THE BIOTECHNOLOGY COMPANY™

Annual Report 2016

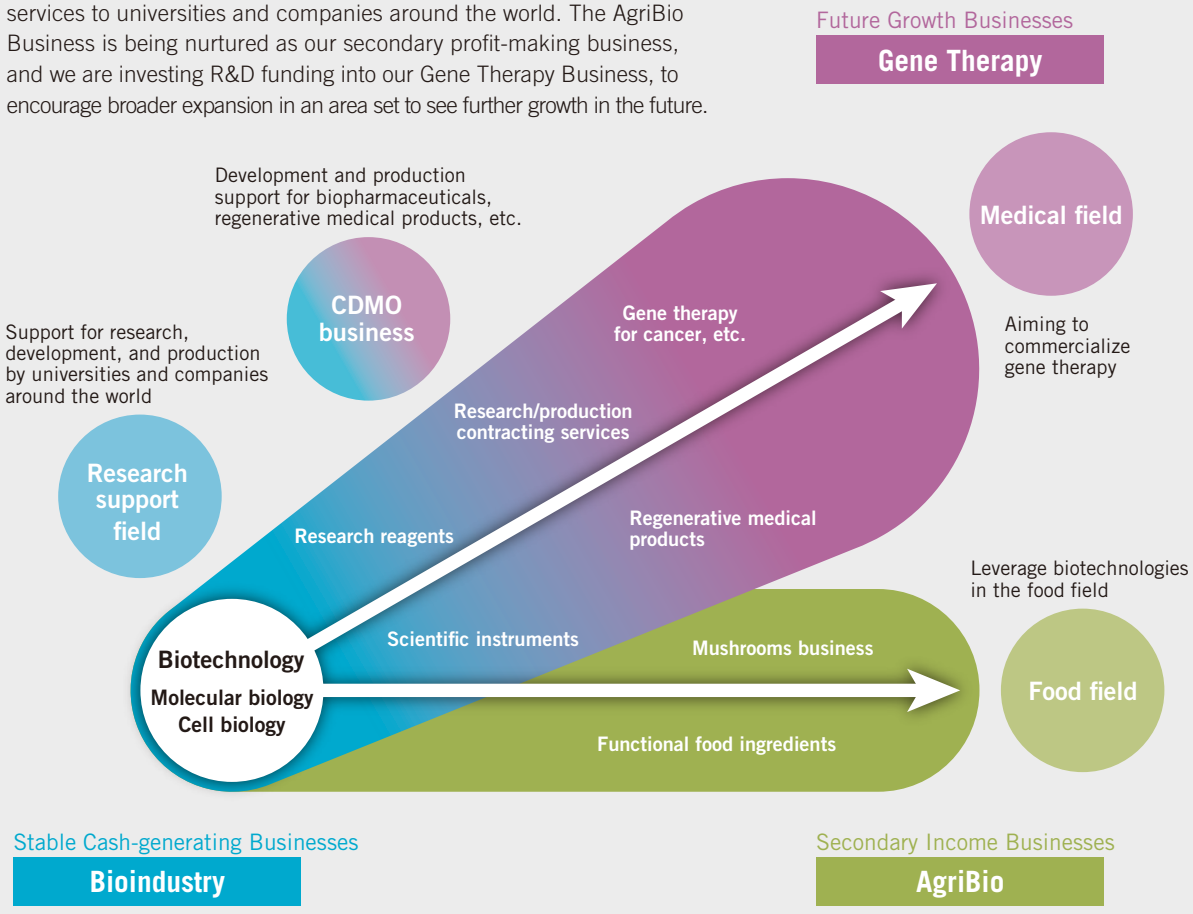
TAKARA BIO INC.

THE BIOTECHNOLOGY

Contributing to the health of humankind through the development

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 growth in the future.



CONTENTS

COMPANY™

of revolutionary biotechnologies such as gene therapy

Bioindustry Business

Marketed Japan's first restriction enzymes in 1979. Through both its research support and CDMO fields, Takara Bio currently provides high-quality products and services to bioscience researchers around the world.

Bioindustry Business Products and Services

Research Reagents and Scientific Instruments

Restriction enzymes, PCR reagents, cells, culture media, bags, antibodies, real-time PCR equipment, mass spectrometry systems, etc.

Research/Manufacturing Contracting Services

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

Gene Therapy Business

Developing the RetroNectin® Method for highly-efficient gene transduction. To achieve quick commercialization of gene therapies for cancer and other conditions, Takara Bio is engaged in clinical development projects.

Clinical Development Projects in Progress

HF10

NY-ESO-1 siTCR gene therapy

CD19 CAR gene therapy

AgriBio Business

In addition to providing functional foods with proven functionality utilizing biotechnologies, Takara Bio conducts business that leverages our techniques for large-scale mushroom production, including the world's first technique for mass-producing Bunashimeji mushrooms.

