TaKaRa

THE BIOTECHNOLOGY COMPANY™

Annual Report 2014

that's GOOD science!™

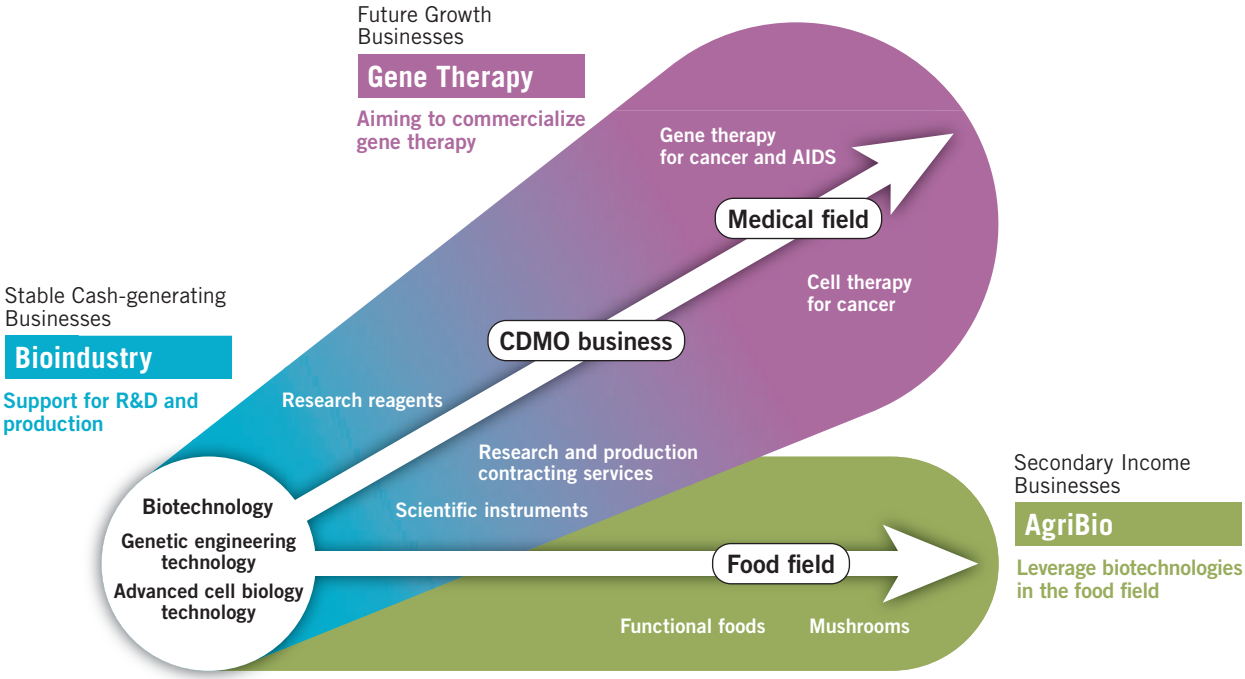
TAKARA BIO INC.

THE BIOTECHNOLOGY

Contributing to the health of humankind with revolutionary

Takara Bio Inc. began as the biomedical business unit of Takara Shuzo Co., Ltd. (now Takara Holdings Inc.).

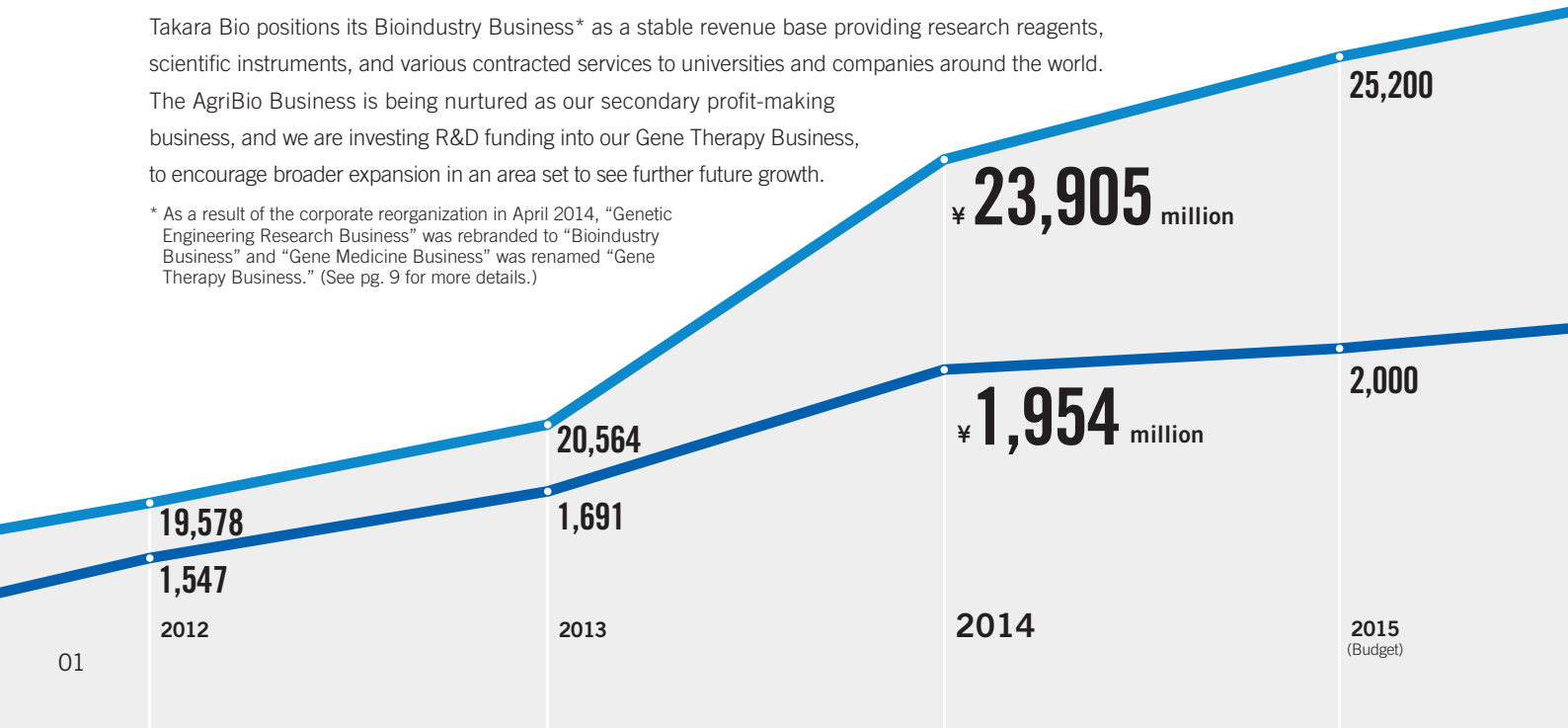
To contribute to the health of humankind through the development of revolutionary biotechnologies, we have since expanded into the food and biomedical fields as we support bioindustry and biotechnology research at universities and companies around the world.



Takara Bio Group's Business Strategy

Takara Bio positions its Bioindustry Business* as a stable revenue base providing research reagents, scientific instruments, and various contracted services to universities and companies around the world. The AgriBio Business is being nurtured as our secondary profit-making business, and we are investing R&D funding into our Gene Therapy Business, to encourage broader expansion in an area set to see further future growth.

* As a result of the corporate reorganization in April 2014, "Genetic Engineering Research Business" was rebranded to "Bioindustry Business" and "Gene Medicine Business" was renamed "Gene Therapy Business." (See pg. 9 for more details.)

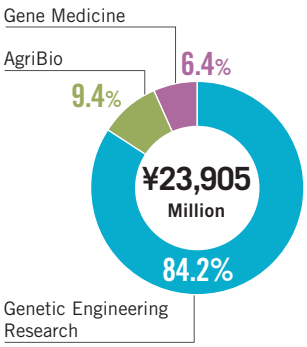


COMPANY™

biotechnologies

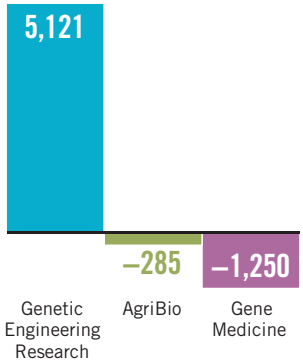
Sales by Business

(Fiscal 2014)

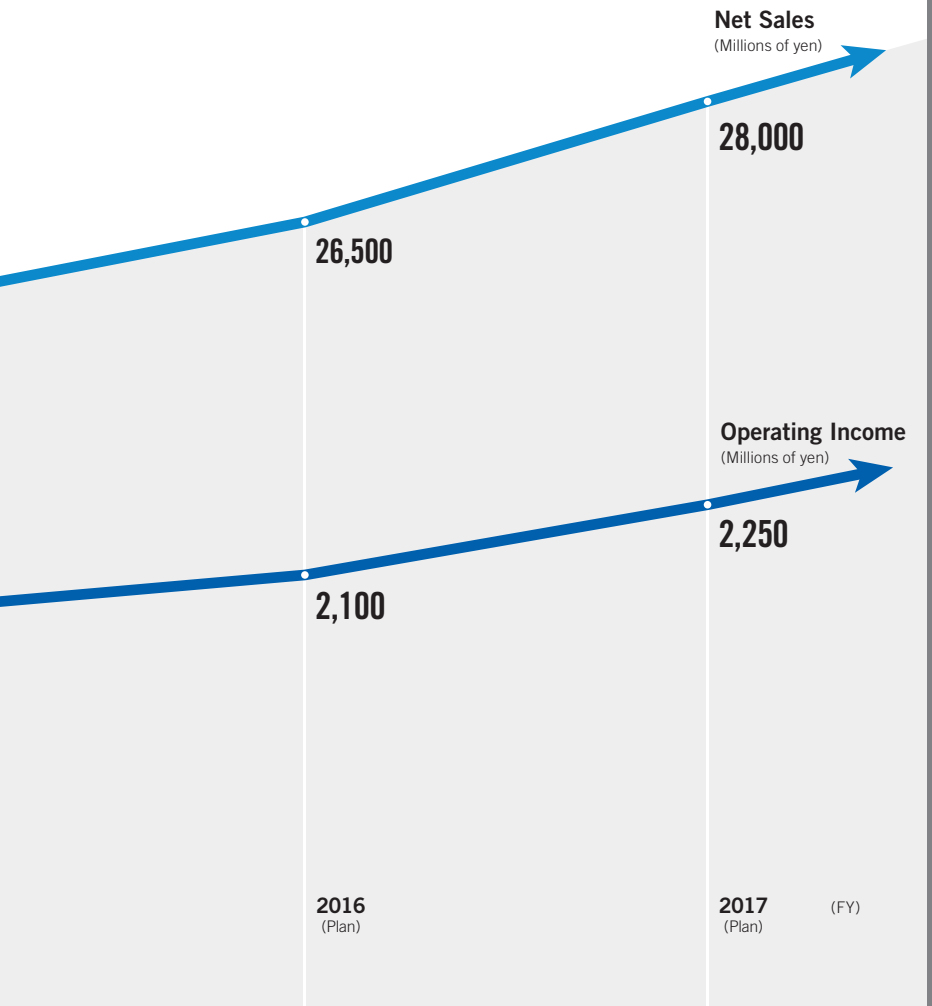


Operating Income (by business)

(Fiscal 2014) (Millions of yen)



*Although business segments have changed as a result of the corporate reorganization in April 2014, figures here are for business segments during the fiscal year ended March 31, 2014.



CONTENTS

Forward-looking Statements

Statements in this annual report, other than those based on historical fact, concerning the current plans, prospects, strategies, and expectations of Takara Bio Inc. and its consolidated subsidiaries represent forward-looking statements. As such statements are based on the conclusions made by management as of August 2014 and are based on information that includes major risks and uncertainties, actual results may vary significantly from the forecasts made due to a variety of 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 regulatory and government systems, pressure from competitor price and product strategies, a decline in selling power of Takara Bio's existing and new products, disruptions to production, violations of Takara Bio's intellectual property rights, rapid advances in technology, and unfavorable verdicts in major litigation.

Aiming for Further Growth

Strategy 1: CDMO Business

Active investment in the biotechnology industry, an area primed for growth

The Center for Gene and Cell Processing

Completion: July 2014
Full-scale operation: October 2014
Location: Kusatsu City in Shiga Prefecture
Objectives:
Serve as a core facility for producing Takara Bio products related to clinical development projects and for CDMO business providing contracted services including GMP production of biopharmaceuticals, and serving as a contracted partner in R&D.

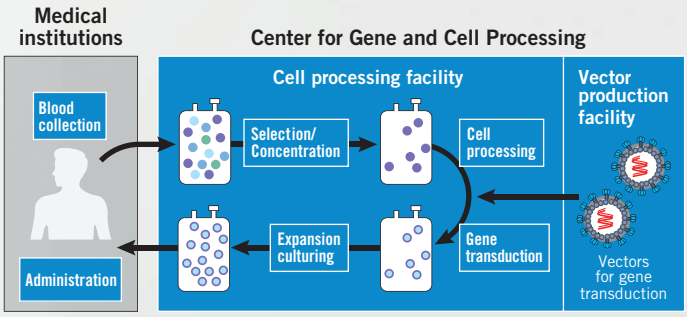
Cell processing and vector manufacturing in accordance with GMP.

CDMO business as an R&D partner

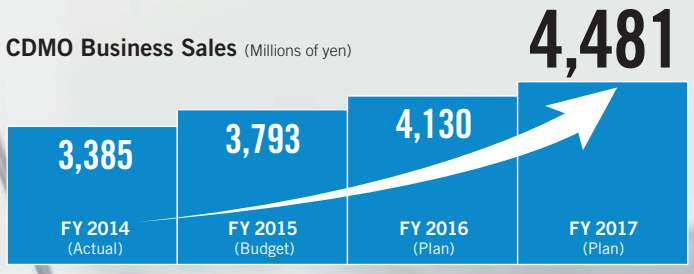
Takara Bio provides CDMO (Contract Development and Manufacturing Organization) business as an R&D partner for biopharmaceuticals. This involves leveraging the technologies and expertise we have developed over the years in gene therapy and clinical development to provide a number of services. These services include the development of production processes and quality control and testing methods, trial production, bioassays, and production services based on Good Manufacturing Practice (GMP) for vectors for gene therapy and for cells used in regenerative medicine and cell therapy.

The newly-built Center for Gene and Cell Processing supports the advancement of regenerative medicine and cell therapy

Support policies established by the Japanese government to advance regenerative medicine and cell therapy will make it possible in 2014 for companies to get involved in cell culture and processing at their own facilities, previously the sole domain of medical institutions. Scheduled to begin full-scale operation in October 2014, the Center for Gene and Cell Processing is a new facility that will allow Takara Bio to provide contracted GMP-based production services for biopharmaceuticals, including production of GMP-grade vectors for gene therapy and cell cultivation and processing for regenerative medicine and cell therapy.



CDMO Business Sales (Millions of yen)



Aiming for Further Growth

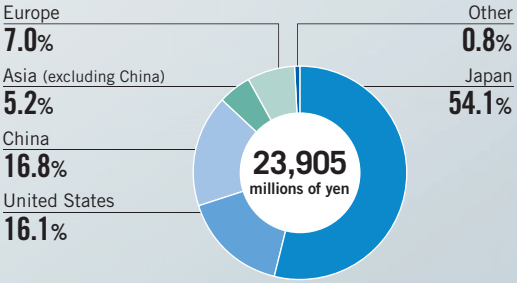
Strategy 2: Global Business Expansion

Biotechnology research reagents lead the way in expanding the global revenue base

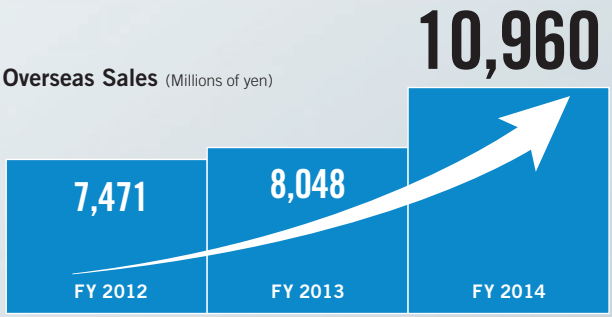
Takara Bio enjoys a worldwide sales network comprised of subsidiaries in the United States, Europe, China, South Korea, and India. Leveraging Takara Bio's brand power in Asia and that of Clontech in Europe and the United States, Takara Bio is expanding sales in markets around the world.

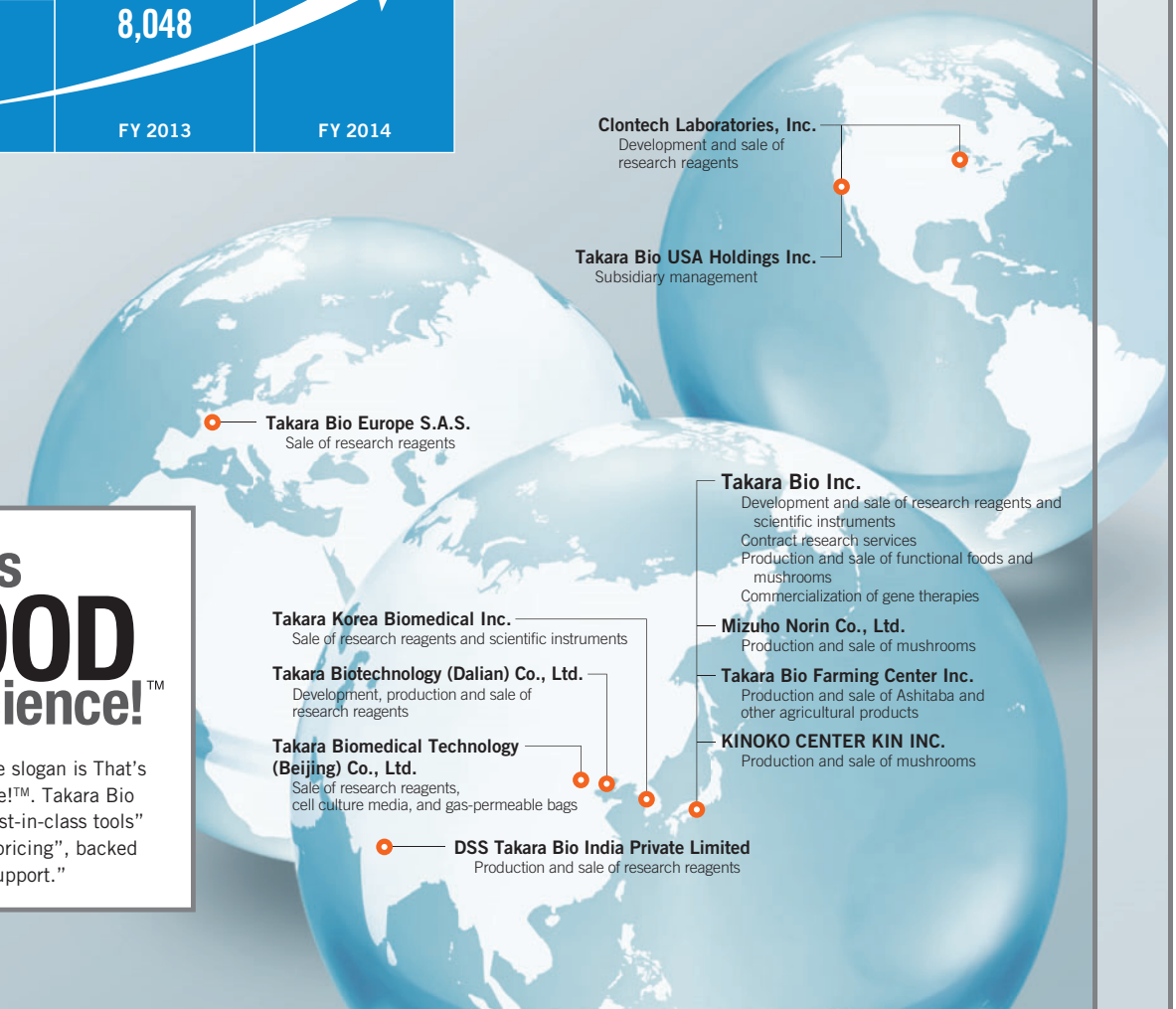
We are conducting a "That's Good Science!™" campaign to effect an even higher profile for the Takara Bio and Clontech brands. The proportion of overseas sales for fiscal 2014, which ended March 31, 2014, was 45.9%.

