest in the field of regenerative medicine and cell therapy and speed up Biomedical business growth

FY2017 Tangible goals

Net sales

¥28.0 billion

Operating income

¥2.25 billion

#### Bioindustry Business

##### Measures

- Expanding CDMO business concentrated on the Center for Gene and Cell Processing now under construction, including the commencement of contracted cell processing services and GMP-grade vector production services.
- Develop and increase sales of new products in our support for fields of regenerative medicine and cell therapy utilizing iPS cells, etc.
- Developing next-generation sequencing-related technologies to grow contract services business focusing on whole human genome sequence analysis and miRNA analysis.
- Enhancing our product development capabilities by establishing different development focuses that utilize the strengths of our three research and development bases in Japan, the United States, and China.
- Improve marketing and sales systems by focusing on, for example, sales promotion aimed at key accounts, make E-marketing more robust, and utilize new brand strategies
- Build an efficient production framework by enhancing coordination among production facilities in Japan, China, and India



that's  
GOOD  
science!

\* As a result of the corporate restructuring in April 2014, our "Genetic Engineering Research Business" was rebranded to "Bioindustry Business" and our "Gene Medicine Business" was renamed "Gene Therapy Business".

#### Gene Therapy Business

##### Measures

- Conduct the clinical development of HF10 anti-cancer therapy for solid cancer
- Conduct the clinical development of MAGE-A4 antigen-specific TCR gene therapy to treat esophageal cancer
- Conduct the clinical development of MazF gene therapy in the United States to treat HIV infections
- Conduct the clinical development of NY-ESO-1 antigen-specific TCR gene therapy to treat solid cancer.

#### AgriBio Business

##### Health foods business

##### Measures

- Strengthen scientific evidence for functional food ingredients (agro-medical approach)
  - Gagome kombu (kelp) "*fucooidan*"
  - Peucedanum japonicum "*isosamidin*"
  - Ashitaba (angelica herb) "*chalcone*"
  - Agar "*agaro-oligosaccharide*"
  - Lesser yam "*Yamsgenin*<sup>TM</sup>"
  - Mushroom "*terpene*"
- Promote awareness by releasing evidence-based data online and by distributing relevant literature

##### Mushroom business

##### Measures

- Production shift from *Hataakeshimeji* to *Honshimeji*
  - Expands sales by ramping up production of *Honshimeji* mushrooms at the Mizuho Nourin Co., Ltd.
  - Build a stable production system for *Honshimeji*
  - Expands sales by ramping up production of *Honshimeji* mushrooms at the Mizuho Norin Co., Ltd.
  - Expand the licensing business for mushroom-production technology



### Takara Healthcare

Speed up Health foods business growth through direct marketing

FY2017 Tangible goals

Net sales

¥2.0 billion

Operating income

¥100 million

- Prioritize the Gagome kombu (kelp) "*fucooidan*" series
- Develop the herb (Peucedanum japonicum) "*isosamidin*" series





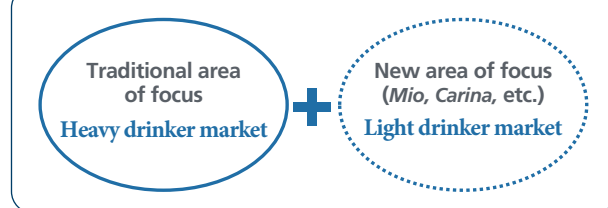
## Opening a new market with unique products designed for light drinkers



### Light drinkers increasing in every age group

As the domestic alcoholic beverage market continues to shrink and consumers' preferences diversify, the Takara Shuzo Group is fortifying its strategy focused on light drinkers, a new target demographic who drink alcoholic beverages at a low frequency and volume. These light drinkers, who prefer sake that is low in alcohol content and easy to drink, are increasing in number not only amongst young people but broadly over all age groups. Although the volume consumed per person is low, considering the sheer number of users, this particular market has an enormous scale.

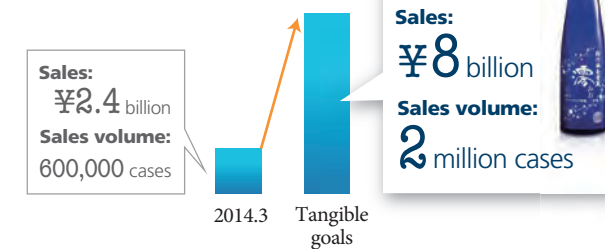
#### Takara Shuzo Product Strategy



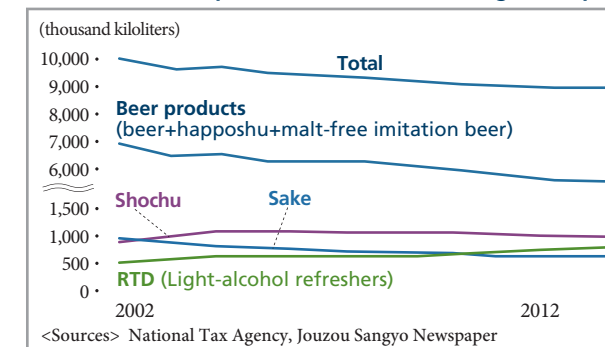
### Sparkling sake *Mio* acquires a new fan base

Our sparkling sake *Sho-Chiku-Bai Shirakabe-gura Mio* was developed in 2011 as a strategic product for this market. The sophisticated technological strengths of *Shirakabe-gura* has a faint sweetness that goes down easy with low alcohol, features not seen in conventional sake. Light drinkers who have never had sake or have a negative image of this beverage are truly surprised by the delicious taste. This year, we delivered some 600,000 cases thanks to efforts to expand sales routes. Takara Shuzo will continue to convey the deliciousness of sake to a multitude of consumers, with a particular focus on light drinkers, and foster *Mio* as a mainstay product achieve the goal of 2 million cases and ¥8 billion in sales annually.

#### Transition of *Mio* Sales Volume



#### Trend in Taxed Shipments of Alcoholic Beverages in Japan



### Sales promotion activities aimed at the target demographic

Our sales promotions for *Mio* feature the popular model and actress, Anne, who helps us engender a fresh, new worldview of sake through various media advertisements and at events where the target demographic gathers. Takara Shuzo is working to create opportunities and proliferate word of mouth that will result in a strong affection for *Mio*.



### Continuous market introduction of new products for light drinkers

In addition to *Mio*, the Takara Shuzo Group is developing new products targeting light drinkers. An example is our jelly-like sake *Carina* launched in 2013, which has a never-before-seen syrupy texture that gives new sensations to the pallet. This spring, we started distributing 900ml PET bottles through exclusive sales routes in order to increase opportunities to try this product at restaurants. In addition, we are constantly bringing to market new products that offer a sweet taste with low alcohol such as the *Takara Can Chu-Hi Surioroshi*, whose unique, fruity taste makes it fun to drink. Takara Shuzo will increase its presence going forward in the expanding light drinker market.



### TOKYO GIRLS COLLECTION

by *GirlsWalker.com*



### KOBE COLLECTION 2013 AUTUMN/WINTER MARKET





# Globally disseminating Japanese food culture as a Japanese alcoholic beverage manufacturer and Japanese food wholesaler

## Expanding our global business in the alcoholic beverage and Japanese food wholesale

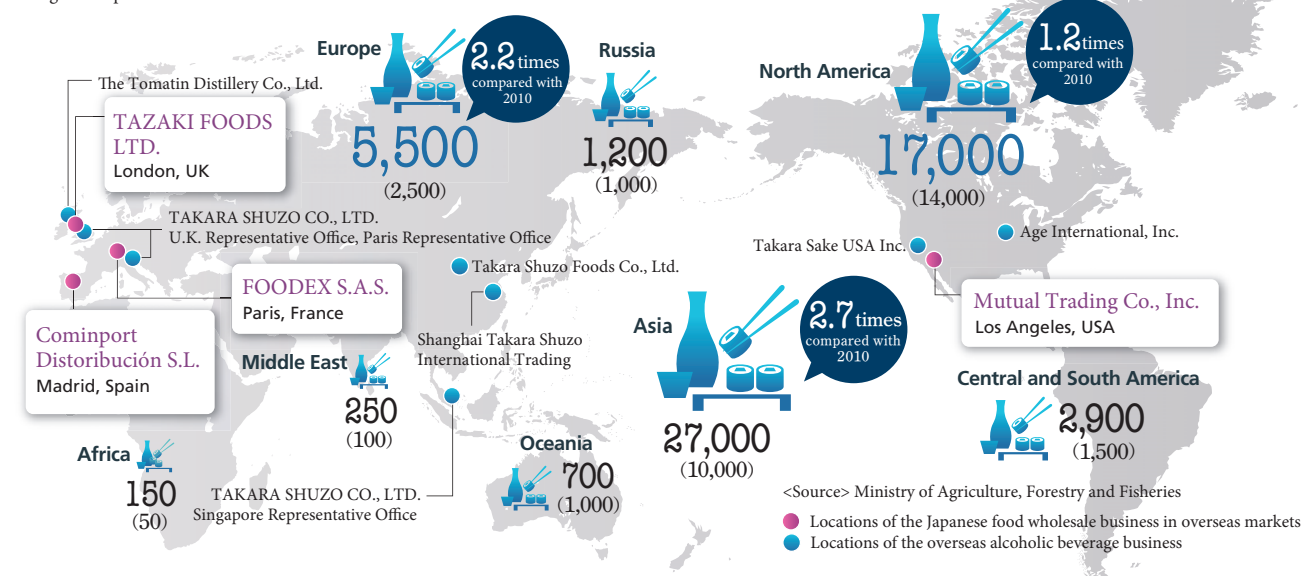
Demand for Japanese cuisine is expanding globally driven by a growing tendency towards health foods in Europe and the Americas and economic growth in emerging countries. The so-called "Japanese alcoholic beverages," such as sake and shochu, are also enjoying a steady increase in fan base the world over. The Takara Shuzo Group, eyeing the global marketplace, is broadening its overseas alcoholic beverages business and Japanese food wholesale business in overseas markets.

In the overseas alcoholic beverage business, Takara Shuzo is providing its *Sho-chiku-bai* sake and other Takara branded products worldwide. In the United States and China, where products are made locally, and in many European countries, our brands hold the No. 1 market share.

Meanwhile, in our Japanese food wholesale business in overseas markets, Takara Shuzo is strengthening its alliances with very successful local wholesalers in Europe and the United States and engaging in sales activities closely associated with the needs of each country and region. We provide diverse Japanese foodstuffs such as rice, sushi toppings as well as all manner of foods and seasonings that satisfy customer demands at Japanese cuisine restaurants and other eateries. Going forward, Takara Shuzo will promote business partnerships to formulate a new sales network in the Asia and Oceania regions.

## Overseas Locations of the Takara Shuzo Group and the Number of Japanese Cuisine Restaurants Worldwide

\* Figures in parentheses in the chart are the number of restaurants in 2010.



<Sources> Exports: Trade Statistics of Japan, Ministry of Finance  
Local production: Jozo Sangyo Newspaper (total of local production for nine major sake companies)

## Further strengthening the synergies of two businesses

The Takara Shuzo Group is currently focusing its strengths on comprehensive proposals that combine various Japanese foods and alcoholic beverages that will unleash the synergies of these two businesses. Fusing together our technological and product development capabilities fostered over many years as an alcoholic beverage manufacturer with the proposal formulation and sales capabilities of each wholesaler deeply knowledgeable of local customer needs, the Group will advance efforts to uncover new and latent needs in each region and engage in initiatives that will increase synergic effects between Group wholesalers in the future, including building an optimal procurement and inventory system that will surpass present territories.

# TOWARD 2020

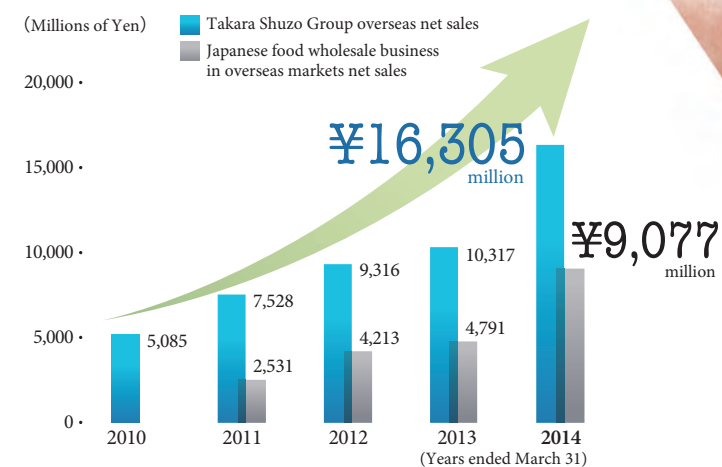
## “Washoku” (Japanese Cuisine) Added to UNESCO Intangible Heritage List

In December 2013, “washoku” (Japanese cuisine) was recognized as an intangible cultural heritage by UNESCO. This recognition of the passing down through the generations of Japanese cuisine cultural heritage, which is a manifestation of the soul of the nature-revering people of Japan, will deepen the understanding of Japanese cuisine by peoples all over the world and energize the market.



Takara Shuzo supports the activities of Washoku JAPAN.

## Takara Shuzo Group Overseas Sales



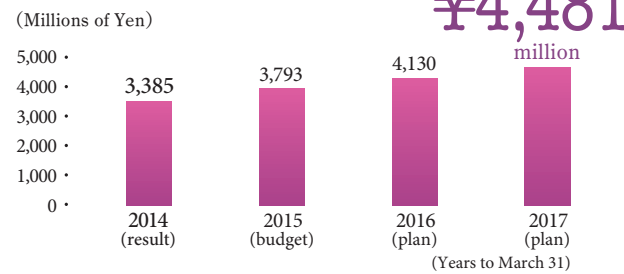


# Taking advantage of government policy on regenerative medicine and cell therapy

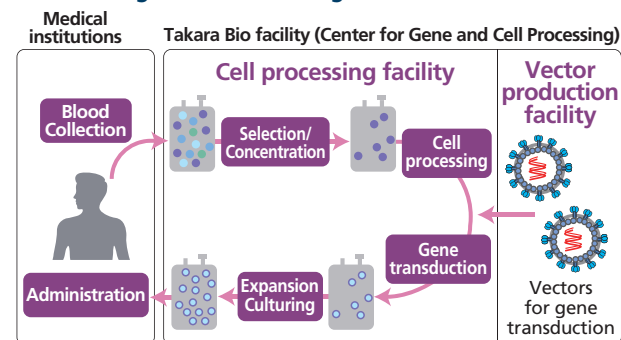
## Expanding our CDMO business for bio-pharmaceuticals

Thanks to new Japanese government policy supporting the development of regenerative medicine and cell therapy, the outsourcing of cell processing will become possible in 2014. Takara Bio aims to expand its CDMO (Contract Development and Manufacturing Organization) business, which involves GMP-compliant contract manufacturing and research of bio-pharmaceuticals leveraging technologies and know-how cultivated for many years for gene transduction, vector production, cell processing and preparation, among others.

### CDMO Business Sales



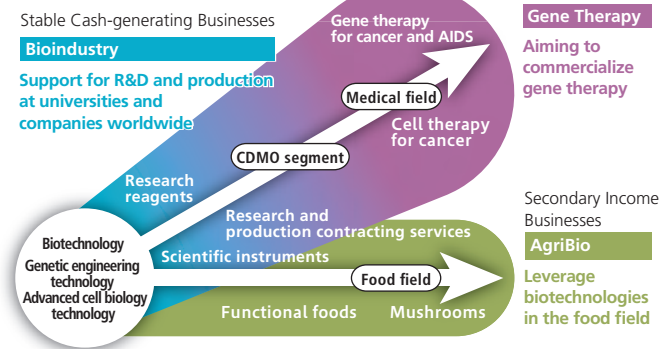
### Outsourcing of Cell Processing



### Schedule for Clinical Development of Gene Therapy Projects

Projects	Regions	Preclinical trials	Phase I clinical trials	Phase II clinical trials	Phase III clinical trials	Commercialization
HF10 anti-cancer therapy	United States			Phase II clinical trials (completion in FY2017)		Fiscal 2019
	Japan			Phase I clinical trials (commence in FY2015)		
MAGE-A4 antigen-specific TCR gene therapy	Japan			Phase I clinical trials (completion in FY2016)		Fiscal 2022
MazF gene therapy	United States			Phase I clinical trials (completion in FY2016)		Fiscal 2023
NY-ESO-1 antigen-specific TCR gene therapy	Japan			Phase I clinical trials (commence in FY2015)		

### Takara Bio Business Model



### Aiming for early commercialization of cell therapy projects while expanding our clinical trial pipeline

Takara Bio is focusing its strengths on new product development for basic research using iPS cells and other stem cells and research of regenerative medicine and cell therapy, and proactively committing research and development expenses on clinical development projects such as HF10 anti-cancer therapy, TCR gene therapy, and MazF gene therapy with the aim of early commercialization of these projects.

For HF10, the enrollment of test subjects for Phase I clinical trials in the United States was completed in April 2014. Phase II clinical trials are now underway for malignant melanoma with the aim of commercialization by fiscal 2019.



## Construction of the Center for Gene and Cell Processing as the base of our CDMO business

In October 2014, the Center for Gene and Cell Processing is scheduled to start operations as the base of Takara Bio's CDMO business. By July 2015, we will assemble and integrate our domestic facilities, which are now geographically dispersed, in Kusatsu City, Shiga Prefecture, where the Center is located, in hopes of streamlining R&D and enhancing the quality of our contract analysis services.



The Center for Gene and Cell Processing

### Goals

- ◆ Manufacturing of products resulting from Takara Bio clinical development projects
- ◆ GMP-compliant contract manufacturing of vectors for gene transduction
- ◆ GMP-compliant cell processing and preparation for regenerative medicine and cell therapy
- ◆ Development of vector and cell manufacturing processes and quality control testing methods



TOWARD 2020



## The Takara Group attained record high consolidated net sales.



**Toshio Kakimoto**  
President  
Takara Holdings Inc.

### Consolidated Business Results in Fiscal 2014

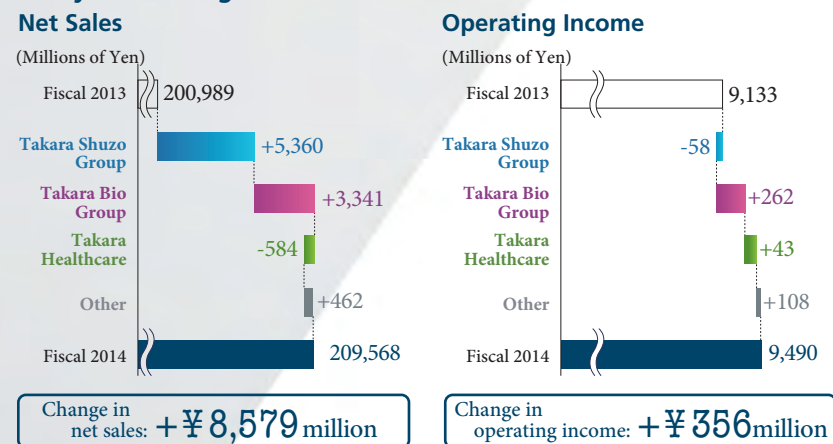
We set a new record high for net sales for the third consecutive year.

In fiscal 2014, ended March 31, 2014, there were signs of a modest recovery in the Japanese economy as corporate results fared well overall thanks to economic and monetary stimulus measures by the government and the Bank of Japan. However, since positive effects of this recovery on personal consumption are limited, with factors like the still continuing deflation trend, uncertainty about the future lingers.

In this environment, the Takara Group's consolidated net sales increased 4.3% year on year, to ¥209,568 million, thanks to an increase in revenue by the Takara Shuzo Group and the Takara Bio Group, rewriting the record highs we set in the last two fiscal years.

Meanwhile, operating income also increased 3.9%, to ¥9,490 million due to higher income by the Takara Bio Group outweighing the lower income in the Takara Shuzo Group. Moreover, because of extraordinary income from the partial sale of Takara Bio stock, net income substantially increased 119.3%, to ¥10,280 million.

### Analysis of Changes in Consolidated Financial Results for Fiscal 2014



### Takara Shuzo Group Business Results

New products and Japanese food wholesale business in overseas markets expanded favorably.

By category, the Alcoholic beverages and seasonings business saw a decline in sales of its mainstay shochu products. However, for sake, the business enjoyed a sharp increase in sparkling sake *Sho-Chiku-Bai Shirakabe-gura Mio* and positive sales of *Sho-Chiku-Bai Gokai* exclusively for restaurant sales channels, among others. Overseas, sake sales grew steadily thanks to factors such as the depreciation of the yen. Sales of light-alcohol refreshers also expanded significantly as *Takara Shochu High Ball* continued to deliver positive results with contributions from the newly launched jelly-like liqueur *Carina* and others.

Our seasonings performed favorably as a result of a focus on product development geared towards responding to user issues at processed food and deli manufacturers. The Japanese food wholesale business in overseas markets saw a great increase in revenue mainly attributable to the addition of the sales of newly consolidated TAZAKI FOODS LTD. and higher sales at FOODEX S.A.S..

As a result, total net sales for the Takara Shuzo Group rose 3.0% year on year, to ¥182,306 million. However, operating income fell 0.9%, to ¥6,329 million due to factors such as galloping raw material prices and increases in personnel and transportation expenses.

### Takara Bio Group Business Results

Revenue and profits increased thanks to positive results from our Genetic Engineering Research business.

The Takara Bio Group's core operation, the Genetic Engineering Research business, witnessed sales growth in its mainstay research reagents in addition to scientific instruments and contract research services. Revenues were also vastly higher in the Gene Medicine business following favorable sales of culture media and gas-permeable bags. Meanwhile, unfortunately, the AgriBio business suffered lower sales of mushroom related products despite a hike in health food sales.

As a result, the total net sales of the Takara Bio Group rose 16.2% year on year, to ¥23,905 million thanks in part to the depreciation of the yen, with operating income up 15.5% to ¥1,954 million, signifying the attainment of increases in both revenue and profits for the third consecutive year.

### Takara Healthcare Business Results

First operating profit recorded since its establishment.

In Takara Healthcare's health care business, which is centered on *fucoidan*-related products, sales were up. However, the end of the tea beverages private brand (PB) supply business caused net sales to fall significantly. Nevertheless, the end of that business caused the high-margin health care business to take up a higher percentage that resulted in an improved cost of sales ratio, which, along with efforts to reduce selling, general and administrative (SG&A) expenses, caused the operating income (loss) figure to improve by ¥43 million year on year, allowing us to post ¥21 million in operating income, the first profit since its establishment.

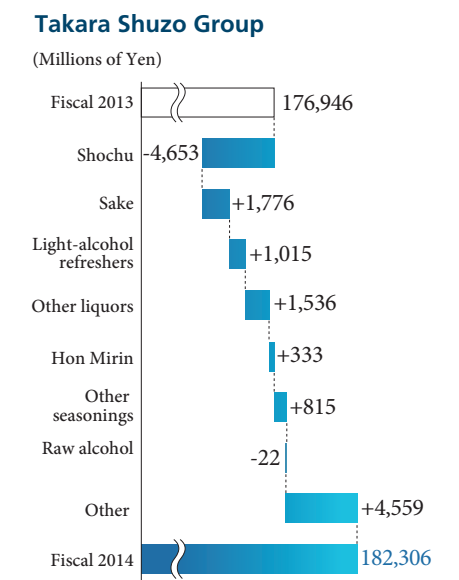
### Shareholder Returns

A combined regular dividend and special dividend totaling ¥11.00 was paid.

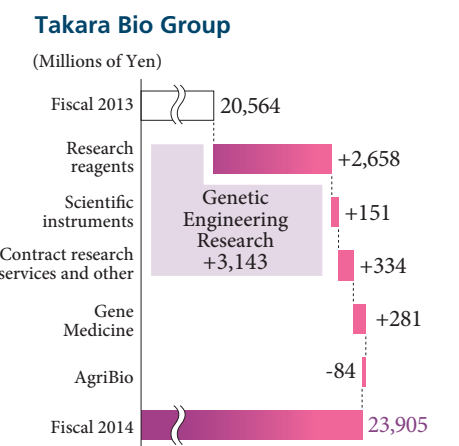
In August 2013, our subsidiary, Takara Bio Inc., increased its capital through a public subscription for the purpose of procuring funds for capital investment in CDMO business, a crucial strategy for future growth, and R&D of clinical development projects and other endeavors in its Gene Medicine business. Simultaneously, Takara Holdings sold a portion of its shares in Takara Bio Inc. to improve share distribution conditions. As a result, the equity ratio of the Company with respect to that company fell from 70.4% to 60.9%. However, this does not change the materiality of that subsidiary within the Takara Group, as it engages in the ever-growing Biomedical business.