AgriBio Business Products and Services

Functional Foods

"Fucoidan," from Gagome kombu (kelp); "Isosamidin," from an herb (*Peucedanum japonicum*); "Chalcone," from Ashitaba (*Angelica* herb); "Agaphytose®," from Agar; "Yamsgenin," from the lesser yam (*Dioscorea esculenta*); "Terpene," from a mushroom

Mushrooms

Honshimeji, Hatakeshimeji, Bunashimeji

Forward-Looking Statements

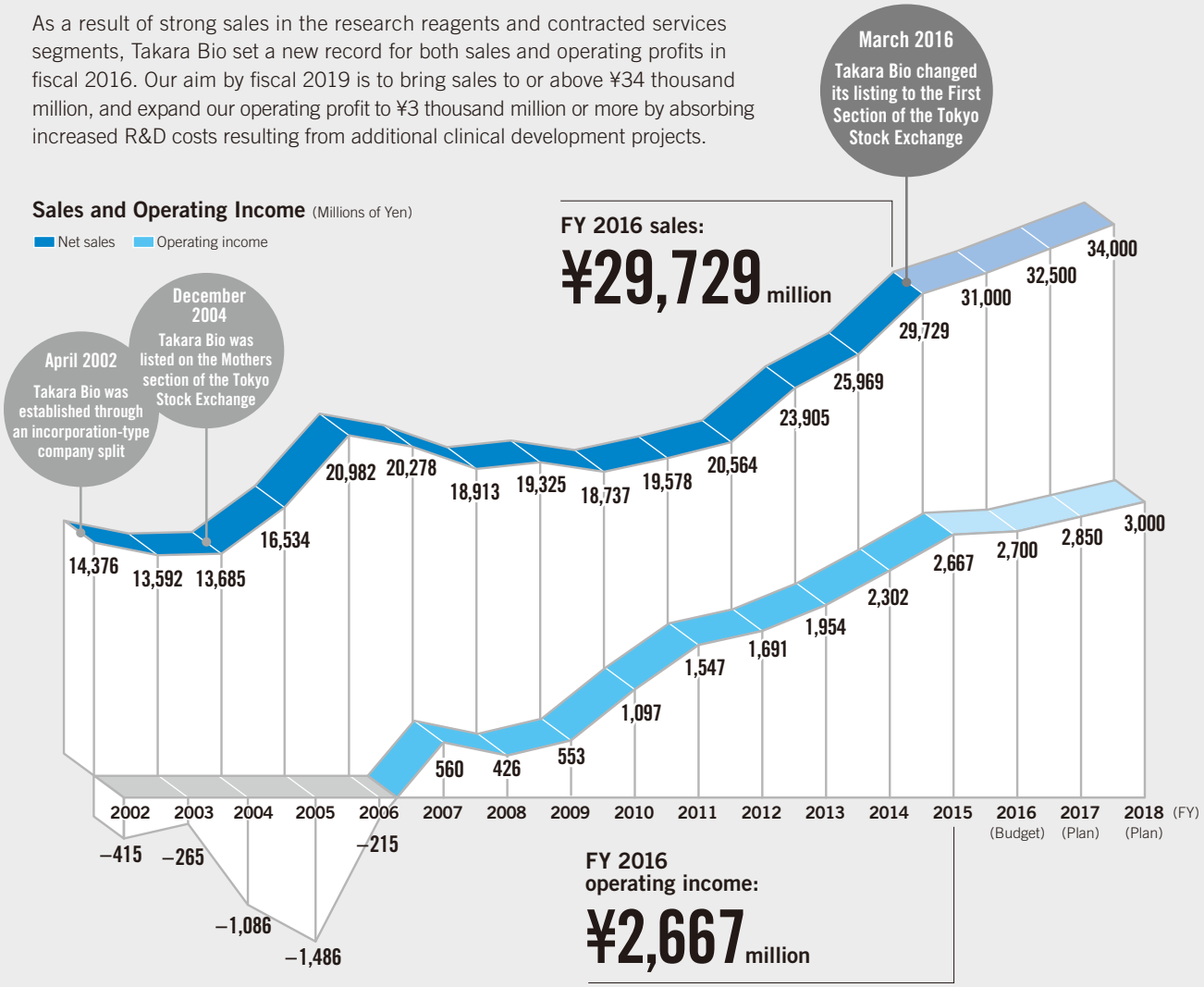
Statements in this annual report, other than those based on historical fact, concerning the current plans, prospects, strategies, and expectations of Takara Bio Inc. and its consolidated subsidiaries represent forward-looking statements. As such, these statements are based on the conclusions made by management as of August 2016 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.