Sales by Geographic Segment (Fiscal 2014)



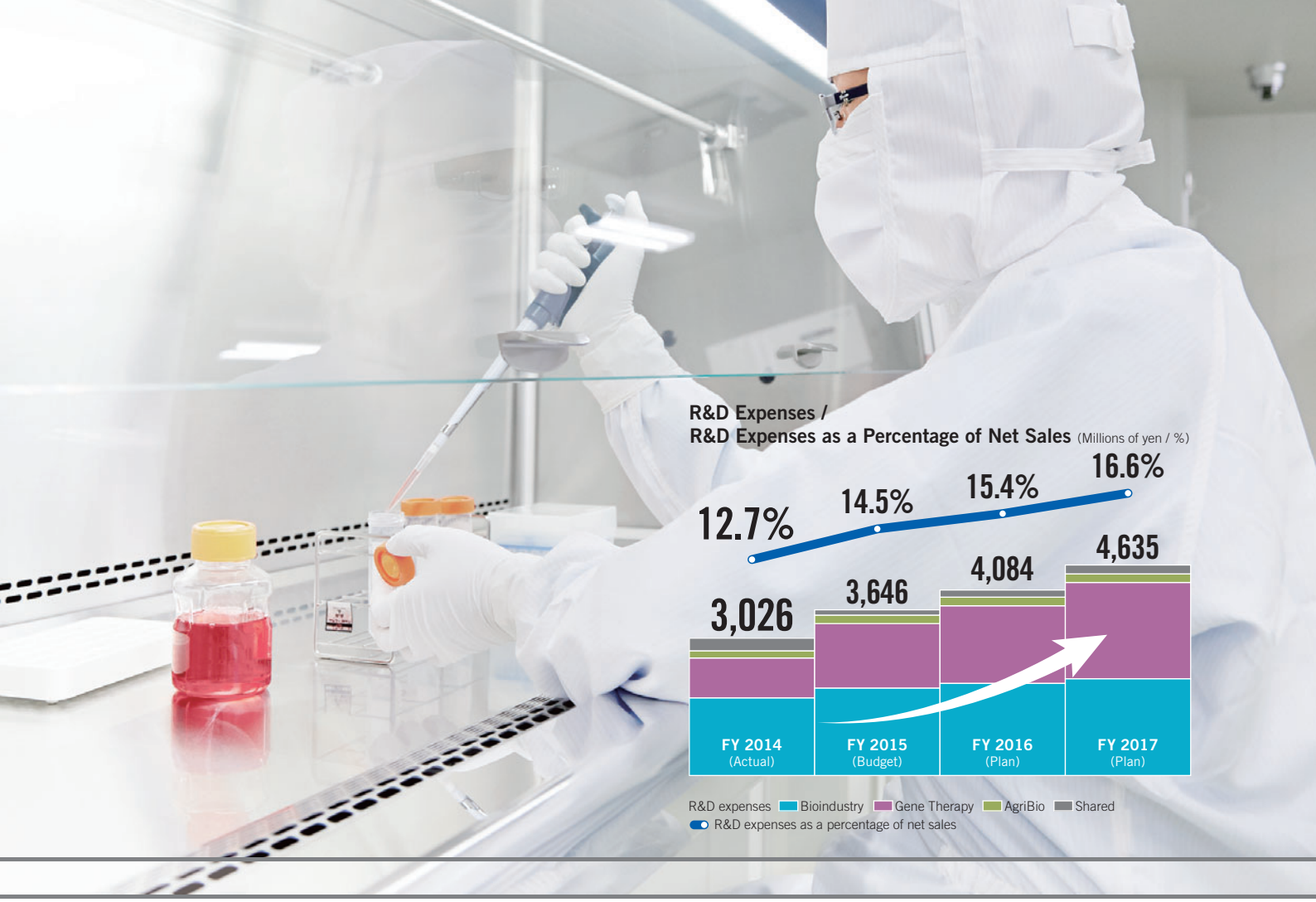
Overseas Sales (Millions of yen)





that's GOOD science!™

Our corporate slogan is That's Good Science!™. Takara Bio provides "Best-in-class tools" with "Value pricing", backed by "Expert support."



Strategy 3: Research and Development

Speeding up clinical development for gene therapy, with sights set on early commercialization

Helped by Japan's policies to promote regenerative medicine, the regenerative medicine market is expected to enjoy further expansion. In response to these market needs, we will focus on the development of new products for basic research using iPS cells and other stem cells, as well as for advanced research fields that include regenerative and cell therapy.

We will also be proactively funding research and development for clinical development projects in our Gene Therapy business, focusing on early commercialization for clinical development projects, including the HF10 anti-cancer therapy in fiscal 2019.

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 FY 2017)	FY 2019
	Japan				Phase I clinical trials (commence in FY 2015)	
MAGE-A4 antigen-specific TCR gene therapy	Japan				Phase I clinical trials (completion in FY 2016)	FY 2022
MazF gene therapy	United States				Phase I clinical trials (completion in FY 2016)	FY 2023
NY-ESO-1 antigen-specific TCR gene therapy	Japan				Phase I clinical trials (commence in FY 2015)	

Growing regenerative medicine and cell therapy business while steadily advancing clinical development for gene therapy

Having businesses that generate stable earnings as well as businesses with the potential to grow rapidly is one of the Takara Bio Group's key advantages. We invest earnings generated by the Bioindustry business in the development of the Gene Therapy business, so as to raise corporate value.

Taking advantage of the Japanese government's current strong support for the fields of regenerative medicine and cell therapy, Takara Bio will focus on these business fields, introducing new products and services, while also steadily advancing clinical development related to gene therapy.

Performance for Fiscal 2014

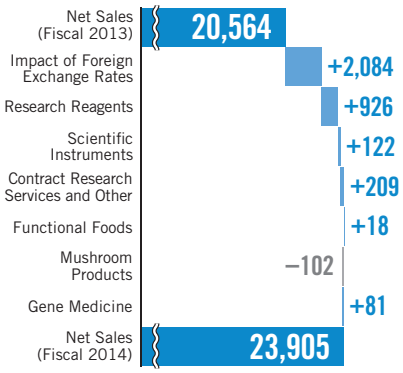
* Discussed in the section on Takara Bio business segments for fiscal 2014.

This fiscal year set new records for both net sales and profits.

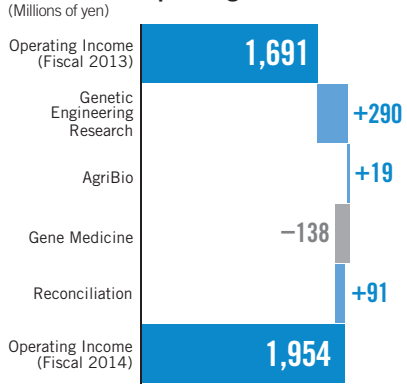
In the Genetic Engineering Research business*, sales of research reagents showed year-on-year increases in Japan, the United States, Europe, China and all other regions in which we have marketing facilities. Sales of cell culture media and gas-permeable bags in China in our Gene Medicine business* also proved favorable. Driven by these facts, net sales amounted to ¥23,905 million, up ¥3,341 million, or 16.2%, compared to those in the previous fiscal year.

Gross profit grew by ¥1,549 million, or 14.1%, year-on-year to ¥12,574 million. Selling, general and administrative (SG&A) expenses rose by ¥1,287 million, or 13.8%, year-on-year to ¥10,619 million, owing to increases in personnel expenses and R&D expenses. Operating income increased by ¥262 million, or 15.5%, to ¥1,954 million. Net income grew by ¥7 million, or 0.5%, to ¥1,470 million. Continuing last fiscal year's trend, both operating profit and net income reached new heights.

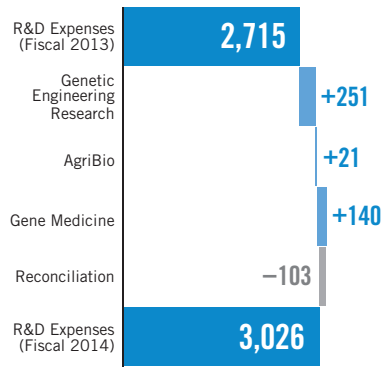
Consolidated Net Sales (Millions of yen)



Consolidated Operating Income (Millions of yen)



R&D Expenses (Millions of yen)



Koichi Nakao
President and CEO
August 2014

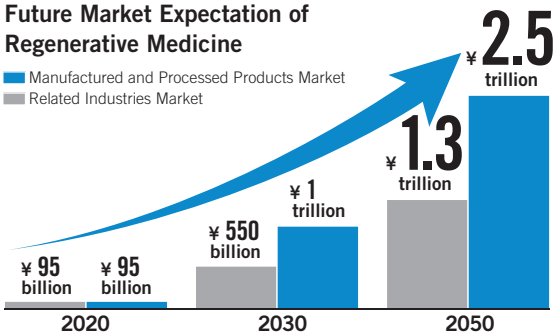
Business Environment and Market Trends

Governmental support policies are helping to build strong potential to expand our business.

Alongside efforts to ramp up research funding for basic and clinical research aimed at more quickly and safely bringing regenerative medicine to the mainstream, the Japanese government is revising its institutions and support policies targeting universities and corporations, among other organizations. The Amendment of Pharmaceuticals Affairs Act and the Act on the Safety of Regenerative Medicine were established in November 2013 and will go into effect within a year. These policy and legal revisions will likely affect Takara Bio's business in a number of ways, helping Takara Bio expand sales of its products in the basic research and clinical development segments, grow GMP production contracting services, and more quickly commercialize gene therapy projects.

The manufactured and processed products market in the domestic regenerative medicine market is set to see further growth, reaching ¥2.5 trillion by 2050. Growth is also anticipated for related industries, which will grow to ¥1.3 trillion and include business involving supplies such as culture media and reagents used in cultivating cells, equipment for applications including cell culture and quality measurement, and contracted services such cell cultivation and processing for medical institutions. All in all, these developments will provide major business opportunities for the Group.

Future Market Expectation of Regenerative Medicine



Source: "Report on the Commercialization and Industrialization of Regenerative Medicine," published in February 2013 by the Ministry of Economy, Trade and Industry

Impact of Japanese Government Policy and Legal Revisions Related to Regenerative Medicine on Takara Bio

Policy/Legal Revisions	Effects on our Business
Accelerated research and development with increased governmental funding	Expanded sales of Takara Bio products in basic research and clinical development segments
Ban lifted on involvement in cell cultivation and processing by companies that are not medical institutions	Increased contracted cell processing services and GMP-grade production contracting for vectors, etc.
New mechanisms for ensuring safety in the face of regenerative medicine and cell therapy risks	Expanded Takara Bio product sales and contracting business involving regenerative medicine and cell therapy
Adoption of early approval system for new drugs	Faster commercialization of gene therapies undergoing in-house clinical development

Investment and Shareholder Return

Takara Bio awarded a year-end dividend of ¥1.20 per share.

Takara Bio believes that, in addition to securing sufficient internal reserves to enable the aggressive pursuit of investment in research and development activities in the Bioindustry, Gene Therapy, and AgriBio businesses, returning profits to shareholders is a management priority. Accordingly, our fundamental policy is to distribute around 10% of estimated net income, excluding net extraordinary items in the consolidated financial statements, and taking management performance and our financial condition into consideration.

In accordance with this policy, for fiscal 2014 we distributed a year-end dividend of ¥1.20 per share. We also forecast a ¥1.20 per share year-end dividend for fiscal 2015.

Public Stock Offering

Takara Bio puts procured capital towards capital investment and research and development.

During the public stock offering conducted in August 2013, Takara Bio issued 6 million new shares, raising a total of about ¥10.9 billion. This funding will be allocated to capital investment in areas such as a new R&D center and animal experimentation facility, the Center for Gene and Cell Processing (which is scheduled to begin full-scale operations in October 2014), covering R&D expenses, and in the Gene Therapy business segment.

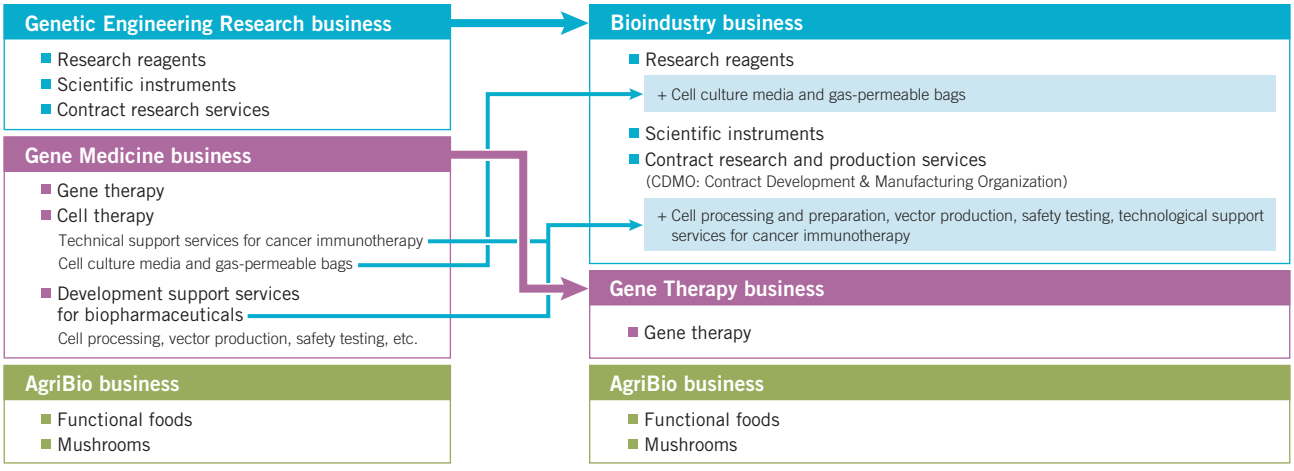
Benefits of the Corporate Reorganization

Takara Bio seeks to effectively utilize its technological expertise while improving profitability.

We conducted a corporate reorganization effective April 1, 2014 to make full use of our ability to develop research reagents and our technological expertise in the gene therapy and cell therapy segments while boosting profitability.

Anticipating the potential for cell processing for organizations that are not medical institutions, with the Act on the Safety of Regenerative Medicine going into effect, we have consolidated the CDMO business involving biopharmaceutical development support services, which includes cell processing, into “Genetic Engineering Research business” and rebranded it as “Bioindustry business.” At the same time, the “Gene Medicine business” was renamed “Gene Therapy business.” With this reorganization, Takara Bio aims to utilize the technologies and expertise developed through its experience in clinical development for gene and cell therapy while achieving further growth for CDMO business and boosting profitability.

Corporate Reorganization Overview



Medium-Term Management Plan that will Commence in Fiscal 2015

Takara Bio aims to leverage progress with clinical development projects to absorb increased R&D expenses and expand profits.

Efforts involving the Bioindustry business will focus on speeding up basic research using iPS cells and other stem cells and the development of new products in the field of the regenerative medicine and cell therapy. At the same time, Takara Bio will leverage technologies and expertise gained through experience in clinical development for gene and cell therapy to extend contracting services through the CDMO business as a research and development partner. Profitability will also be expanded with the Center for Gene and Cell Processing—a production facility in accordance with GMP standards that is scheduled to begin full-scale operation in October 2014—as a core facility for our CDMO business, which involves vector production for gene therapy as well as cell processing. For this segment, beginning with fiscal 2015, the yearly sales target is about 5% above that for the previous fiscal year.

In our AgriBio business, the functional foods segment will focus on both in-house research and development and joint research with medical research organizations aimed at accumulating evidence-based data for health-oriented food ingredients. Takara Bio will then enhance sales promotion efforts by launching informational websites and distributing pamphlets based on this data. At the same time, we will target sales increases for functional food products by offering mail-order sales through collaboration with Takara Healthcare Inc. In addition, our mushroom business will see a shift from Hatakeshimeji mushrooms to higher added-value Honshimeji mushrooms at Mizuho Norin Co., Ltd., as we build a stable production framework, expand sales channels, and improve profitability. Fiscal 2016 is the target year for achieving profitability for the AgriBio business as a whole.

In the Gene Therapy business, R&D expenses will increase some 20% every year in order to bring about a quicker commercialization of products and services. In the United States, Phase II clinical trials are currently underway for the HF10 anti-cancer therapy aimed at treating malignant melanoma, as well as Phase I clinical trials for the MazF gene therapy for treating AIDS. We are also conducting Phase I clinical trials (investigator initiated trials) for the MAGE-A4 antigen-specific T-cell receptor (TCR) gene therapy to treat esophageal cancer. Phase I clinical trials will also begin in fiscal 2015 in Japan for HF10 and the NY-ESO-1 antigen-specific TCR gene therapy, which target solid tumors. Commercialization targets for HF10, MAGE-A4 antigen-specific TCR gene therapy, and MazF gene therapy are fiscal 2019, 2022, and 2023, respectively. With the commercialization of these gene therapies, Takara Bio hopes to provide new means to treat refractory cancers and AIDS.

Fiscal 2014 Results* and Medium-Term Management Plans

(Millions of yen)	FY 2014 (Actual)	FY 2015 (Budget)	FY 2016 (Plan)	FY 2017 (Plan)
Net sales	23,905	25,200	26,500	28,000
Bioindustry	21,663	22,752	23,863	25,203
AgriBio	2,242	2,447	2,636	2,797
Gene Therapy	–	–	–	–
Operating income (loss)	1,954	2,000	2,100	2,250
Bioindustry	4,770	5,140	5,475	6,010
AgriBio	(285)	(168)	10	100
Gene Therapy	(913)	(1,434)	(1,724)	(2,124)
Ordinary income	2,240	2,250	2,300	2,400
Net income	1,470	1,480	1,500	1,550
R&D expenses	3,026	3,646	4,084	4,635
R&D expenses as a percentage of net sales (%)	12.7%	14.5%	15.4%	16.6%

* Results for fiscal 2014 are calculated based on the new business segments following corporate reorganization.

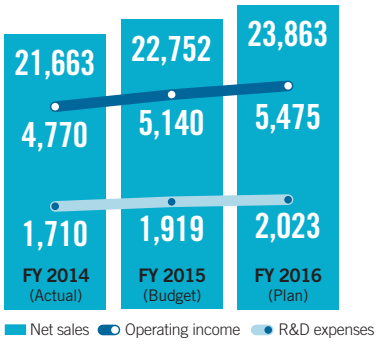
Bioindustry Business

Takara Bio develops original research reagents, scientific instruments, and contracted research services that utilize new genetic and cell engineering technologies on a consistent basis, supporting biotechnology research and bioindustry around the world in fields that range from basic research to drug discovery and development.

Net Sales (Fiscal 2014)

¥21,663 million

Net Sales, Operating Income, and R&D Expenses (Millions of yen)



* Results for fiscal 2014 are calculated based on the new business segments following corporate reorganization.

Research reagents

Cell culture media and gas-permeable bags

Research Reagents and Scientific Instruments

Since the introduction of the first domestically-produced restriction enzymes in 1979, Takara Bio has provided research reagents and scientific instruments needed for life sciences research at universities and private companies.

In particular, Takara Bio develops and markets Polymerase Chain Reaction (PCR) related products that include high-performance PCR enzymes and real-time PCR equipment, as well as other products that meet market needs. Takara Bio enjoys an excellent reputation as one of the most well-established companies in the Asian PCR reagent market. An essential thechnology for biotechnology research, the PCR method enables the amplification of very small amounts of genes from biological samples.

In September 2005, Takara Bio acquired United States-based Clontech Laboratories, Inc. Whereas Takara Bio's strength lies in the field of genetic engineering, including enzymes for genetic engineering research and PCR-related technologies, Clontech is strong in the field of cell biology, including genetic function analysis systems that use fluorescent proteins and protein interaction analysis systems. Combining Clontech products with Takara Bio products has greatly expanded Takara Bio's product lineup of research reagents.

Takara Bio also markets cell culture media and gas-permeable bags used in regenerative medicine. It is especially focused on expanding this business in China, where the market for such products is rapidly growing, effecting strong sales.

As for production, the majority of Takara Bio's research reagents are produced by Takara Biotechnology (Dalian) Co., Ltd., established as a manufacturing facility in China in 1993. This enables Takara Bio to maintain a high level of cost competitiveness.

Takara Bio continues to focus on developing products both in the genetic engineering field, an area in which Takara Bio boasts particular competence, and in the regenerative medicine research field, a market likely to grow going forward. In the genetic engineering field, Takara

History

1979 Commenced sales of the first domestically-produced restriction enzymes (total of six products)
1988 Acquired an exclusive distribution right in Japan for a gene amplification system using PCR technology
1993 Established Takara Biotechnology (Dalian) Co., Ltd. in China
Commenced sales of Takara Bio branded PCR products
2005 Acquired Clontech Laboratories, Inc. of the United States
2011 Established DSS Takara Bio India Private Limited in India
2014 Completed the Center for Gene and Cell Processing

Bioindustry Business Products and Services

Research Reagents and Scientific Instruments

Restriction enzymes, PCR reagents, antibodies, cell culture media and gas-permeable bags, real-time PCR equipment, mass spectrometry systems, etc.

Research and Manufacturing Contracting Services

CDMO business

Genome analysis, DNA chip analysis, iPS cell contract production services, cell processing and preparation, vector production, safety testing, technical support services for cancer immunotherapy, etc.