Regarding fiscal 2014's dividend, in addition to the regular dividend payout

### Analysis of Changes in Net Sales for Fiscal 2014

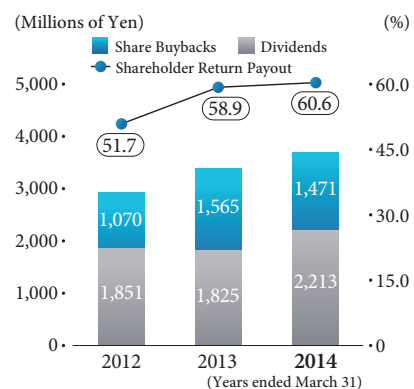


### Analysis of Changes in Net Sales for Fiscal 2014





### Shareholders Returns



of ¥9.00 per share, a special dividend payout of ¥2.00 per share was made to return to our valued shareholders the extraordinary income resulting from the sale of Takara Bio shares, for a total dividend payout of ¥11.00 per share. As a result, total shareholder returns amounted to ¥3,685 million, combining total dividend payments of ¥2,213 million and share buybacks of ¥1,471 million, for a shareholder return payout\*1 of 60.6%.

- \*1. Shareholder return payout = Total shareholder returns (Total dividends + Amount of share buybacks) ÷ Deemed consolidated net income\*2 ≥ 50%
- \*2. Deemed consolidated net income = (Consolidated ordinary income – Interest income and dividends + Interest payments) × (1 – Effective tax rate)

### Fiscal 2015 Forecasts and Shareholder Returns

**Aiming for higher revenue and profits in fiscal 2015, despite the severe business climate.**

The Takara Group anticipates a stringent operating environment to encompass it in fiscal 2015, with factors such as a shrinking domestic alcoholic beverages market and effects of a depreciated yen causing import fuel and raw material cost to skyrocket. Meanwhile, however, the Japanese economy is showing signs of overcoming deflation and achieving recovery, along with an expanding Japanese alcoholic beverage and food market worldwide, invigorated research and development in the regenerative and cell therapy field, and many other developments that I believe will bring opportunities for growth going forward for the Group.

Under such circumstances, the Takara Shuzo Group in fiscal 2015 will strive to increase our profitability in domestic business by fostering brands continuously loved by consumers, as well as aim to build a well-balanced business structure by expanding overseas business. In addition to boosting sake sales with differentiated products such as *Sho-Chiku-Bai Shirakabe-gura Mio* sparkling sake, we predict growth in our Japanese food wholesale business in overseas markets, among other factors, to result in a 3.9% hike in net sales for the overall Group compared to fiscal 2014, to ¥189.5 billion. Operating income is also slated to incline 7.4% year on year, to ¥6.8 billion from continuous efforts to reduce costs and curb rising cost of sales.

The Takara Bio Group is expected to post a 5.4% net sales increase, to ¥25.2 billion by working to expanding sales of research reagents and focusing its strengths on CDMO business centered on the Center for Gene and Cell Processing scheduled to start full operations in October of this year. For operating income, a 2.3% rise, to ¥2.0 billion is planned as the consequence of absorbing an increase in R&D expenses injected in clinical development projects.

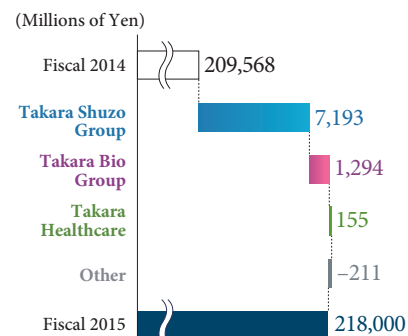
Takara Healthcare is forecasting a net sales increase of 10.9% year on year, to ¥1,580 million resulting from efforts to accelerate its mail-order sales business mostly for the Gagome kombu (kelp) *fucoidan* series. Operating income is expected to surpass that of fiscal 2014 to ¥30 million.

The above initiatives are expected to result in a 4.0% increase in the Group's consolidated net sales, to ¥218.0 billion, with operating income rising 3.3%, to ¥9.8 billion. Net income is slated to decline 48.4%, to ¥5.3 billion due to the lack of proceeds from sales of shares of a subsidiary posted as extraordinary income in fiscal 2014.

Dividends for fiscal 2015 are expected to be ¥9.00 per share, the same regular dividend payout as fiscal 2014. Retained earnings will be appropriated to maintain a sound financial position for every company in the Group, strengthen our business base and invest in important strategies to increase profits, all in an effort to continually increase the corporate value of the entire Group.

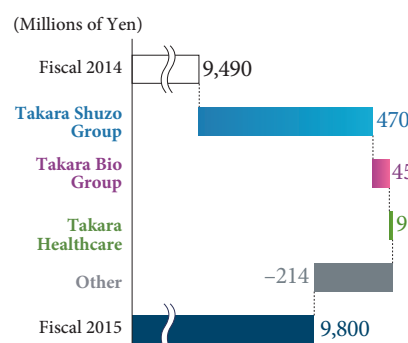
### Analysis of Changes in Consolidated Financial Results for Fiscal 2015 (planned)

#### Net Sales



Change in net sales: +¥8,431 million

#### Operating Income



Change in operating income: +¥309 million

## The Group will launch the Takara Group Medium-Term Management Plan FY2017 to further increase corporate value.

### A Look Back at the Takara Group Medium-Term Management Plan FY2014

While net sales and ratio of overseas sales to net sales results achieved targets, operating income failed due to galloping raw material prices, among other factors.

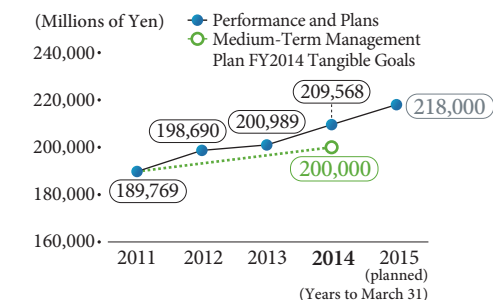
In April 2011, the Takara Group established its 10-year long-term management vision, the Takara Group Vision 2020 as a means to start fresh. Fiscal 2014 was also the final year of the Takara Group Medium-Term Management Plan FY2014, which was the first step towards realizing this long-term vision.

Under this medium-term management plan, our basic policy is to achieve stable growth in Japan while expanding our business base in order to grow significantly overseas, with the aim of further increasing the Group's corporate value. We promoted various policies with the defined tangible goals of at least ¥200 billion in consolidated net sales, at least ¥10 billion in operating income and at least a 10% ratio of overseas sales to net sales.

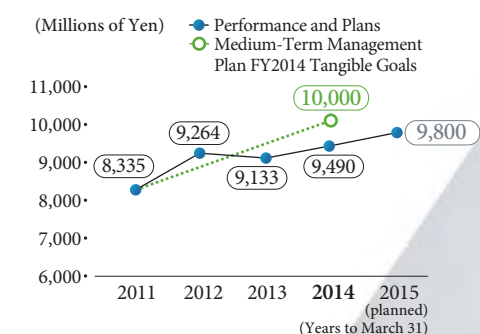
At the conclusion of the medium-term management plan's 3-year period, total net sales for the Group were ¥209.5 billion, exceeding the target figure, with a ratio of overseas sales to net sales of 13%, also higher than the target. These are the successes of the last three years. On the other hand, operating income, which amounted to ¥9.4 billion, fell short of the ¥10 billion target, becoming a lingering issue for the Group but clearly illuminating what we should do and focus on going forward to achieve the target. From fiscal 2015, in light of the various issues uncovered during the last three years, we will push forward growth strategies based on the new medium-term management plan.

### Medium-Term Management Plan FY2014 Tangible Goals and Actual Performance

#### Consolidated Net Sales



#### Consolidated Operating Income



### Establishment of the Takara Group Medium-Term Management Plan FY2017

**We will reform our business structure to improve balance and resilience to changing conditions, aiming to achieve at least ¥230.0 billion in consolidated net sales, ¥12.0 billion in operating income and a 16% ratio of overseas sales to net sales.**

The Takara Group Medium-Term Management Plan FY2017 will be launched from fiscal 2015 as the second step towards realizing our long-term vision Takara Group Vision 2020. Its basic policies include improving earning capabilities in Japan and working to expand and grow business overseas while accelerating the growth of our biomedical business with the aim of reforming the business structure of the entire Takara Group to improve balance and resilience to changing conditions. Our defined tangible goals for fiscal 2017 are Group consolidated net sales of at least ¥230 billion, operating income of at least ¥12 billion and a ratio of overseas sales to net sales of at least 16%.

The following is an explanation of our business strategies for achieving the above goals.

The Takara Shuzo Group, in its domestic alcoholic beverages business,







plans to energize the overall sake market by establishing a new market for sparkling sake with *Mio*. To this end, it will set up a system for higher output with capital investment in plants with the goal of making *Mio* a mainstay product with a sales volume of 2 million cases\*<sup>1</sup> and net sales of ¥8 billion annually. We will also focus our strengths on developing and fostering products and enhancing profitability to have strong brands in each category such as the *Shochu High Ball* in the light-alcohol refresher category, *Ryori-no-Tame-no Seishu* (cooking sake) in the seasonings category, among others. Meanwhile, the Group will proactively expand its overseas alcoholic beverages business, which sells sake, shochu and other Japanese alcoholic beverages manufactured both domestically and abroad, as well as Japanese food wholesale business in overseas markets, handling sales of Japanese foodstuffs and seasonings, etc. to restaurants serving Japanese cuisine. Raw material prices are expected to remain high in fiscal 2015 and beyond due to factors such as the depreciated yen. A weak yen, however, will conversely have a positive effect in its overseas business. Therefore we will work to increase the ratio of overseas sales in net sales and, which in turn will outweigh cost increasing factors in domestic business.

The Takara Bio Group will focus its strengths on CDMO business backed by government support for the regenerative and cell therapy field in hopes of expanding its Bioindustry business, a stable earnings base for the Group. In the AgriBio business, a system for stable and increased production output will be established for the high value-added Honshimeji products and existing sales channels will be expanded with the objective of achieving an operating profit in fiscal 2016. In the Group's Gene Therapy business, not only will Phase II clinical trials for HF10 anti-cancer therapy drug for solid cancers start during fiscal 2014 with efforts made to realize commercialization by fiscal 2019, but also every clinical development project will be advanced steadily to become growth businesses in the future.

Takara Healthcare will commit its energies primarily on the Gagome kombu (kelp) *fucoïdan* series and accelerate growth in its mail-order business, all the while fostering *Peucedanum japonicum isosamidin* series and others to become next pillars of the healthcare business after *fucoïdan*.

Financially, the Takara Group will maintain a sound financial position and, keeping capital efficiency in mind, engage in aggressive investments in important strategic fields whose profit margin is large and growth is expected. These include making capital investments in domestic alcoholic beverage operations centered on boosting production of *Mio*, conducting mergers and acquisitions to expand our Japanese food wholesale business network in overseas markets, making capital investments to strengthen Takara Bio's CDMO business, and investing in R&D for clinical development projects.

Regarding shareholder returns, we intent to increase payouts depending on the level of consolidated operating income, setting a benchmark of 30% "deemed dividend payout ratio\*<sup>2</sup>," a ratio of total dividend to after-tax operating income. Agile implementation of share buybacks designed to contribute to capital efficiency enhancement will be considered depending on conditions.

\*<sup>1</sup> One case holds twelve 300 ml bottles  
 \*<sup>2</sup> Deemed payout ratio: Total dividends / (Consolidated operating income x (1 - Statutory effective tax rate)) ≈ 30%

### Thoughts on the New Medium-Term Management Plan

We aim for a continuous development as a corporate group in which all employees are engaged.

I am fully aware that, as stated in our long-term vision Takara Group Vision 2020,

to expand our business in markets where our strengths can be utilized both in Japan and overseas and establish a balanced business structure that is readily adaptable to changing conditions, is my primary mission. Failure to achieve the targets of the Medium-Term Management Plan FY2017, the second step to realize the above mission, will render the Takara Group Vision 2020 unattainable. This means that this medium-term management plan is of paramount importance to the Takara Group.

Regarding the basic policies, defined tangible goals, business strategies, etc. of the Medium-Term Management Plan FY2017, as mentioned above, Takara Holdings will work to foster a corporate culture and human resources, strengthen our business base and promote social and environmental activities for the entire Takara Group as its holding company.

We will particularly focus our energies on utilizing and fostering human resources, the greatest management resource for any company. To ensure a continuous development, I believe it is important above all other concerns that each and every employee should strive to innovate and evolve as a person, and then continue this process, with all employees participating in concert. In order to map out a plan for our own evolution and clarify a direction, this new medium-term management plan provides meticulous strategies for each department involved in development, sales, and production, as well as for each distribution channel and product category. I firmly believe that, based on these strategies, efforts to hone our knowledge, experience, and technical and R&D prowess fostered onsite over many years by all employees and unleash a high level of creativity will generate revolutionary products and services like *Mio* going forward.

In fiscal 2014, we welcomed the UK's TAZAKI FOODS LTD. and Spain's Cominport Distribución S.L. into the Group bringing the number of consolidated companies to surpass 40 both in Japan and overseas, with over 3,500 employees. For our business to continue into the future, I believe it is necessary for all employees of Takara Shuzo, Takara Bio and Takara Healthcare, as well as all Group companies worldwide to wholeheartedly take part in efforts to strengthen quality control, uphold compliance, promote CSR activities and other initiatives to fortify the business base that supports our business at the same time as the implementation of business strategies.

In order to convey these personal concepts to employees, I vigorously visit all locations and set up a forum where employees' voice can be heard. Our Group boasts a corporate culture that allows for free and energetic exchange of opinions by anyone regardless of department or position.

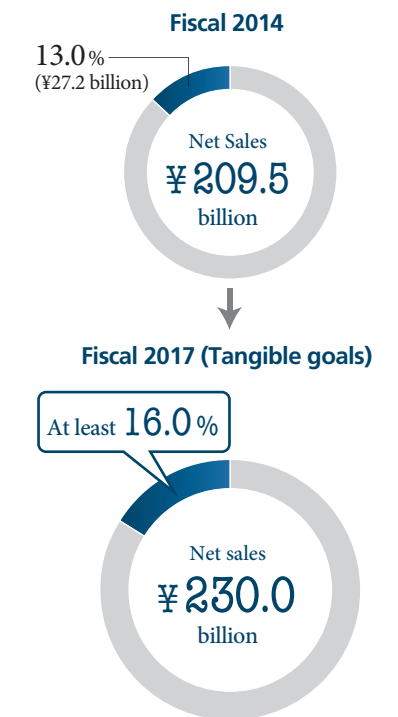
Based on this corporate culture, the Group aims to increase corporate value and realize continuous development going forward as a corporate group in which all employees are engaged.

I beseech all of our valued shareholders and investors for their continued support.

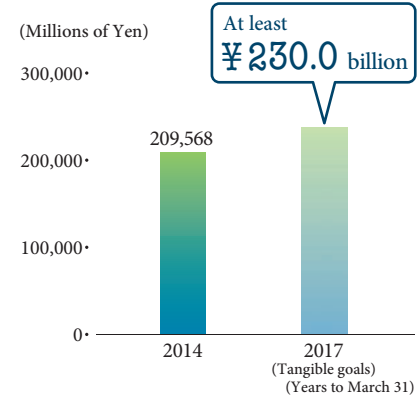
August 2014

Toshio Kakimoto  
 President  
 Takara Holdings Inc.

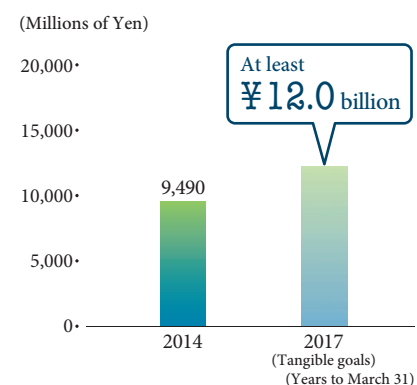
### Overseas Sales Accounting



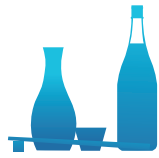
### Medium-Term Management Plan FY2017 Tangible goals Consolidated Net Sales



### Operating Income







## Takara Shuzo Group



The history of the Takara Group's core Alcoholic beverages and seasonings business goes back to 1842. For 170 years, it has been our mission to provide reliable products that are in tune with the changing times and diversifying customer tastes and values and are backed by our ingenuity and proven technologies. Its current lineup spans a broad range of product categories, including shochu, sake, light-alcohol refreshers, wine, whisky, Chinese alcoholic beverages, seasonings, and raw alcohol. We are rolling out these products not only in Japan but also in markets worldwide. Moreover, the Takara Shuzo Group is focusing on building a business base overseas to sell its Japanese foodstuffs and seasonings, among others, to Japanese restaurants.

### Shochu



Proprietary brewing and storage technologies garnered over many years have consistently enabled Takara Shuzo to realize shochu products that satisfy changing consumer preferences and develop the shochu market continually. For *ko*-type shochu, Takara Shuzo has built the largest share of the market for premium shochu blended with 3% barrel-aged shochu *Gokujo Takara Shochu* as well as the long-seller, *Takara Shochu Jun*, among other brands based on No.1 *ko*-type shochu brand, *Takara Shochu*, which has a reputation steeped in tradition and reliability. Meanwhile in the *honkaku* shochu market, Takara Shuzo has launched and nurtured a range of unique shochu products for the discerning palate such as *Ikkomon*, a 100% sweet-potato-based shochu and *Shirashinken honkaku* barley shochu, which accentuates the rich flavor of barley, as well as original products like *Yokaichi*, which caters to those who wish to enjoy shochu casually with their evening meal.

### Sake



As the sake for celebrations, *Sho-Chiku-Bai* has become the foremost brand in the special occasion and gift sake market. Also, Takara Shuzo produces such quality sake as the new-concept sparkling sake *Sho-Chiku-Bai Shirakabe-gura Mio* and *Sho-Chiku-Bai Shirakabe-gura Kimoto Junmai* at a specially built facility. Completed in 2001, the *Shirakabe-gura* Brewery combines leading-edge facilities that recreate traditional, artisan-inspired brewing techniques and sake brewing done by hand. For the market comprising customers who wish to enjoy sake informally with their evening meal, we have launched *Sho-Chiku-Bai Ten* in a new pouch-pack container to satisfy diverse customer needs. Meanwhile, in the restaurant and bar market, *Sho-Chiku-Bai Gokai* enjoys strong customer endorsement.

### Light-Alcohol Refreshers



Many people love the unique taste of products such as *Takara Shochu High Ball*, with its distinctively dry flavor that has long been a favorite in the neighborhood bars of downtown Tokyo, and *Takara Can Chu-Hi*, Japan's first canned *chu-hi* product that has been on the market for over 30 years since its launch in 1984. We will continue to develop and nurture products that have been refined by a discerning eye to satisfy various customer preferences such as the jelly-like liqueur *Carina*, which boasts an exciting new texture characterized by its syrupy consistency coupled with fruity sweetness, and the *Takara Can Chu-Hi Surioroshi* series, which features the texture of thick pulpy fruit juice.

### Seasonings



Aiming to provide delicious food through products derived from traditional sake brewing techniques, Takara Shuzo offers a wide range of alcohol-based seasonings that render dishes more delicious and enrich meal times. These seasonings include *Takara Hon Mirin*, which as a leading brand has continually evolved in tandem with Japanese cuisine, and *Ryori-no-Tame-no-Seishu*, a cooking sake without added salt. In the food-processing market, for ready-prepared meals and processed food products Takara Shuzo offers a lineup of alcohol-based seasonings and soup stocks. Also, the company provides customers with solutions to diverse issues through food analysis, cooking research, and recipe development.

## TOPICS

### Takara Can Chu-Hi awarded "The Good Design 2013 Long Life Design Award"

"The Good Design Long Life Design Award" recognizes the designs of products that have been continuously available for at least 10 years since their launch on the market and have received longstanding support from consumers. Award recipients are selected by consumers who consider those products a part of their lives and want them to continue this role. *Takara Can Chu-Hi*, Japan's first canned *chu-hi* product that has been on the market for over 30 years since its launch in 1984, continues to enjoy support from dry *chu-hi* lovers.



### Sake made at the Shirakabe-gura Brewery and Fushimi Plant is awarded the Annual Japan Sake Awards' "Gold Prize"

Sake manufactured at Takara Shuzo's Shirakabe-gura Brewery (Higashinada Ward, Kobe) and Fushimi Plant (Fushimi Ward, Kyoto) won the National Research Institute of Brewing's highest award, "Gold Prize" for the 2012 brewing year\*. This is the 10th consecutive year that the Shirakabe-gura Brewery has received the Gold Prize, and the 5th consecutive year of winning it with the Fushimi Plant.



\*Brewing year: A one-year period from July 1 to June 30 during which sake is manufactured. "Gold Prize" is bestowed on sake made in each brewing year.

### Three Blanton Series products awarded Double Gold Medals at the 2013 San Francisco World Spirits Competition

Blanton's *Bourbon Whisky*, Blanton's *Gold*, and Blanton's *Straight from the Barrel* (limited sales channel), imported and sold by Takara Shuzo, each won the Double Gold Medal at the 2013 San Francisco World Spirits Competition, the largest international spirits competition in America. This is the third consecutive year that Blanton's *Straight from the Barrel* is awarded the Double Gold Medal.



### Donation to Shirakawa City of land owned by Takara Shuzo located in Fukushima Prefecture

Since 2011, Takara Shuzo has been leasing part of the former site of its Shirakawa Plant (15,000 m<sup>2</sup> total), which was closed in 2003, to Fukushima Prefecture after a request was made by Shirakawa City on behalf of the prefectural government for use as a temporary housing area for those affected by the Great East Japan Earthquake. The site was donated to Shirakawa City primarily to enable the municipality's direct utilization of the land as its owner to instigate the early recovery of the disaster area.

### Takara Shuzo Farm School was awarded the Judging Committee Special Recognition Award of the Awards for Corporate Promotion of Youth Activities by the Ministry of Education, Culture, Sports, Science and Technology

The Award is bestowed to companies who undertake outstanding hands-on activities for youths as part of their corporate social responsibility activities whereby details are publicized cross-country to promote opportunities for youth activities. The Takara Shuzo Farm School has been held annually since 2004 bringing parents and children together to teach the nobility of nature, the importance of food, the interconnectivity of living things, and the preservation of biodiversity through hands-on rice cultivation, nature observation, cooking classes, and other activities. Uplifted by this Award, we will work to enhance our CSR activities in addition to the Takara Shuzo Farm School.



## Overseas

In recent years, Japanese food has been globalizing as a delicious and healthy cuisine. In step with this trend, the Takara Shuzo Group is engaged in two mainstay businesses, the Overseas alcoholic beverages business, which entails the local manufacture and sales of Takara Shuzo products including *Sho-Chiku-Bai* sake and *Takara Hon Mirin*, as well as the Japanese food wholesale business in overseas markets through which it sells Japanese foodstuffs to Japanese restaurants and retail stores overseas. The Overseas alcoholic beverages business is a proactive operation consisting mainly of four companies, namely Takara Sake USA Inc., which manufactures and sells sake and mirin for the entire United States and Europe, Takara Shuzo Foods Co., Ltd., a maker and distributor of sake, mirin and shochu in China, Age International Inc., which handles Blanton's *Bourbon whisky*, and The Tomatin Distillery Co., Ltd., which manufactures and sells Scotch whisky. Further, in the Japanese food wholesale business in overseas markets, along with welcoming France's FOODEX S.A.S., the UK's TAZAKI FOODS LTD. and Spain's Cominport Distoribución S.L. into the Group, we strengthened our alliance with long-time partner Mutual Trading Co., Inc. of the U.S., among other initiatives to advance the formulation of our global Japanese food wholesale network. As well as expanding these two businesses, the Group will strive to unleash their synergies and spread Japanese food culture worldwide, while simultaneously developing new sales channels in overseas markets.





## Takara Bio Group

The mission of the Takara Group's Biomedical business is to contribute to the health of humankind by developing revolutionary biomedical technologies such as cell medicine and gene therapy. The Takara Bio Group—whose role is to make this reality—is generating stable earnings from the Bioindustry business, which forms the core of both its technology and earnings base. We are working to achieve the early commercialization of gene therapies by investing the management resources from these two businesses in the Gene Therapy business.



Genetic Engineering Research ..... 84.2%  
 Gene Medicine ..... 6.4%  
 AgriBio ..... 9.4%

\*Although business segments have changed as a result of the corporate reorganization in April 2014, figures here are for business segments during fiscal 2014.



### Bioindustry

This business supports biotechnology research worldwide, from basic research conducted at universities to industrial companies working in such fields as drug-discovery research. The Group reflects market needs by developing and supplying reagents and devices such as highly functional PCR enzymes and real-time PCR systems used for gene amplification, in addition to high-value-added contract research services including high-speed sequence analysis and contract production services for iPS cells. From October 2014, we will launch operations at our new Center for Gene and Cell Processing to expand the CDMO business.



### Gene Therapy

Takara Bio applies its core gene and cell engineering technologies to promote the clinical development of gene therapies for cancer and HIV, among others. We aim to commercialize HF10 anti-cancer therapy for malignant melanoma in the year ending fiscal 2019, MAGE-A4 TCR gene therapy for esophageal cancer and other solid tumors in fiscal 2022 and MazF gene therapy for HIV infection in fiscal 2023.