Performance Highlights

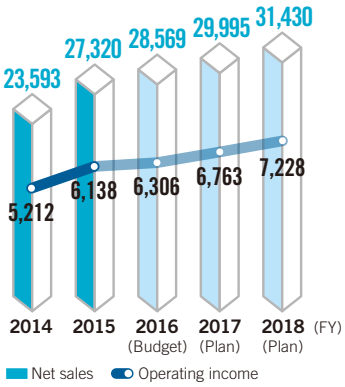
As a result of strong sales in the research reagents and contracted services segments, Takara Bio set a new record for both sales and operating profits in fiscal 2016. Our aim by fiscal 2019 is to bring sales to or above ¥34 thousand million, and expand our operating profit to ¥3 thousand million or more by absorbing increased R&D costs resulting from additional clinical development projects.

Sales and Operating Income (Millions of Yen)

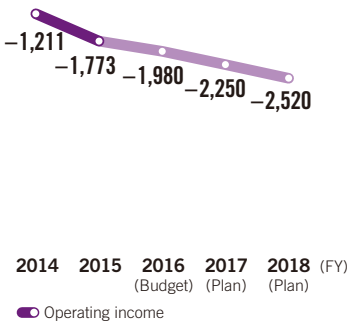


Sales and Operating Income by Business Segment (Millions of Yen)

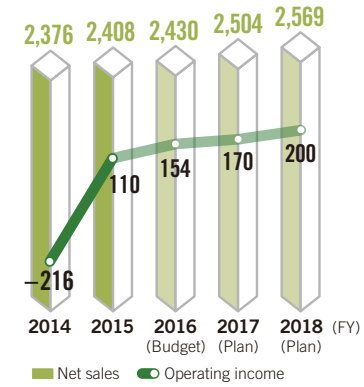
Bioindustry



Gene Therapy



AgriBio



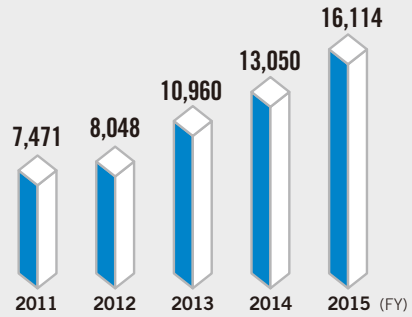
Global Business Expansion

Strengthen our worldwide development, production, and sales frameworks for research reagents

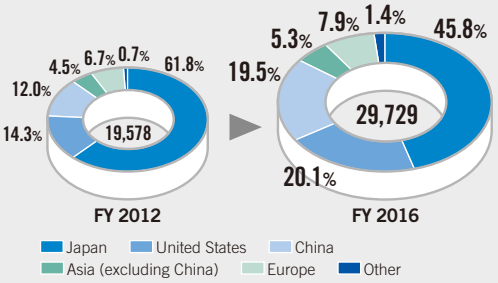
Takara Bio continues to provide research reagents for universities, companies, and other bioscience researchers around the world. At our four research and development regions, located in Japan, the United States, Europe, and China, we research and develop new products and services with different development aims that leverage the characteristics of each region. We are also focused on making our production supply system more efficient by strengthening and streamlining production frameworks at production facilities in Japan, China, and India while at the same time rebuilding our logistics framework.

Takara Bio's sales network extends worldwide and consists of subsidiaries in the US, Europe, China, South Korea, and India. Taking advantage of the brand strength of TaKaRa® in Asia, of Clontech® in the United States and Europe, and of Cellartis® for stem cell-related products, we are working to strengthen our marketing structure at each facility in order to expand sales in the global market.

Overseas Sales (Millions of Yen)



Sales by Geographic Segment (Millions of Yen)

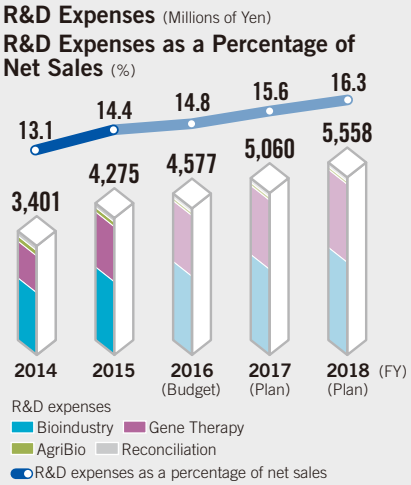


Research and Development

Focusing on developing new products and services in the advanced medicine field and on clinical development for gene therapies

In regenerative medicine, Takara Bio is engaged in clinical development, mainly in developed countries for gene and cell therapies and is predicting market growth for these therapies in Japan thanks to Japanese government policies aimed at promoting regenerative medicine. To take advantage of these market conditions, we are concentrating our energies on developing new products and services. These include iPS cells and other aspects of the field of stem cell application, as well as the advanced medicines field, which involves next-generation sequencing and genome editing.