Bioindustry Business Strengths

- **Brand strength and extensive product lineup**
  An extensive lineup of products including Takara Bio products with the brand strength of Takara Bio in Asia and Clontech in Europe and the United States, combined with products made available through partnerships with companies with technologically complementary product groups
- **Price competitiveness**
  Achieving a high level of cost competitiveness by producing most of Takara Bio's research reagents at Takara Biotechnology (Dalian) in China
- **Competency in developing new products and services**
  Efficiently splitting research and development among Takara Bio, Clontech, and Takara Biotechnology (Dalian), focusing on developing products in the fields of genetic engineering and regenerative medicine research, a market likely to grow going forward
- **Global sales network**
  Improving sales at subsidiaries in Europe and the United States, as well as in rapidly growing emerging nations such as China and India

Bio aims for sales growth by expanding the application of PCR-related technology for industrial use (applied fields) and by developing new products related to next-generation sequencing, which is considered to be a growing market. In regenerative medicine research, new products and services relating to iPS cells (induced pluripotent stem cells) and genome editing—both fields of active research—will be developed.

Contracted Research and Production Services

(CDMO: Contract Development & Manufacturing Organization)

1. Contracted Research Services

Takara Bio also runs a contracted research services business through which we conduct data analysis and perform research for academia and commercial entities on a contractual basis. In 2000, Takara Bio established one of the largest genome analysis centers in Asia and has since successfully completed several large genome analysis contracts. In addition to preparing comprehensive research service contracting systems involving, for example, genome sequencing analysis, gene expression analysis using DNA chips, small RNA analysis, and protein expression, Takara Bio provides cutting-edge technological services that include next-generation sequencing and iPS cell production contract services.

A broad range of leading-edge analysis applications, including human genome analysis and epigenetic analysis, are available for genetic analysis services using next-generation sequencers, which have seen rapid adoption in recent years. Also, Takara Bio has focused efforts on bioinformatics so as to provide high-value-added services—such as next-generation data mining services—which extract useful information from the extremely large amounts of data that are acquired.

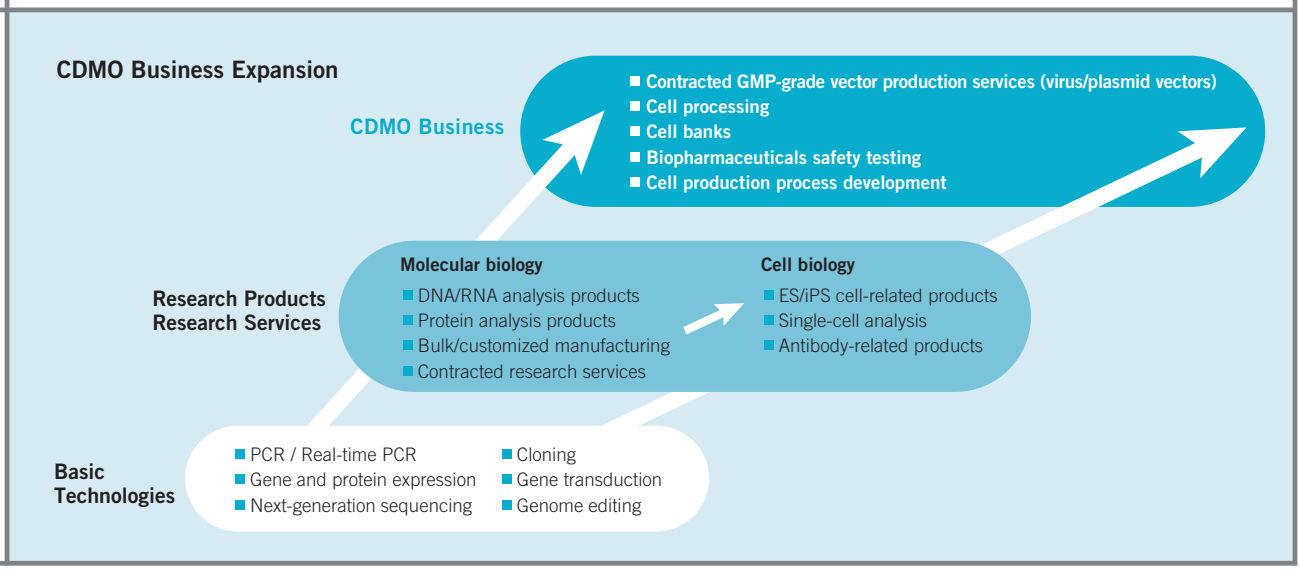
Takara Bio will continue to offer innovative new services, keeping up with rapid technological innovation in biotechnology research.

Next-generation sequencing systems

Analysis server

Measures Going Forward

- Expanding CDMO business concentrated on the Center for Gene and Cell Processing, including the commencement of contracted cell processing services and GMP-grade vector production services
- Developing and increasing sales of new products in our support 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
- Improving marketing and sales systems by focusing on, for example, sales promotions aimed at key accounts, making E-marketing more robust, and utilizing new brand strategies
- Building an efficient production framework by enhancing coordination among production facilities in Japan, China, and India



2. Technical Support Services for Cancer Immunotherapy

Cancer immunotherapy, which has extremely few side effects, is gradually spreading in use and becoming a fourth category of cancer therapy alongside surgery, chemotherapy, and radiation. Takara Bio provides technical support services to medical institutions that are engaged in clinical research involving cancer immunotherapy or that provide cancer immunotherapy, using the RetroNectin® expansion-culture system and the highly-pure Natural Killer (NK) cell therapy method.

The RetroNectin® expansion-culture system is an expansion-culture method for human lymphocytes that uses RetroNectin® along with interleukin-2 and anti-CD3 monoclonal antibodies. The system increases the proportion of naïve T cells that have a significant *in vivo* persistence and strong antigen recognition.

The highly-pure NK cell culture method involves the expansion culture of a large volume of highly-pure (approx. 90% pure) NK cells. NK cells are a type of lymphocyte that exist in peripheral blood at a rate of 10% to 20%, and act as an initial defense mechanism against viral infections and cancer cells. With it now known that things such as aging and stress can lessen NK cell activity, NK cell therapy is receiving attention.

In collaboration with the Department of Cancer ImmunoCell Regulation at the Kyoto Prefectural University of Medicine, Takara Bio has conducted clinical research into cancer immunotherapy using these proprietary culture methods and has verified their safety and efficacy.

The Iseikai Hyakumanben Clinic in Kyoto and the Takeda Hospital Group's Takeda Clinic of Immunity and Genes in Kyoto are currently using RetroNectin® induced T cell therapy (RIT) and a combined therapy involving the use of RetroNectin® induced T cells and highly-pure NK cells, with Takara Bio providing technical support services for cell processing.

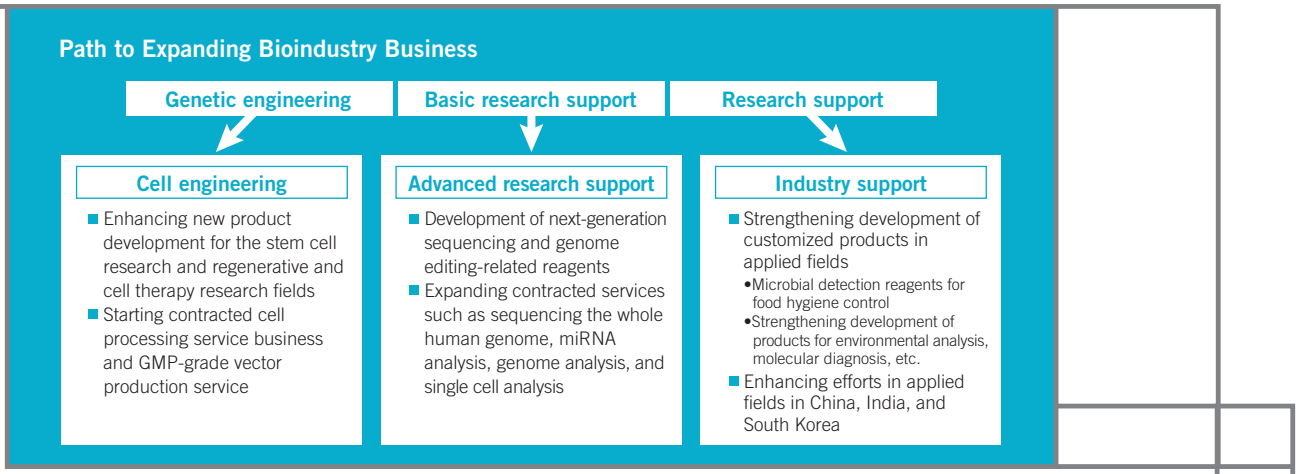
We are also licensing out the RetroNectin® expansion-culture system to Cancer Medical Clinic CARNAMED in Sapporo.

Efforts will continue to focus on developing cell processing technologies useful to cancer immunotherapy and providing technical support services to medical institutions.

3. Biopharmaceutical Development Support Services (Contracted GMP-grade production services)

Takara Bio has facilities and systems for manufacturing vectors for gene therapy and cells used in regenerative medicine and cell therapy in accordance with Good Manufacturing Practice (GMP). Along with manufacturing vectors for clinical trials as part of Takara Bio's gene therapy projects, we provide contracted manufacturing services and develop manufacturing processes for cells used in vectors for gene transduction and regenerative medicine in conformance with GMP for universities and companies. We also develop quality control testing methods, form test production, and conduct bioassays.

The Center for Gene and Cell Processing, a new GMP-grade production facility, is set to begin full-scale operation in October 2014. (See pgs. 3–4)



NEWS for FY 2014

Bioindustry Business

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.

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.

Gene Therapy Business

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 T lymphocytes.

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.

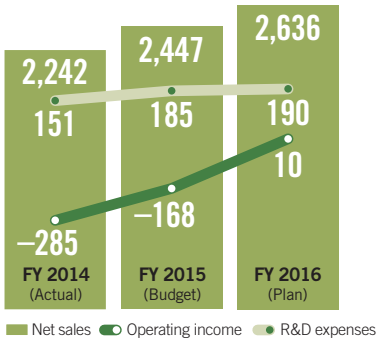
AgriBio Business

Takara Bio works to discover the functionality of traditional Japanese food ingredients, and develops and produces functional foods that utilize these materials. It also cultivates new mushroom types and utilizes technologies for large-scale production to produce and market Honshimeji and Hatakeshimeji mushrooms.

Net Sales (Fiscal 2014)

¥ **2,242** million

Net Sales, Operating Income, and R&D Expenses (Millions of yen)



* Results for fiscal 2014 are calculated based on the new business segments following corporate reorganization.

Fucoidan Supplement 50

Nokogiriyashi (saw palmetto) + Isosamidin

Functional Food Business

Takara Bio has been researching the functional properties derived from traditional Japanese food ingredients while at the same time developing and manufacturing functional foods featuring these unique properties.

Functional foods developed by Takara Bio are marketed by Takara Healthcare Inc., a wholly-owned subsidiary of Takara Holdings Inc. Takara Healthcare also provides these unique functional food ingredients as raw materials for foods, drinks, and cosmetics to manufacturers of such products.

1. Gagome Kombu (Kelp) "Fucoidan"
Fucoidan is a viscous component found in various species of seaweed, including kombu. It has been found to self-repair damaged areas and act as a barrier against desiccation and bacteria.

Takara Bio spent many years researching Gagome kombu (kelp), a particularly sticky type of kombu, and consequently three different types of chemical structures of Fucoidan in Gagome kombu (kelp) were successfully identified for the first time. Research into Fucoidan functionality continues to move forward.

2. Herb (*Peucedanum japonicum*) "Isosamidin"
Peucedanum japonicum is a perennial plant in the Apiaceae (Umbelliferae) family that grows naturally along the coast, mainly from southern Kyushu to Okinawa. It is called "Botanbofu" in Japanese. It is also often called the "herb of long life," which derives from the local folklore saying "If you eat one sprig of Botanbofu, you will live one day longer." Takara Bio has focused its research on the herb's intense vitality, particularly the properties of a constituent compound called Isosamidin.

3. Ashitaba (Angelica Herb) "Chalcone"
Indigenous to Japan, Ashitaba grows wild on the Pacific coast, mainly in the Izu Islands. Ashitaba is known for its strong vitality as indicated by the Japanese saying "If Ashitaba leaves are picked today, new leaves will be in place by tomorrow." Ashitaba is rich in vitamins, minerals, and dietary fiber, many of which are important nutrients for both health and beauty. Takara Bio produces Ashitaba on its own farms and contracted farms in Kagoshima Prefecture. Takara Bio is pursuing R&D activities into the function of Chalcone, a polyphenol peculiar to Ashitaba.

History

1970	Developed the world's first large-scale production technology for Bunashimeji mushrooms
1973	Licensed mass-production technologies for Bunashimeji to JA ZEN-NOH Nagano
1996	Scientifically confirmed the effectiveness of "Fucoidan," derived from Gagome kombu (kelp), and began marketing the functional food product named Apoidan-U
2004	Commenced production of Honshimeji mushrooms

AgriBio Business Products and Services

Functional Foods

"Fucoidan," from Gagome kombu (kelp); "Isosamidin," from a herb (*Peucedanum japonicum*); "Chalcone," from Ashitaba (angelica herb); "Agaro-oligosaccharide," from Agar; "Yamsgenin™," from the lesser yam (*Dioscorea esculenta*); "Terpene," from a mushroom

Mushrooms

Honshimeji, Hatakeshimeji, Bunashimeji

AgriBio Business Strengths

- **Evidence-based data accumulated over 10+ years**
  Usage of biotechnologies over 10+ years to gather evidence-based data related to functional food ingredients from traditional Japanese foods
- **Coordination with Takara Healthcare**
  Customer follow-ups and marketing together with Takara Healthcare, a member of the Takara Group in charge of marketing functional foods developed by Takara Bio
- **Mass production technologies for mushrooms**
  Developing mass production technologies for Hatakeshimeji and Honshimeji and licensing out mushroom cultivation technologies and expertise, since becoming the first in the world to develop mass production technologies for Bunashimeji in 1970
- **A world leader in mushroom spawn owned**
  Advancing the cultivation of new species with cutting-edge biotechnologies, with ownership of an extensive array of strains both common and rare

4. Agar "Agaro-oligosaccharide"
Made from red algae such as tengusa and ogonori, Agar is known as the "king of dietary fibers." Takara Bio is interested in Agaro-oligosaccharides, which are obtained by heating agar in acid. We have identified Agaro-oligosaccharides' unique functional properties, which are not found in other oligosaccharides, and have already developed an original method for the industrial manufacturing of these oligosaccharides.

5. Yam (*Dioscorea esculenta*) "Yamsgenin™"
Long known as a healthy food with tonic-like properties, yams are referred to as "Sanyaku" in traditional Chinese medicine. Takara Bio discovered a component called Yamsgenin™ in the lesser yam (*Dioscorea esculenta*, "Togedokoro" in Japanese), which is grown in places like Okinawa. Yamsgenin™ is not found in common yams. Takara Bio is now conducting research into the functionality of this component.

Mushroom Business

Takara Bio has developed new species of mushrooms as well as methods for the cultivation and mass production of mushrooms. Takara Bio was the first company to successfully develop the large-scale production of Bunashimeji mushrooms, which are widely available at most Japanese food retailers. In 1973, the large-scale production technology was licensed to JA ZEN-NOH (National Federation of Agricultural Cooperative Associations) Nagano, which led to success in the commercialization of this mushroom. This marked the start of Takara Bio's mushroom business.

Today, Mizuho Norin Co., Ltd., a joint venture between Takara Bio and Kyotamba-cho and the Kyotamba Forestry Association, both of which are in Kyoto Prefecture, is conducting industrial production of Hatakeshimeji mushrooms. Takara Bio has also succeeded in mass-producing Honshimeji, known for their exquisite taste: "matsutake smells good, shimeji tastes good," as the saying goes. They are now being mass-produced by Mizuho Norin and at the Kusu Factory in Yokkaichi, Mie Prefecture.

In order to improve revenues in the mushroom business, Takara Bio will substantially increase production of high-value-added Honshimeji mushrooms.

Hatakeshimeji Sales Volume
(Fiscal 2014)

734 tons

Honshimeji Sales Volume
(Fiscal 2014)

292 tons

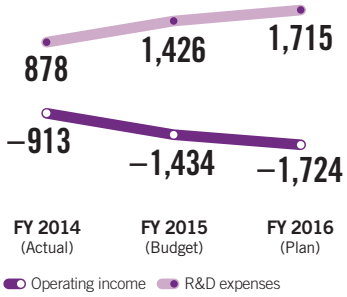
Measures Going Forward

- Conduct in-house R&D and collaborate with medical research institutes with the aim of acquiring evidence-based data on functional food ingredients
- Publish acquired evidence-based data and distribute information booklets to improve awareness
- Enhance quality control and quality assurance systems to provide safe, secure products
- Reduce production costs by reviewing production methods and of raw material procurement methods
- Ramp up production of Honshimeji at Mizuho Norin and increase sales via sales channel expansion
- Expand licensing business for mushroom cultivation technologies and expertise

Gene Therapy Business

With the aim of commercialization, Takara Bio uses biotechnologies developed over many years to advance the clinical development of gene therapies that target diseases such as cancer and AIDS.

Net Sales, Operating Income, and R&D Expenses (Millions of yen)



* Results for fiscal 2014 are calculated based on the new business segments following corporate reorganization.

Cell culture

Gene Therapy

Takara Bio is currently engaged in the clinical development of the following gene therapies.

1. HF10 Anti-Cancer Therapy

Takara Bio acquired the HF10 business from M's Science Corporation in November 2010. HF10 is a spontaneously-occurring attenuated mutant strain of herpes simplex virus type 1 (HSV-1) that shows strong antitumor activity when locally injected into tumors. These kinds of viruses are called oncolytic viruses.

Oncolytic viruses selectively replicate inside, and destroy, tumor tissue without excessively damaging normal tissue. Many oncolytic viruses are produced via gene recombination or foreign gene insertion, but HF10 is a spontaneously-mutated virus that does not contain any foreign genes.

In the United States, Phase I clinical trials targeting solid cancers have been completed and Phase II clinical trials targeting malignant melanoma are now underway.

In Japan, clinical research targeting solid cancers has been underway since December 2011 by the Mie University Hospital, while clinical research targeting pancreatic cancer in combination with existing anti-cancer drugs has been underway since April 2013 by the Nagoya University Hospital. Preparations are also being made to begin conducting Phase I clinical trials in fiscal 2015 for patients with solid cancers in Japan.

2. TCR Gene Therapy

Phase I clinical trials (investigator-initiated trials) for the MAGE-A4 antigen-specific T cell receptor (TCR) gene therapy began in March 2014. This therapy targets esophageal cancer using next-generation retroviral vectors developed jointly between Takara Bio and Mie University. These clinical trials are the first attempt in Japan at a genetic immunotherapy for cancer. Takara Bio is also preparing to start up a new project involving NY-ESO-1 antigen-specific TCR gene therapy with the aim of commencing Phase I clinical trials in fiscal 2015.

TCR gene therapy involves taking the patient's lymphocytes and transducing

History

1995	Developed a highly efficient retroviral transduction method for hematopoietic stem cells (the RetroNectin® method)
2001	Licensed the RetroNectin® method to MolMed unexclusively
2003	Acquired a license from MolMed for HSV-TK gene therapy technologies for leukemia
2008	Conducted the first *ex vivo* gene therapy clinical trial in Japan (HSV-TK gene therapy)
2010	Acquired HF10 oncolytic virus business from M's Science
2012	Initiated a Phase I clinical trial of MazF gene therapy for HIV infections in the United States
2014	Initiated Phase I clinical trials (investigator-initiated trials) of the MAGE-A4 antigen-specific TCR gene therapy for esophageal cancer in Japan
	Initiated Phase II clinical trials of the HF10 anti-cancer therapy for malignant melanoma in the United States

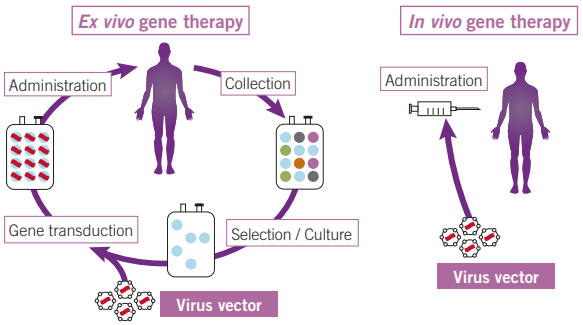
Core Technologies for Gene Therapy Business

Ex vivo Gene Therapy and the RetroNectin® Method

Gene therapies are classified into two types; *ex vivo* and *in vivo*. In *ex vivo* gene therapy, a target gene is transduced into cells taken from a patient or a donor and the gene-transduced cells are subsequently infused back into the same patient. In contrast, *in vivo* gene therapy involves the direct administration of therapeutic genes into patients.