### AgriBio

Takara Bio uses biotechnology to analyze the properties of traditional Japanese food ingredients. It then uses the functionality of Gagome kombu (kelp) "fucoidan," herb (Peucedanum japonicum) "isosamidin," and other ingredients to develop and manufacture health food products. Also, Takara Bio takes advantage of its technologies for breeding and large-scale cultivation of mushrooms in order to produce and sell Honshimeji and Hatakeshimeji, among others.



## Takara Healthcare

Takara Healthcare uses the Takara Group's proprietary technologies and ingredients to develop high-quality and differentiated health foods that are sold directly to customers through our online store. Our mainstay product "fucoidan," made only of high-purity Hokkaido Gagome kombu (kelp) extracts using proprietary technologies, is loved by many customers.



## TOPICS

### Marketing quality control reagents for human stem cells

Takara Bio launched quality control reagents for human stem cells such as human ES cells and human iPS cells on January 20, 2014. The cultivation of human ES cells and iPS cells involves the use of mouse-derived cells to create an environment necessary for the replication and differentiation of cells. To apply human ES cells and iPS cells to regenerative therapy, however, it is essential to remove mouse-derived cells to the greatest extent possible in order to ensure stem cell quality. This product is a research reagent capable of measuring the mouse-derived cell mix in a short time and with high sensitivity, using a real-time PCR method.



### Start of investigator-initiated clinical trials involving genetic immunotherapy for cancer, the first such efforts in Japan

Together with the Mie University Faculty of Medicine group, Takara Bio has been making preparations to begin clinical research and trials involving cancer therapies that use TCR gene therapy technologies. Clinical trials began in March, following the submission by Mie University of a clinical trial application for Phase I clinical trials (investigator-initiated trials) targeting solid cancers to the Pharmaceuticals and Medical Devices Agency on February 5, 2014.

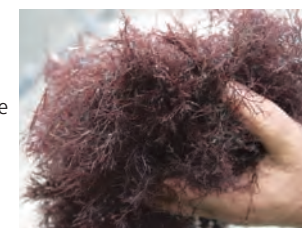
These clinical trials are a first for Japan in genetic immunotherapy for cancer, a cutting-edge field of medicine. During gene transduction, the Takara Bio-developed RetroNectin® method and retrovirus vectors for TCR gene transduction developed together with Mie University are used. Takara Bio plans to prepare and produce the TBI-1201 investigational drug which composed of MAGE-A4 TCR modified Tlymphocytes.

### Worldwide commercial licensing of a patent for a new method of producing iPS cells

As a first for a Japanese corporation, Takara Bio signed a patent licensing agreement on September 30, 2013 with iPS Academia Japan, Inc. for a new iPS cell production method discovered by a team led by Professor Shinya Yamanaka of Kyoto University. The conventional iPS cell production method uses a retrovirus vector and has high gene reprogramming efficiency. While it offers the benefit of being able to create iPS cells efficiently, there have been concerns that it could cause genetic mutations and unwanted effects including the formation of tumors. This agreement allows Takara Bio to provide contracted services in iPS cell production using plasmid vectors, which are safer than the existing method, and also to market research reagents. Takara Bio will continue to focus efforts on developing new products and services for research into iPS and other stem cells.

### Discovery of preventive effect of agaro-oligosaccharides on small intestinal ulcer

In January 2014, Takara Bio and the Kyoto Prefectural University of Medicine published online in the Journal of Gastroenterology and Hepatology their research findings after the discovery of preventive effects of agar-derived agaro-oligosaccharides (AGOs) on small intestinal ulcer. Non-steroidal anti-inflammatory drugs (NSAIDs), commonly used to treat inflammation and as an antipyretic analgesic, are reported to cause ulcer in the gastrointestinal tract. This study found that the oral administration of AGOs in mice prevents the side effect of NSAID-induced small intestinal ulcer and mucosal injury. Takara Bio will continue to use biotechnologies to advance further research and development of functional food ingredients that include agaro-oligosaccharides.



### Start of clinical research involving CAR gene therapy targeting malignant lymphomas

A clinical research protocol that was created between Takara Bio and Jichi Medical University Hospital for the CD19 antigen-specific chimeric antigen receptor (CAR) gene therapy targeting B cell non-Hodgkin lymphoma, a type of malignant lymphoma, was approved by the Ministry of Health, Labour and Welfare on March 4, 2014. With the remarkable effectiveness of the CD19-CAR gene therapy having been reported by the Memorial Sloan-Kettering Cancer Center (MSKCC) in the United States, CD19-CAR is drawing interest as a promising new therapy. Since acquiring the rights in October 2011 to use the vectors that the MSKCC used in clinical trials in the United States, Takara Bio has been preparing to start clinical research involving CD19-CAR gene therapy. Clinical research for CAR gene therapy is now underway, with the therapy positioned as one development candidate for gene therapy alongside TCR gene therapy.



## We are working to increase corporate value by providing safe and reliable products and services and contributing to the advancement of medicine.

The Takara Group is working to strengthen its ESG aspects based on its corporate philosophy and the Takara Group Medium-Term Management Plan FY2017. In the four main focus areas of safety, security and health, the cultivation of a corporate culture and the development of human resources, promoting environmental conservation and strengthening governance, the Group undertakes various activities and strives to increase the corporate value of the entire Group.

### Main Focus Areas and Initiatives

Takara Holdings Inc. Takara Shuzo Group Takara Bio Group

1. Safety, Security and Health

2. The Cultivation of a Corporate Culture and the Development of Human Resources

3. Promoting Environmental Conservation

4. Strengthening Governance

### 1. Safety, Security and Health

#### Quality control

Takara Shuzo acquired quality management system international standards ISO9001 certification and always conducts rigid quality control at all its plants to ensure food safety and security.

Takara Shuzo also implements strict label indication screenings to accurately convey raw material and nutritional composition information.



#### Prevention of accidental alcohol ingestion

Aiming to prevent the accidental consumption of alcohol by the visually impaired, Takara Shuzo became the first company in Japan to include the Japanese word for "alcoholic beverage" in braille on the tops of canned Chu-Hi products in 1995. In 2002, Takara Shuzo was also the first in Japan to do the same for the caps of alcoholic beverages sold in cardboard cartons.

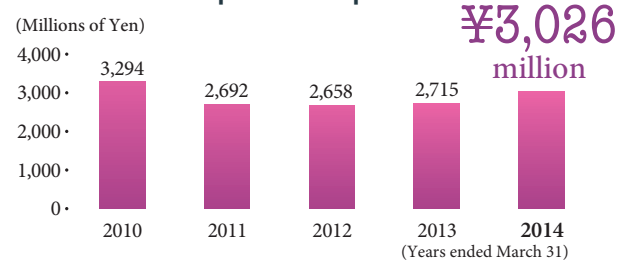
**Promoting appropriate consumption of alcohol**  
Takara Shuzo strives to enlighten the public on moderate

drinking by the rules. The Company uses warning labels to prevent underage drinking and drunk-driving. It also publishes a booklet entitled "Maintaining a Positive Relationship with Alcohol booklet" that provides accurate information on alcoholic beverages and ways to drink correctly.

#### Developing advanced medical treatment technologies

Takara Bio leverages its innovative biomedical technologies to develop and commercialize state-of-the-art medical treatment technologies for gene therapy, cell medicine and other fields to respond to unmet medical needs in cancer and HIV/AIDS treatment.

#### Takara Bio Group's R&D Expenses



#### Ethics in R&D

Takara Bio conducts R&D that uses tissues, cells, clinical specimens, genomes, and genes derived from humans.

#### Evaluation from external organizations

##### Inclusion in SRI index

The FTSE4Good Index Series is a socially responsible investment (SRI) index promoted by FTSE International Limited, a subsidiary of the London Stock Exchange Group. FTSE has investigated approximately 2,400 companies in 25 countries around the world, and has stringently selected those companies that meet international standards related to the environment and society for inclusion in the index. The Company was recognized for its eco-friendly business as well as for its social contribution activities, and was therefore chosen for inclusion in this SRI index.



Using these, Takara Bio conducts businesses related to gene investigation and contract operations as well as businesses that provide human tissue or cell products.

In addition to ensuring compliance with relevant laws and statutory regulations as a matter of course, Takara Bio views respecting human rights and ensuring that the above-mentioned operational activities contribute to society appropriately as important and has established bioethics and safety rules as well as an in-house bioethics committee that scrutinizes operations rigorously.

### 2. The Cultivation of a Corporate Culture and the Development of Human Resources

#### Cultivating a corporate culture of legal, regulatory and internal rule compliance

The Takara Group, with its Compliance Committee chaired by the President, works to fortify the compliance promotion and risk management systems of the entire Group and cultivate a corporate culture of legal, regulatory and internal rule compliance.

#### Fostering human resources that support business strategies

The Takara Group advances the utilization and fostering of diverse human capital that supports business strategies.

As an example, our "Iki-Iki-Jissenn-Kensyu (Fun Practical Training)" session held every year since 2005 under the theme "What can we do to improve performance?" is a forum to collect information on what employees feel and think when working that is submitted directly to the President and other members of the management team with the aim of improving the overall corporate results and building an exciting organization.

### 3. Promoting Environmental Conservation

#### Protecting biodiversity

Takara Holdings established the Takara Harmonist Fund in 1985 as a public trust fund which has provided every year since then assistance to groups and individuals conducting natural environment protection activities and research. As of March 31, 2014, the Fund has assisted in 301 cases with cumulated subsidies of approximately ¥144 million.

Since 2004, Takara Shuzo has held its annual Takara Shuzo Farm School to teach children about the preciousness of nature and the importance of biodiversity.



#### Efforts to reduce CO2 emissions

Takara Shuzo consumes heavy oil, gas and other fuels and electric power and emits CO2 from plants and offices, when transporting products, and other sources.

During fiscal 2014, we introduced high-efficiency gas boilers and other energy saving facilities in our production processes to cut down on CO2 emissions, but failed to attain ultimate CO2 emission reduction goals due in part to changes in utility power CO2 conversion coefficients.

#### 4R initiatives

In the alcoholic beverage industry, disposing of used empty containers is a major problem. Takara Shuzo promotes the "4Rs," which consist of the traditional "3Rs," Reduce, Reuse and Recycle, plus Refuse.

Selling products by weight of their content and using bottles that can be refilled is part of "Refuse" initiatives because it minimizes the need for new containers. This has allowed us to save about 7.52 million 2.7ℓ PET bottles and about 1.88 million sheets of cardboard as of March 31, 2014 cumulative from the time we started this initiative in 1998.



### 4. Strengthening Governance

#### Fortifying Group corporate governance system

##### Basic Policy on Corporate Governance

The Takara Group recognizes the strengthening of corporate governance as a key management issue for achieving sustained growth in corporate value. In accordance with the following basic policy, the Group is striving to strengthen corporate governance.

##### The Group is focusing on increasing corporate value through four principal means:

1. Accelerating growth by delegating authority and providing autonomy to each Group company, thereby enabling them to increase their own corporate value;
2. Maintaining a business climate for the disclosure of reports on individual Group companies and the free exchange of ideas about management policies and business strategies through regularly scheduled meetings and other activities, thereby further increasing corporate value of the Group as a whole;
3. Complying with rules and ordinances, maintaining ethical principles, and promoting a sound corporate governance system for the Group in order to fulfill its overall corporate social responsibilities; and
4. Disclosing accurate information consistently and in an open and timely manner as well as maintaining an internal network for disclosure to increase business transparency.



**Corporate Governance Structure**

The Company has adopted the corporate auditor system of corporate governance, and, as of June 27, 2014, the audit & supervisory board comprised five audit & supervisory board members, including three external audit & supervisory board members. The Company's board of directors comprised nine directors, including one external director. Under this structure, in addition to the audits conducted by the audit & supervisory board members, the external director liaises with the audit & supervisory board and the director responsible for internal control to contribute to the audit and supervision of business execution, thereby strengthening supervisory functions regarding the Company's management. The external director maintains a high degree of independence and possesses a broad knowledge based on the perspective of all stakeholders, including shareholders.

Meanwhile, as a holding company, Takara Holdings has formulated the "Rules and Regulations for Overseeing Group Companies" with the goal of facilitating independence and autonomy among Group companies in order to maximize the corporate value of the overall Group. In order to provide information accurately and promptly to decision-makers charged with executing operations and the management team, the Company has also established the Group Strategy Committee, Mother Business Consultation and Coordination Committee, Takara Bio Coordination Committee, Takara Healthcare Strategic Committee, and Functional Subsidiary Consultation and Coordination Committee, which are required to deliberate and report in advance on major matters.

**Audit Environment**

The Company's audit & supervisory board members audit the execution of duties by the directors through participation at the board of directors' meeting and other important meetings; examination of operations, assets, and key documents; and, where deemed necessary, interviews with directors and personnel responsible for specific areas of the Company's operations.

With regard to internal audits, the Company has established the Audit Division, which acts independently from the departments that receive audits. The Audit Division conducts audits in accordance with the Company's Internal Audit Regulations and works to maintain proper execution of duties through the implementation of any measures deemed necessary. The Audit Division, the audit & supervisory board, and the accounting auditors strive to maintain mutual cooperation through the exchange of opinions and information and by holding discussions on a regular basis concerning audit plans and policies and the status of audit implementation.

**Activities with Important Repercussions for Corporate Governance**

**Policies Concerning Our Publicly Traded Subsidiary Takara Bio Inc.**

Takara Holdings Inc. is the parent company of Takara Bio

Inc., holding 60.9% of the voting rights of Takara Bio (Tokyo Stock exchange Mothers; Securities code number: 4974) as of March 31, 2014. The relationship between the Company and Takara Bio is outlined below.

**1) Listed subsidiary Takara Bio**

On April 1, 2002, Takara Bio was spun off from the parent company as a wholly owned subsidiary. Subsequently, the parent company's share of voting rights was reduced to its current level through third party capital increases, public subscriptions, the issue of bonds with warrants, and other corporate actions.

As of March 31, 2014, Takara Holdings is a pure holding company comprising 44 subsidiaries and three affiliates. Takara Bio is positioned as the subsidiary specializing in biotechnology and promoting biotechnology-related businesses for the Group.

**2) Holding company management of Group companies**

Takara Bio abides by the "Rules and Regulations for Overseeing Group Companies" and receives reports on decisions and other actions of the board of directors, but is not required to seek the approval of the board before enacting policies and operates independently of the holding company.

Further, although Takara Bio's representative directors, and other board members and executive officers, are requested to attend meetings of the Group Strategy Committee, Takara Bio Coordination Committee, and other committees of the Company as circumstances require, the objective of this attendance is to discuss overall Group policies and facilitate reporting among Group companies, and does not inhibit the autonomy or independence of Takara Bio.

**Policies on Response to Large-Scale Purchases of the Company's Shares (Takeover Defense Guidelines)**

At the board of directors' meeting held on May 15, 2006, the Company enacted "Policies on Response to Large-Scale Purchases of the Company's Shares (takeover defense guidelines)" with the aim of maintaining and increasing corporate value and promoting the joint benefit of shareholders.

However, believing that policies better reflecting the opinion of shareholders are needed for optimizing the joint benefit of shareholders, the board of directors revised its Takeover Defense Guidelines. The board determined at its meeting held on May 15, 2007, that in the future it would introduce measures for preventing takeovers at its general shareholders' meeting after conferring with shareholders, and that decisions regarding actions in this regard would be made at general shareholders' meetings as a rule. At the 96th General Shareholders' Meeting, held on June 28, 2007, Takeover Defense Guidelines were introduced and approved. For details, see our website: <http://www.takara.co.jp/english/> and official Company accounts (Japanese language only).

At the 99th General Shareholders' Meeting, held on June 29, 2010, the partial amendment and continuation of these measures was approved. The continuation of these measures was then approved once again at the 102nd Annual General Shareholders' Meeting, held on June 27, 2013.

**Message from the External Director**

**Takehiko Ueta** External Director

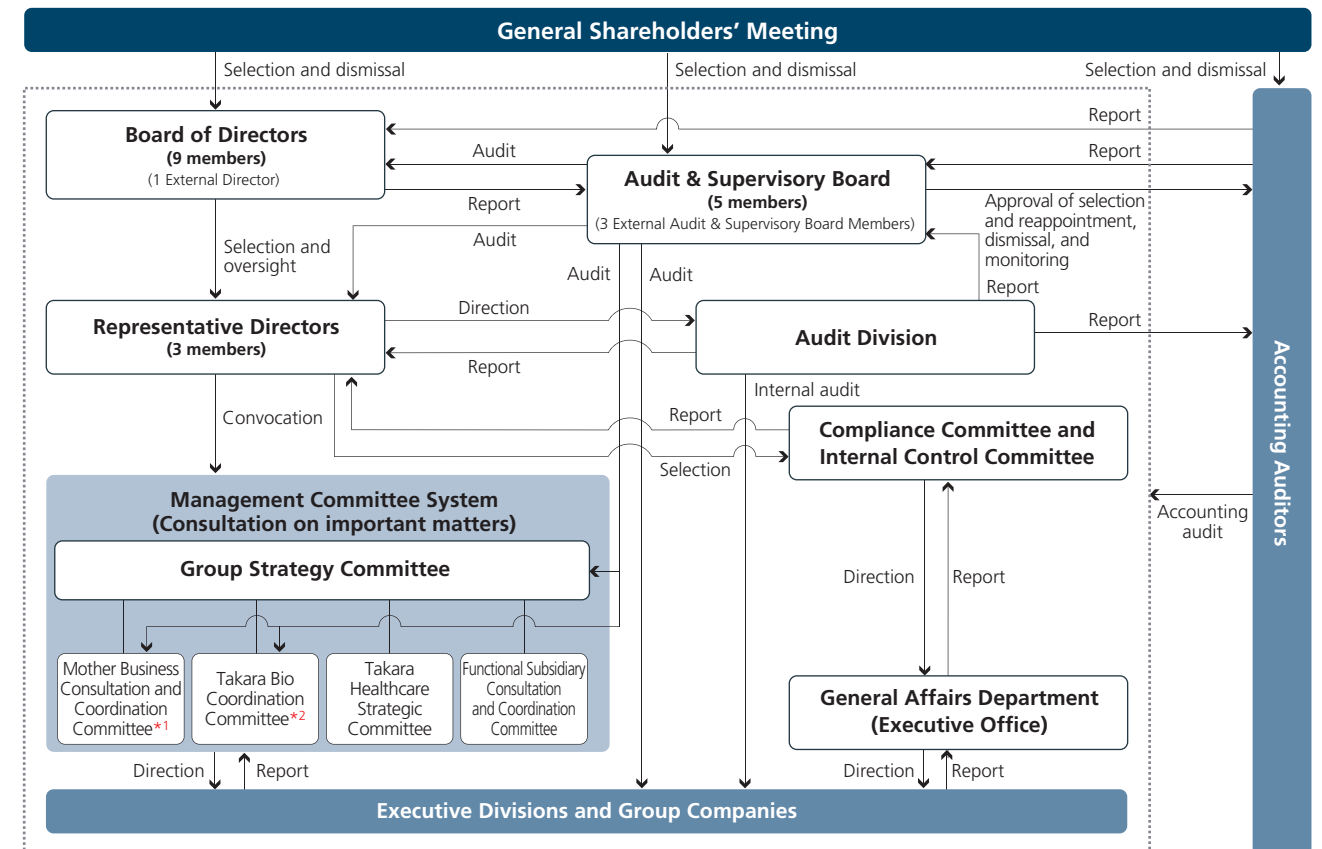
I participate in meetings of the Board of Directors and Management Committees deeply concerned as to whether each and every decision increases corporate value. I also attend hearings of officers in charge of departments held by Audit & Supervisory Board Members to explore the details and progress status of departmental plans and budgets, as well as meetings of the Compliance Committee and Internal Control Committee, and partake in Q&A.

Takara Holdings manages a corporate group of companies centered on three operating entities with vastly differing characteristics, Takara Shuzo, Takara Bio and Takara Healthcare, with a solid governance framework that allows it to grasp the conditions of each company and make consistent decisions as a corporate group through its Management Committees. Moreover, its management approach is rooted in incessant value judgments made for the satisfaction of stakeholders.

Currently, Takara Holdings is advancing overseas operations all the while strengthening the domestic base in step with its long-term vision. I believe that solidifying the governance system from a global perspective will become more important in the future. Going forward, I very much want to continue providing advice and proposals to the Takara Group as its External Director to enable the realization of further growth using all of its strengths and know-how.



**Corporate Governance System (As of June 27, 2014)**



\*1 The purpose of the Mother Business Consultation and Coordination Committee is to conduct preliminary consultations on matters placed on the agenda of the Board of Directors of Takara Shuzo, and report on financial results and the status of activities.  
 \*2 The role of the Takara Bio Coordination Committee is to receive reports on the business activities of Takara Bio Inc. The committee does not inhibit Takara Bio's autonomy, and its prior approval is not required for the decisions of Takara Bio's Board of Directors.



## Board of Directors and Audit & Supervisory Board Members

As of June 27, 2014



**Hisashi Ohmiya** (71)

Chairman, Takara Holdings Inc.	Apr. 1968	Joins Company
Chairman, Takara Shuzo Co., Ltd.	Apr. 1974	General Manager of New Business Development Division
Chairman, Takara Bio Inc.	May 1974	Director
	Jun. 1982	Managing Director
	Jun. 1988	Senior Managing Director
	Jul. 1989	Chief Officer of Bio Business Division
	Apr. 1990	Chief Officer of East-District Alcoholic Beverages Business Division
	Jun. 1991	Vice President
	Apr. 1993	Chief Officer of Alcoholic Beverages Business Division
	Jun. 1993	President
	Apr. 2002	President, Takara Shuzo Co., Ltd.
	Jun. 2012	Chairman, Takara Bio Inc. (incumbent)
		Chairman, Takara Holdings Inc. (incumbent)
		Chairman, Takara Shuzo Co., Ltd. (incumbent)



**Toshio Kakimoto** (63)

President, Takara Holdings Inc.	Apr. 1973	Joins Company
President, Takara Shuzo Co., Ltd.	Apr. 1998	General Manager of Manufacturing Division
	Jun. 2003	Director, Takara Shuzo Co., Ltd.
	Jun. 2004	Managing Director, Takara Shuzo Co., Ltd.
	Jun. 2010	Vice President, Takara Holdings Inc.
		Vice President, Takara Shuzo Co., Ltd.
	Jun. 2012	President, Takara Holdings Inc. (incumbent)
		President, Takara Shuzo Co., Ltd. (incumbent)



**Tadashi Ohmiya** (64)

Vice Chairman, Takara Holdings Inc.	Feb. 2000	Secretary of International Division, The Fuji Bank, Limited
Vice Chairman, Takara Shuzo Co., Ltd.	May 2000	Retires from The Fuji Bank, Limited
	Jun. 2000	Joins Company
	Apr. 2001	General Manager of Corporate Planning Office
	Apr. 2002	General Manager of Overall Corporate Planning Division
		Managing Director, Takara Shuzo Co., Ltd.
	Jun. 2002	Director
	Jun. 2004	Vice President
	Jun. 2005	Senior Managing Director, Takara Shuzo Co., Ltd.
	Jun. 2006	Vice President, Takara Shuzo Co., Ltd.
	Jun. 2012	Vice Chairman, Takara Holdings Inc. (incumbent)
	Jun. 2013	Vice Chairman, Takara Shuzo Co., Ltd. (incumbent)



**Koichi Nakao** (52)

President, Takara Bio Inc.	Apr. 1985	Joins Company
Director, Takara Holdings Inc.	Apr. 2002	Director, Takara Bio Inc. (upon divestiture)
	Jun. 2003	Managing Director, Takara Bio Inc.
	Jun. 2004	Senior Managing Director, Takara Bio Inc.
	Jun. 2007	Vice President, Takara Bio Inc.
	May 2009	President, Takara Bio Inc. (incumbent)
		President, Takara Bio USA Holdings Inc. (incumbent)
		Chairman, Takara Biotechnology (Dalian) Co., Ltd. (incumbent)
		Chairman, Takara Biomedical Technology (Beijing) Co., Ltd. (incumbent)
	Jun. 2009	Director, Takara Holdings Inc. (incumbent)
	Mar. 2010	Chairman, Takara Korea Biomedical Inc. (incumbent)

## Board of Directors

**Daisuke Nakao** (60)

Director, Takara Holdings Inc.  
Vice President, Takara Shuzo Co., Ltd.

Apr. 1976	Joins Company
Apr. 2000	General Manager of Sales Division
Jun. 2001	Director
Mar. 2002	Retires as Director
Apr. 2002	Senior Executive Officer, Takara Shuzo Co., Ltd. (upon divestiture)
Jun. 2004	Director, Takara Shuzo Co., Ltd.
Jun. 2006	Managing Director, Takara Shuzo Co., Ltd.
Jun. 2009	Director, Takara Holdings Inc. (incumbent)
	Senior Managing Director, Takara Shuzo Co., Ltd.
Jun. 2013	Vice President, Takara Shuzo Co., Ltd. (incumbent)

**Minoru Washino** (59)

Director, Takara Holdings Inc. (General Affairs, Environment & Public Relations)  
Director, Takara Shuzo Co., Ltd.