We are also actively making R&D investments in clinical development projects in the Gene Therapy Business. Through "selection and concentration," we aim to bring products quickly to market up to applying for approval by selecting and concentrating on product development-oriented projects conducted solely by Takara Bio. At the same time, we will be collaborating with other companies and proactively engaging in joint development and other pursuits for projects with good potential for streamlining development and achieving swift product commercialization.

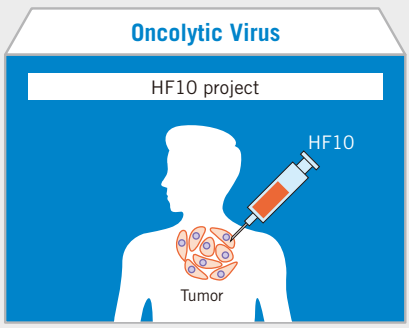


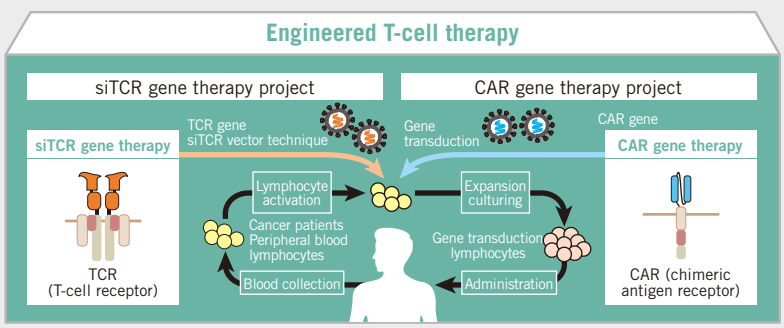
Schedule for Clinical Trials of Gene Therapy Projects

Independent development projects				Target disease	Progress (as of March 31, 2016)	Target for commercialization
Oncolytic Virus	HF10(TBI-1401)		Japan	Melanoma	Phase I in progress Phase II preparations underway	FY 2019
Engineered T-cell Therapy	siTCR	NY-ESO-1(TBI-1301)	Japan	Synovial sarcoma	Phase I/II preparations underway	FY 2021
	CAR	CD19·CAR(TBI-1501)	Japan	Adult ALL*	Phase I/II preparations underway	FY 2021

Joint projects				Target disease	Progress (as of March 31, 2016)
Oncolytic Virus	HF10(TBI-1401)		United States	Melanoma	Phase II in progress Phase III planning underway
			Japan	Pancreas cancer	Phase I/II preparations underway
Engineered T-cell Therapy	siTCR	NY-ESO-1(TBI-1301)	Japan	Esophageal cancer, etc.	Phase I in progress
		MAGE-A4(TBI-1201)	Japan	Esophageal cancer, etc.	Phase I in progress
	CAR	CD19·CAR(TBI-1501)	Japan	Childhood ALL*	Planning underway
	MazF gene therapy		United States	HIV infection	Phase I in progress

* ALL: B-cell acute lymphocytic leukemia





Contracted Services

Expanding CDMO business with the Center for Gene and Cell Processing leading the way

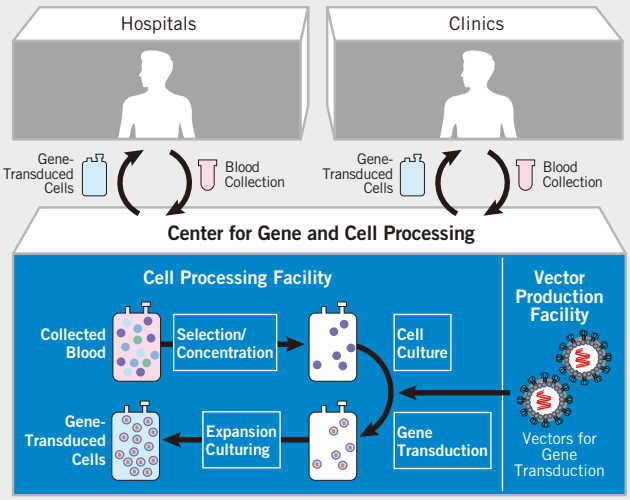
The Center for Gene and Cell Processing, which became operational in October 2014 in Kusatsu, Shiga, is the core facility behind Takara Bio's CDMO (Contract Development and Manufacturing Organization) business. As an area we are currently expanding, the CDMO business handles development and production support for products that include biopharmaceuticals and regenerative medicines.

The facility conducts contracted vector production for gene transduction and cell processing based on GCTP/GMP*. It also provides quality testing services and cell bank and cell storage services.