Jointly developed between Takara Bio and Indiana University in the United States, the RetroNectin® method is now recognized as a standard gene transduction method for *ex vivo* gene therapy. This method uses RetroNectin® to efficiently transduce genes into hematopoietic stem cells as well as lymphocytes and other blood cells, and is utilized in clinical development for over 60 gene therapies around the world.

Takara Bio holds exclusive rights for worldwide applications of the RetroNectin® method, and licenses the method to seven companies.



The purpose of gene therapy is to cure disease by administering specific genes or genetically-modified cells to a patient in order to correct a genetic birth defect or cure a disease (for example, cancer or AIDS).

them with the TCR gene, which is capable of recognizing cancer antigens. When re-infused into the patient, the gene-transduced lymphocytes specifically recognize, attack, and eliminate cancer cells. TCR gene therapy is so promising that clinical trials targeting malignant melanoma and other cancers using Takara Bio's RetroNectin® method are already being conducted at the National Cancer Institute in the United States.

3. MazF Gene Therapy

Takara Bio, in a joint effort with both the University of Pennsylvania and Drexel University College of Medicine, commenced an endoribonuclease MazF-based gene therapy Phase I clinical trial in the United States for patients that have been infected with the human immunodeficiency virus (HIV, otherwise known as the AIDS virus). This clinical trial is scheduled for completion in fiscal 2016.

In the mechanism of AIDS, replication of the virus in HIV-infected immune cells causes deficiencies in the entire immune system. However, MazF-modified T-cells (a type of immune cells) are expected to remain functional even if infected by HIV, by preventing replication of the virus. MazF genes are transduced into patient-derived T-cells *ex vivo* using retroviral vectors that express MazF conditionally upon HIV infection. The MazF-modified T-cells that are infused back into the patients will cleave the RNA strand of HIV and thereby block the replication of the virus when it infects the transduced T-cells. As a result, this method has the potential to become a gene therapy treatment for AIDS.

Production of vectors

Measures Going Forward

- Conduct clinical development of the HF10 anti-cancer therapy for solid tumors in the United States
  (Objective: bring product to market in the United States by FY 2019)
- Conduct clinical development of the MAGE-A4 antigen-specific TCR gene therapy for esophageal cancer
  (Objective: bring product to market by FY 2022)
- Conduct clinical development of the MazF gene therapy for HIV infections in the United States
  (Objective: bring product to market by FY 2023)
- Conduct clinical development of the NY-ESO-1 antigen-specific TCR gene therapy for solid cancers
  (Objective: begin clinical trials in FY 2015)

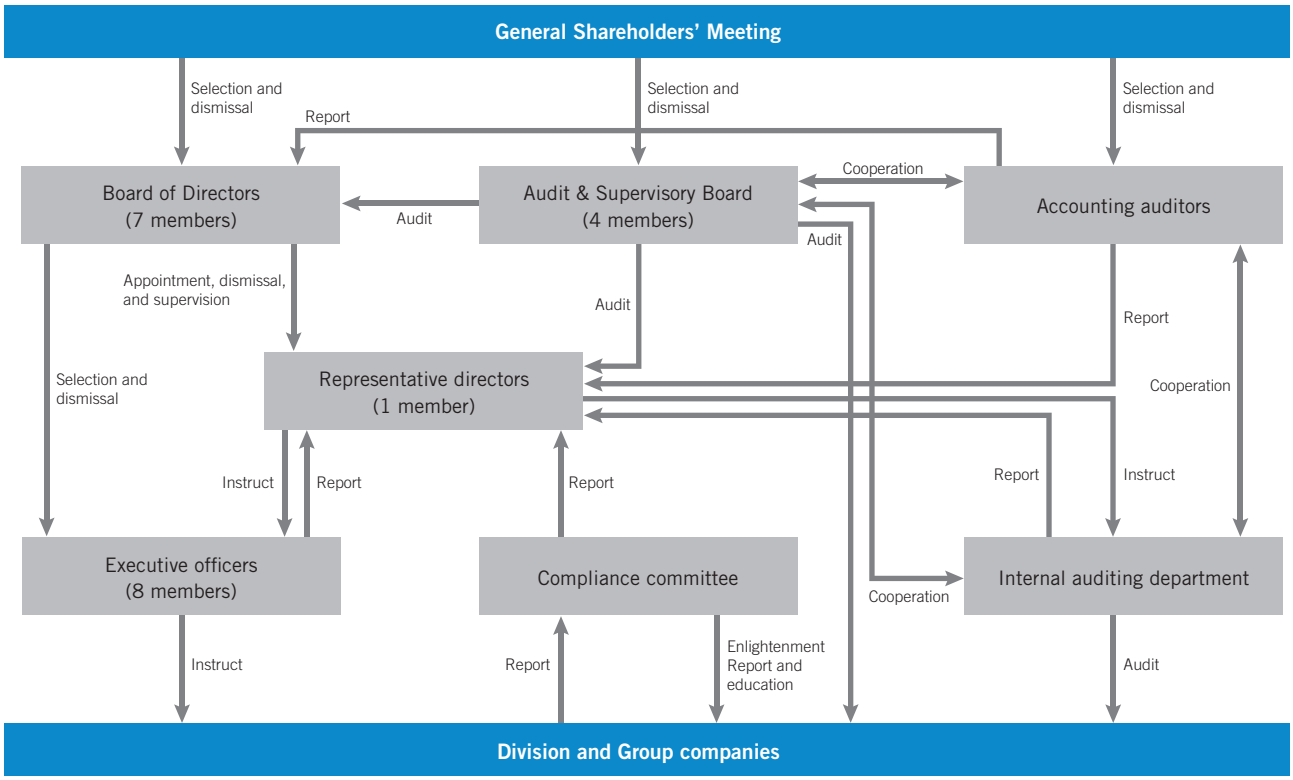
Corporate Governance

At Takara Bio, our corporate philosophy is “contributing to the health of humankind through the development of revolutionary biotechnologies such as gene therapy.” Guided by this philosophy, Takara Bio is dedicated to the development of biotechnology-related products and technologies as an R&D-oriented organization. In the biotech industry, which is dependent on constant technical innovation, our management policy is to conduct R&D aggressively while returning profits to our shareholders by increasing corporate value through improved business results. To achieve this, we are striving to expedite our decision making and to improve our business efficiency.

The Board of Directors consists of seven members (including one external director) who meet whenever necessary in addition to the regular monthly Board meetings. The Board makes decisions on important issues concerning the management of Takara Bio and its management policies as well as overseeing execution of our business. One external director has been designated as an independent director in accordance with the rules stipulated by the Tokyo Stock Exchange (TSE), and the TSE has been notified of this designation.

Takara Bio has adopted an Audit & Supervisory Board (ASB) system, and two of our four ASB members are external. We have established an internal auditing department comprising three personnel. We endeavor to enhance internal control through a system in which the ASB members conduct audits while coordinating with the internal auditing department.

Our parent company is Takara Holdings Inc., which owns 60.92% of the voting rights as of the end of March 2014. Takara Holdings’ policy in managing its group companies is to seek to maximize the corporate value of the whole Takara Group while enabling each and every member corporation of the Takara Group to maintain its uniqueness and independence. Since our biotechnology business requires highly advanced expertise and quick decision making, we are especially unique and independent in the Takara Group. While we report the decisions made at our Board meetings and other issues to the parent company, no prior approval is required in order to execute our decisions.



Executives As of June 24, 2014

Board of Directors

Koichi Nakao

President & CEO

Apr. 1985	Joins Takara Shuzo Co., Ltd.
Apr. 2002	Director
Jun. 2003	Managing Director & Executive Officer
Jun. 2004	Senior Managing Director & Executive Officer
Jun. 2007	Vice President & Executive Officer
Jun. 2008	Vice President
May 2009	President (incumbent)
	President, Takara Bio USA Holdings Inc. (incumbent)
	Chairman, Takara Biotechnology (Dalian) Co., Ltd. (incumbent)
	Chairman, Takara Biomedical Technology (Beijing) Co., Ltd. (incumbent)
Jun.	Director, Takara Holdings Inc. (incumbent)
Mar. 2010	Chairman, Takara Korea Biomedical Inc. (incumbent)

Hisashi Ohmiya

Chairman

Apr. 1968	Joins Takara Shuzo Co., Ltd.
May 1974	Director, Takara Shuzo Co., Ltd.
Jun. 1982	Managing Director, Takara Shuzo Co., Ltd.
Jun. 1988	Senior Managing Director, Takara Shuzo Co., Ltd.
Jun. 1991	Vice President, Takara Shuzo Co., Ltd.
Jun. 1993	President, Takara Shuzo Co., Ltd.
Apr. 2002	Chairman (incumbent)
	President, Takara Shuzo Co., Ltd.
Jun. 2012	Chairman, Takara Holdings Inc. (incumbent)
	Chairman, Takara Shuzo Co., Ltd. (incumbent)

Kazutoh Takesako, Ph.D.

Senior Managing Director

Apr. 1976	Joins Takara Shuzo Co., Ltd.
Jun. 2003	Executive Officer
Apr. 2004	Senior Executive Officer
Jun. 2007	Director & Executive Officer
Jun. 2008	Senior Executive Officer
Jun. 2009	Senior Managing Director (incumbent)

Shuichiro Matsuzaki

Senior Managing Director

Apr. 1980	Joins Takara Shuzo Co., Ltd.
Jun. 2005	Director, Takara Holdings Inc.
Jun. 2007	Director, Takara Shuzo Co., Ltd.
Jun. 2008	Managing Director, Takara Shuzo Co., Ltd.
Jun. 2010	Senior Managing Director, Takara Shuzo Co., Ltd.
Jun. 2014	Senior Managing Director (incumbent)

Takao Okane

Managing Director

Apr. 1977	Joins Takara Shuzo Co., Ltd.
Jun. 2003	Managing Director, Japan Synthetic Alcohol Co., Ltd.
Jun. 2005	Executive Officer, Takara Shuzo Co., Ltd.
Jun. 2007	Director, Takara Holdings Inc.
	Director, Takara Shuzo Co., Ltd.
Jun. 2014	Managing Director (incumbent)

Junichi Mineno, Ph.D.

Managing Director

Apr. 1984	Joins Takara Shuzo Co., Ltd.
Apr. 2011	Executive Officer
Jun. 2012	Senior Executive Officer
Jun. 2014	Managing Director (incumbent)

Jawaharlal Bhatt

Director (External Director)

Apr. 1985	Director, Cooper LaserSonics, Inc.
Jun. 1990	President & CEO, Bio NovaTek International, Inc.
May 2000	President & CEO, Jay Bhatt, Inc.
Jun. 2010	Director (incumbent)

Audit & Supervisory Board Members

Susumu Sano, Ph.D.

Standing Audit & Supervisory Board Member

Apr. 1975	Joins Takara Shuzo Co., Ltd.
Apr. 2002	Executive Officer
Feb. 2003	Retires as Executive Officer
Apr. 2004	Senior Executive Officer
Jun.	Director & Executive Officer
Jun. 2006	Senior Corporate Executive Officer
Jun. 2007	Standing Audit & Supervisory Board Member (incumbent)

Tomio Kamada

External Audit & Supervisory Board Member

Apr. 1972	Joins Takara Shuzo 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 (incumbent)

Kiyozo Asada, Ph.D.

Standing Audit & Supervisory Board Member

Apr. 1987	Joins Takara Shuzo Co., Ltd.
Jun. 2000	Director, Takara Shuzo Co., Ltd.
Mar. 2002	Retires as Director, Takara Shuzo Co., Ltd.
Apr.	Director
Jun. 2003	Managing Director & Executive Officer
Jun. 2004	Senior Managing Director & Executive Officer
Jun. 2008	Senior Managing Director
Jun. 2011	Standing Audit & Supervisory Board Member (incumbent)

Shinji Ueda

External Audit & Supervisory Board Member

Apr. 1976	Joins Takara Shuzo Co., Ltd.
Jun. 2013	Audit & Supervisory Board Member (incumbent)
	Standing Audit & Supervisory Board Member, Takara Shuzo Co., Ltd. (incumbent)
	Audit & Supervisory Board Member, Takara Holdings Inc. (incumbent)

Executive Officers

Kazuki Yamamoto
Senior Executive Officer

Yoh Hamaoka, Ph.D.
Senior Executive Officer

Hiroyuki Mukai, Ph.D.
Senior Executive Officer

Tsuyoshi Miyamura
Senior Executive Officer

Masahide Tamaki
Executive Officer

Masanari Kitagawa, Ph.D.
Executive Officer

Masaharu Watabe
Executive Officer

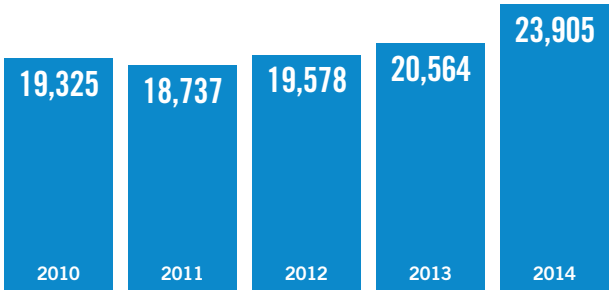
Akihiko Kita
Executive Officer

Five-Year Financial Summary

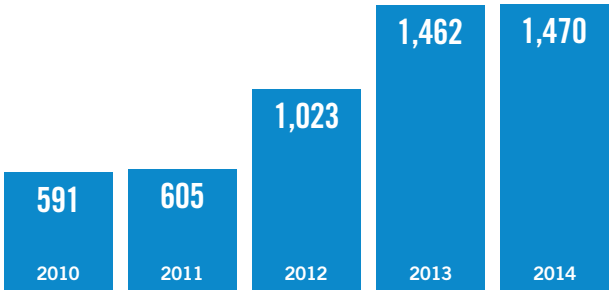
(Millions of yen)	2010	2011	2012	2013	2014
For the Years Ended March 31:					
Net sales (sales to customers)	19,325	18,737	19,578	20,564	**23,905**
Genetic Engineering Research	16,689	15,882	16,300	16,997	**20,140**
Gene Medicine	392	493	842	1,240	**1,522**
AgriBio	2,243	2,361	2,435	2,326	**2,242**
Cost of sales	9,286	8,858	9,194	9,540	**11,331**
Selling, general and administrative expenses	9,485	8,781	8,836	9,332	**10,619**
Operating income	553	1,097	1,547	1,691	**1,954**
Income before income taxes and minority interests	697	978	1,662	2,268	**2,185**
Net income	591	605	1,023	1,462	**1,470**
Depreciation	1,230	1,122	1,077	1,104	**1,157**
Capital expenditures	1,069	918	926	2,397	**5,538**
R&D expenses	3,294	2,692	2,658	2,715	**3,026**
As of March 31:					
Total assets	43,651	42,594	44,032	46,649	**62,500**
Total equity	37,799	37,620	38,413	41,465	**57,127**
Per Share of Common Stock (Yen)*:					
Basic net income	5.24	5.37	9.06	12.94	**12.50**
Equity	334.93	333.07	339.73	364.65	**473.93**
Ratios (%):					
Return on assets (ROA)	1.4	1.4	2.3	3.1	**2.7**
Return on equity (ROE)	1.6	1.6	2.7	3.7	**3.0**
Equity ratio	86.6	88.3	87.1	88.8	**91.3**

Note: Figures have been rounded down to the nearest million yen.
* Indicated prices are retroactively adjusted for a 400-for-one stock split, taking April 1, 2011, as the effective date.

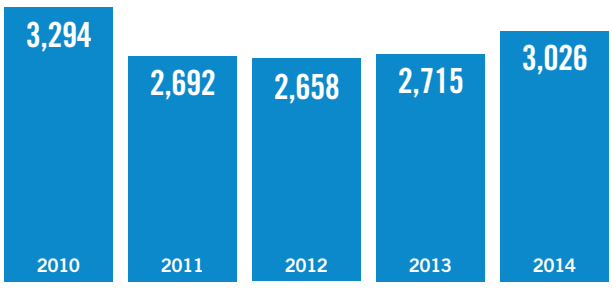
Net Sales (Millions of yen)



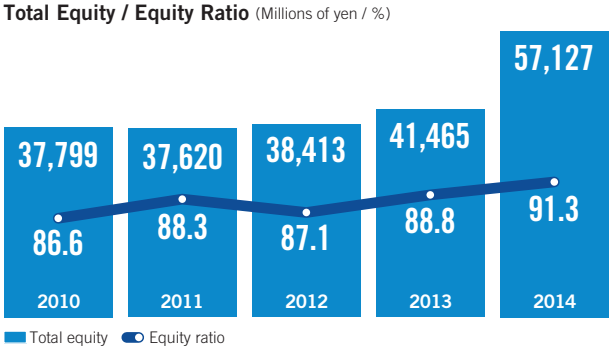
Net Income (Millions of yen)



R&D Expenses (Millions of yen)



Total Equity / Equity Ratio (Millions of yen / %)



Net Sales

Capitalizing on biotechnologies developed over many years, the Takara Bio Group ("the Group") has focused its management resources on three business segments: Genetic Engineering Research, AgriBio, and Gene Medicine. For fiscal 2014, ended March 31, 2014, net sales increased ¥3,341 million, or 16.2%, year-on-year, to ¥23,905 million, owing to an increase in sales of research reagents in the Genetic Engineering Research business, as well as substantial sales growth in the Gene Medicine business.

Income

Cost of sales in fiscal 2014 was up ¥1,791 million, or 18.8%, year-on-year, to ¥11,331 million due to increased net sales. Gross profit also rose ¥1,549 million, or 14.1%, year-on-year, to ¥12,574 million. Selling, general and administrative (SG&A) expenses increased ¥1,287 million, or 13.8%, year-on-year, to ¥10,619 million, as personnel expenses and R&D expenses rose. As a result, operating income increased ¥262 million, or 15.5%, year-on-year, to ¥1,954 million.

While there were gains that included a foreign exchange gain of ¥44 million, other income (expenses) dropped ¥346 million year-on-year due to a ¥60 million increase in stock issue costs owing to a capital increase through public offering, as well as the elimination of the gain on revision of retirement benefit plan, which accounted for ¥345 million in the previous fiscal year.

'Income before income taxes and minority interests' amounted to ¥2,185 million. A decrease in income tax adjustments led to a drop in total income taxes of ¥82 million, bringing net income for the period to ¥1,470 million.

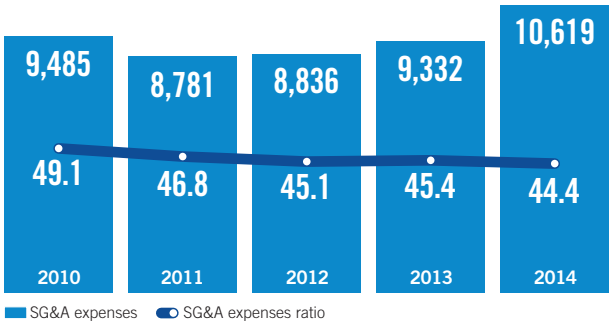
Segment Review

Genetic Engineering Research

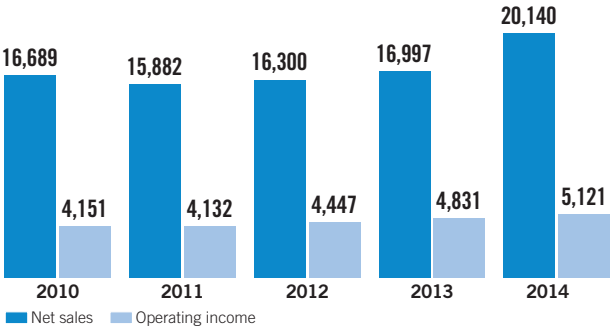
Given the ever-widening activities of biotechnology R&D, the Group has positioned as its core business the Genetic Engineering Research business, which mainly markets products and contract research services supporting such R&D activities.

Analyzing sales by product category, sales for research reagents, the category's mainstay product, were up, a fact that owes partially to yen depreciation. Year-on-year sales increased for the scientific instruments category, driven by increased sales of mass spectrometry systems. Contract research services sales increased year-on-year. As a result, the business segment recorded a year-on-year increase of 18.5% in sales to external customers, to ¥20,140 million, and 13.5% in gross profit, to ¥11,523 million. SG&A expenses rose by 20.3%, to ¥6,401 million, owing to higher personnel expenses, R&D expenses, and other overhead. Operating income increased by 6.0% year-on-year to ¥5,121 million.

SG&A Expenses / SG&A Expenses Ratio (Millions of yen / %)



Genetic Engineering Research
Net Sales / Operating Income (Millions of yen)



AgriBio

In the AgriBio business, the Group uses leading-edge biotechnology to develop, produce, and market functional food ingredients based on traditional Japanese food. Moreover, the segment has established clear scientific evidence for the bioactive properties of these products. The concept that food is the primary source of health guides those efforts. Business development is centered on products related to Gagome kombu (a kelp) -derived "Fucoidan," Botanbofu (*Peucedanum japonicum*) -derived "Isosamidin," Ashitaba (angelica herb) -derived "Chalcone," agar-derived "Agaro-oligosaccharide," and mushroom products.