Apr. 1978	Joins Company
Apr. 2003	General Manager of Regal Group
Apr. 2012	General Manager of General Affairs Division (incumbent)
Jun. 2014	Director, Takara Holdings Inc. (incumbent)
	Director, Takara Shuzo Co., Ltd. (incumbent)

## Audit & Supervisory Board Members

**Tomio Kamada** (64)

Standing Audit & Supervisory Board Member, Takara Holdings Inc.  
Audit & Supervisory Board Member, Takara Shuzo Co., Ltd.  
Audit & Supervisory Board Member (External Audit & Supervisory Board Member), Takara Bio Inc.

Apr. 1972	Joins Company
Apr. 2001	General Manager of Overseas Division
Nov. 2003	Director and General Manager of Administrative Division, Nissin Shurui Co., Ltd.
Jun. 2007	Standing Audit & Supervisory Board Member, Takara Holdings Inc. (incumbent)
	Audit & Supervisory Board Member, Takara Shuzo Co., Ltd. (incumbent)
Jun. 2009	Audit & Supervisory Board Member, Takara Bio Inc. (incumbent)

**Tomoyuki Mieda** (58)

Audit & Supervisory Board Member (External Audit & Supervisory Board Member), Takara Holdings Inc.  
Standing Audit & Supervisory Board Member (External Audit & Supervisory Board Member), Takara Shuzo Co., Ltd.

Jun. 2011	Auditor, The Norinchukin Bank
Jun. 2013	Retires as Auditor, The Norinchukin Bank
	Audit & Supervisory Board Member, Takara Holdings Inc. (incumbent)
	Standing Audit & Supervisory Board Member, Takara Shuzo Co., Ltd. (incumbent)

**Kazuyoshi Ito** (53)

Director, Takara Holdings Inc.  
Managing Director, Takara Shuzo Co., Ltd.

Apr. 1985	Joins Company
Apr. 2008	Senior Executive Officer, Global Chief Strategy Officer, Takara Shuzo Co., Ltd. (incumbent)
Jun. 2013	Director, Takara Holdings Inc. (incumbent)
Jun. 2014	Managing Director, Takara Shuzo Co., Ltd. (incumbent)

**Takehiko Ueta** (74)

External Director, Takara Holdings Inc.  
External Director, Takara Shuzo Co., Ltd.

Jun. 1998	President, Dai-Ichi Kogyo Seiyaku Co., Ltd.
Jun. 2004	Board Advisor, Dai-Ichi Kogyo Seiyaku Co., Ltd.
Jun. 2007	External Director, Takara Holdings Inc. (incumbent)
	External Director, Takara Shuzo Co., Ltd. (incumbent)

## Board of Directors

**Toshihito Yamanaka** (53)

Standing Audit & Supervisory Board Member (External Audit & Supervisory Board Member), Takara Holdings Inc.  
Audit & Supervisory Board Member (External Audit & Supervisory Board Member), Takara Shuzo Co., Ltd.

Apr. 2012	General Manager of Branch Banking Division III, Mizuho Bank, Ltd.
Apr. 2013	Deputy Director-General of Group Human Resources Division, Mizuho Bank, Ltd.
Jun. 2013	Retirement from Mizuho Bank, Ltd.
	Standing Audit & Supervisory Board Member, Takara Holdings Inc. (incumbent)
	Audit & Supervisory Board Member, Takara Shuzo Co., Ltd. (incumbent)

**Kumiko Kitai** (61)

Audit & Supervisory Board Member (External Audit & Supervisory Board Member), Takara Holdings Inc.  
Audit & Supervisory Board Member (External Audit & Supervisory Board Member), Takara Shuzo Co., Ltd.

Aug. 2005	Director-General, The Equal Employment, Children and Families Bureau, Ministry of Health, Labour and Welfare
Aug. 2007	Retirement from Ministry of Health, Labour and Welfare
	Senior Managing Director, Japan Industrial Safety & Health Association
May 2011	Retires as Senior Managing Director, Japan Industrial Safety & Health Association
Jun. 2011	Audit & Supervisory Board Member, Takara Holdings Inc. (incumbent)
	Audit & Supervisory Board Member, Takara Shuzo Co., Ltd. (incumbent)

**Mutsumi Kimura** (51)

Director, Takara Holdings Inc. (Operational Management, Finance & Investor Relations, Accounting, Personnel)  
Senior Managing Director, Takara Shuzo Co., Ltd.

Apr. 1985	Joins Company
Apr. 2002	Director, Takara Bio Inc. (upon divestiture)
Jun. 2004	Managing Director, Takara Bio Inc.
Jun. 2007	Senior Managing Director, Takara Bio Inc.
May 2009	Vice President, Takara Bio Inc.
Jun. 2014	Director, Takara Holdings Inc. (incumbent)
	Senior Managing Director, Takara Shuzo Co., Ltd. (incumbent)

**Shinji Ueda** (61)

Audit & Supervisory Board Member, Takara Holdings Inc.  
Standing Audit & Supervisory Board Member, Takara Shuzo Co., Ltd.  
Audit & Supervisory Board Member (External Audit & Supervisory Board Member), Takara Bio Inc.

Apr. 1976	Joins Company
Jun. 2001	General Manager of Secretary's Office
Jun. 2013	Audit & Supervisory Board Member, Takara Holdings Inc. (incumbent)
	Standing Audit & Supervisory Board Member, Takara Shuzo Co., Ltd. (incumbent)
	Audit & Supervisory Board Member, Takara Bio Inc. (incumbent)



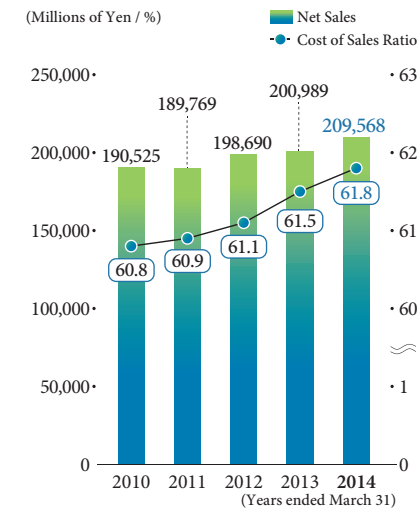
# Consolidated Financial Highlights

Year ended March 31, 2014

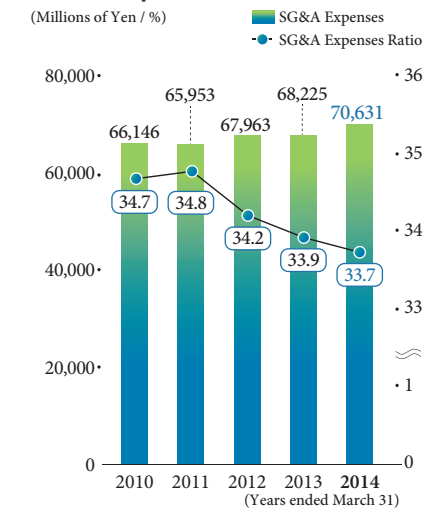
	Millions of Yen (Note 1)					Thousands of U.S. Dollars (Note 2)
	2014	2013	2012	2011	2010	2014
<b>For the Years Ended March 31</b>						
Net sales	¥ 209,568	¥ 200,989	¥ 198,690	¥ 189,769	¥ 190,525	\$ 2,034,640
Takara Shuzo Group	182,306	176,946	175,503	166,790	166,969	1,769,961
Takara Bio Group	23,905	20,564	19,578	18,737	19,325	232,087
Takara Healthcare	1,424	2,008	2,338	2,567	2,486	13,825
Other (including eliminations)	1,931	1,469	1,269	1,673	1,743	18,747
Cost of sales	129,447	123,630	121,462	115,480	115,805	1,256,766
Gross profit	80,121	77,359	77,228	74,289	74,719	777,873
Selling, general and administrative (SG&A) expenses	70,631	68,225	67,963	65,953	66,146	685,737
Operating income (loss)	9,490	9,133	9,264	8,335	8,572	92,135
Takara Shuzo Group	6,329	6,387	6,768	6,568	7,129	61,446
Takara Bio Group	1,954	1,691	1,547	1,097	553	18,970
Takara Healthcare	21	(22)	(114)	(252)	(316)	203
Other (including eliminations)	1,184	1,076	1,063	921	1,206	11,495
Income before income taxes and minority interests	18,642	9,256	8,590	7,505	8,208	180,990
Net income	10,280	4,687	3,995	3,788	4,677	99,805
Depreciation and amortization	4,997	4,973	5,209	5,384	5,652	48,514
Capital expenditures	8,967	5,282	5,330	3,735	3,645	87,058
Research and development (R&D) expenses	3,376	3,090	3,027	3,076	3,665	32,776
Cash flows provided by operating activities	7,233	7,967	9,013	9,462	10,452	70,223
Cash flows provided by (used in) investing activities	(12,254)	(3,672)	(4,779)	(11,323)	(7,350)	(118,970)
Cash flows provided by (used in) financing activities	2,562	1,229	(3,265)	(3,199)	(3,219)	24,873
Free cash flow (Note 3)	(5,021)	4,295	4,233	(1,861)	3,102	(48,747)
<b>As of March 31</b>						
Total assets	¥ 238,577	¥ 207,586	¥ 197,437	¥ 192,448	¥ 195,495	\$ 2,316,281
Interest-bearing debt	38,909	43,098	38,493	38,881	39,162	337,757
Total equity	146,422	114,318	107,659	106,895	109,206	1,421,572
Total shareholders' equity	121,431	100,040	94,783	94,308	96,666	1,178,941
<b>Per Share of Common Stock (Yen and U.S. Dollars (Note 2)):</b>						
Basic net income	¥ 50.83	¥ 23.01	¥ 19.32	¥ 18.21	¥ 22.20	\$ 0.49
Total equity	603.44	493.14	461.41	454.21	459.92	5.85
Cash dividends	11.00	9.00	9.00	8.50	8.50	0.10
<b>Ratios (%):</b>						
Return on assets (ROA)	4.6%	2.3%	2.0%	2.0%	2.4%	—
Return on equity (ROE)	9.3	4.8	4.2	4.0	4.9	—
Equity ratio	50.9	48.2	48.0	49.0	49.4	—
Dividend payout ratio	21.6	39.1	46.6	46.7	38.3	—
Shareholder return payout (Note 4)	60.6	58.9	51.7	58.6	60.6	—

Notes: 1. Japanese yen amounts are rounded down to the nearest million yen. Per share data information is rounded to the nearest yen, and ratios to the first decimal place.  
 2. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥103 to U.S. \$1, the approximate rate of exchange at March 31, 2014.  
 3. Free cash flow = Cash flows provided by operating activities + Cash flows provided by (used in) investing activities  
 4. Shareholder return payout = (Total dividends + Amount of share buybacks) ÷ Deemed consolidated net income\*  
 \* Deemed consolidated net income = (Consolidated ordinary income - Interest income and dividends + Interest payments) × (1 - Effective tax rate)

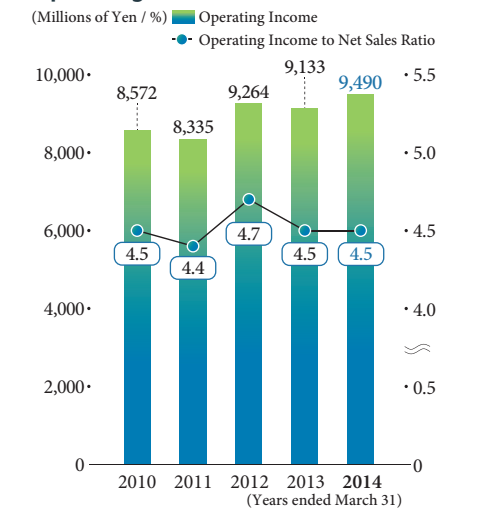
## Net Sales Cost of Sales Ratio



## SG&A Expenses SG&A Expenses Ratio



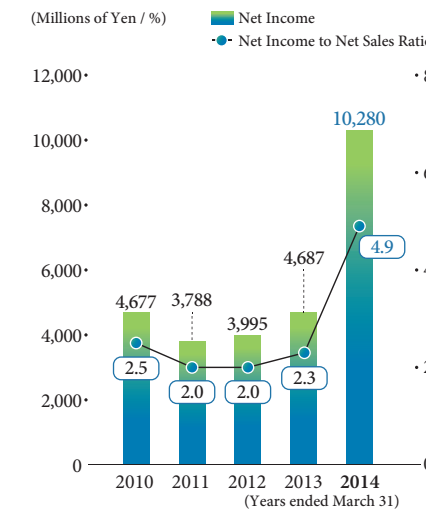
## Operating Income Operating Income to Net Sales Ratio



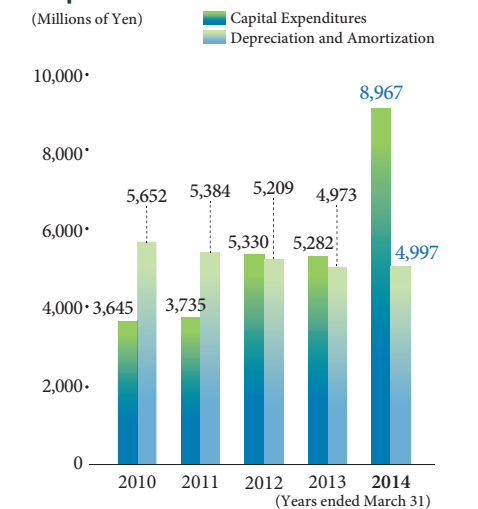
## R&D Expenses R&D Expenses to Net Sales Ratio



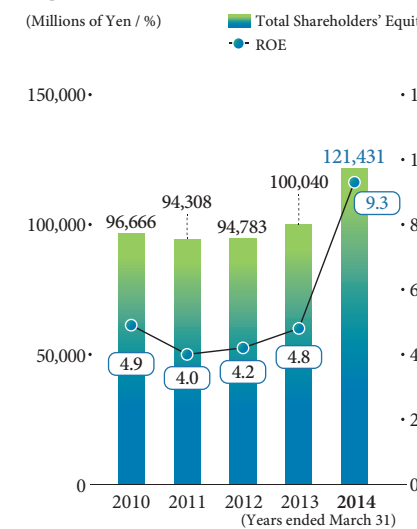
## Net Income Net Income to Net Sales Ratio



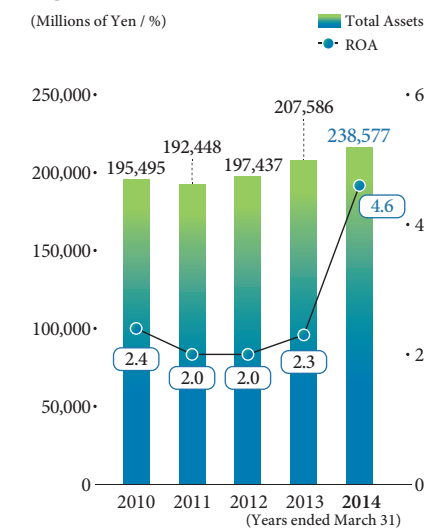
## Capital Expenditures Depreciation and Amortization



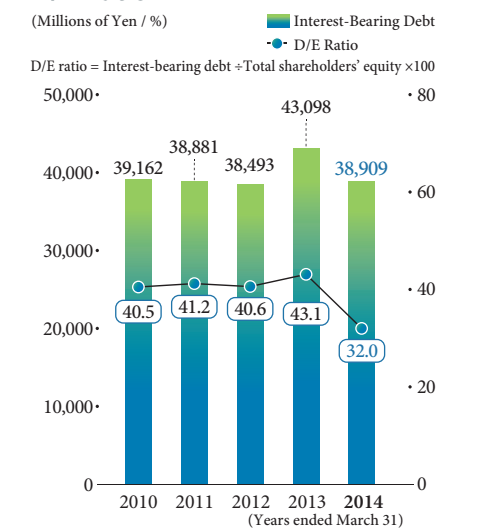
## Total Shareholders' Equity ROE



## Total Assets ROA



## Interest-Bearing Debt D/E Ratio





## Major Consolidated Subsidiaries

As of March 31, 2014

Name	Address	Issued Capital	Percentage of Equity Owned	Line of Business
<b>TAKARA SHUZO CO., LTD.</b>	20 Naginataboko-cho, Shijo-dori Karasuma Higashi-iru, Shimogyo-ku, Kyoto 600-8688, Japan TEL 075-241-5110	¥1,000 million	100.0%	Manufacture and sale of alcoholic beverages, seasonings, and raw alcohol
<b>Subsidiaries of Takara Shuzo Co., Ltd.</b>				
Takara Butsuryu System Co., Ltd.	55-13 Osumihama, Kyotanabe, Kyoto 610-0343, Japan TEL 0774-68-1720	¥50 million	(100.0%)	Transportation, warehousing, automobile service, non-life insurance agent, travel agent, etc.
TAKARA CHOU UN Co., Ltd.	22-38, Nishidomari-cho, Nagasaki 850-0075, Japan TEL 095-894-8701	¥250 million	(100.0%)	Transportation, customs broker, warehousing, etc.
KOUGAKU ENGINEERING CO., LTD.	1-3-11, Hakata-eki Minami, Hakata-ku, Fukuoka, 812-0016, Japan TEL 092-483-0031	¥10 million	(100.0%)	Design and construction of water and sewage treatment facilities and machine plant facilities, etc.
Luc Corporation, Ltd.	2-12, 3-chome, Akasaka, Minato-ku, Tokyo 107-0052, Japan TEL 03-3586-7501	¥80 million	(100.0%)	Import and sale of wine
Takara Bussan Co., Ltd.	9 Butai-cho, Fushimi-ku, Kyoto 612-8338, Japan TEL 075-601-6267	¥10 million	(100.0%)	Sale of feed
Takara Yoki Co., Ltd.	609 Takenaka-cho, Fushimi-ku, Kyoto 612-8061, Japan TEL 075-605-4540	¥30 million	(100.0%)	Wholesale of glass bottles
Total Management Business Co., Ltd.	609 Takenaka-cho, Fushimi-ku, Kyoto 612-8061, Japan TEL 075-623-2660	¥20 million	(100.0%)	Marketing research, sales promotion planning, and temporary staffing service
Takara Sake USA Inc.	708 Addison St., Berkeley, CA 94710, U.S.A. TEL 510-540-8250	US\$7,000 thousand	(90.0%)	Manufacture and sale of alcoholic beverages
Age International, Inc.	229 W. Main St., Frankfort, KY 40602, U.S.A. TEL 502-223-9874	US\$250 thousand	(100.0%)	Sale of bourbon whisky
The Tomatin Distillery Co., Ltd.	Tomatin, Inverness-shire, IV13 7YT Scotland, U.K. TEL 1463-248-148	£3,297 thousand	(80.6%)	Manufacture and sale of Scotch whisky
TAZAKI FOODS LTD.	Unit 4, Delta Park Industrial Estate, Millmarsh Lane Enfield, EN3 7QJ, U.K. TEL 20-8344-3000	£357 thousand	(100.0%)	Import and wholesale of alcoholic beverages, foods, seasonings, etc.
FOODEX S.A.S.	4, impasse des Carrières, 75016 Paris, France TEL 1-4647-4439	€250 thousand	(80.0%)	Import and wholesale of alcoholic beverages, foods, seasonings, etc.
Cominport Distribución S.L.	Avenida Marconi nave 1 - P.A.E. Neysa Sur - 28021, Madrid SPAIN TEL 915-413-750	€143 thousand	(100.0%)	Import and wholesale of alcoholic beverages, foods, seasonings, etc.
Takara Shuzo Foods Co., Ltd.	No.31 Nanyuan West St. Fengtai District Beijing, China 100076 TEL 10-6791-1363	RMB130,000 thousand	(62.0%)	Manufacture and sale of alcoholic beverages, seasonings, and raw alcohol; import and sale of Takara Shuzo Group's products
Shanghai Takara Shuzo International Trading Co., Ltd.	Room 103, Building 12, No. 505, Zhong Shan Nan Road, Shanghai, China 200010 TEL 21-6152-6623	US\$600 thousand	(100.0%)	Import and sale of Takara Shuzo Group's products

<b>TAKARA BIO INC.</b>	Seta 3-4-1, Otsu, Shiga 520-2193, Japan TEL 077-543-7212	¥14,965 million	60.9%	Development and sale of research reagents and scientific instruments, contract research services and commercialization of gene therapy, and manufacture and sale of health foods and mushroom products
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### Subsidiaries of Takara Bio Inc.

Mizuho Nourin Co., Ltd.	38 Mitsueda, Hoidani, Kyotamba-cho, Funai-gun, Kyoto 622-0313, Japan	¥10 million	(49.0%)	Production and sale of mushrooms
Takara Bio Farming Center Inc.	810-9 Kosedo Yakushima-cho, Kumage-gun, Kagoshima 891-4207, Japan	¥3 million	(48.3%)	Production and sale of agricultural products
Kinoko Center Kin Inc.	9006 Aza-Kin, Kin-cho, Kunigami-gun, Okinawa 904-1201, Japan	¥5 million	(49.0%)	Production and sale of mushrooms
Clontech Laboratories, Inc.	1290 Terra Bella Avenue, Mountain View, CA 94043, U.S.A.	US\$83 thousand	(100.0%)	Development and sale of research reagents
Takara Bio Europe S.A.S.	2, avenue du president Kennedy, 78100 St Germain en Laye, France	€600 thousand	(100.0%)	Sale of research reagents
DSS Takara Bio India Private Limited	A-5 Mohan Co-op Industrial Estate, Mathura Road, New Delhi 110044, India	Rs.65 million	(51.0%)	Production and sale of research reagents
Takara Biotechnology (Dalian) Co., Ltd.	No.19 Dongbei 2nd Street, Development Zone, Dalian, China 116600	¥2,350 million	(100.0%)	Development, production, and sale of research reagents
Takara Biomedical Technology (Beijing) Co., Ltd.	Life Science Park, 22 KeXueYuan Road, Changping District, Beijing, China 102206	¥1,030 million	(100.0%)	Sale of research reagents, cell culture media, and gas-permeable bags
Takara Korea Biomedical Inc.	Lotte New T Castle 601, 429-1, Gasan-dong, Gumchun-gu, Seoul, 153-803, Korea	₩3,860 million	(100.0%)	Sale of research reagents and scientific instruments

### Subsidiaries of Takara Holdings Inc.

Takara Healthcare Inc.	85-1 Mikura-cho, Sanjo-dori Karasuma Nishi-iru, Nakagyo-ku, Kyoto 604-8166, Japan TEL 075-229-6901	¥90 million	100.0%	Development and sale of health foods
Taihei Printing Co., Ltd.	1 Butai-cho, Fushimi-ku, Kyoto 612-8338, Japan TEL 075-605-3330	¥90 million	100.0%	Printing
Takara Network System Co., Ltd.	20 Naginataboko-cho, Shijo-dori Karasuma Higashi-iru, Shimogyo-ku, Kyoto 600-8688, Japan TEL 075-241-5139	¥30 million	100.0%	Development, operation, and maintenance of information systems
Kawahigashi Shoji Co., Ltd.	9 Butai-cho, Fushimi-ku, Kyoto 612-8338, Japan TEL 075-601-5211	¥30 million	100.0%	Sale of alcoholic beverages and real estate leasing

Note: Percentage of equity owned in parentheses indicates percentage of indirectly owned equity.

## Financial Section

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## Management's Discussion and Analysis

In the fiscal year under review, ended March 31, 2014, Japan's economy gradually recovered owing to the financial and economic policies of the government and the Bank of Japan, while corporate performance in general was solid. Nevertheless, fears of a deceleration of emerging countries and the effects of lower consumption in response to the hike in consumption tax in Japan caused the operating environment to remain highly opaque.

In this environment, the Takara Group endeavored to improve corporate value by building a balanced business structure that is readily adaptable to changing conditions. The Group is in the final year of the Takara Group Medium-Term Management Plan FY2014, which has "aiming to realize the Takara Group Vision 2020, achieve stable growth in Japan while expanding business base in order to grow significantly overseas" as its basic policy. The Takara Group Vision 2020 embodies our long-term management vision.

### Net Sales

Consolidated net sales attained an all-time high of ¥209,568 million, an increase of 4.3% year on year.

Analysis of performance by business segment is as follows.

#### Takara Shuzo Group

Competition in the alcoholic beverages and foods industry, the Group's mainstay business, has continued to intensify due to the decline of the drinker population, diversifying consumer preferences, and the reorganization of the secondary market following the recent deregulations. Also, as positive effects from the economic recovery are limited with respect to personal consumption, consumers are increasingly trending toward lower-priced items making it difficult to shift cost increases such as raw material expenses and personnel expenses to product selling prices resulting in an exceptionally severe operating environment. Moreover, the unabated depreciation of the Japanese yen is expected to result in further increases in the price of imported raw materials.