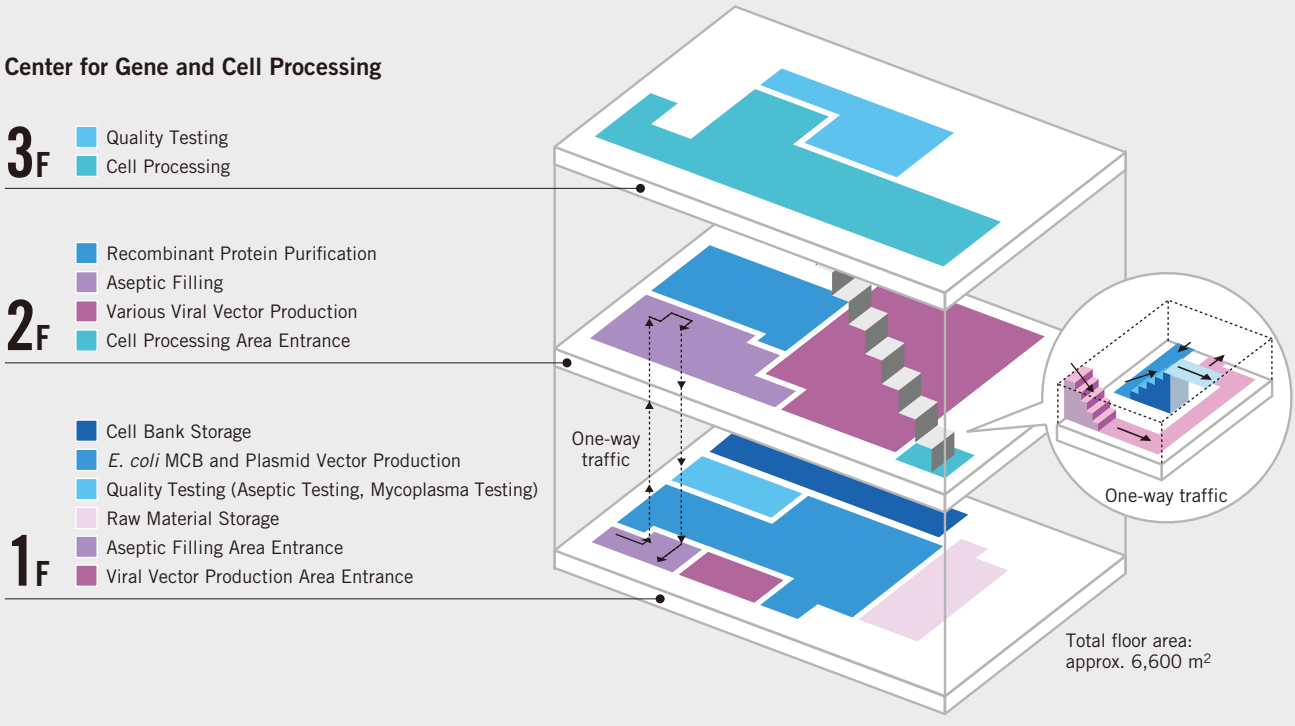
As an ideal partner for clinical development, we provide robust support for gene therapy, cell therapy, and other pursuits involving advanced medicine.

* GCTP (Good Gene, Cellular, and Tissue-based Products Manufacturing Practice): A standard used in manufacturing and quality control for regenerative medical products
* GMP (Good Manufacturing Practice): A standard used in manufacturing and quality control for products including pharmaceuticals

Development Support Services for Regenerative Medical Products



Center for Gene and Cell Processing



Changed listing to the First Section of the Tokyo Stock Exchange on March 31, 2016
Aiming to boost earnings in growth fields while steadily advancing clinical development for gene therapies

In May of this year, Takara Bio completed its consolidation of research facilities formerly distributed in the cities of Otsu and Kusatsu in Shiga Prefecture and in the city of Yokkaichi in Mie Prefecture. With our new facility in Kusatsu, Shiga, we have further reinforced and streamlined our R&D operations. The focus now is on boosting earnings by expanding our CDMO business and businesses involved in the development of new products and services in the fields of regenerative medicine, gene therapy, and cell therapy markets which are expected to grow. We are also concentrating on steadily bolstering clinical development for gene therapies.

Additionally, Takara Bio changed its listing to the First Section of the Tokyo Stock Exchange from the TSE Mothers Index, effective on March 31 of this year. Our successes in these pursuits have been due entirely to the support from all of our shareholders and investors. We greatly appreciate their support. The coming days will find us placing an even greater focus on growing and developing the Bioindustry Business, Gene Therapy Business, and AgriBio Business as we work to further improve our corporate value.

We hope to have your continued support and encouragement in the future.