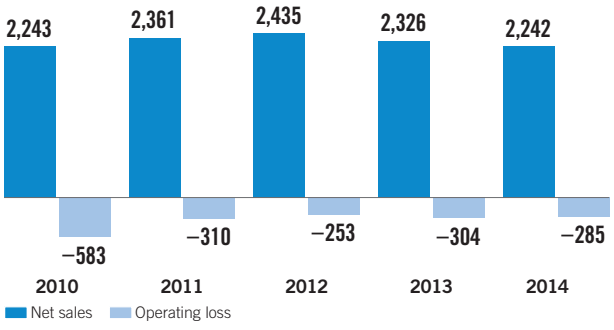
In fiscal 2014, the business segment recorded a 3.6% year-on-year decrease in sales to external customers, to ¥2,242 million. While sales of functional food products did better, sales of mushroom products decreased. Gross profit increased 33.8% year-on-year to ¥378 million due to improved profitability arising from a shift to high added value products. SG&A expenses increased 13.0% year-on-year to ¥664 million owing to increased personnel expenses and R&D expenses. Operating loss improved from the previous fiscal year's ¥304 million to ¥285 million.

Gene Medicine

Recently, the cell and gene therapy field has seen rapid advances. As a result, lead times from basic research to clinical application have shortened, accelerating progress toward practical applications of regenerative medicine. Under such business circumstances, the Group is marketing cell culture media and gas-permeable bags as well as providing technical support services for medical institutions conducting cancer immunotherapy. The Group is also focused on the early commercialization of gene therapies, promoting the clinical development of cancer and AIDS gene therapies based on Takara Bio's original technologies, such as the RetroNectin® method, a highly efficient gene transduction method; the high-efficiency RetroNectin® lymphocyte expansion-culture system; and the MazF endoribonuclease.

Strong sales in cell culture media and gas-permeable bags contributed to a 22.7% year-on-year increase to ¥1,522 million in sales to external customers, and a 14.6% year-on-year increase to ¥673 million for gross profit. SG&A expenses increased 13.2% year-on-year to ¥1,923 million owing mainly to R&D expenses, while operating loss worsened from the previous fiscal year's ¥1,112 million to ¥1,250 million.

AgriBio
Net Sales / Operating Loss (Millions of yen)



Gene Medicine
Net Sales / Operating Loss (Millions of yen)

Financial Condition

Total current assets as of March 31, 2014 (fiscal year-end) amounted to ¥41,817 million, up ¥10,679 million compared with the previous fiscal year-end. This increase was mainly attributable to a ¥6,113 million increase in securities, a ¥3,035 million increase in cash and deposits, and a ¥953 million increase in inventories. Total noncurrent assets at the fiscal year-end stood at ¥20,682 million, up ¥5,171 compared with the previous fiscal year-end. This came primarily from an increase to ¥5,214 million in tangible and intangible noncurrent assets principally owing to the acquisition of land, the construction of the Center for Gene and Cell Processing and update of sales management system.

As a result, total assets at the fiscal year-end amounted to ¥62,500 million, up ¥15,851 million compared with the previous fiscal year-end.

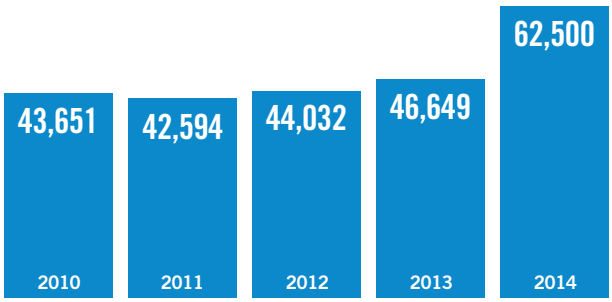
Total current liabilities at fiscal year-end amounted to ¥4,372 million, up ¥395 million compared with the previous fiscal year-end. A major factor behind the increase was a ¥175 million rise in accounts payable. Noncurrent liabilities stood at ¥1,000 million, a ¥206 million drop compared with the previous fiscal year-end. A major factor behind the decrease was a ¥416 million drop in the provision for retirement benefits due to revisions to accounting standards concerning retirement benefits.

As a result, total liabilities at fiscal year-end amounted to ¥5,372 million, an increase of ¥189 million compared with the previous fiscal year.

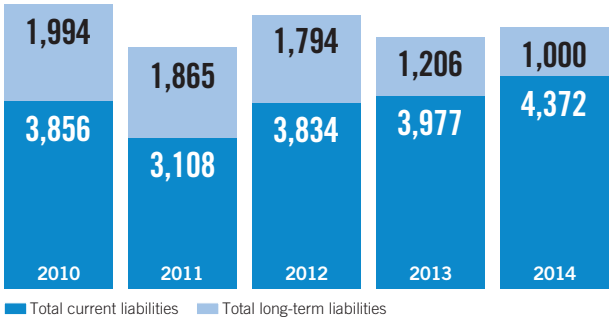
Total equity as of March 31, 2014, was ¥57,127 million, an increase of ¥15,662 million compared with the previous fiscal year. Major factors behind the increase were a ¥11,465 million increase in capital and capital surplus owing to a public stock offering and exercising of warrants, a ¥2,840 million increase in foreign currency translation adjustments, and a ¥1,345 million increase in retained earnings principally due to the reported net income.

The equity ratio—total equity as a percentage of total assets—was 91.3%, maintaining Takara Bio's high level of financial stability.

Total Assets (Millions of yen)



Total Liabilities (Millions of yen)



Cash Flows

Net cash provided by operating activities amounted to ¥2,251 million, up ¥24 million compared with the previous fiscal year. Increased inventories brought expenses up, but increased earnings owing to decreased trade receivables kept the overall figure roughly on par with the previous fiscal year.

Net cash used in investing activities amounted to ¥14,480 million, up ¥12,401 million compared with the previous fiscal year. This was mainly due to payments for acquiring securities, investment securities, and tangible and intangible noncurrent assets.

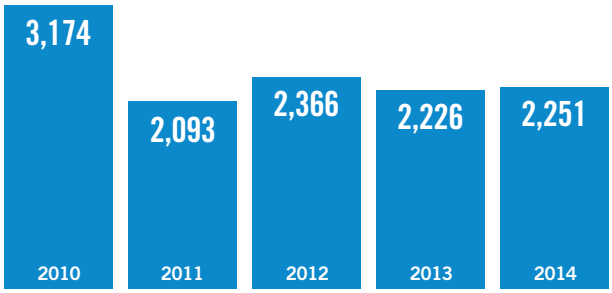
Net cash provided by financing activities amounted to ¥11,281 million, up ¥11,132 million compared with the previous fiscal year. This was mainly due to the increase of proceeds from the issuance of common stock.

As a result, cash and cash equivalents at the end of the fiscal year, which includes the effect of exchange rate changes on cash and cash equivalents, was ¥6,430 million, a ¥107 million year-on-year decrease.

Cash Flows from Business Activities

(Millions of yen)	2010	2011	2012	2013	2014
Net cash provided by operating activities	¥ 3,174	¥ 2,093	¥ 2,366	¥ 2,266	**¥ 2,251**
Net cash provided by (used in) investing activities	(7,060)	(5,639)	(531)	(2,079)	**(14,480)**
Net cash provided by (used in) financial activities	(57)	(60)	(4)	149	**¥ 11,281**

Net Cash Provided by Operating Activities (Millions of yen)



Business Risks

The following are the major potential risks to which the Group may be exposed to in its business and other activities. In addition, from the standpoint of the positive disclosure of information significant to investor decisions, conditions that may not become risks, are also described below. Upon identifying the possibility of such risks, the Group will make the utmost effort to avoid them and will take countermeasures against them. There is, however, no guarantee that we can avoid all risks. Please note that the following descriptions do not cover all of the risk factors concerning the Group.

Unless specifically noted otherwise, all the statements in this section are as of the end of fiscal 2014, ended March 31, 2014, and any other statements with respect to future events are based on the Group's assumptions as of June 27, 2014. However, Takara Bio completed an organizational restructuring effective April 1, 2014 with the goal of effectively utilizing our technological expertise and improving profitability. Takara Bio's Genetic Engineering Research business has therefore been rebranded to the Bioindustry business, and the Gene Medicine business has been renamed the Gene Therapy business. Some of the functions of the Gene Medicine business have been integrated into the Bioindustry business. As such, even though activities in these segments are recorded for fiscal 2014, matters such as organization names are subject to change according to organizational restructuring.

In addition, the explanations of terminology are for investors to use as a reference to understand the information provided in this section. As such, they are merely a work of Takara Bio based on our judgment and understanding.

1. Research and development

A diverse range of industries are biotechnology-related, including the medical field (cell and gene therapy); the research support field, in which direct targets for the Takara Bio's business include research institutions and universities that are seeking to promote basic research and to develop new drugs; the environment and energy field (bioremediation and biomass research); the bioinformatics field; and the food field (agriculture and functional foods).

Under these circumstances, the Group conducts extensive R&D, which it considers vital to maintaining its competitive edge. In fact, the Group's R&D expenses for fiscal 2014 were ¥3,026 million, or 12.7% of net sales, which is extremely high. At the same time, there is no guarantee that R&D will proceed as planned, and, as clinical development in the Group's Gene Therapy business requires a particularly long period before commercialization, there is no guarantee that R&D will yield adequate results in a timely manner. Therefore, a delay in R&D could affect the Group's business strategy and performance. In addition, there is no guarantee that the R&D currently under way will produce the anticipated results. As a result, the Group could fail to meet its revenue projections.

2. Dependence on manufacturing

Calculated on a sales price base for fiscal 2014, Takara Biotechnology (Dalian), a Chinese subsidiary, accounted for 35.4% of the manufacturing products for the Group in the Bioindustry business, which generated 90.6% of the Group's net sales. The consolidation of production bases enables the Group to manufacture highly cost-competitive products, and the diversification of manufacturing centers is also considered to be inexpedient, given the Group's production scale. As a result, changes in earnings trends at the subsidiary or an interruption to its business activities for any reason could adversely affect the Group's business strategy and performance.

3. Long-term prepaid expenses

Due to the nature of the Group's business activities, execution of license agreements relating to patents owned by others is a key strategy. In such license agreements, the Group may make an initial payment and certain milestone payments. These expenditures are booked to assets as long-term prepaid expenses at the time of the expenditure and are treated systematically as expenses in each fiscal year, based on the terms of the agreements. In addition, the Group makes an assessment for the licensed technologies in each settlement period, taking into account use of the technology within the Group and obsolescence due to advances in biotechnology. When the asset component of a technology is in doubt, the Group treats the relevant long-term prepaid expense as a one-off expense.

Consequently, long-term prepaid expenses may increase in the future depending on the conclusion of license agreements and the occurrence of subsequent milestone payments. A high level of expense may also arise depending on the status of use of technologies within the Group and advances in biotechnology. This could affect the Group's performance.

4. Competition

The Group holds a unique position in the industry with a firm, stable revenue base, a solid presence in the Asian market, and an extensive, proprietary technological lineup. Nevertheless, the Group is in competition with a number of other companies in the same industry, not only in Japan, but also overseas.

In the Bioindustry business, the license agreement related to the Polymerase Chain Reaction Method (hereinafter, "PCR Method") is non-exclusive, and a large number of companies hold such licenses. As a result, competition is becoming increasingly severe. In addition, entry into the manufacturing and sale of scientific instruments is relatively easy as it does not require licensing and approval, unlike medical instruments, and Takara Bio has a large number of competitors in this business field as well. Additionally, cell therapies such as cancer immunotherapy show promising marketability and there is an increasing number of market entrants due to cell therapies' ability to improve patients' quality of life (QOL) as well as to treat them.

In the Gene Therapy business, a variety of gene transduction methods and effective vectors have been developed, and the applications of gene therapy are expanding from congenital genetic disorders, infectious diseases, and various types of cancer to non-fatal chronic illnesses. Thus, a potentially enormous market has opened up, which has resulted in many enterprises investing R&D resources in cell and gene therapies, including European and United States venture businesses.

In the AgriBio business, the functional food industry is booming and many businesses, not just food manufacturers but many pharmaceutical companies as well, are entering this rapidly growing market. Legal regulations impose restrictions on the descriptions of efficacies and effects. Moreover, the use of experimental data for differentiation in sales promotion is prohibited. As a result, it is easy to enter this market, further intensifying the competition.

Therefore, the Group strives to start new business projects and attain early commercialization of projects at their R&D stage. However, if a competitor commercializes a similar product or technology before the Group does, or commercializes a technology that is better than the Group's technology, the Group could fail to meet its earnings targets.

5. Parent company of Takara Bio

As of March 31, 2014, Takara Holdings Inc. (listed on the First Section, Tokyo Stock Exchange) is the parent company of Takara Bio, owning 60.92% of the voting rights in the Company. The relationship between Takara Bio and Takara Holdings is as follows.

(1) Position of Takara Bio in the Takara Holdings Group (Takara Holdings and its associated companies)

The extraordinary general meeting of shareholders of Takara Shuzo Co., Ltd. (now Takara Holdings), held on February 15, 2002, approved the proposal to spin off the operations of the company's alcoholic beverage and food business, and the biomedical business with the aim of making the most of the special characteristics of each respective business as well as creating an operating environment for increasing growth potential and competitiveness in both. On this basis, Takara Shuzo and Takara Bio were established on April 1, 2002, through a corporate split, with each company becoming a fully owned subsidiary of Takara Holdings. Since then, Takara Holdings decreased the ownership of voting shares in Takara Bio to 60.92% as of March 31, 2014, through a third-party allotment of new shares by private and public offering.

The Takara Holdings Group consists of Takara Holdings, which is a pure holding company, and 47 affiliated companies (44 subsidiaries and 3 associated companies). Within the Group, Takara Bio is positioned as a subsidiary specializing in the biotechnology business, and it promotes the biotechnology business along with its 10 affiliated companies (subsidiaries).

(2) The food business of the Takara Holdings Group

Takara Healthcare Inc., which specializes in marketing and sales of functional foods of Takara Holdings Group companies, was founded on September 7, 2006, as a 100%-owned subsidiary of Takara Holdings. Following the establishment of Takara Healthcare, Takara Bio appointed Takara Healthcare as its sales agent for our functional foods. The Group's functional foods are now sold to customers through Takara Healthcare. The amount of transactions with Takara Healthcare in fiscal 2014 was ¥665 million.

(3) Management of Group companies by Takara Holdings

Takara Holdings has established and operates the Takara Holdings Group Company Management Rules from the standpoint of consolidated business management. However, its objective is to maintain the independence and autonomy of Takara Holdings Group companies while seeking to maximize the corporate value of the entire Takara Holdings Group. The rules are also applicable to Takara Bio, and Takara Bio reports on the decisions made at the meetings of its Board of Directors to Takara Holdings. However, Takara Bio is not required to gain prior approval from Takara Holdings for the resolutions of its Board of Directors, and runs its operations independently.

In addition, Takara Holdings has established a variety of meetings within the Takara Holdings Group, and the ones that relate to Takara Bio are as follows.

Name of meeting	Participants	Role	Frequency of meetings
Group Strategy Meeting	Takara Holdings' directors, President & CEO and Executive Vice President of Takara Bio, President of Takara Shuzo	Confirmation of matters related to entire Group	In principle, once every two months
Biotechnology Business Report Meeting	Takara Holdings' directors, Takara Bio's directors and officers	Reporting on the status of Takara Bio's activities, etc.	In principle, once a month

These meetings above are for the purpose of reporting between Takara Holdings' Group companies and do not currently obstruct the autonomy and independence of Takara Bio.

In addition, the following officers serve concurrently at Takara Bio and Takara Holdings as of June 27, 2014.

Name	Position at Takara Bio	Position at Takara Holdings
Hisashi Ohmiya	Chairman	Chairman
Koichi Nakao	President & CEO	Director
Tomio Kamada	Audit & Supervisory Board Member	Standing Audit & Supervisory Board Member
Shinji Ueda	Audit & Supervisory Board Member	Audit & Supervisory Board Member

Hisashi Ohmiya was appointed as a chairman of the Board of Directors of Takara Bio based on its assessment that his experience and knowledge in the management of the Biomedical Group as a director of Takara Shuzo before the establishment of Takara Bio would be of use to the Company. Similarly, Tomio Kamada was appointed as Audit & Supervisory Board Member of Takara Bio based on his valuable experience and knowledge, gained in the Accounting Division of Takara Shuzo and through his concurrent appointments as standing Audit & Supervisory Board Member at Takara Holdings and Audit & Supervisory Board Member at Takara Shuzo. Likewise, Shinji Ueda was appointed as Audit & Supervisory Board Member of Takara Bio based on the belief that his valuable experience and knowledge, gained in his prominent positions as General Manager of the secretarial offices of Takara Holdings and Takara Shuzo, would be beneficial to Takara Bio. Moreover, Koichi Nakao was appointed as director of Takara Holdings from the standpoint of consolidated business management within the holding company structure of Takara Holdings. These decisions were not made with the objective of giving Takara Holdings control over Takara Bio.

Takara Bio accepted one employee on temporary transfer from Takara Shuzo, a subsidiary of Takara Holdings. Takara Bio asked Takara Shuzo for this temporary transfer for the purpose of adopting know-how for its Accounting Division.

However, a change in the Group management strategy of Takara Holdings, although not currently envisaged, could affect the business and performance of Takara Bio.

(4) Transactions with the Takara Holdings Group

1) Real estate lease transactions related to sales sites

Takara Bio was established as a spin-off company of Takara Shuzo (now Takara Holdings) on April 1, 2002. As a result, the majority of Takara Shuzo's former real estate, including plants, sales offices and company housing, was newly transferred to both Takara Shuzo and Takara Bio. Whereas the alcoholic beverage and food business, and the biomedical business had previously been developed on one site, real estate lease transactions have occurred with Takara Shuzo and Takara Bio since these transfers. The real estate lease transactions relating to the lease of sales sites by Takara Bio are as follows. In the event of difficulties in the renewal of these transactions, the performance of Takara Bio could be affected with regard to revenue until we are able to secure an alternative site and relocation expenses.

Property	Use	Lessor	Amount of transaction (Year ended March 31, 2014, Millions of yen)	Transaction terms, etc.
6F and basement, Takara Meiji Yasuda Building (Chuo-ku, Tokyo)	Takara Bio, Tokyo Branch	Takara Shuzo	11	Area: 123.55m^2 Type of agreement: Lease agreement Basis for computation of rental fees: Market price of land, buildings, etc.

Notes: 1. The above amounts do not include consumption tax, etc.
2. Terms of agreement and method of determining terms of agreement are decided by consultation based on appraisal by real estate appraiser.

2) Transactions related to use of trademark rights

Takara Holdings owns and controls some trademarks used by Takara Bio. Takara Bio has concluded trademark licensing agreements with Takara Holdings with regard to these trademarks and makes a fixed monthly payment per trademark, country and category based on the number of licenses. As of March 31, 2014, Takara Bio had licenses for the use of 80 registered and 38 pending trademarks in Japan and overseas. In the event that Takara Bio is unable to obtain licenses for the use of trademarks from Takara Holdings for any reason, it might affect our performance.

Company name (Address)	Details of transaction	Amount of transaction (Year ended March 31, 2014, Millions of yen)	Terms of transaction, etc.
Takara Holdings Inc. (Shimogyo-ku, Kyoto)	License for use of trademarks	9	Type of agreement: License agreement for use of trademarks (concluded March 29, 2004) Basis for computation of license fees: Costs for application and registration of trademark rights, with inclusion of future maintenance and management expenses Monthly license fee per trademark, country and category: ¥8,500 for registered trademarks, ¥1,700 for pending trademarks (neither includes consumption tax)

3) Other

Takara Bio engages in the following agreement-based transactions with the Takara Holdings Group companies (excludes Takara Bio Group companies).

Company name (Address)	Details of transaction	Amount of transaction (Year ended March 31, 2014, Millions of yen)	Terms of transaction, etc.
Takara Shuzo Co., Ltd. (Fushimi-ku, Kyoto)	Lease of company housing	0	Type of agreement: Lease agreement Basis for computation of rental fees: Market price of land, building, etc.
	Temporary transfer of employees to Takara Bio	8	Type of agreement: Employment secondment agreement
Takara Network System Co., Ltd. (Shimogyo-ku, Kyoto)	Contracting of computer-related services and lease of equipment	444	Type of agreement: Basic agreement concerning contracting of services and lease of equipment Details of services: Account-related system operation support; client-server system operation support; lease of PCs; purchasing of consumables, etc.