In this environment, the Group focused on providing consumers with safe, high-quality products, and worked to nurture its brands with a rich product lineup and a range of high-quality products differentiated through solid technological superiority.

The Group will continue advancing product development ventures from the consumer-based perspective to propose new drinking customs through the provision of new products backed by innovative technologies.

For fiscal 2014, total net sales of the Takara Shuzo Group increased 3.0% year on year, to ¥182,306 million on the heels of positive sake sales and an increase in the Japanese food wholesale business in overseas markets, among others, notwithstanding lower sales of mainstay *shochu*. The breakdown of the segment's net sales by product category is as follows.

- **Shochu**  
¥65,977 million (decreased 6.6%)
- **Sake**  
¥23,513 million (increased 8.2%)
- **Light-alcohol refreshers**  
¥26,772 million (increased 3.9%)
- **Other liquors**  
¥12,583 million (increased 13.9%)
- **Hon Mirin alcohol-based seasonings**  
¥14,886 million (increased 2.3%)
- **Other seasonings**  
¥8,645 million (increased 10.4%)
- **Raw alcohol**  
¥6,899 million (decreased 0.3%)
- **Other**  
¥23,028 million (increased 24.7%)

#### Takara Bio Group

Leveraging biotechnologies that it has cultivated over many years, the Takara Bio Group focused its management resources on three business areas—the Genetic Engineering Research business, the Gene Medicine business, and the AgriBio business—and worked to improve business results.

For fiscal 2014, the Takara Bio Group's net sales were up 16.2% year on year, to ¥23,905 million, reflecting a year-on-year increase in revenue from mainstay research reagents partly influenced by yen depreciation, and favorable revenue in the Gene Therapy business from cell culture media and gas-permeable bags. The breakdown of this segment's net sales by product and service category is as follows.

- **Genetic Engineering Research**  
¥20,140 million (increased 18.5%)
  - **Research reagents**  
¥14,754 million (increased 22.0%)
  - **Scientific instruments**  
¥2,686 million (increased 6.0%)
  - **Contract research services and other**  
¥2,699 million (increased 14.1%)
- **Gene Medicine**  
¥1,522 million (increased 22.7%)
- **AgriBio**  
¥2,242 million (decreased 3.6%)

#### Takara Healthcare

As its highest priority, Takara Healthcare is working to increase sales by building a mail-order sales network for health food products realized through the technology of Takara Bio Inc. We are working to build a business foundation for exponential growth going forward.

For fiscal 2014, Takara Healthcare's net sales declined 29.1% year on year, to ¥1,424 million, because the end of

the tea beverages PB supply business adversely impacted sales, outweighing the increase in sales in the health care business centered on fucoidan-related products.

#### Other

Other comprises other subsidiaries, including a printing business. Net sales in this segment inclined 2.1% year on year, to ¥7,598 million.

### Gross Profit, Selling, General, and Administrative (SG&A) Expenses, and Operating Income

Gross profit increased from the previous fiscal year by 3.6%, year on year to ¥80,121 million. Raw material prices remained high for Takara Shuzo Co., Ltd. due in part to a depreciated yen. This, coupled with the sales increase of the Japanese food wholesale business in overseas markets with a relatively high ratio of cost of sales to net sales, among other factors, resulted in a slight rise in the overall ratio of cost of sales to net sales. However, this was offset by increased net sales.

In terms of SG&A expenses, we continued to implement thorough cost cutting measures to respond to the harsh operating environment. However, personnel expenses, distribution expenses, and R&D expenses, among others, increased, resulting in a 3.5% hike, to ¥70,631 million. As a result, operating income rose by 3.9%, year on year to ¥9,490 million.

The following is an overview of each business segment.

#### Takara Shuzo Group

The Takara Shuzo Group faced tough business conditions due to consumers' growing preference for low-priced products, intense competition from breweries and other companies, a declining drinking population in Japan, and raw material price hikes. Given these conditions, the group offered a broad lineup of differentiated products—ranging from mass-market to high-value-added items—while unflaggingly advancing sales initiatives highlighting the distinctive features of these products.

As for Takara Shuzo Co., Ltd., sales of its mainstay *shochu* decreased drastically whereby increased sales of sake and light-alcohol refreshers were unable to compensate for these declines, and consequently Takara Shuzo Co., Ltd. recorded lower sales on a non-consolidated basis. However, on a consolidated basis, the Takara Shuzo Group benefited from the inclusion of sales from newly consolidated subsidiaries as well as from the strong performance of overseas subsidiaries and other Group companies thanks to the depreciated yen. As a result, net sales for the whole segment grew 3.0% year on year, to ¥182,306 million. Gross profit also increased thanks to higher net sales despite deterioration in the gross profit margin due

to factors such as soaring raw material prices. SG&A expenses were up 2.0% year on year, to ¥59,357 million following higher personnel expenses and transportation expenses. As a result, the increase in gross profit was unable to make up for the increase in SG&A expenses, and the segment's operating income decreased slightly 0.9% year on year, to ¥6,329 million.

#### Takara Bio Group

Overall, the segment saw higher net sales due primarily to a rise in mainstay research reagent sales partly influenced by the depreciated yen, and a significant increase in revenue from the Gene Medicine business. As a result, net sales for the whole segment increased 16.2% year on year, to ¥23,905 million. The segment's operating income was up 15.5% year on year, to ¥1,954 million, regardless of a rise in SG&A expenses resulting from higher personnel expenses and R&D expenses.

The Takara Bio Group is not only targeting increased revenue by expanding operations under its current business model. With its sights set on growing revenues dramatically in the future, the Group is also investing actively in new businesses such as Gene Therapy and AgriBio. Therefore, we believe continuing to accelerate investment in R&D is important.

#### Takara Healthcare

Since its establishment, Takara Healthcare has been incurring a deficit. However, its first priority is to move into a position of profitability as soon as possible by increasing sales through the construction of a mail-order sales network for health food products. In fiscal 2014, the segment recorded its first operating income since incorporation amounting to ¥21 million. This improvement was due to the reduction of SG&A expenses, which compensated for a 29.1% year-on-year decline in net sales, to ¥1,424 million, as a result of the end of the tea beverage PB supply business.

#### Other

In fiscal 2014, operating income in other was up 53.9% year on year, to ¥310 million.

### Other Income (Expenses) and Net Income

In regard to non-operating income and expenses, although share issuance costs went up due to a capital increase by public stock offering at Takara Bio Inc., a foreign exchange gain was recorded in contrast to the foreign exchange loss in the previous fiscal year and bond issuance costs were eliminated, among other factors resulting in an increase in ordinary income of 6.6%, to ¥9,909 million.

In regard to extraordinary income and loss, extraordinary income such as the gain on sales of stocks of affiliates from



the partial sale of Takara Bio Inc. shares increased significantly. As a result, income before income taxes and minority interests increased by 1.4% year on year, to ¥18,642 million, with net income drastically up 119.3% year on year, to ¥10,280 million. This was despite extraordinary losses such as fixed assets transferred loss due in part to donation of the site of the demolished Shirakawa Plant to Shirakawa City as earthquake recovery support.

## Cash Flows

Net cash provided by operating activities decreased ¥734 million year on year, to ¥7,233 million. Major factors increasing cash included income before income taxes and minority income of ¥18,642 million and depreciation and amortization of ¥4,287 million. Major factors decreasing cash included a gain on sales of stocks of subsidiaries and affiliates of ¥9,261 million, an increase in inventories of ¥2,405 million and income taxes paid of ¥3,536 million.

Net cash used in investing activities increased ¥8,582 million, to ¥12,254 million. The major factor increasing cash was proceeds from sale of stocks of subsidiaries and affiliates of ¥12,241 million. Major factors decreasing cash included Purchase of property, plant and equipment and intangible assets of ¥8,322 million, Purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥5,743 million and the purchase of securities and investment securities, among others.

Net cash provided by financing activities was ¥2,562 million, an increase of ¥1,332 million from the previous fiscal year. The major factor increasing cash included proceeds from stock issuance to minority shareholders ¥11,419 million. Major factors decreasing cash included redemption of bonds of ¥5,000 million, purchase of treasury stock of ¥1,521 million and cash dividends paid of ¥1,827 million.

As a result, cash and cash equivalents at fiscal year-end, including effect of exchange rate change on cash and cash equivalents, stood at ¥34,608 million, down ¥679 million from the previous fiscal year-end.

## Financial Position

Total assets at fiscal year-end stood at ¥238,577 million, up ¥30,990 million from the previous fiscal year-end. This included total current assets of ¥150,551 million, up ¥17,266 million from the previous fiscal year-end. Major factors included an increase in cash and deposits following the public stock offering and an increase in securities (surplus funds management) by Takara Bio Inc.

Noncurrent assets overall were ¥88,025 million, up ¥13,724 million from the previous fiscal year-end. Major factors included a ¥5,337 million increase in property, plant and equipment, a result of the acquisition of land by Takara Bio Inc.; as well as an increase in the construction in progress relating

to the construction of the Center for Gene and Cell Processing, among others. In addition, intangible assets increased ¥6,235 million due to the accounting of Intangibles – goodwill and other following the acquisition of subsidiaries, and there was a ¥2,151 million increase in investments and other assets following an increase in investment securities as a result of an increase in the market prices of listed stocks. As a result, noncurrent assets rose ¥13,724 million, to ¥88,025 million.

Current liabilities were ¥48,663 million, down ¥731 million from the previous fiscal year-end, due mainly to the redemption of current portion of bonds despite an increase in income taxes payable following the recording of gain on sales of stocks of subsidiaries and affiliates. Noncurrent liabilities were ¥43,491 million, down ¥382 million, due to a decrease in net defined benefit liability (after netting with provision for retirement benefits) as a result of the application of the “Accounting Standard for Retirement Benefits” despite an increase in deferred tax liabilities accompanying a hike in the value of investment securities. As a result, total liabilities rose ¥1,113 million, to ¥92,154 million.

Net assets amounted to ¥146,422 million, an increase of ¥32,104 million from the previous fiscal year-end. Retained earnings increased ¥14,302 million and total accumulated other comprehensive income increased ¥8,663 million as a result of a higher foreign currency translation adjustment resulting from yen depreciation and the benefits of valuation difference on available-for-sale securities increased following a rise in stock prices. In addition, minority interests in equity increased ¥10,713 million due to a public stock offering by Takara Bio Inc., despite a ¥1,575 million increase in treasury stock from share buybacks as shareholder return policy.

## Medium- to Long-Term Business Strategies

In April 2014, the Group commenced the Takara Group Medium-Term Management Plan FY2017 (for the three-year period from fiscal 2015 to fiscal 2017) as the second step toward realizing the Takara Group Vision 2020, a 10-year long-term management vision.

The Takara Group Medium-Term Management Plan FY2017 establishes the basic policy of improving the profitability of the domestic alcoholic beverages business and speed up the expansion of the high-potential Japanese food wholesale business in overseas markets and services to support the development of bio-pharmaceuticals (CDMO business). The following is an outline of the plan.

### Basic policy

Aiming to realize the Takara Group Vision 2020, the Group

will improve domestic business profitability and expand overseas business, while at the same time building a well-balanced business structure that can hold up well to business environment changes by accelerating the growth of the Biomedical business.

### Tangible goals

FY2017: Takara Group net sales: at least ¥230 billion, operating income at least ¥12 billion, overseas sales accounting for at least 16% of net sales

(Figures are targets established at the time of formulation of the Medium-Term Management Plan. The Group does not guarantee the accomplishment of these figures.)

### Business strategies

#### Takara Shuzo Group

Improve domestic business profitability by developing and cultivating products differentiated through technology application, while proactively expanding the Japanese food wholesale network in overseas markets and achieving dramatic overseas business growth.

#### Takara Bio Group

Strategically invest in the field of regenerative medicine and cell therapy and speed up Biomedical business growth.

#### Takara Healthcare

Step up Health foods business growth through direct marketing.

### Priority strategies

Expanding sake sales with a focus on Mio sparkling sake Building a Japanese food wholesale network in the U.S., Europe, and worldwide

Expanding the CDMO business for bio-pharmaceuticals Conducting clinical development for gene and cell therapy

### Financial policy

Maintain a strong balance sheet with a focus on capital efficiency and engage in proactive investment into priority strategies to expand profits, while at the same time providing suitable returns to shareholders.

## Analysis of Capital Resources and Liquidity

Regarding the Takara Group's liquidity, at the end of fiscal 2014, cash and cash equivalents stood at ¥34,608 million, down ¥679 million from the previous fiscal year-end, thus demonstrating a sufficient cash position. This decrease was due to an ¥8,582 million increase in net cash used in investing

activities for the acquisition of overseas subsidiaries engaged in the Japanese food wholesale business in overseas markets and for capital investments, among others, despite gains from the partial sale of Takara Bio Inc. shares, as well as a ¥734 million decline in net cash provided by operating activities. Net cash provided by financing activities was ¥2,562 million, which represents a year-on-year improvement of ¥1,332 million due to a capital increase from a public stock offering of Takara Bio Inc. shares despite the redemption of bonds.

At the moment, the Group plans to conduct capital investment, finance returns to shareholders, and invest in important strategies using only funds on hand and internal reserves. Taking these factors and the current plan into consideration, the Group has adequate liquidity.

Capital investment scheduled for the Takara Shuzo Group in fiscal 2015 is expected to exceed depreciation thanks to enhanced sake manufacturing capabilities, among other factors, and there is the possibility of corporate bond issuances to acquire additional funds in the event that capital in excess of internal funds is required for new M&A activities or other investments. The Company's outstanding bonds and preliminary rating of shelf registration have affirmed an A rating from Rating and Investment Information, Inc. (R&I), and Japan Credit Rating Agency, Ltd. (JCR). In addition, the Company has established commitment lines totaling ¥10,000 million to finance its dynamic working capital requirements.

Currently, the Takara Bio Group intends to finance capital investment in fiscal 2015 through internal funds. However, it may be necessary to raise funds from other sources to finance the launch of new businesses and to expand the scope of existing businesses, whereby demand for capital from either is expected to increase.

## Business Risks

The following are major potential risks to which the Takara Group (the Group and its affiliated companies) is exposed to in its business and other activities. In addition, conditions that may not become a risk are also described from the viewpoint of positive information disclosure to investors. Upon identification of the possibility of such risks, the Group will make its best efforts to avoid such an occurrence or take countermeasures against such an occurrence. Please note that the following descriptions do not cover all of the risk factors concerning investment decisions.

Descriptions related to the possible occurrence of events in the future are based on the Group's judgments as of June 27, 2014, the date on which it filed its official company accounts.



## **(1) Risks Concerning the Alcoholic Beverages and Seasonings Business and Its Business Environment**

### **<1> Risks concerning dependence on particular markets and products**

More than 90% of sales of the Group's Alcoholic beverages and seasonings business are generated within Japan, and its market is highly vulnerable to changes in the tastes of consumers. The Group therefore strives to develop both original products that meet the ever-changing tastes of consumers and unique products that differentiate the Group from competitors. However, changes in consumer trends have been accelerating recently. For this reason, if the Group fails to offer attractive products that satisfy the tastes of consumers and reflect market trends, business growth and profitability will suffer and may adversely affect the Group's business performance and financial position.

Furthermore, in Japan both a low birthrate and a rapidly aging population are said to have already pushed the population into a declining trend. If this population decrease results in a decline in liquor demand, the Group's business may be adversely affected.

### **<2> Risks concerning market competition**

The recent deregulation in alcoholic beverage retail licensing has drastically changed the liquor distribution structure and prompted competing companies to reduce prices and pursue new product strategies, which has intensified competition in the marketplace. In such a competitive business environment, the Group is striving to address the challenges by developing and cultivating high-value-added products, strengthening its brand power, carrying out sales activities that reflect the changes in distribution channels, and cutting costs. However, if competition increases to a level that cannot be countered by these measures and strategies, the Group's business performance and financial position may be adversely affected.

### **<3> Risks concerning dependence on particular plants for manufacturing**

Most of the Group's alcoholic beverage products are manufactured at the Fushimi Plant (Fushimi Ward, Kyoto City) and the Matsudo Plant (Matsudo City, Chiba Prefecture), both operated by Takara Shuzo Co., Ltd. Furthermore, the Group is expanding the production lines at these two plants. Therefore, in the event of a major earthquake or any other occurrence that prevents operations in either of these areas, it may threaten to seriously affect the manufacture and supply of products, which may adversely affect the Group's business performance and financial position. In addition, ethyl alcohol, a major raw material used by the Group, is classified by the Fire Service Law as a hazardous material, Class 4 (flammable liquid, possessing a serious risk of starting and spreading a fire, which, once

started, is hard to extinguish).

### **<4> Risks concerning fluctuations of raw material prices**

The Group's procurement of raw materials could be indirectly affected by the climatic and economic conditions of supplier countries and regions. Ethanol for shochu and other products comes mainly from South America and Asia, and rice for sake and other products is procured in Japan; therefore, the prices of these raw materials are influenced by weather conditions in these areas and the market for the raw material. Recently, the purchase price of ethanol has been increasing, and any hike in the procurement cost of raw materials will cause an increase in our production cost. If this increase cannot be added to the sales price due to, for example, market conditions, this in turn may adversely affect the Group's business performance and financial position.

### **<5> Risks concerning Japan's legal regulations**

The alcoholic beverages business of the Group is subject to regulations specified under the Liquor Tax Law that governs licenses for the manufacturing and/or selling of alcoholic beverages and liquor taxes in Japan. In accordance with the Liquor Tax Law, the Group has obtained, in addition to the license as a seller, the license for manufacturing each type of product and for operating each manufacturing plant from the relevant taxation offices. In future business operations, the Group will continue to be regulated by the Liquor Tax Law, and consequently any change to the liquor tax rates may affect selling prices and sales trends.

### **<6> Risks concerning social attitudes toward drinking**

It has been said that drinking alcoholic beverages in moderation generally relieves weariness, increases appetite, eases stress, and works as a social lubricant. On the other hand, many problems in habitual drinking have been pointed out, such as intoxication, organ damage due to chronic drinking, alcohol use disorder, under-age drinking, and damage to the fetus owing to drinking by pregnant women, characteristics of which are not seen in any other beverages or foods. Realizing these problems, the Group, as an organization producing and selling alcoholic beverages, is carrying out various activities to spread the idea of "controlled, moderate drinking" from the viewpoint of meeting its social responsibilities by helping to maintain and improve people's health. If these alcohol-attributable problems become more serious within society, the Group's production and sales activities may be further regulated or otherwise affected, and the future growth, business performance, and financial position of the Group's alcoholic beverages business may deteriorate.

## **(2) Risks Concerning the Biomedical Business and Its Business Environment**

### **<1> Risks concerning R&D activities**

In the Biomedical business, the Group has been conducting a wide range of R&D activities in fields covering a broad range of biotechnology-related industries. The Group considers these R&D activities extremely important in order to keep the Group's competitive edge. The Group therefore aggressively invests in R&D. However, there is no guarantee that the R&D activities will advance as planned, and because clinical development in the Gene Therapy business takes a very long time, it is also not guaranteed that any R&D activities will bear fruit in a timely manner. A delay in R&D activities may adversely affect the business plans, business performance, and financial position of the Group's Biomedical business. Furthermore, there is no guarantee that the R&D activities currently in progress will produce their expected results. Such a failure could hinder the Group from meeting its planned revenue-making expectations.

### **<2> Risks concerning market competition**

Currently, the revenue base of the Group's Biomedical business is generated by our Bioindustry business, whose major product is research reagents related to the real-time Polymerase Chain Reaction (PCR) method. However, the real-time PCR license granted to the Group is not an exclusive license, with many other companies similarly granted the real-time PCR license, thereby intensifying competition. Moreover, unlike medical equipment, since neither permission nor approval is required for the manufacture and sale of scientific instruments, entry into the market is relatively easy; therefore, there are many competing companies in the market. Moreover, cancer immunotherapy and other cell therapies are now being used to improve the quality of life (QOL) of patients and not just as a cure for a disease. Therefore, their marketability is expected and more providers will likely appear.

In the Gene Therapy business, various gene transfer methods and effective vectors have been developed, and the applications of gene therapy are expanding from congenital diseases, infectious diseases, and various types of cancer to nonfatal chronic illnesses. Thus, a potentially enormous market has opened up, which has resulted in many companies investing in gene therapy research and development, including venture firms in Europe and the U.S.

In the AgriBio business, the health food industry is booming and many businesses, not just food manufacturers but many pharmaceutical companies as well, are entering the rapidly growing market. Legal regulations impose restrictions only on the descriptions of efficacies and effects as well as also prohibiting the use of experimental data in sales promotions to differentiate product offerings. As a result, this market is easy for companies to enter, which is consequently intensifying competition.

Under these market conditions, the Group strives to start new business projects and commercialize projects in their R&D phase as quickly as possible. However, if a competitor successfully commercializes a similar product or technology before the Group does, or if a competitor commercializes a superior technology, the business plans, business performance, and financial position of the Group may be adversely affected.

### **<3> Risks concerning dependence in manufacturing**

Currently, the Group's Biomedical business depends mostly on Takara Biotechnology (Dalian) Co., Ltd., a Chinese subsidiary of the Takara Group, for manufacturing products related to the Bioindustry business. In the future, the Group's reliance on this company is expected to grow. Therefore, in the event of a deterioration in security, a major earthquake, or any other occurrence that prevents operations in the region where this subsidiary is located, the whole Group could lose most of its capacity to manufacture the products concerned, which may adversely affect the Group's business performance and financial position.

### **<4> Risks concerning legal regulations specific to the Biomedical business**

R&D activities in the Bioindustry business are regulated by relevant legislations, such as the Law Concerning Prevention from Radiation Hazards Due to Radioisotopes, Etc., and the Law Concerning the Conservation and Sustainable Use of Biological Diversity through Regulations on the Use of Living Modified Organisms, and the Group intends to observe these laws and regulations. In sales of research reagents, the Group is also required to follow the Poisonous and Deleterious Substance Control Law. Research reagents are not drugs as defined by the Pharmaceutical Affairs Law (although a new, partial revision of this Law has been effected under the name "Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics," until its promulgation, the previous name will be used; the same below) and consequently are not regulated by that law. However, if these regulations are tightened or new regulations are enforced following the expansion of industries providing research support services, the Group's business may be adversely affected.

The relevant laws and regulations such as the Pharmaceutical Affairs Law regulate the commercialization of gene and cell therapies, and the Group intends to comply with such laws and regulations. These laws and regulations are concerned with securing the quality, effectiveness, and safety of drugs, quasi drugs, cosmetics, and medical instruments, and the trading of these products requires obtaining approval or permission from the relevant authorities. At present, there is no guarantee that the Group will be granted necessary permission or approval based on the Pharmaceutical Affairs Law for each project for which it is



carrying out R&D activities in the Group's Gene Therapy business.

In addition, new therapies such as cancer immune therapy may require approval or may become regulated by the Pharmaceutical Affairs Law or Medical Practitioners Law in the future. In the event that these laws are tightened or a new regulation is introduced, the Group's business strategy may be adversely affected.

The basic law governing the promotion of regenerative medicine, the Regenerative Medicine Promotion Act (formally the "Act on General Promotion of Measures to Ensure Rapid and Safe Public Access to Regenerative Medicine") was established on April 26, 2013, and the Amendment of Pharmaceuticals Affairs Act and the Act on the Safety of Regenerative Medicines were established on November 20, 2013.

The effect on the Group of the revision of these government policies and laws are estimated as follows.

1. Increase in Group product sales for basic and clinical research fields thanks to the invigoration of research and development activities in the regenerative and cell therapy field with government financial support
2. Increase in contract manufacturing of gene transfer vectors in accordance with GMP (Good Manufacturing Practice, quality management standards for pharmaceuticals) and cell processing support business thanks to the lifting of the ban on cell cultivation and processing by companies that was previously limited to medical institutions
3. Expansion of Group manufacturing and sales and contract business thanks to the profusion of regenerative and cell therapies supported by the formulation of a new safety maintenance mechanism that mitigates risks associated with advanced therapies that until now conducted mainly at the expense of the patient
4. Shortening of the period required to commercialize gene therapies currently in clinical development by the Group thanks to the introduction of an early approval system for new drugs

However, there is the possibility that these policy and legal revisions will not expand Group product sales as initially estimated. Also, the introduction of new regulations is also possible, which may impact Group business strategies.

#### <5> Risks concerning intellectual property rights

In biotechnology-related industries, where the success of business depends solely on the success of R&D activities, the Group regards securing intellectual property rights, including patents, as extremely important, and it protects technologies developed in-house with patents to prevent competitors from imitating them. The Group will continue placing the highest priority on applying for patents in its R&D activities. All applications are not always registered, however, and when a registered patent is made invalid for any reason, or expires, the Group's

business strategies or operational results may suffer an impact.

In addition, the Group is always mindful that, in biotechnology-related industries with continuous cutthroat competition in R&D, its technology that is protected by a patent may be superseded at any time by a competitor exercising technological capabilities that exceed those used in the Group's R&D ventures. The Group is also willing to acquire or buy licenses for promising patent rights held by third parties, but this strategy may be prohibitively expensive or alternatively there is a possibility that the Group may not be able to acquire licenses for necessary patent rights.