FY 2016 Business Performance

A new record for net sales and operating income

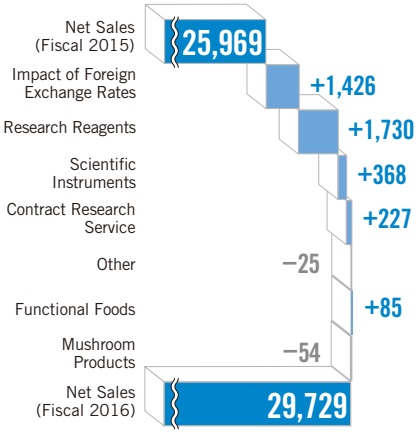
Net sales increased ¥3,759 million (14.5%) year-over-year to ¥29,729 million. This was due to a sharp rise in the sales of research reagents in the Bioindustry business, which was owed partially to a weak yen, as well as a sales increase in contracted services and scientific instruments.

Gross profit rose ¥2,495 million, or 18.0%, year-over-year to ¥16,323 million. SG&A expenses, owing to growing R&D and personnel expenses, resulted in a ¥2,130 million, increase, or an 18.5% rise year-over-year to ¥13,655 million, and operating income increased ¥364 million, or 15.8%, year-over-year to ¥2,667 million.

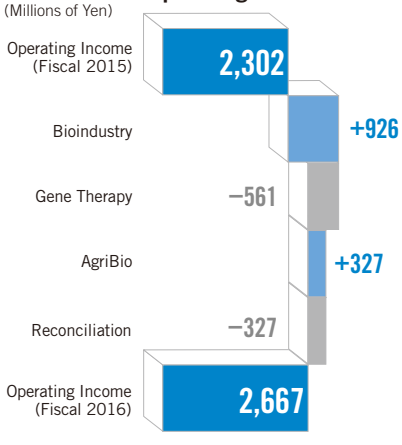
For non-operating gain and loss, income and expenses saw an upturn attributable to factors that included an increase in subsidy revenues and a transition from the foreign-exchange loss of last period to a foreign-exchange gain this period.

Net income attributable to owners of the parent increased ¥370 million (38.4%) year-over-year to ¥1,334

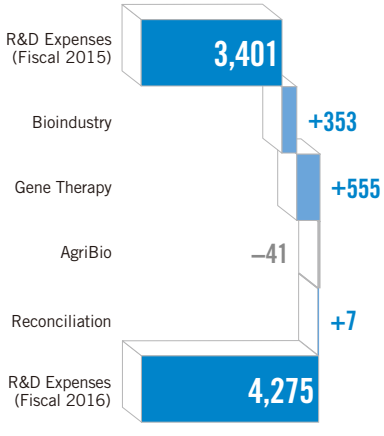
Consolidated Net Sales (Millions of Yen)



Consolidated Operating Income (Millions of Yen)



R&D Expenses (Millions of Yen)



A core facility for CDMO business
the Center for Gene and Cell Processing
exterior and interior

million, in spite of a loss on sales and retirement of noncurrent assets and increases in an impairment loss and income taxes.

Continuing the last fiscal year's trend, Takara Bio set new records for net sales and operating income.

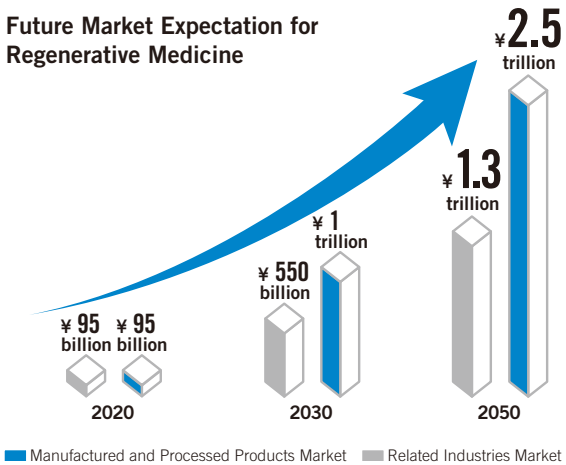
Expanding CDMO Business

Growing the CDMO business in the regenerative medicine field, a field with strong growth potential

Japan's central government is rolling out a range of policies aimed at advancing regenerative medicine, including providing support and developing a climate for research and development at organizations such as universities and companies. On November 25, 2014, both the Act on Securing the Quality, Efficacy, and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics (the Pharmaceutical and Medical Device Act) and the Act on the Safety of Regenerative Medicine went into effect. These policies have helped to develop a climate for conducting regenerative medicine research with safety and speed, and are likely to dramatically expand Japan's regenerative medicine market.