Notes: 1. The above amounts do not include consumption tax, etc.
2. Apart from this, Takara Bio conducts business through order placement and acceptance of orders for the production of printed material with Takara Holdings Group companies on a per order basis.

6. Financing

The demand for funds, including R&D expenditure, capital expenditure, loans and investment, working funds, etc., is expected to rise due to the initiation of new businesses and expansion in business size. Thus, fundraising through a paid-in capital increase or other measures may possibly occur in the future. However, if financing does not proceed as planned, it could affect the development of the Group's business.

7. Key operational agreements

An outline of the agreements considered crucial to the Takara Bio Group's operations is described below. If these agreements end due to the expiry of the agreement term, cancellation, or some other reason or if revisions to the agreements are disadvantageous to the Group, it could affect the business strategy and performance of the Group.

(1) Bioindustry business

a) Research reagents

Counterparty	Life Technologies Corporation
Contract	Restated and Amended Patent License Agreement
Conclusion date	September 21, 2006
Term	From September 1, 2006, until all the licensed patents have expired
Summary	F. Hoffman-La Roche Ltd. granted Takara Bio worldwide non-exclusive rights for the Polymerase Chain Reaction (PCR) Method, excluding the diagnostic area. However, F. Hoffman-La Roche granted exclusive rights for the PCR Method that it owned to Applera Corporation, through its Applied Biosystems Group, based on an agreement between F. Hoffman-La Roche and Applera Corporation. As a result, Applera assumed the license agreement that Takara Bio and F. Hoffman-La Roche concluded in 1997. Subsequently, this license agreement was amended and, in addition to rights for the PCR Method, Takara Bio was granted rights relating to the real-time PCR Method and other items in September 2006. Subsequently, Applera transferred its contractual status with Takara Bio to Life Technologies Corporation. As a result, Takara Bio pays Life Technologies Corporation a certain running royalty linked to sales.

b) Scientific instruments

Counterparty	AB SCIEX
Contract	Distributorship Agreement
Conclusion date	April 15, 2011
Term	From April 1, 2011 to March 31, 2013. If either party has not submitted a written refusal of renewal at least six months before the end of the term, the contract is automatically renewed for a further year, with the same process applying for subsequent years. However, irrespective of the period, Takara Bio can cancel this contract by providing AB SCIEX with six months prior notice in writing. Further, AB SCIEX can cancel this contract by providing Takara Bio with six months prior notice in writing.
Summary	AB SCIEX granted non-exclusive sales rights to sell its mass spectrometry systems in Japan to Takara Bio. Takara Bio is not permitted to sell competing products.

(2) Gene Therapy business

Counterparty	Indiana University Foundation
Contract	License Agreement
Conclusion date	May 26, 1995
Term	From May 26, 1995, until all the licensed patents have expired
Summary	Indiana University Foundation granted Takara Bio worldwide exclusive rights for the implementation of a highly efficient gene transduction method using retroviral vectors. In addition to paying Indiana University Foundation a certain amount as an initial license charge, Takara Bio pays Indiana University Foundation a certain running royalty linked to sales. Further, Takara Bio is obliged to pay a certain amount as a milestone payment when it files a New Drug Application (NDA) in order to receive approval for the marketing of a new drug in respective countries. In addition, Takara Bio was obliged to donate a certain amount to Indiana University Foundation for two years. Takara Bio has completed making this donation. In addition, when this contract ends, Takara Bio will transfer the patents acquired by Takara Bio based on this contract with Indiana University Foundation.

Counterparty	MolMed S.p.A
Contract	License Agreement
Conclusion date	December 9, 2001
Term	From December 9, 2001, until all the licensed patents have expired
Summary	Takara Bio granted MolMed non-exclusive rights in the United States and Europe for the implementation of the RetroNectin® method. In addition to receiving license charges linked to development milestones, Takara Bio receives fees for providing MolMed with RetroNectin® reagent that complies with the standards of clinical trials in the respective countries.

Counterparty	MolMed S.p.A
Contract	Master License Agreement
Conclusion date	July 10, 2003
Term	From the conclusion date of the contract to the end of the royalty term. The royalty term refers to whichever is the longest period: the period that the product in question or its manufacture is under patent protection in each country, or 10 years from the initial date of sale in the market of the product in question.
Summary	Takara Bio is conducting research relating to clinical trials of gene therapy for hematological malignancies. MolMed supports these activities and has granted Takara Bio exclusive rights to its patents in Japan and other specified countries. Takara Bio paid MolMed a certain amount in accordance with the conclusion of the contract as a license charge. Also, since then Takara Bio has paid MolMed a total of more than US$9,000,000 in milestone payments that are due each time Takara Bio files a New Drug Application (NDA) in order to sell a new drug for the first time in a country and when Takara Bio receives approval to sell a new drug for the first time in a country. Also Takara Bio pays MolMed a certain running royalty linked to sales.

Counterparty	University of Medicine and Dentistry of New Jersey
Contract	Research Collaboration and License Agreement
Conclusion date	October 1, 2005
Term	From October 1, 2005, until all the licensed patents have expired
Summary	University of Medicine and Dentistry of New Jersey (UMDNJ) researches and develops protein expression systems and technology applications for gene therapy, based on technology for RNA cleavage enzymes (ribonucleases). Takara Bio has obtained exclusive worldwide rights to the expertise relating to technology for the MazF ribonuclease that UMDNJ has obtained as well as the results, expertise, and patents obtainable from the above-mentioned research and development. Takara Bio pays UMDNJ a certain amount in accordance with conclusion of the contract and research and development progress. Also, Takara Bio pays UMDNJ a certain running royalty linked to sales.

8. Organizational structure of the Takara Bio Group

(1) Dependence on a certain group of personnel

Koichi Nakao, the president & CEO, plays an important role, as the chief executive officer, in formulating management strategy and promoting R&D and business development. In order to reduce the dependence of the Group on the president & CEO and to provide him with assistance, the following officers play an important part in promoting their respective operations. Kazutoh Takesako, Senior Managing Director, is responsible for the Gene Therapy business. Matsuzaki Shuichiro, Senior Managing Director, and Takao Okane, Managing Director, are responsible for administrative operations. Junichi Mineno, Managing Director, is responsible for the Bioindustry business. (Titles and responsibilities are as of June 27, 2014.)

In order to build a management structure that is not overly dependent on these directors, the Group has strengthened its management organization by introducing an executive officer system. However, the Group is likely to remain highly dependent on these directors for the time being. In these circumstances, if for any reason there were difficulties concerning the running of the Takara Bio's operations by these directors, it could affect the Group's business strategy and performance.

(2) Securing human resources

The Group is based on R&D, and technological innovation is steadily advancing in the biotechnology industry. Therefore, to maintain its competitive edge, the Group considers it essential to secure outstanding human resources with specialist knowledge and skills for R&D. In addition, a small number of personnel within the Group have experience in clinical development, and the Group is committed to securing these human resources and to conducting in-house training. Nevertheless, the Group cannot rule out the possibility that it may not be able to secure human resources as planned or that its personnel may leave Takara Bio. In this event, the Group's business strategy and performance could be affected.

9. Intellectual property rights

In the biotechnology industry, in which the success of business depends highly on the success of R&D, the Group regards securing intellectual property rights, including patents, as a critical factor, and the Group protects technologies developed in-house with patent rights to prevent competitors from imitating them. The Group will continue to place the highest priority on applications for patents based on R&D activities. However, not all of the applications may be successfully registered, and when a registered patent is made invalid for any reason, or expires, the Group's business strategies and performance may be affected.

In addition, the Group is aware that in the biotechnology industry, an area in which competition over R&D is continually growing, its patented technologies may be overridden at any time when a competitor develops superior technologies. When a competitor achieves such R&D, it could affect the Group's business strategy and performance.

Moreover, the Group intends to acquire promising patent rights held by others, or acquire licenses for the patent rights, to enable future expansion of its business. However, these strategies may incur large expenses. In addition, there is a possibility that the Group may not be able to acquire licenses for necessary patent rights held by others, and this could affect its business strategy and performance.

10. Product liability risks

All of the products that the Group handles are exposed to risks of compensation for product liability. If any defect is found in a product during its manufacture or sale, or during the clinical trial process; or if any health impairment is caused by a drug, medical device, food, or research reagent, cell or gene therapy product used in a clinical trial, or cell therapy product prepared under a doctor's guidance, then the Group may be subject to product liability claims, and this could affect the promotion of the Group's operations and its performance.

In addition, due to the nature of drugs and medical devices, it is usual practice to conduct a voluntary recall when any problem arises with them in view of the possible physical effects and damage to human bodies, and any such recall may require time and entail huge expense.

One example of the potential for product liability risk comes from a clinical research of gene therapy for the serious genetic disease known as Severe Combined Immune Deficiency (SCID). This study was carried out at Hospital Necker-Enfants Malades in France in 2000, where the therapeutic efficacy of gene therapy using the RetroNectin® method developed by Takara Bio was confirmed. The patients with this disease have severe defects in their immune system, forcing them to live in transparent germfree capsules separated from the outside world in order to prevent infections. Nonetheless, many die around the age of 10. The disease is caused by an abnormality of a gene called gamma-C. Therefore, the gamma-C gene was transferred into the hematopoietic stem cells of patients using the RetroNectin®

method. Improvement in the immune system was reported in all of the 10 or more cases. However, between 2002 and 2007, four of the patients undergoing post-treatment observation were found to have developed leukemia as a side effect. Further, it was reported in December 2007 that one of ten patients undergoing the same treatment in the United Kingdom had developed leukemia. Nevertheless, retrovirus vectors have been used in a large number of patients (exceeding several hundred) in other diseases, and the incidence of leukemia as a side effect and other safety issues have not been reported. Additionally, Takara Bio and Hospital Necker-Enfants Malades research scientists have concluded that RetroNectin® reagent was not the direct cause of the side effects. Gene therapy is a new and cutting-edge treatment, so it is important to promote development while carefully scrutinizing the results of clinical research. In addition, R&D may not proceed as planned in such cases, for instance, when it is necessary to obtain the informed consent of patients again after the occurrence of unexpected events, such as side effects. This could affect the Group's promotion of operations and its business performance. Furthermore, the negative image produced by these kinds of side effects could have an adverse impact on the reliability of the Group's clinical trials, and could affect the promotion of the Group's operations and its performance.

11. Legal regulations

(1) Bioindustry business and Gene Therapy business

R&D in the Bioindustry business is regulated by relevant legislation, such as the Law Concerning the Prevention of 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 is committed to observing these laws and regulations. In addition, in the production and sale of research reagents, Takara Bio is required to follow relevant legislation, such as the Poisonous and Deleterious Substances Control Law. However, research reagents are not drugs as defined by the Pharmaceutical Affairs Law, and therefore are not regulated by that 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.)

Nevertheless, if these regulations are tightened or new regulations are introduced following expansion of the supporting research industry, it could affect the Group's business.

The relevant laws and regulations such as the Pharmaceutical Affairs Law and the Law Concerning the Conservation and Sustainable Use of Biological Diversity through Regulations on the Use of Living Modified Organisms regulate commercialization of the cell and gene therapies that Takara Bio is aiming to accomplish, and the Group intends to comply with such laws and regulations. The relevant laws and regulations, such as the Pharmaceutical Affairs Law, are targeted at securing the quality, effectiveness, and safety of drugs, quasi-drugs, cosmetics, and medical devices, and the trading of these products requires approval or permission from the relevant authorities. At present, it is uncertain whether or not the Group will be able to obtain permission or approval based on the Pharmaceutical Affairs Law for each individual project in which it is carrying out R&D in the Gene Therapy business.

In addition, it is possible that the requirement for approval under the Pharmaceutical Affairs Law and the Medical Practitioners Law will extend to new treatments such as cancer immunotherapy. Such a tightening of the regulations, or the introduction of new regulations, could affect Takara Bio's business strategy.

The environment surrounding regenerative medicine is undergoing dramatic change.

In developed countries, regenerative medicine products for things such as skin and cartilage are already being marketed with governmental approval, and the regenerative medicine market is set to see extensive growth. The Ministry of Economy, Trade and Industry predicts that the regenerative medicine market will grow to ¥95 billion by 2020, ¥1 trillion by 2030, and ¥2.5 trillion by 2050*. In addition to business involving the production and sale of regenerative medicine products, there are also industries that support this business called regenerative medicine supporting industries. Some representative examples of these are business involving providing supplies such as culture media and reagents used in cultivating cells and devices such as cell culture devices and quality measuring devices, as well as contracting businesses for medical institutions, etc. that culture, process, transport, or store cells. The Ministry of Economy, Trade and Industry expects these supporting industries to grow to ¥95 billion by 2020, ¥550 billion by 2030, and ¥1.3 trillion by 2050*.

* Source: "February 2013 Report on the Commercialization and Industrialization of Regenerative Medicine," the final report compiled by the Study Group on Commercialization and Industrialization of Regenerative Medicine conducted by the Ministry of Economy, Trade and Industry.

Based on analyses such as these, the Japanese government is implementing robust policies to support research and development at universities and companies and is revising governmental programs with the goal of safely and quickly driving the further adoption of regenerative medicine. The basic law governing the promotion of regenerative medicine, the Regenerative Medicine Promotion Act 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 expected impacts of these policies and legal revisions on Takara Bio are as follows.

1. Expanded sales of products for basic and clinical research as a result of increased R&D in the regenerative medicine and cell therapy fields made possible by more robust governmental funding
2. Expanded Good Manufacturing Practice (GMP)-grade production contracting for vector for gene therapy and cell used in regenerative medicine and cell therapy, etc. and cell processing support business enabled by the lifting of the ban on non-medical institutions' cultivation and processing of cells and the consequent increase in contracting business for Takara Bio
3. Expanded product sales, as well as contracting business, as a result of systems expected to be introduced to ensure safety against the risks of cutting-edge therapeutical practices that are currently primarily not covered by health insurance and the resulting increased adoption of such regenerative medicine and cell therapies
4. Faster commercialization of gene therapies undergoing in-house clinical development enabled by the adoption of an early approval system for new drugs

There is the possibility that these policies and legal revisions may not lead to expanded sales, etc. of Takara Bio products at the level originally predicted. New regulations with the potential to affect Takara Bio's business strategies may also be passed.

(2) AgriBio business

In its functional food business, the Group maintains business facilities; manages tools, containers, and packages; and 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 manage food hygiene. Food hygiene matters are an unavoidable issue for a company that handles food, and the Group is committed to strengthening its system for the management of food hygiene in the future. However, if any problem should arise related to this issue, the business performance of the Group could be affected.

Beginning in October 2006, Takara Bio has been marketing and selling all its functional foods through Takara Healthcare, a 100%-owned subsidiary of Takara Holdings. In selling functional foods and materials in bulk, Takara Bio and Takara Healthcare are making every effort to comply with the sales methods based on the Specified Commercial Transaction Law, the Pharmaceutical Affairs Law, Act on Standardization and Proper Labeling of Agricultural and Forest Products, the Health Promotion Law, and the Act against Unjustifiable Premiums and Misleading Representation. The Group must also handle labeling and advertising in compliance with all the relevant laws. However, due to the nature of functional foods in general, the Group cannot completely rule out the possibility of violating a provision on mandatory labeling requirements. If any violation occurs, trust in the Group could deteriorate, which may adversely affect the Group's business performance.

12. Risks of lawsuits, etc.

As of June 27, 2014, there are no major ongoing lawsuits with third parties relating to the Takara Bio's business. However, the Group carries out wide-ranging R&D activities and business expansion. Therefore, there is no guarantee that lawsuits will not arise again in the future. The Group is striving to enhance its internal control and strengthen its compliance system when it carries out its business operations. However, in spite of all these efforts, there still remains a possibility of lawsuits being brought against the Group. The very fact that a lawsuit is brought against the Group and the results of such a lawsuit may seriously affect the Group's business performance.

In order to prevent the Group from being sued concerning intellectual property rights, the Group has been conducting patent investigations through patent offices, etc., and the Group is not aware that any of its products are in conflict with the patent rights of others. However, it is difficult for an R&D-based company such as Takara Bio Group to completely avoid the occurrence of such issues involving the infringement of intellectual property rights. When such problems with the infringement of intellectual property rights do arise, the Group could be subject to demands for compensation for damages, sales injunctions, and payment of royalties. As a result, the expansion of the relevant business and the Group's business strategy and performance could be affected.

In addition, if the Group's business partners or licensors are involved in disputes, the Group may no longer be able to sell the relevant products or may itself become involved in lawsuits. In such cases, the resolution of the problem could take a long time and may incur huge expenses, and the Group's business strategy and performance could be affected depending on the circumstances.

13. Allocation of funding

In light of the dramatic changes concerning the Takara Bio Group's business environment with regards to the biotechnology industry, the Group's business may be significantly impacted by new technology innovation and new market players. There is therefore no guarantee that the expected results of capital and R&D investment—the intended target of funding received through public stock offerings—will be realized, and profits planned by the Group may not be achieved.

14. Dilution of stock value due to stock option system

It was decided at the extraordinary general meeting of shareholders on September 19, 2003 that the deadline for exercising stock options would be September 20, 2013. Takara Bio believes that this system is effective in providing Takara Bio's executives and employees with an incentive to improve business performance. Takara Bio is considering continuous operation of similar incentive plans in the future in order to secure highly talented human resources. Consequently, when new stock options are granted and exercised in the future, there is a possibility that the value per share of Takara Bio's stock will be diluted.

15. Intangible fixed assets related to Clontech Laboratories

Observing the U.S. Financial Accounting Standards Board (FASB) Codification Topic 350 "Intangibles—Goodwill and Other," Takara Bio did not amortize the trademark rights obtained by Clontech Laboratories, a subsidiary of Takara Bio. Looking ahead, Takara Bio intends to determine whether any impairment loss is incurred once every year, as well as whenever an event takes place that suggests the possibility of an impairment loss.

As of June 27, 2014, Takara Bio has not incurred any impairment losses. However, if Takara Bio determines that an impairment loss has been incurred, such an event could adversely affect the Group's business performance.

With regard to goodwill recognized by Clontech Laboratories, from fiscal 2009, Takara Bio has applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18, May 17, 2006). Consequently, Takara Bio is amortizing this goodwill amount using the straight-line method over a 20-year period.

Consolidated Financial Statements

Consolidated Balance Sheet

Takara Bio Inc. and Subsidiaries
March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2014**	**2013**	**2014**
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	**¥ 6,430**	¥ 6,538	**$ 62,427**
Marketable securities (Notes 3 and 15)	**7,632**	519	**74,097**
Time deposits (Note 15)	**15,871**	13,728	**154,087**
Notes and accounts receivable:			
Trade (Note 15)	**6,271**	5,985	**60,883**
Other	**289**	98	**2,805**
Allowance for doubtful accounts (Note 15)	**(37)**	(34)	**(359)**
Inventories (Note 4)	**4,421**	3,467	**42,922**
Deferred tax assets (Note 13)	**638**	535	**6,194**
Prepaid expenses and other current assets	**299**	299	**2,902**
Total current assets	**41,817**	31,138	**405,990**
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	**7,673**	5,618	**74,495**
Buildings and structures	**9,148**	8,406	**88,815**
Machinery, equipment and vehicles	**5,936**	5,420	**57,631**
Tools, furniture and fixtures	**4,751**	4,414	**46,126**
Lease assets	**40**	33	**388**
Construction in progress	**2,447**	270	**23,757**
Total property, plant and equipment	**29,998**	24,164	**291,242**
Accumulated depreciation	**(13,037)**	(11,967)	**(126,572)**
Net property, plant and equipment	**16,960**	12,196	**164,660**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	**2**	2	**19**
Goodwill (Note 5)	**1,477**	1,331	**14,339**
Long-term prepaid expenses	**977**	947	**9,485**
Trademarks	**569**	470	**5,524**
Asset for retirement benefits (Note 7)	**29**		**281**
Deferred tax assets (Note 13)	**44**	35	**427**
Other assets	**655**	526	**6,359**
Allowance for doubtful accounts	**(34)**		**(330)**
Total investments and other assets	**3,722**	3,313	**36,135**
TOTAL	**¥ 62,500**	¥ 46,649	**$ 606,796**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2014	2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 15)	**¥ 88**	¥ 18	**$ 854**
Current portion of long-term debt (Notes 6 and 15)	**48**	79	**466**
Notes and accounts payable (Notes 6, 7 and 15):			
Trade	**1,551**	1,605	**15,058**
Construction and other	**1,322**	1,148	**12,834**
Accrued income taxes (Note 15)	**243**	196	**2,359**
Accrued expenses	**867**	661	**8,417**
Other current liabilities (Note 16)	**250**	267	**2,427**
Total current liabilities	**4,372**	3,977	**42,446**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 15)	**228**	277	**2,213**
Liability for retirement benefits (Note 7)	**294**	416	**2,854**
Deferred tax liabilities (Note 13)	**183**	120	**1,776**
Other long-term liabilities (Notes 7 and 8)	**293**	391	**2,844**
Total long-term liabilities	**1,000**	1,206	**9,708**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14 and 16)			
EQUITY (Notes 9, 10, 11 and 19):			
Common stock, authorized, 400,000,000 shares; issued, 120,415,600 shares in 2014 and 113,575,600 shares in 2013	**14,965**	9,233	**145,291**
Capital surplus	**32,893**	27,160	**319,349**
Retained earnings	**7,280**	5,934	**70,679**
Accumulated other comprehensive income-			
Foreign currency translation adjustments	**1,926**	(914)	**18,699**
Defined retirement benefit plans	**2**		**19**
Subtotal	**57,068**	41,414	**554,058**
Minority interests	**58**	50	**563**
Total equity	**57,127**	41,465	**554,631**
TOTAL	**¥ 62,500**	¥ 46,649	**$ 606,796**

See notes to consolidated financial statements.