### (3) Risks Shared by the Whole Group

#### <1> Risks concerning impairment losses of investment securities

The Group owns marketable securities. If their market values fall drastically, the difference between the acquisition cost and market price is booked as a loss for the fiscal year. Such a loss may adversely affect the Group's business performance and financial position.

#### <2> Risks concerning impairment losses of fixed assets

The Group owns fixed assets. If the Group determines that an impairment loss should be recognized on any fixed assets or asset group specified by the accounting standard for impairment of fixed assets, the book value of the asset or asset group in question is lowered to the recoverable price, and the difference is booked as a loss for the fiscal year. Such a loss may adversely affect the Group's business performance and financial position.

#### <3> Risks concerning retirement benefit liabilities

The Group calculates the cost of its employees' retirement benefits and pension liabilities based on such preconditions as the discount rate used in actuarial calculations and the expected rate of return on pension assets. If the actual results are different from the preconditions or the preconditions have changed, it will affect booked liabilities and shareholders' equity. It will also affect expenses regularly recognized in future periods. If the yield on the investment in pension assets management worsens, it may adversely affect the Group's business performance and financial position.

#### <4> Risks concerning overseas operations

The Group's operations include the manufacture and sale of products in North America, Europe, and China as well as other regions of Asia. If any of these countries or regions experiences a drastic change in the condition of their economies, politics, and/or societies, or suffers damage from a natural disaster, such as a major earthquake, the demand for the Group's products could deteriorate and/or production facilities might have to suspend production.

Such an occurrence could seriously affect the Group's business plans and performance.

#### <5> Risks concerning fluctuations in exchange rates

Local currency-denominated items, including sales, expenses, and asset and liability accounts are translated into Japanese yen for the purpose of the preparation of the consolidated financial statements. These items may be affected by the exchange rate at translation.

The Group enters into foreign currency forward contracts and exchange rate hedging to minimize the adverse effects caused by short-term fluctuations in exchange rates. In the medium-to-long term, however, the Group may fail to accurately carry out procurement and sales activities as planned due to fluctuations in exchange rates. Therefore, fluctuations in exchange rates may adversely affect the Group's business performance and financial position.

#### <6> Risks concerning product liability

All of the products developed and manufactured by the Group are exposed to the risk of product liability compensation. If any defect is found during the manufacturing, selling, or clinical testing process, or any health impairment is caused by an alcoholic beverage, food, drug, or medical instrument in particular, the Group may be subject to a product liability claim. Despite possessing product liability insurance, it is uncertain whether or not the insurance will cover the full amount of the final compensation. A defect that results in large-scale recalls or product liability compensation not only causes a huge financial cost but also affects the Group's reputation, business performance, and financial position.

#### <7> Risks concerning legal regulations

The Group is developing businesses in various countries and regions subject to local governmental regulations, such as those granting permission to begin business operations or undertake investment, export restrictions because of national security or other reasons, and trade conditions, including tariff duties. The Group is also subject to legislation governing trade, monopoly, patent, consumer, taxation, foreign currency exchange, transportation, and environmental and recycling issues. If the Group is unable to observe any of the legislative regulations, its activities may be restricted and an increase in costs may occur.

Also, as a corporation involved in the manufacture and sale of food products, the Group maintains business facilities, manages equipment, containers and packages, as well as controls production processes and sales activities in accordance with the provisions of the Food Sanitation Law. The Group observes the Food Sanitation Law and takes extra care to control food hygiene. Food safety matters, including food hygiene and such problems as intentional interference, are an

unavoidable issue. Therefore, if any problem should arise related to this issue, the business performance of the Group may be adversely affected.

Moreover, in sales of health foods, the Group makes its best efforts to observe the provisions of the Pharmaceutical Affairs Law in regard to expressing and advertising efficacies and effects and providing directions for proper usage. Due to the general nature of health foods, however, the Group cannot completely rule out the possibility of it violating any provision on mandatory information. If any violation occurs within the Group, trust in the Group may deteriorate and the business performance of the Group may be adversely affected.

As the Group is also selling certain products over the Internet, the Group is subject to mandatory information regulations based on the Specified Commercial Transactions Law.

#### <8> Risks concerning information control

The Group retains personal information about numerous individuals through, among other activities, sales promotion campaigns and mail-order sales. The Group takes every precaution to prevent the leakage of such information by establishing an information control system, appointing personnel in charge of information security, conducting ongoing staff training, and taking other related measures. However, the risk remains that some unexpected incidents could lead to the loss, leakage, or falsification of personal and/or other internal information. In such cases, the Group could lose its credibility among the general public, which may adversely affect the Group's business.

#### <9> Risks concerning lawsuits

The Group strives to observe all the laws and regulations relevant to its business operations by enhancing its compliance measures. However, as the Group conducts its business both within and outside Japan, there remains a risk of a third party filing a suit over such issues as the Product Liability Law, intellectual property rights, or a claim for compensation for an invention irrespective of whether or not the Group or its employees have violated any law. If a court case were to be brought against the Group, or if the court decision were to go against the Group, the Group's business performance and financial position may be adversely affected.



# Consolidated Balance Sheet

Takara Holdings Inc. and Consolidated Subsidiaries  
March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
<b>ASSETS</b>			
<b>CURRENT ASSETS (Note 17):</b>			
Cash and cash equivalents	¥ 34,608	¥ 35,287	\$ 336,000
Time deposits	18,565	15,164	180,242
Marketable securities (Note 4)	9,376	1,597	91,029
Notes and accounts receivable:			
Trade	51,696	50,484	501,902
Associated companies	204	146	1,980
Other	591	991	5,737
Allowance for doubtful accounts	(143)	(82)	(1,388)
Inventories (Notes 5 and 8)	30,988	25,705	300,854
Deferred tax assets (Note 14)	2,498	2,476	24,252
Prepaid expenses and other current assets	2,164	1,514	21,009
<b>Total current assets</b>	<b>150,551</b>	<b>133,285</b>	<b>1,461,660</b>
<b>PROPERTY, PLANT, AND EQUIPMENT (Notes 6 and 7):</b>			
Land	17,418	14,920	169,106
Buildings and structures	44,115	42,706	428,300
Machinery, equipment, and vehicles	77,735	75,797	754,708
Tools, furniture, and fixtures	11,347	10,660	110,165
Lease assets (Note 15)	1,404	1,352	13,631
Construction in progress	2,812	372	27,300
<b>Total</b>	<b>154,834</b>	<b>145,808</b>	<b>1,503,242</b>
Accumulated depreciation	(106,858)	(103,169)	(1,037,456)
<b>Net property, plant, and equipment</b>	<b>47,976</b>	<b>42,639</b>	<b>465,786</b>
<b>INVESTMENTS AND OTHER ASSETS (Note 17):</b>			
Investment securities (Note 4)	19,983	18,034	194,009
Investments in, and advances to, associated companies	3,549	3,045	34,456
Goodwill	7,539	3,767	73,194
Deferred tax assets (Note 14)	1,786	2,475	17,339
Other assets	7,190	4,338	69,805
<b>Total investments and other assets</b>	<b>40,049</b>	<b>31,662</b>	<b>388,825</b>
<b>TOTAL</b>	<b>¥ 238,577</b>	<b>¥ 207,586</b>	<b>\$ 2,316,281</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES (Note 17):</b>			
Short-term bank loans (Note 7)	¥ 5,726	¥ 4,906	\$ 55,592
Current portion of long-term debt (Note 7)	398	5,362	3,864
Notes and accounts payable:			
Trade	14,390	13,006	139,708
Associated companies	7	6	67
Construction and other	2,503	2,234	24,300
Liquor taxes payable (Note 8)	8,376	9,907	81,320
Income taxes payable	5,621	1,996	54,572
Accrued expenses	6,584	6,704	63,922
Accrued sales promotion expenses	1,795	1,719	17,427
Other current liabilities (Note 14)	3,257	3,549	31,621
<b>Total current liabilities</b>	<b>48,663</b>	<b>49,394</b>	<b>472,456</b>
<b>LONG-TERM LIABILITIES (Note 17):</b>			
Long-term debt (Note 7)	25,884	25,889	251,300
Liability for employees' retirement benefits (Note 9)	6,948	8,845	67,456
Deposits	5,591	5,626	54,281
Deferred tax liabilities (Note 14)	4,075	2,387	39,563
Other	990	1,123	9,611
<b>Total long-term liabilities</b>	<b>43,491</b>	<b>43,873</b>	<b>422,242</b>
<b>CONTINGENT LIABILITIES (Note 16)</b>			
<b>EQUITY (Notes 10 and 20):</b>			
Common stock, authorized, 870,000,000 shares; issued, 217,699,743 shares in 2014 and 2013	13,226	13,226	128,407
Capital surplus	3,196	3,195	31,029
Retained earnings	104,739	90,437	1,016,883
Treasury stock, at cost 16,466,424 shares in 2014 and 14,833,716 shares in 2013	(9,931)	(8,355)	(96,417)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	5,941	4,599	57,679
Deferred gain on derivatives under hedge accounting (Note 18)	279	16	2,708
Foreign currency translation adjustments	2,894	(3,079)	28,097
Defined retirement benefit plans	1,085		10,533
<b>Total</b>	<b>121,431</b>	<b>100,040</b>	<b>1,178,941</b>
Minority interests	24,991	14,277	242,631
<b>Total equity</b>	<b>146,422</b>	<b>114,318</b>	<b>1,421,572</b>
<b>TOTAL</b>	<b>¥ 238,577</b>	<b>¥ 207,586</b>	<b>\$ 2,316,281</b>

See notes to consolidated financial statements.

## Consolidated Statement of Income

Takara Holdings Inc. and Consolidated Subsidiaries  
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET SALES (Notes 12 and 22)	¥ 209,568	¥ 200,989	\$ 2,034,640
COST OF SALES (Notes 8, 9, 12, 15, and 22)	129,447	123,630	1,256,766
Gross profit	80,121	77,359	777,873
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 9, 13, 15, and 22)	70,631	68,225	685,737
Operating income	9,490	9,133	92,135
OTHER INCOME (EXPENSES):			
Interest and dividend income	562	536	5,456
Equity in earnings of associated companies	125	96	1,213
Subsidy income	164	162	1,592
Gain on sales of stocks of subsidiaries	9,261		89,912
Gain on revision of retirement benefit plans (Note 2.k)		345	
Interest expense	(464)	(523)	(4,504)
Foreign exchange losses		(105)	
Fixed assets transferred loss	(317)		(3,077)
Loss on disposals of property, plant, and equipment	(197)	(622)	(1,912)
Impairment loss	(92)	(45)	(893)
Loss on sales of investment securities	(130)	(5)	(1,262)
Loss on sales of stocks of affiliates		(262)	
Contribution for withdrawal from employees pension fund (Note 9)		(260)	
Other, net	240	808	2,330
Other income, net	9,152	122	88,854
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	18,642	9,256	180,990
INCOME TAXES (Note 14):			
Current	7,140	3,390	69,320
Deferred	495	618	4,805
Total income taxes	7,635	4,008	74,126
NET INCOME BEFORE MINORITY INTERESTS	11,006	5,247	106,854
MINORITY INTERESTS IN NET INCOME	726	560	7,048
NET INCOME	¥ 10,280	¥ 4,687	\$ 99,805
	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.s and 20):			
Basic net income	¥ 50.83	¥ 23.01	\$ 0.49
Diluted net income	50.81	22.99	0.49
Cash dividends applicable to the year	11.00	9.00	0.10

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Takara Holdings Inc. and Consolidated Subsidiaries  
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET INCOME BEFORE MINORITY INTERESTS	¥ 11,006	¥ 5,247	\$ 106,854
OTHER COMPREHENSIVE INCOME (Note 19):			
Unrealized gain on available-for-sale securities	1,340	1,850	13,009
Deferred gain on derivatives under hedge accounting	259	35	2,514
Foreign currency translation adjustments	6,994	2,960	67,902
Share of other comprehensive income in associates	402	65	3,902
Change in equity	5,847		56,766
Total other comprehensive income	14,845	4,911	144,126
COMPREHENSIVE INCOME	¥ 25,851	¥ 10,158	\$ 250,980
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 23,706	¥ 8,954	\$ 230,155
Minority interests	2,145	1,204	20,825

See notes to consolidated financial statements.

## Consolidated Statement of Changes in Equity

Takara Holdings Inc. and Consolidated Subsidiaries  
Year Ended March 31, 2014

	Thousands		Millions of Yen							Total	Minority Interests	Total Equity
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income						
						Unrealized Gain on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Plans			
BALANCE, APRIL 1, 2012	¥205,422	¥ 13,226	¥ 3,195	¥ 88,012	¥(6,922)	¥ 2,805	¥ (17)	¥(5,516)		¥ 94,783	¥12,876	¥107,659
Net income				4,687						4,687		4,687
Cash dividends, ¥9.0 per share				(1,851)						(1,851)		(1,851)
Net increase in treasury stock	(2,556)		0		(1,581)					(1,581)		(1,581)
Change in scope of equity method investee				(411)	147					(263)		(263)
Net change in the year						1,794	34	2,437		4,266	1,400	5,667
BALANCE, MARCH 31, 2013	202,866	13,226	3,195	90,437	(8,355)	4,599	(16)	(3,079)		100,040	14,277	114,318
Net income				10,280						10,280		10,280
Cash dividends, ¥9.0 per share				(1,825)						(1,825)		(1,825)
Net increase in treasury stock	(1,633)		0		(1,575)					(1,575)		(1,575)
Change in equity				5,847						5,847		5,847
Net change in the year						1,341	262	5,974	1,085	8,663	10,713	19,377
BALANCE, MARCH 31, 2014	¥201,233	¥ 13,226	¥ 3,196	¥104,739	¥(9,931)	¥ 5,941	¥ 279	¥ 2,894	¥ 1,085	¥121,431	¥24,991	¥146,422

	Thousands		Thousands of U.S. Dollars (Note 1)							Total	Minority Interests	Total Equity
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income							
					Unrealized Gain on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Plans				
BALANCE, MARCH 31, 2013	\$ 128,407	\$ 31,019	\$ 878,029	\$(81,116)	\$ 44,650	\$ 155	\$(29,893)			\$ 971,262	\$ 138,611	\$ 1,109,883
Net income			99,805							99,805		99,805
Cash dividends, ¥0.08 per share			(17,718)							(17,718)		(17,718)
Net increase in treasury stock		0		(15,291)						(15,291)		(15,291)
Change in equity			56,766							56,766		56,766
Net change in the year					13,019	2,543	58,000	10,533		84,106	104,009	188,126
BALANCE, MARCH 31, 2014	\$ 128,407	\$ 31,029	\$ 1,016,883	\$(96,417)	\$ 57,679	\$ 2,708	\$ 28,097	\$ 10,533		\$1,178,941	\$ 242,631	\$1,421,572

See notes to consolidated financial statements.



## Consolidated Statement of Cash Flows

Takara Holdings Inc. and Consolidated Subsidiaries  
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 18,642	¥ 9,256	\$ 180,990
Adjustments for:			
Income taxes paid	(3,536)	(3,520)	(34,330)
Depreciation and amortization	4,997	4,973	48,514
Net loss (gain) on sales and disposals of property, plant, and equipment	174(9,26)	(607)	1,689
Net (gain) loss on sales of stocks of subsidiaries and affiliates	1)	262	(89,912)
Changes in assets and liabilities:			
Decrease in trade receivables	786	548	7,631
(Increase) decrease in inventories	(2,405)	23	(23,349)
Decrease in interest and dividend receivable	17	53	165
Decrease (increase) in other current assets	255	(357)	2,475
Increase (decrease) in trade payables	464	(1,283)	4,504
Decrease in liquor taxes payable	(1,533)	(682)	(14,883)
Decrease in consumption taxes payable	(475)	(62)	(4,611)
(Decrease) increase in interest payable	(20)	28	(194)
Decrease in liability for employees' retirement benefits	(1,917)	(796)	(18,611)
Other, net	1,044	132	10,135
Total adjustments	(11,409)	(1,288)	(110,766)
Net cash provided by operating activities	7,233	7,967	70,223
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sales of property, plant, and equipment	34	1,709	330
Proceeds from sales and redemption of marketable securities	1,904	1,747	18,485
Proceeds from sales of investment securities	1,074	543	10,427
Purchases of property, plant, and equipment	(8,322)	(5,388)	(80,796)
Purchases of marketable securities and investment securities	(10,545)	(2,311)	(102,378)
(Increase) decrease in time deposits, net	(2,748)	891	(26,679)
Purchase of stocks of affiliates		(1,249)	
Acquisitions, net of cash acquired	(5,743)	(48)	(55,757)
Proceeds from sales of stocks of subsidiaries and affiliates	12,241	609	118,844
Other, net	(150)	(175)	(1,456)
Net cash used in investing activities	(12,254)	(3,672)	(118,970)
<b>FINANCING ACTIVITIES:</b>			
Proceeds from issuance of bonds		9,923	
Redemption of bonds	(5,000)	(5,000)	(48,543)
Capital contribution from minority interests	11,419	324	110,864
Purchases of treasury stock	(1,521)	(1,582)	(14,766)
Cash dividends paid	(1,878)	(1,896)	(18,233)
Other, net	(457)	(540)	(4,436)
Net cash provided by financing activities	2,562	1,229	24,873
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>			
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	1,779(67 9)	596 6,121	17,271 (6,592)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	35,287	29,165	342,592
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 34,608	¥ 35,287	\$ 336,000

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Takara Holdings Inc. and Consolidated Subsidiaries  
Year Ended March 31, 2014

### 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2013 consolidated financial statements to conform to the classifications used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Takara Holdings Inc. (the "Company") is incorporated and operates. Japanese yen figures of less than a million yen are rounded down to the nearest million yen, except for per share data and the amounts in Notes 2.s, 11, and 20. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥103 to \$1, the approximate rate of exchange at March 31, 2014. U.S. dollar figures of less than a thousand dollars are rounded down to the nearest thousand dollars, except for per share data and the amounts and in Notes 2.s, 11, and 20. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation** — The consolidated financial statements as of March 31, 2014, include the accounts of the Company and its 43 (38 in 2013) consolidated subsidiaries (together, the "Group"). Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 2 (2 in 2013) associated companies are accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The difference of the cost of acquisition from the fair value of the net assets of an acquired subsidiary at the date of acquisition is recorded as goodwill and amortized on a pro rata basis over a certain period, not exceeding 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

**b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements** — In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of

the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and 5) exclusion of minority interests from net income, if contained in net income.

**c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method** — In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and 5) exclusion of minority interests from net income, if contained in net income.

**d. Business Combinations** — In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for

combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

**e. Cash Equivalents** — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, trust fund investments, commercial paper, and trust beneficiary rights, all of which mature or become due within three months of the date of acquisition.

**f. Marketable and Investment Securities** — Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, for which there is the positive intent and ability to hold to maturity, are reported at amortized cost and (2) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

**g. Inventories** — Inventories are mainly stated at the lower of cost, determined by the average method, or net selling value.

**h. Property, Plant, and Equipment** — Property, plant, and equipment are stated at cost. Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 4 to 15 years for machinery, equipment, and vehicles.

**i. Long-Lived Assets** — The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the

discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**j. Goodwill** — The Company and its domestic and overseas consolidated subsidiaries amortize goodwill on a pro rata basis over a certain period not exceeding 20 years. Accounting for impairment of long-lived assets also applies to goodwill.

The Company's consolidated subsidiary in the U.S. records goodwill according to Financial Accounting Standards Board Accounting Standards Codification Topic 350, Goodwill and Other Intangible Assets. The U.S. subsidiary records goodwill as the excess of the purchase price over the fair value of the enterprise, which is tested for impairment at least annually at the reporting unit level.

**k. Retirement and Pension Plans** — Each of the employees' retirement benefit programs of the Company and certain consolidated subsidiaries consist of an unfunded lump-sum severance payment plan, a defined benefit corporate pension plan and a defined contribution pension plan as described in Note 9.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period. Past service costs are amortized on a straight-line basis over 10 years within the average remaining service period.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 2.t).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after

April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, asset for defined benefits of ¥440 million (\$4,271 thousand) and liability for retirement benefits of ¥6,943 million (\$67,407 thousand) were recorded as of March 31, 2014, and accumulated other comprehensive income and minority interests for the year ended March 31, 2014, increased by ¥1,085 million (\$10,533 thousand) and ¥3 million (\$29 thousand), respectively.

**l. Allowance for Doubtful Accounts** — The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

**m. Accrued Sales Promotion Expenses** — Accrued sales promotion expenses are stated at amounts considered to be appropriate based on the purchased quantities of finished products by retail stores, identified by Takara Shuzo Co., Ltd., a consolidated subsidiary, multiplied by the past year actual unit cost of the relevant products.

**n. Leases** — In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective April 1, 2008. Lease assets related to finance lease transactions without title transfer are depreciated on a straight-line basis over the leased periods as their useful lives and with no residual value. In addition, the Group accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

**o. Income Taxes** — The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

**p. Foreign Currency Transactions** — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

**q. Foreign Currency Financial Statements** — The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate. The resulting translation differences, less those attributable to minority interests, are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

**r. Derivative Financial Instruments** — The Group uses derivative financial instruments, such as foreign currency forward contracts and foreign currency options, as a means of hedging exposure to foreign currency risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge payments of royalties and foreign currency import transactions. Payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Foreign currency options are utilized to hedge foreign currency exposures in the procurement of raw materials from overseas suppliers. These options, which qualify for hedge accounting, are measured at fair value at the balance sheet date and the unrealized gains or losses are deferred until maturity as an other liability or asset.

**s. Per Share Information** — Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full exercise of outstanding stock options.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

#### **t. New Accounting Pronouncements**

**Accounting Standard for Retirement Benefits** — On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the



Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major changes are as follows:

**(a) Treatment in the balance sheet**

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

**(b) Treatment in the statement of income and the statement of comprehensive income**

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

**(c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases**

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for (c) above in future applicable periods.

**Accounting Standards for Business Combinations and Consolidated Financial Statements** — On September 13, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No.

10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements".

Major accounting changes are as follows:

**Transactions with noncontrolling interest**

A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

**Presentation of the consolidated balance sheet**

In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "noncontrolling interest" under the revised accounting standard.

**Presentation of the consolidated statement of income**

In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.

**Provisional accounting treatments for a business combination**

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisioned amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

**Acquisition-related costs**

Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for "transactions with noncontrolling interest," "acquisition-related costs" and "presentation changes in the consolidated financial statements" are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for the presentation changes in the consolidated financial statements.

In case of earlier application, all accounting standards and guidance above, except for the presentation changes, should be applied simultaneously. Either retrospective or prospective application of the revised accounting standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" is permitted. In retrospective application of the revised standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs," accumulated effects of retrospective adjustments for all "transactions with noncontrolling interest" and "acquisition-related costs" which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application.

In prospective application, the new standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" shall be applied prospectively from the beginning of the year

### 3. BUSINESS COMBINATION

(1) On September 19, 2013, Takara Shuzo Co., Ltd., a consolidated subsidiary, acquired 100% of the ownership in T. TAZAKI & COMPANY LTD. in England through TAKARA EUROPE HOLDINGS B.V., 100% consolidated subsidiary of Takara Shuzo Co., Ltd. TAZAKI FOODS LTD., a 100% consolidated subsidiary of T. TAZAKI & COMPANY LTD., operates the Japanese foods and ingredients wholesale business. This acquisition was made to expand sales of alcoholic beverages and seasonings in Europe through the acquired sales network. The results of operations between July 1, 2013 and December 31, 2013 for T. TAZAKI & COMPANY LTD. were included in

of the first-time application. The changes in presentation shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for "provisional accounting treatments for a business combination" is effective for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company expects to apply the revised accounting standards and guidance from the beginning of the annual period beginning on April 1, 2016, and is in the process of measuring the effects of applying the revised accounting standards and guidance in future applicable periods.

the Company's consolidated financial statement of income.

The Company accounted for this business combination by the purchase method of accounting.

The acquisition cost was ¥3,293 million (\$31,970 thousand) in cash in accordance with the agreement dated September 19, 2013. The total cost of acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill and other intangibles recorded in connection with the acquisition totaled ¥1,489 million (\$14,456 thousand) and ¥1,868 million (\$18,135 thousand), respectively.

The estimated fair values of the assets acquired and the liabilities assumed at the acquisition date were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Current assets	¥ 1,113	\$ 10,805
Property, plant, and equipment	47	456
Other assets	3	29
Intangible assets	1,868	18,135
Total assets acquired	3,033	29,446
Total liabilities assumed	1,229	11,932
Net assets acquired	¥ 1,803	\$ 17,504

Amounts allocated to intangible assets other than goodwill, and their breakdown, and amortization period by category

Category	Millions of Yen	Thousands of U.S. Dollars	Amortization Period
	2014	2014	
Customer relationships	¥ 1,292	\$ 12,543	19 years
Right of trademark	576	5,592	20 years

If this business combination had been completed as of April 1, 2013, the beginning of the current fiscal year, the unaudited condensed pro forma consolidated financial statement of income for the year ended March 31, 2014, would be as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Sales .....	¥ 1,724	\$ 16,737
Operating income .....	88	854

The condensed pro forma financial information of the business combination is calculated assuming the integration was completed on April 1, 2013, the beginning of the current fiscal year ended March 31, 2014. It is the difference between the net sales and income, which are adjusted by intercompany transaction eliminations, reported between April 1, 2013 and March 31, 2014, and the net sales and income for the consolidated statement of income. Furthermore, amortization of goodwill corresponding to the period from April 1, 2013, to the actual date of the corporate integration has been recognized in this amount.