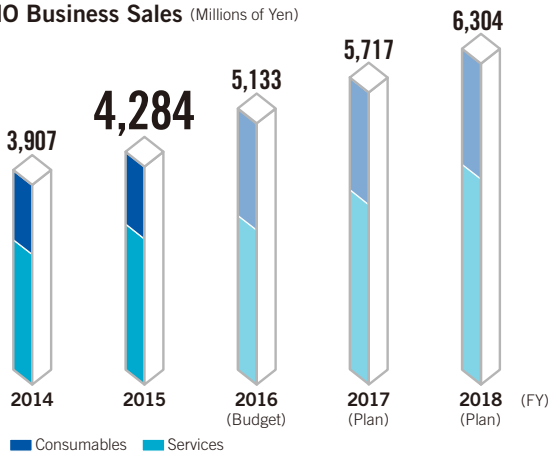
In addition to focusing on developing new products and services for regenerative medicine, a field set for growth, Takara Bio is expanding its CDMO business, providing manufacturing and development support services for products including biopharmaceuticals and regenerative

Future Market Expectation for Regenerative Medicine



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

CDMO Business Sales (Millions of Yen)



medical products. Among the efforts underway in our CDMO business are expanding contracted development and manufacturing of vectors and cells based on GCTP/GMP*, contracted genetic analysis, and boosting sales of cell culture media, gas-permeable bags and RetroNectin® reagent, a high-performance gene transfer agent developed by Takara Bio and used in gene therapies. In May 2016, we consolidated our Biomedical Center, which is our center for genetic analysis, in Kusatsu city in Shiga Prefecture in order to provide a seamless package of regenerative medicine support services at our Center for Gene and Cell Processing and genetic testing support services at our Biomedical Center. With the Center for Gene and Cell Processing and the Biomedical Center as a base, we will strengthen and improve R&D efforts and expand and improve contracted services.

* GCTP: Production and quality control standards for regenerative medicines and other products
* GMP: Production and quality control standards for mainly for pharmaceuticals

Clinical Development for Gene Therapies

Making steady progress with clinical development in Japan and the U.S.

Regarding clinical development for oncolytic virus HF10 in the U.S., in April 2014 we submitted an investigational new drug application to the U.S. Food and Drug Administration, and are conducting Phase II clinical trials targeting melanoma at facilities such as the Huntsman Cancer Institute. Patient enrollment has already finished and Phase II clinical trials should be completed by fiscal 2017. In Japan, January 2015 saw Takara Bio submit a clinical trial notification for a regenerative medicine product to the Pharmaceuticals and Medical Devices Agency (PMDA), and is conducting Phase I clinical trials, targeting solid cancers, such as melanoma, at the National Cancer Center Hospital.

For clinical development of NY-ESO-1 siTCR gene therapy, in February 2015 Mie University submitted a clinical trial notification for a regenerative medicine product to the PMDA and is now conducting Phase I clinical trials (investigator-initiated trials) targeting solid cancers at organizations such as Mie University. We are preparing to begin Phase I and II clinical trials for synovial sarcoma in fiscal 2017, in tandem with investigator initiated trials.

With respect to clinical development for CD19-CAR gene therapy, we are conducting clinical research targeting non-Hodgkin's malignant lymphoma in collaboration with Jichi Medical University. In July 2015, gene-transduced cells were inserted into the first subjects of a trial for the first CAR gene therapy in Japan. We are also preparing to begin Phase I and II clinical trials for adult B-cell acute lymphocytic leukemia in fiscal 2017.

Investment and Shareholder Return

Takara Bio paid year-end dividends of ¥1.80 per share

Takara Bio focused closely on improving retained earnings in order to best conduct research and development in the Bioindustry, Gene Therapy, and AgriBio Businesses. Shareholder return is also a top management priority, as the return of profits is a basic policy of the company carried out after comprehensive consideration of the company's business results and financial position. Specifically, dividends of surplus will be paid at a target rate of around 10% of projected current net income as calculated without taking into account extraordinary income or loss on consolidated financial statements.

In accordance with this policy, we distributed a year-end dividend of ¥1.80 per share in fiscal 2016. We forecast a ¥1.80 per share year-end dividend for fiscal 2017.

Development and production of vectors and cells in accordance with GCTP and GMP

Medium-Term Management Plan Beyond Fiscal 2017

Takara Bio aims to further clinical development projects in order to absorb increased R&D expenses and expand profits

In the Bioindustry Business, Takara Bio will utilize its four R&D bases in Japan, the United States, Europe, and China to ramp up efforts to develop new products and services for advanced research and drug discovery support. We will also carry out strategies for the TaKaRa®, Clontech®, and Cellartis® brands, building marketing structure at each sales office around the world and strengthening our selling power through human resource development.

An additional focus will be on making use of the Center for Gene and Cell Processing, Biomedical Center, and a cell processing facility that will be completed in Tonomachi, Kawasaki in Kanagawa Prefecture in 2017 to further expand our CDMO business, which provide support services for the development and production of products such as biopharmaceuticals and regenerative medicines. We will also be collaborating with other companies and proactively engaging in joint development and other pursuits for projects with good potential for streamlining development and achieving swift product commercialization.