Consolidated Statement of Income

Takara Bio Inc. and Subsidiaries
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET SALES (Note 20)	**¥ 23,905**	¥ 20,564	**$ 232,087**
COST OF SALES (Notes 7 and 14)	**11,331**	9,540	**110,009**
Gross profit	**12,574**	11,024	**122,077**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 7, 12 and 14)	**10,619**	9,332	**103,097**
Operating income (Note 20)	**1,954**	1,691	**18,970**
OTHER INCOME (EXPENSES):			
Interest income	**124**	107	**1,203**
Subsidy income	**144**	145	**1,398**
Gain on revision of retirement benefit plan (Note 7)		345	
Foreign exchange gain (loss)	**44**	(16)	**427**
Interest expense	**(7)**	(7)	**(67)**
Loss on sales and disposals of property, plant and equipment	**(54)**	(41)	**(524)**
Stock issue costs	**(63)**	(3)	**(611)**
Other, net	**43**	47	**417**
Other income, net	**231**	577	**2,242**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**2,185**	2,268	**21,213**
INCOME TAXES (Note 13):			
Current	**756**	587	**7,339**
Deferred	**(30)**	222	**(291)**
Total income taxes	**726**	809	**7,048**
NET INCOME BEFORE MINORITY INTERESTS	**1,458**	1,459	**14,155**
MINORITY INTERESTS IN NET INCOME	**(11)**	(3)	**(106)**
NET INCOME	**¥ 1,470**	¥ 1,462	**$ 14,271**

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.s and 18):			
Basic net income	**¥ 12.50**	¥ 12.94	**$ 0.12**
Diluted net income	**12.45**	12.89	**0.12**
Cash dividends applicable to the year	**1.20**	1.10	**0.01**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Takara Bio Inc. and Subsidiaries
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET INCOME BEFORE MINORITY INTERESTS	**¥ 1,458**	¥ 1,459	**$ 14,155**
OTHER COMPREHENSIVE INCOME (Note 17):			
Foreign currency translation adjustments	**2,842**	1,376	**27,592**
COMPREHENSIVE INCOME	**¥ 4,301**	¥ 2,836	**$ 41,757**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	**¥ 4,310**	¥ 2,837	**$ 41,844**
Minority interests	**(9)**	(0)	**(87)**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Takara Bio Inc. and Subsidiaries
Year Ended March 31, 2014

	Thousands	Millions of Yen							
					Accumulated Other Comprehensive Income				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2012	112,919	¥ 9,069	¥26,996	¥4,584	¥(2,288)		¥38,362	¥51	¥38,413
Net income				1,462			1,462		1,462
Exercise of stock options (Notes 9, 10 and 11)	656	164	164				328		328
Cash dividends, ¥1.0 per share				(112)			(112)		(112)
Net change in the year					1,374		1,374	(0)	1,373
BALANCE, MARCH 31, 2013	113,575	9,233	27,160	5,934	(914)		41,414	50	41,465
Net income				**1,470**			**1,470**		**1,470**
Issuance of common stock by public offering (Note 9)	**6,000**	**5,522**	**5,522**				**11,045**		**11,045**
Exercise of stock options (Notes 9, 10 and 11)	**840**	**210**	**210**				**420**		**420**
Cash dividends, ¥1.2 per share				**(124)**			**(124)**		**(124)**
Net change in the year					**2,840**	**¥2**	**2,843**	**8**	**2,851**
BALANCE, MARCH 31, 2014	**120,415**	**¥14,965**	**¥32,893**	**¥7,280**	**¥1,926**	**¥2**	**¥57,068**	**¥58**	**¥57,127**

	Thousands of U.S. Dollars (Note 1)							
				Accumulated Other Comprehensive Income				
	Common Stock	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2013	$89,640	$263,689	$57,611	$ (8,873)		$402,077	$485	$402,572
Net income			**14,271**			**14,271**		**14,271**
Issuance of common stock by public offering (Note 9)	**53,611**	**53,611**				**107,233**		**107,233**
Exercise of stock options (Notes 9, 10 and 11)	**2,038**	**2,038**				**4,077**		**4,077**
Cash dividends, $0.01 per share			**(1,203)**			**(1,203)**		**(1,203)**
Net change in the year				**27,572**	**$19**	**27,601**	**77**	**27,679**
BALANCE, MARCH 31, 2014	**$145,291**	**$319,349**	**$70,679**	**$18,699**	**$19**	**$554,058**	**$563**	**$554,631**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Takara Bio Inc. and Subsidiaries
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥2,185**	¥2,268	**$21,213**
Adjustments for:			
Income taxes paid	**(755)**	(512)	**(7,330)**
Depreciation and amortization	**1,288**	1,224	**12,504**
Loss on sales and disposals of property, plant and equipment	**54**	41	**524**
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivables	**4**	(290)	**38**
Increase in inventories	**(461)**	(149)	**(4,475)**
Decrease in trade notes and accounts payables	**(168)**	(110)	**(1,631)**
Decrease in liability for retirement benefits	**(123)**	(711)	**(1,194)**
Other, net	**226**	466	**2,194**
Total adjustments	**66**	(41)	**640**
Net cash provided by operating activities	**2,251**	2,226	**21,854**
INVESTING ACTIVITIES:			
Payments for time deposits	**(27,444)**	(21,270)	**(266,446)**
Proceeds from time deposits	**25,546**	21,756	**248,019**
Purchases of marketable securities	**(3,172)**	(957)	**(30,796)**
Proceeds from sales of marketable securities	**1,172**	957	**11,378**
Purchases of investment securities	**(5,000)**		**(48,543)**
Purchases of property, plant and equipment	**(5,644)**	(2,341)	**(54,796)**
Purchases of other property, plant and equipment	**(69)**	(162)	**(669)**
Other, net	**131**	(61)	**1,271**
Net cash used in investing activities	**(14,480)**	(2,079)	**(140,582)**
FINANCING ACTIVITIES:			
Increase in short-term bank loans, net	**67**	17	**650**
Repayments of long-term debt	**(81)**	(82)	**(786)**
Proceeds from issuance of common stock	**11,401**	324	**110,689**
Cash dividends paid	**(123)**	(111)	**(1,194)**
Other, net	**17**	1	**165**
Net cash provided by financing activities	**11,281**	149	**109,524**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**839**	437	**8,145**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(107)**	734	**(1,038)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**6,538**	5,803	**63,475**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥6,430**	¥6,538	**$62,427**

See notes to consolidated financial statements.

1 BASIS OF PRESENTATION OF THE 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 accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to 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 them to the classifications used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Takara Bio 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, stock option exercise price and stock price in Note 10. 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 stock option exercise prices and stock prices in Note 10. 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 all 10 (10 in 2013) subsidiaries (collectively, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is recorded as goodwill and amortized on a straight-line basis principally over a period of five years. Goodwill recorded by Clontech Laboratories, Inc., the Company's consolidated subsidiary, is amortized on a straight-line basis over a period of 20 years in accordance with Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" issued by the Accounting Standards Board of Japan ("ASBJ") as described in Note 2.b.

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 ASBJ issued PITF No. 18. PITF No. 18 prescribes that: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances that 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 accounting principles generally accepted 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: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of research and development (R&D); (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if included in net income.

c. 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 allowed 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

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 price allocation. This revised standard was applicable to business combinations undertaken on or after April 1, 2010.

d. 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, certificates of deposits, commercial paper, bond funds and trust beneficiary rights, all of which mature or become due within three months of the date of acquisition.

e. Marketable and Investment Securities — The Group's investment securities consist of marketable and nonmarketable available-for-sale securities. Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined by the moving-average method. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

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

f. Inventories — Inventories are stated at the lower of cost, determined by the weighted-average method, or net selling value.

g. Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to property, plant and equipment located in the Dragon Genomics Center. Subsidiaries compute depreciation principally by the straight-line method. The range of useful lives is principally from 3 to 60 years for buildings and structures; from 4 to 10 years for machinery, equipment and vehicles; and from 2 to 20 years for tools, furniture and fixtures.

h. Goodwill — Clontech Laboratories, Inc., the Company's consolidated subsidiary located in the United States of America, records goodwill according to Financial Accounting Standards Board ("FASB") Accounting Standards Codification 350 "Intangibles - Goodwill and Other" (formerly FASB Statement No. 142 "Goodwill and Other Intangible Assets"). Goodwill is tested for impairment at least annually (see Note 2.a.).

i. Long-Lived Assets — The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is 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. Retirement and Pension Plans — The employees' retirement benefits programs of the Company and certain subsidiaries consist of an unfunded lump-sum severance payment plan, a defined benefit pension plan and a defined contribution pension plan as described in Note 7.

The Group accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the consolidated balance sheet date.

The Company implemented a defined contribution pension plan in October 2012, by which the former severance lump-sum payment plan was partly terminated. The Company applied ASBJ Guidance No. 1 "Accounting standard for transfer between retirement benefit plans."

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.

(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 retirement benefits of ¥29 million ($281 thousand) and liability for retirement benefits of ¥294 million ($2,854 thousand) were recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, increased by ¥2 million ($19 thousand).

k. 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.

l. Asset Retirement Obligations — In March 2008, the ASBJ published ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

m. Research and Development Costs — Research and development costs are charged to income as incurred.

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 note 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 consolidated balance sheet.

In addition, the revised accounting standard permits leases that 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 Company and domestic subsidiaries 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 Company continues to account for leases that 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 consolidated balance sheet date. 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. Differences arising from such translation 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 and Hedging Activities — The Group uses derivative financial instruments, such as foreign currency forward contracts as a means of hedging exposure to foreign currency risk. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments 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.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in collection of purchases and payments of royalties. Payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

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, retroactively adjusted for stock splits.

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 warrants.

t. Stock and Bond Issue Costs — Stock and bond issue costs are charged to income as incurred.

u. Accounting Changes and Error Corrections — In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies - When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation - When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors - When an error in prior-period financial statements is discovered, those statements are restated.

v. 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 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 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 provisional 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 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, 2014, and is in the process of measuring the effects of applying the revised accounting standards and guidance in future applicable periods.

3 MARKETABLE AND INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Current —			
Certificates of deposit	**¥ 632**	¥ 519	**$ 6,135**
Corporate bonds	**7,000**		**67,961**
Noncurrent —			
Nonmarketable equity securities	**¥ 2**	¥ 2	**$ 19**

	Millions of Yen				Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2014								
Securities classified as:								
Trading								
Available-for-sale:								
Equity securities								
Debt securities								
Held-to-maturity	**¥ 7,000**	**¥**	**¥ 5**	**¥ 6,994**	**$ 67,961**	**$**	**$ 48**	**$ 67,902**
March 31, 2013								
Securities classified as:								
Trading								
Available-for-sale:								
Equity securities								
Debt securities								
Held-to-maturity								

4 INVENTORIES

Inventories at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Finished products and merchandise	**¥ 3,309**	¥ 2,518	**$ 32,126**
Work in process	**203**	112	**1,970**
Raw materials and supplies	**908**	836	**8,815**
Total	**¥ 4,421**	¥ 3,467	**$ 42,922**

5 GOODWILL

Goodwill at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Goodwill on purchase of a specific business	**¥ 1,477**	¥ 1,317	**$ 14,339**
Goodwill arising on consolidation		13	
Total	**¥ 1,477**	¥ 1,331	**$ 14,339**

6 SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans consisted of term loans with interest at annual rates ranging from 0% to 9.55% at March 31, 2014.
Long-term debt at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2013**	**2014**
Loans principally from banks and the local government, due serially to January 2022 with interest rates ranging from 0% to 11.00% in 2014 and 0% to 11.00% in 2013:			
Collateralized	**¥ 161**	¥ 180	**$ 1,563**
Unsecured	**111**	157	**1,077**
Obligation under finance leases	**4**	18	**38**
Total	**277**	356	**2,689**
Less current portion	**48**	79	**466**
Long-term debt, less current portion	**¥ 228**	¥ 277	**$ 2,213**

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

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 48	$ 466
2016	48	466
2017	48	466
2018	48	466
2019	20	194
2020 and thereafter	62	601
Total	¥ 277	$ 2,689

At March 31, 2014, buildings and structures of ¥332 million ($3,223 thousand); machinery, equipment and vehicles of ¥1 million ($9 thousand); and land of ¥250 million ($2,427 thousand) were pledged as collateral for long-term debt (including current portion of long-term debt) of ¥161 million ($1,563 thousand).

7 RETIREMENT AND PENSION PLANS

The Company and certain overseas subsidiaries have severance payment plans for employees.

The Company and its subsidiaries have lump-sum payment plans and defined benefit corporate pension plans. The Company implemented a defined contribution pension plan in October 2012, by which the former severance lump-sum payment plan was partly terminated, and applied ASBJ Guidance No. 1 “Accounting standard for transfer between retirement benefit plans.” As a result of this transfer, the Company has lump-sum payment plans, defined benefit corporate pension plans and defined contribution pension plans. Under the lump-sum payment plans and defined benefit corporate pension plans, employees terminating their employment are entitled to certain lump-sum severance payments based on their rate of pay at the time of termination, length of service and certain other factors. In most circumstances, if the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, employees are entitled to greater payments than in the case of voluntary termination.

In addition, the Company has noncontributory trusteed pension plans covering all employees. Under the plans, employees terminating their employment are, in most circumstances, entitled to pension payments based on their rates of pay at the time of termination and length of service.

Year Ended March 31, 2014

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

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	**¥ 681**	**$ 6,611**
Current service cost	**54**	**524**
Interest cost	**10**	**97**
Actuarial losses	**24**	**233**
Benefits paid	**(22)**	**(213)**
Others	**39**	**378**
Balance at end of year	**¥ 788**	**$ 7,650**

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

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 431	$ 4,184
Expected return on plan assets	8	77
Actuarial losses	(9)	(87)
Contributions from the employer	67	650
Benefits paid	(12)	(116)
Others	38	368
Balance at end of year	¥ 524	$ 5,087

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

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥ 494	$ 4,796
Plan assets	(524)	(5,087)
	(29)	(281)
Unfunded defined benefit obligation	294	2,854
Net liability arising from defined benefit obligation	¥ 264	$ 2,563
Liability for retirement benefits	¥ 294	$ 2,854
Asset for retirement benefits	(29)	(281)
Net liability arising from defined benefit obligation	¥ 264	$ 2,563

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

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 54	$ 524
Interest cost	10	97
Expected return on plan assets	(8)	(77)
Recognized actuarial losses	11	106
Amortization of transitional obligation	(26)	(252)
Net periodic benefit costs	¥ 41	$ 398

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

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥ 187	$ 1,815
Unrecognized actuarial losses	(183)	(1,776)
Total	¥ 4	$ 38

(6) Plan assets for the year ended March 31, 2014, were as follows:

a. Components of plan assets

Plan assets consisted of the following:

Debt investments	49%
Equity investments	18
Cash and cash equivalents	1
Others	32
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, were set forth as follows:

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

(8) Contributions paid to the defined contribution pension plan were ¥54 million ($524 thousand) for the year ended March 31, 2014.

Year Ended March 31, 2013

The liability (asset) for retirement benefits at March 31, 2013, consisted of the following:

	Millions of Yen
Projected benefit obligation	¥ 681
Fair value of plan assets	(431)
Unrecognized actuarial gain	(161)
Unrecognized prior service cost	214
Prepaid pension cost	113
Net liability	¥ 416

The effect of the transfer mentioned above at March 31, 2013 was as follows:

	Millions of Yen
Decrease in projected benefit obligation	¥ (423)
Unrecognized actuarial loss	48
Unrecognized prior service cost	(338)
Decrease in liability for employees' retirement benefits	¥ (713)

The amount of assets to be transferred to the defined contribution pension plan was ¥368 million, which is scheduled to be transferred over a period of four years. The amount of assets that had not been transferred was ¥270 million, and the amount was 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 for the year ended March 31, 2013, are as follows:

	Millions of Yen
Service cost	¥ 67
Interest cost	13
Expected return on plan assets	(7)
Recognized actuarial loss	24
Amortization of prior service cost	(46)
Contributions paid to the defined contribution pension plan	37
Net periodic benefit costs	¥ 89

The effect of the transfer mentioned above was to increase income before income taxes and minority interests by ¥345 million and was recorded as gain on revision of retirement benefit plan in the consolidated statement of income for the year ended March 31, 2013.

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

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

8 ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations included in other long-term liabilities for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Balance at beginning of year	**¥ 34**	¥ 32	**$ 330**
Additional provisions associated with the acquisition of property, plant and equipment		1	
Reconciliation associated with passage of time	**0**	0	**0**
Balance at end of year	**¥ 35**	¥ 34	**$ 339**

9 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 such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, 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 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 of 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.

For the year ended March 31, 2014, the Company issued 840,000 shares of common stock upon exercise of stock options at the price of ¥500 ($4) per share. The amount of ¥210 million ($2,038 thousand) was credited to common stock and the remaining amount of ¥210 million ($2,038 thousand) was credited to additional paid-in capital.

On August 27, 2013, the Company issued and publicly offered 6,000 thousand shares at ¥1,840 ($17) per share. The amount of the issuance was ¥11,045 million ($107,233 thousand) in total, ¥5,522 million ($53,611 thousand) of which was recorded in common stock and the remaining ¥5,522 million ($53,611 thousand) was recorded in capital surplus.

10 STOCK OPTION

The stock option outstanding during fiscal year ended March 31, 2014 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
The First Stock Option	8 directors 273 employees	3,400,000 shares	September 19, 2003	¥500 ($4)	From September 20, 2005 to September 20, 2013
The Second Stock Option	8 directors 3 Audit & Supervisory Board members 120 employees	1,288,000 shares	September 19, 2003	¥500 ($4)	From April 1, 2004 to September 20, 2013
The Third Stock Option	3 directors 28 employees	200,000 shares	May 17, 2004	¥500 ($4)	From September 20, 2005 to September 20, 2013
The Fourth Stock Option	9 directors 3 Audit & Supervisory Board members 8 employees	312,000 shares	May 17, 2004	¥500 ($4)	From April 1, 2004 to September 20, 2013

The stock option activity is as follows:

	Shares			
	The First Stock Option	The Second Stock Option	The Third Stock Option	The Fourth Stock Option
For the year ended March 31, 2014				
Nonvested				
March 31, 2013 - Outstanding				
Granted				
Canceled				
Vested				
March 31, 2014 - Outstanding				
Vested				
March 31, 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)**

11 RELATED-PARTY DISCLOSURES

The Company is majority-owned by Takara Holdings Inc., which is listed on the first section of the Tokyo Stock Exchange.

In connection with the stock option plans as described in Note 10, the Company issued to directors of the Company and its subsidiary 60,000 shares of common stock upon exercise of 15 stock options at the price of ¥500 ($4) per share. The total transaction amount for the year ended March 31, 2014, was ¥30 million ($291 thousand).

12 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥3,026 million ($29,378 thousand) and ¥2,715 million for the years ended March 31, 2014 and 2013, respectively.