The above pro forma financial information has not been audited.

(2) On March 25, 2014, Takara Shuzo Co., Ltd., a consolidated subsidiary, acquired 100% of the ownership in COMINPORT DISTRIBUCIÓN S.L. in Spain including its 100% subsidiary COMINPORT SP. ZO. O. in Poland through FOODEX S.A.S., an 80% consolidated subsidiary of Takara Shuzo Co., Ltd. COMINPORT DISTRIBUCIÓN S.L. operates the Japanese foods and ingredients wholesale business. This acquisition was made to expand sales of alcoholic beverages and seasonings in Europe through the acquired sales network. The results of operations for COMINPORT DISTRIBUCIÓN S.L. were not included in the Company's

consolidated financial statement of income.

The Company accounted for this business combination by the purchase method of accounting.

The acquisition cost was ¥2,508 million (\$24,349 thousand) in cash in accordance with the agreement dated March 25, 2014. The total cost of acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill recorded in connection with the acquisition totaled ¥1,724 million (\$16,737 thousand).

The estimated fair values of the assets acquired and the liabilities assumed at the acquisition date were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Current assets .....	¥ 1,197	\$ 11,621
Property, plant, and equipment .....	75	728
Other assets .....	3	29
Intangible assets .....	0	0
Total assets acquired .....	1,277	12,398
Total liabilities assumed .....	492	4,776
Net assets acquired .....	¥ 784	\$ 7,611

As stipulated in the business combination contract, it is possible that an additional payment will be made. If an additional payment is made, the acquisition cost and goodwill and its amortization amount will be amended based on the assumption that this additional payment had been made at the business combination date.

If this business combination had been completed as of April 1, 2013, the beginning of the current fiscal year, the unaudited condensed pro forma consolidated financial statement of income for the year ended March 31, 2014, would be as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Sales .....	¥ 2,677	\$ 25,990
Operating income .....	285	2,563

The condensed pro forma financial information of the business combination is calculated assuming the integration was completed on April 1, 2013, the beginning of the current fiscal year ended March 31, 2014. It is the difference between the net sales and income, which are adjusted by intercompany transaction eliminations, reported between April 1, 2013 and March 31, 2014, and the net sales and income for the consolidated statement of income. Furthermore, amortization of goodwill corresponding to the period from April 1, 2013, to the actual date of the corporate integration has been recognized in this amount.

The above pro forma financial information has not been audited.

#### Public Offering of Takara Bio Inc., and Sales of Shares by the Company

The Company's consolidated subsidiary, Takara Bio Inc., which manufactures and distributes bio products and provides contract research services, issued 6,000,000 new shares by public offering with the offer price of ¥1,989 (\$19.31) per share. Total gross proceeds from the offering was ¥11,934 million (\$115,864 thousand) and the closing occurred on August 27, 2013. Takara Bio Inc. received net proceeds of ¥11,045 million (\$107,233 thousand) with the issue price of ¥1,840 (\$17.86) per share, net of underwriting commissions.

In line with the offering of Takara Bio Inc., the Company sold 5,000,000 shares of common stock held in Takara Bio Inc. on August 28, 2013, and subsequently sold an additional 1,650,000 shares as the green shoe option granted to underwriters with an offer price of ¥1,989 (\$19.31) per share until the end of September 17, 2013. Total gross proceeds reached ¥13,226 million (\$128,407 thousand) and the Company recorded ¥9,261 million (\$89,912

thousand) in gain on sales of stocks of subsidiaries.

The public offering was conducted in order to increase business valuation of the Group through improving distribution conditions of Takara Bio Inc. stocks. The fund obtained by Takara Bio Inc. will be used to cover future capital investment and research and development investment in Japan and overseas in order to expand its business.

The percentage of shares in Takara Bio Inc. held by the Company decreased to 60.9% as of March 31, 2014. Based on the Accounting Standard for Business Combinations (ASBJ Statement No. 21, December 26, 2008) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, December 26, 2008), the transactions were treated and accounted for as transactions under common control.

#### 4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2014 and 2013, consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Current:			
Government and corporate bonds .....	¥ 8,617	¥ 1,009	\$ 83,660
Other .....	758	588	7,359
Total .....	¥ 9,376	¥ 1,597	\$ 91,029
Non-current:			
Investment equity securities .....	¥ 19,934	¥ 17,983	\$ 193,533
Government and corporate bonds .....	48	50	466
Total .....	¥ 19,983	¥ 18,034	\$ 194,009

The costs and aggregate fair values of marketable and investment securities at March 31, 2014 and 2013, are as follows:

March 31, 2014	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities .....	¥ 9,221	¥ 9,163	¥ 80	¥ 18,303
Debt securities .....	617	1	1	617
Others .....	758			758
Held-to-maturity .....	8,000		5	7,994

March 31, 2013	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities .....	¥ 9,245	¥ 7,362	¥ 266	¥ 16,342
Debt securities .....	509	1	0	511
Others .....	588			588
Held-to-maturity .....	500			500

March 31, 2014	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities .....	\$ 89,524	\$ 88,961	\$ 776	\$ 177,699
Debt securities .....	5,990	9	9	5,990
Others .....	7,359			7,359
Held-to-maturity .....	77,669		48	77,611



The information for available-for-sale securities, which were sold during the years ended March 31, 2014 and 2013, is as follows:

March 31, 2014	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 1,075	¥ 90	¥ 130
Debt securities			
Total	1,075	90	130

March 31, 2013	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 543	¥ 169	¥ 5
Debt securities			
Total	543	169	5

March 31, 2014	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	\$ 10,436	\$ 873	\$ 1,262
Debt securities			
Total	10,436	873	1,262

The impairment losses on available-for-sale equity securities for the year ended March 31, 2013, are ¥651 million.

## 5. INVENTORIES

Inventories at March 31, 2014 and 2013, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Finished products and merchandise	¥ 18,570	¥ 13,938	\$ 180,291
Semifinished products	8,158	7,834	79,203
Work in process	908	1,090	8,815
Raw materials and supplies	3,351	2,841	32,533
Total	¥ 30,988	¥ 25,705	\$ 300,854

## 6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss for the following long-lived assets for the years ended March 31, 2014 and 2013.

Year Ended March 31, 2014	Location	Description	Classification	Impairment Loss	
				Millions of Yen	Thousands of U.S. Dollars
	Shimogyo-ku, Kyoto	Art	Furniture and fixtures	¥ 49	\$ 475
			Goodwill	43	417
Total				¥ 92	\$ 893

The Group recognized an impairment loss for art due to a price decline in the recent art market and absence of a plan or schedule for usage. The recoverable amounts were measured at prices determined by appraisals from third-party art experts and others. The Group recognized an impairment loss for the goodwill as the earnings projected at the time of acquiring KOUGAKU ENGINEERING CO., LTD. shares are not expected to be realized. The usage value of the goodwill is zero.

Year Ended March 31, 2013			Impairment Loss
Location	Description	Classification	Millions of Yen
Inawashiro-machi, Yama-gun, Fukushima	Idle property	Land	¥ 1
Otaru-shi, Hokkaido	Idle property	Buildings and structures, machinery, and other tangible assets	7
Nakagyo-ku, Kyoto	Business property	Buildings, lease assets, other tangible assets, and other intangible assets	36
Total			¥ 45

The Group recognized an impairment loss for idle properties because utilization in the future was uncertain and their market value declined. The recoverable amounts were measured at their estimated net selling price. The Group recognized an impairment loss for business property because future cash flow exceeded its carrying value. The recoverable amounts were zero for business properties which have negative usage value calculated based on future cash flow.

## 7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans consisted principally of term loans with interest at annual rates ranging from 0.605% to 9.550% and from 0.649% to 9.450% at March 31, 2014 and 2013, respectively.

Long-term debt at March 31, 2014 and 2013, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Loans principally from banks, due serially to January 2022, with interest rates ranging from 0% to 11% (0% to 11% in 2013):			
Collateralized	¥ 161	¥ 180	\$ 1,563
Unsecured	337	337	3,271
0.89% unsecured bonds, due May 2013		5,000	
1.96% unsecured bonds, due September 2017	5,000	5,000	48,543
0.587% unsecured bonds, due May 2015	5,000	5,000	48,543
1.561% unsecured bonds, due May 2020	5,000	5,000	48,543
0.468% unsecured bonds, due April 2017	5,000	5,000	48,543
1.162% unsecured bonds, due April 2022	5,000	5,000	48,543
Obligation under finance leases	784	734	7,611
Total	26,283	31,252	255,174
Less current portion	398	5,362	3,864
Long-term debt, less current portion	¥ 25,884	¥ 25,889	\$ 251,300

Annual maturities of long-term debt as of March 31, 2014, for the next five years and thereafter are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 398	\$ 3,864
2016	5,249	50,961
2017	217	2,106
2018	10,184	98,873
2019	79	766
2020 and thereafter	10,153	98,572
Total	¥ 26,283	\$ 255,174

At March 31, 2014, building and structures of ¥357 million (\$3,466 thousand), land of ¥250 million (\$2,427 thousand), and vehicle of ¥1 million (\$9 thousand) are pledged as collateral for long-term debt (including current portion of long-term debt) of ¥161 million (\$1,563 thousand).

## 8. LIQUOR TAXES PAYABLE

Liquor taxes are calculated at various rates according to the quantities of categorized beverages containing more than 1% of alcohol when delivered from manufacturing lots or taken outside of the bonded area. Liquor taxes are included in cost of sales and

inventories. Liquor taxes payable are to be paid by the end of the second month following the delivery or after being taken outside the bonded area.

## 9. RETIREMENT AND PENSION PLANS

The Company and certain of its consolidated subsidiaries provide lump-sum payment plans, a defined benefit corporate pension plan, and a defined contribution pension plan. As of October

1, 2012, Takara Bio Inc., the Company's consolidated subsidiary, implemented a defined contribution pension plan, by which the former severance lump-sum payment plan was partly terminated.

### Year Ended March 31, 2014

(1) The changes in defined benefit obligation for the year ended March 31, 2014, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 11,614	\$ 112,757
Current service cost	530	5,145
Interest cost	195	1,893
Actuarial losses	140	1,359
Benefits paid	(611)	(5,932)
Others	227	2,203
Balance at end of year	¥ 12,096	\$ 117,436

(2) The changes in plan assets for the year ended March 31, 2014, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 4,984	\$ 48,388
Expected return on plan assets	124	1,203
Actuarial gains	122	1,184
Contributions from the employer	363	3,524
Benefits paid	(221)	(2,145)
Others	219	2,126
Balance at end of year	¥ 5,592	\$ 54,291

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2014

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥ 5,374	\$ 52,174
Plan assets	(5,592)	(54,291)
	(218)	(2,116)
Unfunded defined benefit obligation	6,722	65,262
Net liability for defined benefit obligation	¥ 6,503	\$ 63,135

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥ 6,943	\$ 67,407
Asset for retirement benefits	(440)	(4,271)
Net liability for defined benefit obligation	¥ 6,503	\$ 63,135

(4) The components of net periodic benefit costs for the year ended March 31, 2014, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 530	\$ 5,145
Interest cost	195	1,893
Expected return on plan assets	(124)	(1,203)
Amortization of prior service cost	(285)	(2,766)
Recognized actuarial gains	(105)	(1,019)
Net periodic benefit costs	¥ 210	\$ 2,038

(5) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥ 2,007	\$ 19,485
Unrecognized actuarial losses	(310)	(3,009)
Total	¥ 1,696	\$ 16,466

(6) Plan assets as of March 31, 2014

a. Components of plan assets

Plan assets consisted of the followings:

Debt investments	46%
Equity investments	16
Cash and cash in bank	2
Others	36
Total	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(7) Assumptions used for the year ended March 31, 2014, are set forth as follows:

Discount rate	mainly 1.6%
Expected rate of return on plan assets	mainly 2.0%

### Year Ended March 31, 2013

Certain domestic consolidated subsidiaries withdrew from the contributory-funded pension plans of the integrated establishment type during the prior fiscal year. The effect of this withdrawal on the Company's consolidated statement of income for the fiscal year ended March 31, 2013 is ¥260 million and it is posted in other expenses as "Contribution for withdrawal from employees pension fund."

The liability for employees' retirement benefits at March 31, 2013 is as follows:

	Millions of Yen
Projected benefit obligation	¥ 11,614
Fair value of plan assets	(4,984)
Unrecognized prior service cost	2,277
Unrecognized actuarial gain	(175)
Prepaid pension cost	113
Net liability	¥ 8,845

The effect of change in part of lump-sum payment plans on the defined contribution pension plan is as follows:

	Millions of Yen
	2013
Decrease in projected benefit obligation	¥ (423)
Unrecognized actuarial gain	48
Unrecognized prior service cost	(338)
Decrease in net liability	¥ (713)

The amount of assets to be transferred to the defined contribution pension plan is ¥368 million, which is scheduled to be transferred over a period of four years. The amount of assets that has not been transferred is ¥270 million, and the amount is recorded as "Notes and accounts payable - construction and other" and "Other long-term liabilities" in the consolidated balance sheet as of March 31, 2013.

The components of net periodic benefit costs are as follows:

	Millions of Yen
	2013
Service cost	¥ 563
Interest cost	188
Expected return on plan assets	(94)
Amortization of prior service cost	(303)
Recognized actuarial loss	120
Contribution payment to defined contribution pension plan	55
Net periodic benefit costs	¥ 530

Assumptions used for the year ended March 31, 2013 are set forth as follows:

Discount rate	mainly 1.6%
Expected rate of return on plan assets	mainly 2.0%
Amortization period of prior service cost	10 years
Recognition period of actuarial gain/loss	10 years



## 10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all of the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors, if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### (c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 11. STOCK OPTIONS

The stock options outstanding of Takara Bio Inc., the Company's consolidated subsidiary, as of March 31, 2014, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
The First Stock Option	Eight directors of Takara Bio Inc. 273 employees of Takara Bio Inc.	3,400,000 shares	September 19, 2003	¥500 (\$4.85)	From September 20, 2005 to September 20, 2013
The Second Stock Option	Eight directors of Takara Bio Inc. Three corporate auditors of Takara Bio Inc. 120 employees of Takara Bio Inc.	1,288,000 shares	September 19, 2003	¥500 (\$4.85)	From April 1, 2004 to September 20, 2013
The Third Stock Option	Three directors of Takara Bio Inc. 28 employees of Takara Bio Inc.	200,000 shares	May 17, 2004	¥500 (\$4.85)	From September 20, 2005 to September 20, 2013
The Fourth Stock Option	Nine directors of Takara Bio Inc. Three corporate auditors of Takara Bio Inc. Eight employees of Takara Bio Inc.	312,000 shares	May 17, 2004	¥500 (\$4.85)	From April 1, 2004 to September 20, 2013

The stock option activity is as follows:

Year ended March 31, 2014	Shares			
	The First Stock Option	The Second Stock Option	The Third Stock Option	The Fourth Stock Option
Vested				
April 1, 2013 - Outstanding	828,000	488,000	32,000	156,000
Vested				
Exercised	(500,000)	(224,000)	(32,000)	(84,000)
Canceled	(328,000)	(264,000)		(72,000)
March 31, 2014 - Outstanding				
Exercise price	¥ 500 (\$ 4.85)	¥ 500 (\$ 4.85)	¥ 500 (\$ 4.85)	¥ 500 (\$ 4.85)
Average stock price at exercise	¥ 2,462 (\$ 23.90)	¥ 2,094 (\$ 20.33)	¥ 2,326 (\$ 22.58)	¥ 2,106 (\$ 20.44)

## 12. RELATED-PARTY TRANSACTIONS

Net sales and purchases representing transactions of the Group with associated companies for the years ended March 31, 2014 and 2013, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Net sales	¥ 876	¥ 793	\$ 8,504
Purchases	74	72	718

In connection with the stock option plans described in Note 11, Takara Bio Inc., the Company's consolidated subsidiary, issued to its directors 36,000 shares of common stock upon exercise of nine stock options at the price of ¥500 (\$4.85) per share in 2014, and issued to its directors 80,000 shares of common stock upon exercise of 20 stock options at the price of ¥500 per share in 2013. The total transaction amounts were ¥18 million (\$174 thousand) and ¥40 million for the years ended March 31, 2014 and 2013, respectively.

## 13. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥3,376 million (\$32,776 thousand) and ¥3,090 million for the years ended March 31, 2014 and 2013, respectively.

## 14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38% for the years ended March 31, 2014 and 2013. Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Current deferred tax assets:			
Inventories	¥ 253	¥ 201	\$ 2,456
Accrued bonuses	745	751	7,233
Accrued sales promotion expenses	646	653	6,271
Tax loss carryforwards	16	224	155
Enterprise tax payable	440	184	4,271
Unrealized profit on sale of inventories	275	234	2,669
Other	322	266	3,126
Less valuation allowance	(18)	(17)	(174)
Total	¥ 2,681	¥ 2,498	\$ 26,029
Current deferred tax liabilities:			
Deferred gain on derivatives under hedge accounting	¥ 163	¥ 18	\$ 1,582
Other	19	3	184
Total	¥ 182	¥ 22	\$ 1,766
Net current deferred tax assets	¥ 2,498	¥ 2,476	\$ 24,252
Net current deferred tax liabilities	¥ 0		\$ 0
Non-current deferred tax assets:			
Retirement benefits	¥ 2,995	¥ 3,161	\$ 29,077
Tax loss carryforwards	978	1,265	9,495
Marketable and investment securities	551	701	5,349
Depreciation	449	481	4,359
Other	710	758	6,893
Less valuation allowance	(2,007)	(1,983)	(19,485)
Total	¥ 3,676	¥ 4,384	\$ 35,689
Non-current deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 3,136	¥ 2,491	\$ 30,446
Basis difference of acquired intangible assets	637	179	6,184
Deferred gain on fixed assets	487	485	4,728
Deferred gain on fixed assets inherited by a corporate division	496	516	4,815
Defined retirement benefit plans	608		5,902
Other	598	624	5,805
Total	¥ 5,965	¥ 4,297	\$ 57,912
Net non-current deferred tax assets	¥ 1,786	¥ 2,475	\$ 17,339
Net non-current deferred tax liabilities	¥ 4,075	¥ 2,387	\$ 39,563

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013, is as follows:

	2014	2013
Normal effective statutory tax rate in Japan	38.0%	38.0%
Expenses not deductible for income tax purposes	1.9	3.8
(Decrease) increase in valuation allowance	(0.1)	0.2
Effect of change in the normal effective statutory tax rate	0.7	
Other, net	0.5	1.3
Actual effective tax rate	41.0%	43.3%

On March 31, 2014, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 38% to 36% effective for the fiscal years beginning on or after April 1, 2014. The effect of this change was to decrease deferred taxes in the consolidated balance sheet as of March 31, 2014 by ¥114 million (\$1,106 thousand) and to increase income taxes - deferred in the consolidated statement of income for the year then ended by ¥123 million (\$1,194 thousand).

At March 31, 2014, the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥2,610 million (\$25,339 thousand), which are available to be offset against taxable income of such consolidated subsidiaries. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 548	\$ 5,320
2018	549	5,330
2019	427	4,145
2020	336	3,262
2021 and thereafter	747	7,252
Total	¥ 2,610	\$ 25,339

## 15. LEASES

The Group leases certain buildings, machinery, computer equipment, and other assets.

Total rental expenses for the years ended March 31, 2014 and 2013, were ¥1,976 million (\$19,184 thousand) and ¥1,908 million,

respectively, including ¥26 million (\$252 thousand) and ¥82 million of lease payments under finance leases, respectively.

Obligations under operating leases as of March 31, 2014 and 2013, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥ 590	¥ 563	\$ 5,728
Due after one year	1,977	2,391	19,194
Total	¥ 2,567	¥ 2,954	\$ 24,922

## 16. CONTINGENT LIABILITIES

At March 31, 2014, the Group was contingently liable for ¥6 million (\$58 thousand) of loans guaranteed.

## 17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### Group Policy for Financial Instruments

The Group invests in low-risk financial assets, if it holds cash surpluses. The Group uses financial instruments, mainly bank loans and bonds, based on its capital financing plan. Derivatives are used, not for speculative or trading purposes, but to avoid risks as described below.

### Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments

#### Credit risk and market risk

Although receivables, such as notes and trade accounts, are exposed

to customer credit risk, the Group manages due dates and account balances for every customer to identify doubtful receivables early and to mitigate default risk.

Although marketable securities, mainly certificates of deposit and held-to-maturity securities, are exposed to the credit risks of the bond issuers, the credit risk is kept extremely low by limiting funding to short maturities and high-credit rating bonds. Although investment securities, mainly stock, are exposed to the risk of market price fluctuations, the Group reviews the fair values quarterly if investment securities have market prices, and manages the financial condition of issuers regularly if they do not have market prices.

Payment terms of payables, such as notes and trade accounts,

are less than three months. Although payables in foreign currencies, such as raw materials and merchandise, are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged by using currency options and forward foreign currency contracts.

Bank loans and bonds are utilized for financing of business transactions and capital investments. Payment terms of bank loans and bonds are a maximum of eight years and eight years after the balance sheet date, respectively.

Derivative transactions entered into by the Group have been made in accordance with internal policies of the Finance Department, which regulates the authorization, purpose, credit limit amount, evaluation of the counterparties, and reporting procedures. Derivative transactions mainly include forward foreign currency contracts and currency options for the purpose of hedging against the market risk of fluctuation in foreign currency exchange rates of transactions in foreign currencies. Although derivative transactions are exposed to the market risk of fluctuation in foreign currency exchange rates, these transactions are made only for the purpose of mitigating the risks of assets, liabilities, and transactions that become a hedged item. As the Group established a limit on contract amounts, the Group also believes that the effect of market risks on its business administration is not significant. As the Group manages its exposure to credit risk by limiting its funding to high-credit rating bonds, the Group recognizes that the exposure to credit risk is extremely low.

### Concentration of Credit Risk

As of March 31, 2014, 35% of total receivables is from two major customers.

#### Fair Value of Financial Instruments

March 31, 2014	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 41,015	¥ 41,015	¥
Notes and accounts receivable	51,759	51,759	
Marketable securities and investment securities	39,838	39,832	(5)
Total	¥ 132,613	¥ 132,607	¥ (5)
Notes and accounts payable	¥ 14,416	¥ 14,416	¥
Short-term bank loans	5,914	5,917	2
Liquor taxes payable	8,376	8,376	
Income taxes payable	5,621	5,621	
Bonds	25,000	25,850	850
Long-term bank loans	310	310	(0)
Total	¥ 59,640	¥ 60,493	¥ 853
Derivatives	¥ 451	¥ 451	

March 31, 2013	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 36,789	¥ 36,789	¥
Notes and accounts receivable	50,549	50,549	
Marketable securities and investment securities	31,604	31,604	
Total	¥ 118,943	¥ 118,943	¥
Notes and accounts payable	¥ 13,028	¥ 13,028	¥
Short-term bank loans	5,006	5,008	1
Current portion of long-term bonds	5,000	5,003	3
Liquor taxes payable	9,907	9,907	
Income taxes payable	1,996	1,996	
Bonds	25,000	26,022	1,022
Long-term bank loans	417	420	2
Total	¥ 60,356	¥ 61,386	¥ 1,030
Derivatives	¥ 52	¥ 52	

Information regarding the valuation method of hedged items and hedging instruments related to hedge accounting, hedge policies, and hedge effectiveness is included in Note 2.r.

### Liquidity risk management

In the Group, the Financial Department develops and updates a plan of cash management pursuant to reporting by each department, and manages its liquidity risk by maintaining adequate volumes of liquid assets. In addition, consolidated subsidiaries also manage their liquidity risks in the same manner.

### Supplementary explanation about matters related to fair values of financial instruments

Fair values of financial instruments are based on market price in active markets or other rational valuation techniques, if market price does not exist. Fair values of financial instruments fluctuate as a result of adopting different preconditions because the calculation of fair values includes fluctuation factors. With respect to the contract amounts related to derivative transactions in Note 18, the amounts do not reflect market risks related to derivative transactions.

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. See Note 18 for the details of fair value for derivatives.