13 INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 38% and 38% for the years ended March 31, 2014 and 2013, respectively. Overseas subsidiaries are subject to income taxes of the countries where 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	**¥ 197**	¥ 175	**$ 1,912**
Accrued bonuses	**66**	66	**640**
Unrealized profit on sales of inventories	**176**	144	**1,708**
Other	**228**	164	**2,213**
Less valuation allowance	**(13)**	(13)	**(126)**
Total	**¥ 654**	¥ 538	**$ 6,349**
Current deferred tax liabilities	**¥ 16**	¥ 3	**$ 155**
Net current deferred tax assets	**¥ 638**	¥ 535	**$ 6,194**

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Noncurrent deferred tax assets:			
Retirement benefits	**¥ 151**	¥ 150	**$ 1,466**
Depreciation	**51**	55	**495**
Impairment loss	**43**	43	**417**
Tax loss carryforwards	**282**	222	**2,737**
Loss on disposals of long-term prepaid expenses	**30**	48	**291**
Other	**67**	126	**650**
Less valuation allowance	**(317)**	(261)	**(3,077)**
Total	**309**	¥ 385	**3,000**
Noncurrent deferred tax liabilities:			
Goodwill	**¥ 217**	¥ 179	**$ 2,106**
Undistributed profit of foreign subsidiaries	**169**	244	**1,640**
Other	**61**	47	**592**
Total	**¥ 448**	¥ 471	**$ 4,349**
Net noncurrent deferred tax assets	**¥ 44**	¥ 35	**$ 427**
Net noncurrent deferred tax liabilities	**¥ 183**	¥ 120	**$ 1,776**

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

	2014	2013
Normal effective statutory tax rate in Japan	**38.0%**	38.0%
Expenses not deductible for income tax purposes	**0.5**	0.4
Valuation allowance	**2.6**	1.0
Per capita rate of local tax	**0.7**	0.6
Tax rate difference of subsidiaries	**(10.8)**	(7.9)
Elimination in consolidation	**0.6**	(1.1)
Tax credit	**(3.4)**	(2.5)
Goodwill depreciation	**2.3**	2.0
Undistributed profit of foreign subsidiaries	**(3.4)**	1.1
Effect of tax rate reduction	**0.8**	
Foreign withholding tax	**6.2**	4.5
Other - net	**(0.9)**	(0.4)
Actual effective tax rate	**33.2%**	35.7%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38% to 35%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014, by ¥17 million ($165 thousand) and to increase income taxes - deferred in the consolidated statement of income for the year then ended by ¥17 million ($165 thousand).

At March 31, 2014, certain subsidiaries have tax loss carryforwards aggregating approximately ¥676 million ($6,563 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 196	**$ 1,902**
2019	106	**1,029**
2020	86	**834**
2022	59	**572**
2023	228	**2,213**
Total	¥ 676	**$ 6,563**

14 LEASES

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

Total rental expense for the years ended March 31, 2014 and 2013, was ¥317 million ($3,077 thousand) and ¥281 million, respectively, including ¥2 million ($19 thousand) and ¥3 million of lease payments under finance leases, respectively.

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008, to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Company and its domestic subsidiaries applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008, was as follows:

	Machinery and Vehicles		
	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Acquisition cost	**¥ 24**	¥ 24	**$ 233**
Accumulated depreciation	**24**	22	**233**
Net leased property	**¥**	¥ 2	**$**

Obligations under finance leases as of March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	**¥**	¥ 2	**$**
Due after one year			
Total	**¥**	¥ 2	**$**

The amount of obligations under finance leases includes the imputed interest expense portion.
Depreciation expense was ¥2 million ($19 thousand) and ¥3 million for the years ended March 31, 2014 and 2013, respectively.
The minimum rental commitments under noncancelable operating leases at March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 164	$ 1,592
Due after one year	822	7,980
Total	¥ 987	$ 9,582

15 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are used not for speculative purposes, but to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts.

Marketable and investment securities, mainly held-to-maturity securities, are exposed to the issuer's credit risk.

Payment terms of payables, such as trade notes and trade accounts, are generally within three months. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency and are hedged by foreign currency contracts as noted above.

Maturities of bank loans are less than 10 years after the balance sheet date.

Derivatives mainly include forward foreign currency contracts and nondeliverable forwards, which are used to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. Please see Note 16 for more details about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

With respect to held-to-maturity securities, the Group manages exposure to credit risk by limiting investments to high credit rated bonds in accordance with its internal guidelines.

Because the counterparties to derivative transactions are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

Market risk management
(foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts.

Since interest rates for loans are fixed, there is no market risk from changes in interest rates.

Derivative transactions are performed and managed with the approval of the prescribed authority based on the internal guidelines.

Liquidity risk management

Liquidity risk comprises the risk that the Company cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets, along with adequate financial planning by the corporate treasury department.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**¥ 6,430**	**¥ 6,430**	
Time deposits	**15,871**	**15,871**	
Notes and accounts receivable - trade	**6,271**	**6,271**	
Allowance for doubtful accounts	**(37)**	**(37)**	
Marketable securities	**7,632**	**7,627**	**¥ (5)**
Total	**¥ 36,168**	**¥ 36,163**	**¥ (5)**
Short-term bank loans	**¥ 88**	**¥ 88**	
Notes and accounts payable - trade	**1,551**	**1,551**	
Current portion of long-term debt	**47**	**47**	**¥ 0**
Notes and accounts payable - Construction and other	**1,322**	**1,322**	
Accrued income taxes	**243**	**243**	
Long-term debt	**225**	**227**	**(1)**
Total	**¥ 3,390**	**¥ 3,391**	**¥ (1)**
Derivatives (*)	**¥ (2)**	**¥ (2)**	

	Millions of Yen		
March 31, 2013	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 6,538	¥ 6,538	
Time deposits	13,728	13,728	
Notes and accounts receivable - trade	5,985	5,985	
Allowance for doubtful accounts	(34)	(34)	
Marketable securities	519	519	
Total	¥ 26,736	¥ 26,736	
Short-term bank loans	¥ 18	¥ 18	
Notes and accounts payable - trade	1,605	1,605	
Current portion of long-term debt	65	65	¥ (0)
Notes and accounts payable - Construction and other	1,148	1,148	
Accrued income taxes	196	196	
Long-term debt	273	274	(1)
Total	¥ 3,307	¥ 3,305	¥ (1)
Derivatives (*)	¥ 2	¥ 2	

March 31, 2014	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 62,427	$ 62,427	
Time deposits	154,087	154,087	
Notes and accounts receivable - trade	60,883	60,883	
Allowance for doubtful accounts	(359)	(359)	
Marketable securities	74,097	74,048	$ (48)
Total	$ 351,145	$ 351,097	$ (48)
Short-term bank loans	$ 854	$ 854	
Notes and accounts payable - trade	15,058	15,058	
Current portion of long-term debt	456	456	$ 0
Notes and accounts payable - Construction and other	12,834	12,834	
Accrued income taxes	2,359	2,359	
Long-term debt	2,184	2,203	(9)
Total	$ 32,912	$ 32,922	$ (9)
Derivatives (*)	$ (19)	$ (19)	

Note: *Assets and liabilities arising from derivative transactions are shown at net value with amounts in parentheses representing the net liability position.

Cash and cash equivalent, time deposits, and notes and accounts receivables - trade

The carrying values of cash and cash equivalents, time deposits, and notes and accounts receivable - trade approximate fair value because of their short maturities.

Marketable securities

The fair values of marketable and debt securities are measured at the quoted price obtained from the financial institution for certain debt instruments. The carrying values of certificates of deposit approximate fair value because of their short maturities. Fair value information for marketable and investment securities by classification is included in Note 3.

Notes and accounts payable (trade and construction and other) and accrued income taxes

The carrying values of notes and accounts payable and accrued income taxes approximate fair value because of their short maturities.

Short-term bank loans, current portion of long-term debt and long-term debt

The fair values of short-term bank loans, current portion of long-term debt and long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Derivatives

Fair value information for derivatives is included in Note 16.

(b) Financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Nonmarketable equity securities	¥ 2	¥ 2	$ 19
Total	¥ 2	¥ 2	$ 19

Since nonmarketable equity securities do not have a quoted market price in an active market and their fair value cannot be reliably determined they are excluded from disclosure of fair value.

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Due in One Year or Less		
	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Cash and cash equivalents	¥ 6,430	¥ 6,538	$ 62,427
Time deposits	15,871	13,728	154,087
Notes and accounts receivable - trade	6,271	5,985	60,883
Marketable securities	7,632	519	74,097
Total	¥ 36,205	¥ 26,770	$ 351,504

Please see Note 6 for annual maturities of long-term debt and Note 14 for obligations under finance leases, respectively.

16 DERIVATIVES

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

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets and 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 amount, evaluation of the counterparties and reporting procedures.

Foreign currency forward contracts that qualify for hedge accounting are excluded from the disclosure of market value information.

Derivative Transactions to Which Hedge Accounting is Not Applied

		Millions of Yen			
At March 31, 2014		Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:					
Buying	EUR	**¥ 14**		**¥ (0)**	**¥ (0)**
	USD	**182**		**0**	**0**
	CND	**9**		**0**	**0**
	CNY	**142**		**(1)**	**(1)**
Selling	EUR	**55**		**(0)**	**(0)**
	USD	**50**		**(0)**	**(0)**
Nondeliverable forward:					
Buying	INR	**¥ 1**		**¥ 0**	**¥ 0**
Selling	WON	**58**		**(0)**	**(0)**
	INR	**8**		**(0)**	**(0)**

		Millions of Yen			
At March 31, 2013		Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:					
Buying	EUR	¥ 33		¥ (0)	¥ (0)
	USD	218		(0)	(0)
	STG	2		(0)	(0)
	CNY	181		(0)	(0)
Selling	EUR	64		2	2
	USD	46		0	0
	CNY	25		0	0
Nondeliverable forward:					
Buying	WON	¥ 3		¥ (0)	¥ (0)
	INR	5		(0)	(0)
Selling	WON	49		1	1
	INR	19		(0)	(0)

		Thousands of U.S. Dollars			
At March 31, 2014		Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:					
Buying	EUR	**$ 135**		**$ (0)**	**$ (0)**
	USD	**1,766**		**0**	**0**
	CND	**87**		**0**	**0**
	CNY	**1,378**		**(9)**	**(9)**
Selling	EUR	**533**		**(0)**	**(0)**
	USD	**485**		**(0)**	**(0)**
Nondeliverable forward:					
Buying	INR	**$ 9**		**$ 0**	**$ 0**
Selling	WON	**563**		**(0)**	**(0)**
	INR	**77**		**(0)**	**(0)**

Derivative Transactions to Which Hedge Accounting is Applied

		Millions of Yen		
At March 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Buying EUR	**Payables**	**¥ 15**		**¥ (0)**
USD	**Payables**	**72**		**(0)**

		Millions of Yen		
At March 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Buying USD	Payables	¥ 59		¥ (0)

		Thousands of U.S. Dollars		
At March 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Buying EUR	**Payables**	**$ 145**		**$ (0)**
USD	**Payables**	**699**		**(0)**

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

17 COMPREHENSIVE INCOME

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2013**	**2014**
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥ 2,842**	¥ 1,376	**$ 27,592**
Total	**¥ 2,842**	¥ 1,376	**$ 27,592**

18 NET INCOME PER SHARE

A 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	U.S. Dollars
For the year ended March 31, 2014:	Net Income	Weighted-Average Shares	EPS	
Basic EPS				
Net income available to common shareholders	**¥ 1,470**	**117,631**	**¥ 12.50**	**$ 0.12**
Diluted EPS				
Net income for computation	**¥ 1,470**	**118,098**	**¥ 12.45**	**$ 0.12**
For the year ended March 31, 2013:				
Basic EPS				
Net income available to common shareholders	¥ 1,462	113,037	¥ 12.94	
Diluted EPS				
Net income for computation	¥ 1,462	113,523	¥ 12.89	

19 SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2014, was approved at the Company's shareholders' meeting held on June 24, 2014:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥1.20 ($0.01) per share	**¥ 144**	**$ 1,398**

20 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's reportable segments are those for which separate financial information is available, and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of the Genetic Engineering Research, Gene Medicine and AgriBio segments.

The Genetic Engineering Research segment consists of the businesses of research reagents (for genetic engineering research, protein engineering research, cell biology research and glycobiology research), research instruments and service business.

The Gene Medicine segment consists of the businesses of medical devices, gene therapy-related products and service business.

The AgriBio segment consists of the businesses of mushrooms, technical training of mushroom cultivation, ashitaba (a unique celery-like vegetable of the Angelica family), Agar, health food and cosmetics.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities 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."

(3) Information about Sales, Profit (Loss), Assets, Liabilities and Other Items

Millions of Yen

	2014					
	Genetic Engineering Research	Gene Medicine	AgriBio	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	**¥ 20,140**	**¥ 1,522**	**¥ 2,242**	**¥ 23,905**		**¥ 23,905**
Intersegment sales or transfers		**7**	**6**	**13**	**¥ (13)**	
Total	**20,40**	**1,529**	**2,249**	**23,919**	**(13)**	**23,905**
Segment profit (loss)	**5,121**	**(1,250)**	**(285)**	**3,585**	**(1,630)**	**1,954**
Segment assets	**25,648**	**2,817**	**4,249**	**32,715**	**29,784**	**62,500**
Other:						
Depreciation	**717**	**187**	**223**	**1,127**	**29**	**1,157**
Amortization of goodwill	**131**			**131**		**131**
Increase in property, plant and equipment and intangible assets	**734**	**223**	**104**	**1,063**	**4,475**	**5,538**

Millions of Yen

	2013					
	Genetic Engineering Research	Gene Medicine	AgriBio	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥ 16,997	¥ 1,240	¥ 2,326	¥ 20,564		¥ 20,564
Intersegment sales or transfers			0	0	¥ (0)	
Total	16,997	1,240	2,327	20,565	(0)	20,564
Segment profit (loss)	4,831	(1,112)	(304)	3,414	(1,722)	1,691
Segment assets	21,797	2,299	4,424	28,521	18,127	46,649
Other:						
Depreciation	576	185	274	1,036	68	1,104
Amortization of goodwill	119			119		119
Increase in property, plant and equipment and intangible assets	690	88	263	1,043	1,354	2,397

Thousands of U.S. Dollars

	2014					
	Genetic Engineering Research	Gene Medicine	AgriBio	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	$ 195,533	$ 14,776	$ 21,766	$ 232,087		$ 232,087
Intersegment sales or transfers		67	58	126	$ (126)	
Total	195,533	14,844	21,834	232,223	(126)	232,087
Segment profit (loss)	49,718	(12,135)	(2,766)	34,805	(15,825)	18,970
Segment assets	249,009	27,349	41,252	317,621	289,165	606,796
Other:						
Depreciation	6,961	1,815	2,165	10,941	281	11,233
Amortization of goodwill	1,271			1,271		1,271
Increase in property, plant and equipment and intangible assets	7,126	2,165	1,009	10,320	43,446	53,766

Note: 1. Reconciliations of segment profit include unallocated operating expenses of ¥1,630 million ($15,825 thousand) and ¥1,722 million for the years ended March 31, 2014 and 2013, respectively, consisting principally of fundamental research and development expenses and administrative expenses incurred by the administrative and accounting departments of the Company.

(4) Information about products and services is as follows.

	Millions of Yen				Thousands of U.S. Dollars			
	2014							
	Genetic Engineering Research	Gene Medicine	AgriBio	Total	Genetic Engineering Research	Gene Medicine	AgriBio	Total
Sales to external customers	¥ 20,140	¥ 1,522	¥ 2,242	¥ 23,905	$ 195,533	$ 14,776	$ 21,766	$ 232,087

(5) Information about geographical areas is as follows.

(a) Sales

Millions of Yen

2014						
Japan	USA	China	Asia (except for China)	Europe	Other	Total
¥ 12,944	¥ 3,844	¥ 4,022	¥ 1,234	¥ 1,662	¥ 197	¥ 23,905

Thousands of U.S. Dollars

2014						
Japan	USA	China	Asia (except for China)	Europe	Other	Total
$ 125,669	$ 37,320	$ 39,048	$ 11,980	$ 16,135	$ 1,912	$ 232,087

(b) Property, plant and equipment

Millions of Yen

2014					
Japan	USA	China	Asia (except for China)	Europe	Total
¥ 13,699	¥ 281	¥ 2,710	¥ 258	¥ 9	¥ 16,960

Thousands of U.S. Dollars

2014					
Japan	USA	China	Asia (except for China)	Europe	Total
$ 133,000	$ 2,728	$ 26,310	$ 2,504	$ 87	$ 164,660

(6) Information about amortization of goodwill and goodwill at March 31, 2014, is as follows.

Millions of Yen

	2014					
	Genetic Engineering Research	Gene Medicine	AgriBio	Total	Reconciliations	Consolidated
Amortization of goodwill	¥ 131			¥ 131		¥ 131
Goodwill at March 31, 2014	1,477			1,477		1,477

Thousands of U.S. Dollars

	2014					
	Genetic Engineering Research	Gene Medicine	AgriBio	Total	Reconciliations	Consolidated
Amortization of goodwill	$ 1,271			$ 1,271		$ 1,271
Goodwill at March 31, 2014	14,339			14,339		14,339

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Takara Bio Inc.:

We have audited the accompanying consolidated balance sheet of Takara Bio Inc. and its 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 misstatements, 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 Bio Inc. and its 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. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 6, 2014

(June 24, 2014 as to Note 19)

Member of
Deloitte Touche Tohmatsu Limited

Investor Information As of March 31, 2014

Corporate Data

Trade Name
Takara Bio Inc.

Head Office
Seta 3-4-1, Otsu, Shiga 520-2193, Japan
Telephone: +81-77-543-7200

Established
April 1, 2002

Issued Capital
¥14,965,828,496

Number of Employees of Takara Bio Group
1,194

URL
www.takara-bio.com

Main Offices

Headquarters and Research Laboratory
Seta 3-4-1, Otsu, Shiga 520-2193, Japan

Kusatsu Office
Noji-Higashi 7-2-62, Kusatsu, Shiga 525-0058, Japan

Yokkaichi Office
Sakura-cho 7870-15, Yokkaichi, Mie 512-1211, Japan

Eastern Japan Sales
Nihonbashi 2-15-10, Chuo-ku, Tokyo 103-8232, Japan

Kusu Factory
Minamigomizuka 1350-2, Kusu-cho, Yokkaichi, Mie 510-0104, Japan

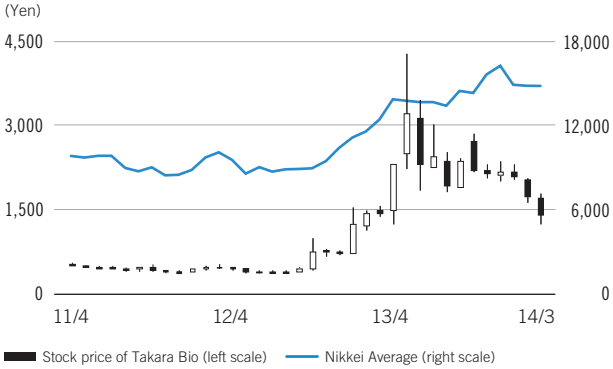
Consolidated Subsidiaries	Location	Issued Capital and Subscription	Line of Business
Takara Biotechnology (Dalian) Co., Ltd.	Dalian, People's Republic of China	¥2,350 million	Development, production and sale of research reagents
Takara Korea Biomedical Inc.	Seoul, Korea	₩3,860 million	Sale of research reagents and scientific instruments
DSS Takara Bio India Pvt. Ltd.	New Delhi, India	Rs.65 million	Production and sale of research reagents
Takara Bio USA Holdings Inc.	Mountain View, U.S.A.	US$70,857 thousand	Subsidiary management
Clontech Laboratories, Inc.	Mountain View, U.S.A.	US$83 thousand	Development and sale of research reagents
Takara Bio Europe S.A.S.	Saint-Germain-en-Laye, France	EUR600 thousand	Sale of research reagents
Takara Biomedical Technology (Beijing) Co., Ltd.	Beijing, People's Republic of China	¥1,030 million	Sale of research reagents, cell culture media and gas-permeable bags
Mizuho Norin Co., Ltd.	Kyotamba-cho, Funai-gun, Kyoto, Japan	¥10 million	Production and sale of mushrooms
Takara Bio Farming Center Inc.	Yakushima-cho, Kumage-gun, Kagoshima, Japan	¥3 million	Production and sale of Ashitaba and other agricultural products
KINOKO CENTER KIN INC.	Okinawa, Japan	¥5 million	Production and sale of mushrooms

Investor Information

Common Stock	
Authorized Shares	400,000,000 shares
Issued and Outstanding	120,415,600 shares
Number of Shareholders	64,227
Major Shareholder	Takara Holdings Inc. (60.92% equity owned)
Stock Listing	Tokyo Stock Exchange Mothers (securities code number: 4974)
Fiscal year	From April 1 to March 31 of the following year
Annual Meeting of Shareholders	Every June
Record Date	The vote March 31 Dividends March 31 Interim dividends September 30 Other record date will be posted in advance if necessary
Share Unit Number	100 shares
Transfer Agent and Registrar	Mizuho Trust & Banking Co., Ltd. Yaesu 1-2-1, Chuo-ku, Tokyo, Japan
Transfer Agent Office	Mizuho Trust & Banking Co., Ltd., Stock Transfer Agency Department of the Head Office Yaesu 1-2-1, Chuo-ku, Tokyo, Japan

Inquiries to Transfer Agent and Registrar
(If investor does not hold an account at a securities company)
Mizuho Trust & Banking Co., Ltd., Stock Transfer Agency Department
Izumi 2-8-4, Suginami-ku, Tokyo 168-8507, Japan,
Telephone: 0120-288-324 (toll free, within Japan only)
(If investor holds an account at a securities company)
The securities company with which the investor conducts transactions

Stock Price Range



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