March 31, 2014	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 398,203	\$ 398,203	\$
Notes and accounts receivable	502,514	502,514	
Marketable securities and investment securities	386,776	386,718	(48)
<b>Total</b>	<b>\$ 1,287,504</b>	<b>\$ 1,287,446</b>	<b>\$ (48)</b>
Notes and accounts payable	\$ 139,961	\$ 139,961	\$
Short-term bank loans	57,417	57,446	19
Liquor taxes payable	81,320	81,320	
Income taxes payable	54,572	54,572	
Bonds	242,718	250,970	8,252
Long-term bank loans	3,009	3,009	(0)
<b>Total</b>	<b>\$ 579,029</b>	<b>\$ 587,310</b>	<b>\$ 8,281</b>
Derivatives	\$ 4,378	\$ 4,378	

The carrying amounts or account titles do not necessarily correspond with those in the consolidated balance sheets due to the purpose of fair value information.

#### Cash and cash equivalents

The carrying value of cash and cash equivalents approximates fair value because of their short maturities.

#### Notes and accounts payable

The carrying value of notes and accounts receivable approximates fair value because of their short maturities.

#### Marketable securities and investment securities

Marketable securities are bonds, trust beneficiary rights, and certificates of deposit. The fair values of bonds are measured at the quoted price obtained from the financial institution. The carrying values of trust beneficiary rights and certificates of deposit approximate fair value due to their short maturities. Investment securities are mainly stock and are measured at the market price. Moreover, information regarding the classification of securities is included in Note 4.

#### Notes and accounts payable

The carrying value of notes and accounts payable approximates fair value because of their short maturities.

#### Liquor taxes payable

The carrying value of liquor taxes payable approximates fair value because of their short maturities.

Investments in equity instruments that do not have a quoted market price in an active market and securities without contractual maturities (the totals included in the consolidated balance sheets at March 31, 2014 and 2013, are ¥5,228 million (\$50,757 thousand) and ¥4,736 million, respectively) do not have fair values because their fair value cannot be reliably determined. Moreover, deposits from customers do not have fair values because their fair value cannot be reliably determined.

#### Maturity Analysis for Financial Assets and Securities with Contractual Maturities

March 31, 2014	Millions of Yen		Thousands of U.S. Dollars	
	Due in One Year or Less	Due after One Year through Five Years	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	¥ 41,015	¥	\$ 398,203	\$
Notes and accounts receivable	51,759		502,514	
Marketable and investment securities				
Held-to-maturity securities:				
(1) Corporate bonds	6,000		58,252	
(2) Others	2,999		29,116	
Available-for-sale securities with contractual maturities:				
(1) Government bonds and municipal bonds	615		5,970	
(2) Corporate bonds	2		19	
(3) Others	11,917		115,699	
<b>Total</b>	<b>¥ 114,309</b>	<b>¥</b>	<b>\$ 1,109,796</b>	<b>\$</b>

#### Income taxes payable

The carrying value of income taxes payable approximates fair value because of their short maturities.

#### Short-term bank loans

The carrying value of short-term bank loans approximates fair value because of their short maturities. Moreover, the fair value of the current portion of long-term bank loans is determined by discounting the cash flows related to the total of principal and interest at a reasonably estimated rate according to the remaining period.

#### Current portion of long-term bonds and bonds

The fair value of current portion of long-term bonds and bonds is determined by discounting the cash flows related to the total of principal and interest at the rate in which the remaining period to maturity and credit risk is reflected.

#### Long-term bank loans

The fair value of long-term bank loans is determined by discounting the cash flows related to the total of principal and interest at a reasonably estimated rate according to the remaining period.

#### Derivatives

Fair value information for derivatives is included in Note 18.

March 31, 2013	Millions of Yen	
	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	¥ 36,789	
Notes and accounts receivable	50,549	
Marketable and investment securities		
Held-to-maturity securities:		
(1) Corporate bonds	500	
(2) Others	1,999	
Available-for-sale securities with contractual maturities:		
(1) Government bonds and municipal bonds	507	
(2) Corporate bonds		¥ 2
(3) Others	12,251	
<b>Total</b>	<b>¥ 102,597</b>	<b>¥ 2</b>

## 18. DERIVATIVES

The Group enters into foreign currency forward contracts and foreign currency option agreements to hedge foreign exchange risk associated with certain liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies of the Finance Department, which regulate the authorization, purposes, credit limit amounts, evaluation of the counterparties, and reporting procedures.

#### Derivative Transactions to Which Hedge Accounting Is Not Applied

March 31, 2014	Millions of Yen		
	Contract Amount	Contract Amount Due after One Year	Unrealized Gain/Loss
Foreign currency forward contracts:			
Buying U.S. dollar	¥ 182		¥ 0
Buying Euro	14		(0)
Buying Canadian dollar	9		0
Buying Chinese yuan	142		(1)
Selling U.S. dollar	50		(0)
Selling Euro	55		(0)
Non-deliverable forward contracts:			
Buying Indian rupee	1		0
Selling Korean won	58		(0)
Selling Indian rupee	8		(0)
<b>Total</b>	<b>¥ 523</b>		<b>¥(2)</b>

March 31, 2013	Millions of Yen		
	Contract Amount	Contract Amount Due after One Year	Unrealized Gain/Loss
Foreign currency forward contracts:			
Buying U.S. dollar	¥ 218		¥(0)
Buying Euro	33		(0)
Buying British pound	2		(0)
Buying Chinese yuan	181		(0)
Selling U.S. dollar	46		0
Selling Euro	64		2
Selling Chinese yuan	25		0
Non-deliverable forward contracts:			
Buying Korean won	3		(0)
Buying Indian rupee	5		(0)
Selling Korean won	49		1
Selling Indian rupee	19		(0)
<b>Total</b>	<b>¥ 649</b>		<b>¥ 2</b>

March 31, 2014	Thousands of U.S. Dollars			Unrealized Gain/Loss
	Contract Amount	Contract Amount Due after One Year	Fair Value	
<b>Foreign currency forward contracts:</b>				
Buying U.S. dollar	\$ 1,766		\$ 0	\$ 0
Buying Euro	135		(0)	(0)
Buying Canadian dollar	87		0	0
Buying Chinese yuan	1,378		(9)	(9)
Selling U.S. dollar	485		(0)	(0)
Selling Euro	533		(0)	(0)
<b>Non-deliverable forward contracts:</b>				
Buying Indian rupee	9		0	0
Selling Korean won	563		(0)	(0)
Selling Indian rupee	77		(0)	(0)
<b>Total</b>	<b>\$ 5,077</b>		<b>\$ (19)</b>	<b>\$ (19)</b>

#### Derivative Transactions to Which Hedge Accounting Is Applied

March 31, 2014	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
<b>Foreign currency options:</b>				
Buying call option U.S. dollar	Payables	¥ 7,603	¥ 3,264	¥ 276
Selling put option U.S. dollar	Payables	5,943	2,792	171
<b>Foreign currency forward contracts:</b>				
Buying U.S. dollar	Payable	1,549		32
Buying Euro	Payable	94		0
Buying Japanese yen	Payable	232		19
<b>Total</b>		<b>¥ 15,425</b>	<b>¥ 6,057</b>	<b>¥ 500</b>

March 31, 2013	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
<b>Foreign currency options:</b>				
Buying call option U.S. dollar	Payables	¥ 6,748	¥ 4,498	¥ 88
Selling put option U.S. dollar	Payables	6,586	4,391	(51)
<b>Foreign currency forward contracts:</b>				
Buying U.S. dollar	Payable	1,158		65
<b>Total</b>		<b>¥ 14,493</b>	<b>¥ 8,889</b>	<b>¥ 103</b>

March 31, 2014	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value
<b>Foreign currency options:</b>				
Buying call option U.S. dollar	Payables	\$ 73,815	\$ 31,689	\$ 2,679
Selling put option U.S. dollar	Payables	57,699	27,106	1,660
<b>Foreign currency forward contracts:</b>				
Buying U.S. dollar	Payable	15,038		310
Buying Euro	Payable	912		0
Buying Japanese yen	Payable	2,252		184
<b>Total</b>		<b>\$ 149,757</b>	<b>\$ 58,805</b>	<b>\$ 4,854</b>

## 19. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014 and 2013, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
<b>Unrealized gain on available-for-sale securities:</b>			
Gains arising during the year	¥ 1,944	¥ 2,333	\$ 18,873
Reclassification adjustments to profit	40	485	388
Amount before income tax effect	1,984	2,819	19,262
Income tax effect	(644)	(968)	(6,252)
<b>Total</b>	<b>¥ 1,340</b>	<b>¥ 1,850</b>	<b>\$ 13,009</b>
<b>Deferred gain on derivatives under hedge accounting:</b>			
Gains arising during the year	¥ 595	¥ 137	\$ 5,776
Acquisition adjustment of asset	(191)	(79)	(1,854)
Amount before income tax effect	403	57	3,912
Income tax effect	(144)	(21)	(1,398)
<b>Total</b>	<b>¥ 259</b>	<b>¥ 35</b>	<b>\$ 2,514</b>
<b>Foreign currency translation adjustments:</b>			
Adjustments arising during the year	¥ 7,042	¥ 2,954	\$ 68,368
Reclassification adjustments to profit	(47)	5	(456)
<b>Total</b>	<b>¥ 6,994</b>	<b>¥ 2,960</b>	<b>\$ 67,902</b>
<b>Share of other comprehensive income in associates:</b>			
Gains arising during the year	¥ 402	¥ 102	\$ 3,902
Reclassification adjustments to profit		(37)	
<b>Total</b>	<b>¥ 402</b>	<b>¥ 65</b>	<b>\$ 3,902</b>
<b>Change in equity:</b>			
Gains arising during the year	¥ 5,847	¥	\$ 56,766
Reclassification adjustments to profit			
<b>Total</b>	<b>¥ 5,847</b>	<b>¥</b>	<b>\$ 56,766</b>
<b>Total other comprehensive income</b>	<b>¥ 14,845</b>	<b>¥ 4,911</b>	<b>\$ 144,126</b>

## 20. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2014 and 2013, is as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted-Average Shares	EPS	EPS
<b>For the year ended March 31, 2014:</b>				
Basic EPS				
Net income available to common shareholders	¥ 10,280	202,263	¥ 50.83	\$ 0.49
Effect of dilutive securities				
Stock options	(3)			
Diluted EPS				
Net income for computation	¥ 10,276	202,263	¥ 50.81	\$ 0.49
<b>For the year ended March 31, 2013:</b>				
Basic EPS				
Net income available to common shareholders	¥ 4,687	203,697	¥ 23.01	
Effect of dilutive securities				
Stock options	(4)			
Diluted EPS				
Net income for computation	¥ 4,683	203,697	¥ 22.99	

## 21. SUBSEQUENT EVENT

### Appropriations of Retained Earnings

On May 8, 2014, the Board of Directors of the Company resolved to propose cash dividends of ¥11 (\$0.10) per share to shareholders of record as of March 31, 2014, or a total of ¥2,213 million (\$21,485 thousand), for approval at the general shareholders' meeting to be held on June 27, 2014.



## 22. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### (1) Description of Reportable Segments

The Group consists of two major corporate groups centered on the operating companies, Takara Shuzo Co., Ltd., and Takara Bio Inc., both of which were formed when the Company became a holding company. The other corporate groups consist of the health food business, which is managed by Takara Healthcare Inc.; the Company, which manages the whole group as the holding company, and the remaining businesses not allocated above. All operating companies develop comprehensive business strategies, covering both domestic and overseas operations, for the products and services that they offer, and work to expand their business operations.

### (3) Information about sales, profit (loss), assets, and other items is as follows.

	Millions of Yen						
	2014						
	Reportable Segment			Total	Other	Reconciliation	Consolidated
Takara Shuzo Group	Takara Bio Group	Takara Healthcare					
Sales:							
Sales to external customers	¥ 181,964	¥ 23,236	¥ 1,421	¥ 206,622	¥ 2,515	¥ 430	¥ 209,568
Intersegment sales or transfers	342	669	2	1,013	5,083	(6,097)	
Total	182,306	23,905	1,424	207,636	7,598	(5,667)	209,568
Segment profit	6,329	1,954	21	8,305	310	874	9,490
Segment assets	139,460	62,500	576	202,537	6,282	29,757	238,577
Other:							
Depreciation	2,968	1,157	0	4,126	140	20	4,287
Amortization of goodwill	217	131		348			348
Investment in equity method affiliate	2,289			2,289		1,245	3,534
Increase in property, plant, and equipment and intangible assets	2,954	5,538	5	8,498	110	358	8,967

	Millions of Yen						
	2013						
	Reportable Segment			Total	Other	Reconciliation	Consolidated
Takara Shuzo Group	Takara Bio Group	Takara Healthcare					
Sales:							
Sales to external customers	¥ 176,259	¥ 19,910	¥ 2,005	¥ 198,175	¥ 2,381	¥ 432	¥ 200,989
Intersegment sales or transfers	686	653	3	1,344	5,061	(6,406)	
Total	176,946	20,564	2,008	199,519	7,443	(5,974)	200,989
Segment profit	6,387	1,691	(22)	8,057	201	874	9,133
Segment assets	124,633	46,649	591	171,873	7,719	27,992	207,586
Other:							
Depreciation	2,997	1,104	10	4,112	119	20	4,251
Amortization of goodwill	148	119		267			267
Investment in equity method affiliate	1,788			1,788		1,242	3,030
Increase in property, plant, and equipment and intangible assets	2,529	2,397	1	4,928	347	5	5,282

Accordingly, the Group has defined three reportable segments based on its operating segments, while taking into consideration the relationship of capital between each consolidated subsidiary, the scope of managerial responsibility, and the capacity to evaluate business performance. These three reportable segments are the Takara Shuzo Group, the Takara Bio Group, and Takara Healthcare.

The Group's reportable segments are those for which separate financial information is available, and such information is evaluated regularly by the Company's management in deciding how to allocate resources and in assessing performance.

The Takara Shuzo Group primarily engages in the manufacturing and sales of alcoholic beverages and seasonings. It also engages in logistics and other related businesses. The Takara Bio Group primarily engages in the manufacturing and sales of products, such as research reagents, scientific instruments, and mushrooms. It also conducts contract research services. Takara Healthcare primarily engages in the sales of products, such as health foods.

### (2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

	Thousands of U.S. Dollars						
	2014						
	Reportable Segment			Total	Other	Reconciliation	Consolidated
Takara Shuzo Group	Takara Bio Group	Takara Healthcare					
Sales:							
Sales to external customers	\$ 1,766,640	\$ 225,592	\$ 13,796	\$ 2,006,038	\$ 24,417	\$ 4,174	\$ 2,034,640
Intersegment sales or transfers	3,320	6,495	19	9,834	49,349	(59,194)	
Total	1,769,961	232,087	13,825	2,015,883	73,766	(55,019)	2,034,640
Segment profit	61,446	18,970	203	80,631	3,009	8,485	92,135
Segment assets	1,353,980	606,796	5,592	1,966,378	60,990	288,902	2,316,281
Other:							
Depreciation	28,815	11,233	0	40,058	1,359	194	41,621
Amortization of goodwill	2,106	1,271		3,378			3,378
Investment in equity method affiliate	22,223			22,223		12,087	34,310
Increase in property, plant, and equipment and intangible assets	28,679	53,766	48	82,504	1,067	3,475	87,058

Notes: 1. "Other" represents operating segments that are not included in the reportable segments, and comprises other subsidiaries, including a printing business.

2. Details of "Reconciliation" are as follows.

(1) Sales to external customers are income from real estate rent recognized by the Company.

(2) Segment profit includes eliminations of intersegment transactions of ¥48 million (\$466 thousand) and ¥57 million, and income of the Company not allocated to operating segments of ¥826 million (\$8,019 thousand) and ¥817 million as of March 31, 2014 and 2013, respectively.

(3) Segment assets include assets of the Company not allocated to operating segments of ¥41,900 million (\$406,796 thousand) and ¥35,474 million, and other adjustment (principally eliminations of intersegment transactions) of ¥(12,143) million (\$ (117,893) thousand) and ¥(7,482) million as of March 31, 2014 and 2013, respectively. Assets attributed to the Company include surplus funds and long-term investment assets.

3. Segment profit has been reconciled with the operating income in the consolidated statement of income.

### (4) Information about products and services

	Millions of Yen				
	2014				
	Alcoholic Beverages and Seasonings	Bio	Health Foods	Other	Total
Sales to external customers	¥ 181,964	¥ 23,236	¥ 1,421	¥ 2,945	¥ 209,568

	Millions of Yen				
	2013				
	Alcoholic Beverages and Seasonings	Bio	Health Foods	Other	Total
Sales to external customers	¥ 176,259	¥ 19,910	¥ 2,005	¥ 2,813	¥ 200,989

	Thousands of U.S. Dollars				
	2014				
	Alcoholic Beverages and Seasonings	Bio	Health Foods	Other	Total
Sales to external customers	\$ 1,766,640	\$ 225,592	\$ 13,796	\$ 28,592	\$ 2,034,640

### (5) Information about geographical areas

#### (a) Sales

	Millions of Yen		
	2014		
	Japan	Other	Total
	¥ 182,302	¥ 27,266	¥ 209,568

	Thousands of U.S. Dollars		
	2014		
	Japan	Other	Total
	\$ 1,769,922	\$ 264,718	\$ 2,034,640

Note: Sales are classified in countries or regions based on location of customers.

Sales by geographical area for the year ended March 31, 2013, are not disclosed because net sales to domestic external customers is higher than 90% of net sales of the consolidated statement of income for 2013.

## (b) Property, plant and equipment

Millions of Yen			Thousands of U.S. Dollars		
2014			2014		
Japan	Other	Total	Japan	Other	Total
¥ 41,647	¥ 6,328	¥ 47,976	\$ 404,339	\$ 61,436	\$ 465,786

Millions of Yen		
2013		
Japan	Other	Total
¥ 37,836	¥ 4,802	¥ 42,639

## (6) Information about major customers

Name of Customers	2014	
	Millions of Yen Sales	Related Segment Name
KOKUBU & CO., LTD. ....	¥ 34,621	Takara Shuzo Group
NIHON SHURUI HANBAI CO., LTD. ....	21,225	Takara Shuzo Group

Name of Customers	2013	
	Millions of Yen Sales	Related Segment Name
KOKUBU & CO., LTD. ....	¥ 34,580	Takara Shuzo Group
Mitsubishi Shokuhin Co., Ltd. ....	22,595	Takara Shuzo Group
NIHON SHURUI HANBAI CO., LTD. ....	21,975	Takara Shuzo Group

Name of Customers	2014	
	Thousands of U.S. Dollars Sales	Related Segment Name
KOKUBU & CO., LTD. ....	\$ 336,126	Takara Shuzo Group
NIHON SHURUI HANBAI CO., LTD. ....	206,067	Takara Shuzo Group

## (7) Information about impairment losses

	Millions of Yen					
	2014					
	Takara Shuzo Group	Takara Bio Group	Takara Healthcare	Other	Elimination/Corporate	Total
Impairment losses of assets .....	¥ 43	¥	¥	¥	¥ 49	¥ 92

	Millions of Yen					
	2013					
	Takara Shuzo Group	Takara Bio Group	Takara Healthcare	Other	Elimination/Corporate	Total
Impairment losses of assets .....	¥ 7	¥	¥ 36	¥	¥ 1	¥ 45

	Thousands of U.S. Dollars					
	2014					
	Takara Shuzo Group	Takara Bio Group	Takara Healthcare	Other	Elimination/Corporate	Total
Impairment losses of assets .....	\$ 417	\$	\$	\$	\$ 475	\$ 893

## (8) Information about amortization of goodwill

	Millions of Yen					
	2014					
	Takara Shuzo Group	Takara Bio Group	Takara Healthcare	Other	Elimination/Corporate	Total
Amortization of goodwill .....	¥ 217	¥ 131	¥	¥	¥	¥ 348
Goodwill at March 31, 2014 .....	6,061	1,477				7,539

	Millions of Yen					
	2013					
	Takara Shuzo Group	Takara Bio Group	Takara Healthcare	Other	Elimination/Corporate	Total
Amortization of goodwill .....	¥ 148	¥ 119	¥	¥	¥	¥ 267
Goodwill at March 31, 2013 .....	2,435	1,331				3,767

	Thousands of U.S. Dollars					
	2014					
	Takara Shuzo Group	Takara Bio Group	Takara Healthcare	Other	Elimination/Corporate	Total
Amortization of goodwill .....	\$ 2,106	\$ 1,271	\$	\$	\$	\$ 3,378
Goodwill at March 31, 2014 .....	58,844	14,339				73,194



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As of March 31, 2014

Trade Name	Takara Holdings Inc.	Established	September 6, 1925
Business	Holding company	Issued Capital	¥13,226 million
Head Office	20 Naginataboko-cho, Shijo-dori Karasuma Higashi-iru, Shimogyo-ku, Kyoto 600-8688, Japan	Company Representative	Toshio Kakimoto, President
Telephone	+81-75-241-5130	Website	www.takara.co.jp/english

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Takara Holdings Inc.:

We have audited the accompanying consolidated balance sheet of Takara Holdings Inc. and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Takara Holdings Inc. and its consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

June 11, 2014

*Deloitte Touche Tohmatsu LLC*

Member of  
Deloitte Touche Tohmatsu Limited

## Stock and Investor Information

<b>Common Stock</b>	
Authorized	870,000,000 shares
Issued and Outstanding	217,699,743 shares
<b>Number of Shareholders</b>	24,034
<b>Stock Listings (Common Stock)</b>	Tokyo
<b>Securities Code Number</b>	2531

<b>Shareholder Registry Administrator</b>	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo
---	---

<b>Inquiries to Shareholder Registry Administrator</b>	Mizuho Trust & Banking Co., Ltd. Stock Agency Transfer Department 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-8507, Japan Telephone: 0120-288-324 (toll free, within Japan only)
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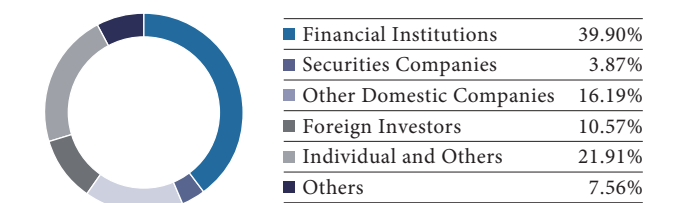
<b>Annual Meeting of Shareholders</b>	The annual meeting of shareholders of the Company is normally held in June each year in Kyoto, Japan. In addition, the Company may hold a special meeting of shareholders whenever necessary by giving at least two weeks, advance notice to shareholders.
---------------------------------------	--

<b>Independent Auditor</b>	Deloitte Touche Tohmatsu LLC
----------------------------	------------------------------

<b>Principal Shareholders</b>			
	Name	Number of Shares Held (Thousands)	Percentage of Shares Held (%)
	The Master Trust Bank of Japan, Ltd. (Trust Account)	15,484	7.11
	Mizuho Bank, Ltd.	9,738	4.47
	The Norinchukin Bank	9,500	4.36
	Japan Trustee Services Bank, Ltd. (Trust Account)	9,396	4.32
	Meiji Yasuda Life Insurance Company	5,370	2.47
	Bank of Kyoto, Ltd.	5,000	2.30
	KOKUBU & CO., LTD.	3,489	1.60
	BNP Paribas Securities (Japan) Limited	3,202	1.47
	Takara Group Employees' Shareholding Association	3,085	1.42
	Japan Alcohol Trading Co., Ltd.	3,000	1.38

Notes: (1) Number of shares is rounded down to the nearest thousand.  
(2) In addition to the shareholdings listed above, the Company held treasury stock totaling 16,466,424 shares (equivalent to 7.56% of voting rights).

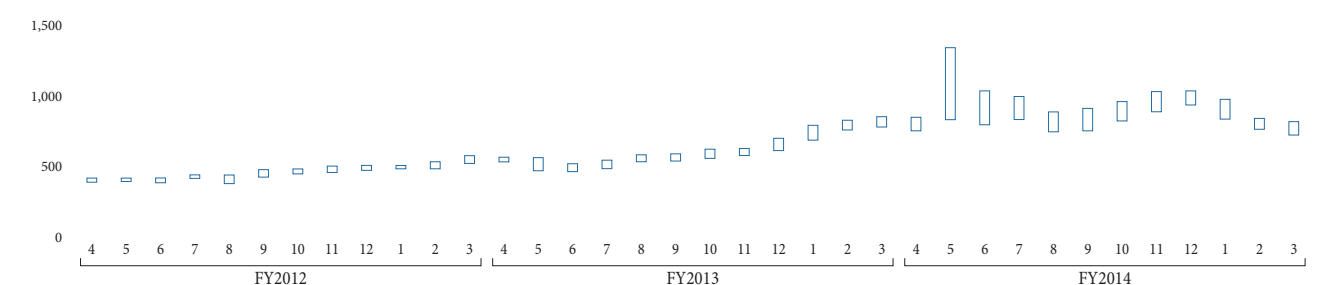
### Distribution of Ownership among Shareholders



### Bond Ratings

	Rating Institution	Long-Term Rating	Short-Term Rating
	Rating and Investment Information, Inc. (R&I)	A/Stable	a-1
	Japan Credit Rating Agency, Ltd. (JCR)	A/Stable	J-1

## Stock Price Range on the Tokyo Stock Exchange (Yen)



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