Our strategy in the Gene Therapy Business involves focusing on achieving early commercialization of products by selecting and concentrating on product development-oriented projects up to applying for approval conducted solely by Takara Bio.

In addition to conducting clinical development of the oncolytic virus HF10 for melanoma in Japan, Takara Bio plans to begin Phase I and II trials for NY-ESO-1 siTCR gene therapy targeting synovial sarcoma and CD19-CAR gene therapy targeting adult B-cell acute lymphocytic leukemia in fiscal 2017. Aiming for quick product commercialization, we are considering regenerative therapy product conditions as well as a time-limited conditional approval system as a part of proactive efforts towards clinical trials. Our gene therapy commercialization plans are as follows: HF10 by fiscal 2019, and both NY-ESO-1 siTCR gene therapy and CD19-CAR gene therapy by fiscal 2021.

For the AgriBio Business, the functional food business is seeing greater efforts focused on acquiring evidence-based data for functional food ingredients through joint research with medical research organizations and on making effective use of this data in the business of selling foods with functional claims. At the same time, we are bolstering our partnership with Takara Healthcare Inc. to expand sales of functional food ingredients. As for efforts in the mushroom business, we will be bolstering earnings through efforts by Mizuho Norin Co., Ltd. to improve mushroom production efficiency, marketing frozen mushrooms as a strategy to weather the low-demand season, and by improving sales of our Kyotanbe Daikoku Honshimeji mushrooms, which were certified as a Kyoto Brand Good in 2015.

Through these strategies, we aim to achieve ¥34.0 billion in sales by fiscal 2019, the final year of the current medium-term management plan, and grow our operating profit to ¥3.0 billion by absorbing the increased development expenses being incurred by clinical development projects.

Koichi Nakao
President
August 2016

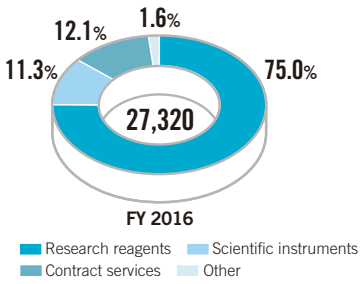
Fiscal 2016 Results and Medium-Term Management Plans

(Millions of Yen)	FY 2016	FY 2017 (Budget)	FY 2018 (Plan)	FY 2019 (Plan)
Net sales	29,729	31,000	32,500	34,000
Bioindustry	27,320	28,569	29,995	31,430
Gene Therapy	–	–	–	–
AgriBio	2,408	2,430	2,504	2,569
Operating income (loss)	2,667	2,700	2,850	3,000
Bioindustry	6,138	6,306	6,763	7,228
Gene Therapy	(1,773)	(1,980)	(2,250)	(2,520)
AgriBio	110	154	170	200
Ordinary income	3,301	3,050	3,200	3,350
Net income	1,334	1,300	1,450	1,600
R&D expenses	4,275	4,577	5,060	5,558
R&D expenses as a percentage of net sales (%)	14.4%	14.8%	15.6%	16.3%

Bioindustry Business

Takara Bio develops original research reagents, scientific instruments, and contracted research services that utilize new genetic engineering and advanced cell biology technologies on a consistent basis, supporting a wide range of pursuits in the life sciences field, which includes basic research and drug discovery and development.

Sales Composition (Millions of Yen)



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 technology for life science research, PCR enables the amplification of very small amounts of genes from biological samples.

In September 2005, Takara Bio acquired United States-based Clontech Laboratories, Inc. (now Takara Bio USA, Inc.). Takara Bio USA is strong in the field of cell biology, including gene function analysis systems that use fluorescent proteins and protein interaction analysis systems.

In August 2014, Takara Bio acquired Cellectis AB (now Takara Bio Europe AB) and assumed ownership of the company's technologies to induce differentiation of iPS and other stem cells into liver and pancreatic cells, as well as products related to stem cells such as ES, iPS, and differentiated cells. Worldwide sales of these products began in October 2014 under the Cellartis® brand. With ownership of the TaKaRa®, Clontech®, and Cellartis® brands, the Takara Bio Group now has a broad lineup of research reagent products.

On the topic of manufacturing, Takara Biotechnology (Dalian) Co., Ltd., established in 1993, produces the majority of our research reagents. The company has acquired ISO 9001 certification for the manufacture and technical service of molecular biology reagents and cell biology reagents, enabling high-quality, strongly cost-competitive products.

Concerning development, we have completed our system of four R&D centers, located in Japan, the U.S., Europe, and China. The system allows us to market better products more quickly by having each center focus on different themes and by making the most of each one's characteristics, improving our ability to develop new products and services while speeding up the process.

Takara Bio sales initiatives involve expanding its sales network worldwide through subsidiaries in the U.S., Europe, China, South Korea, and India, with efforts focused on enhancing TaKaRa®, Clontech®, and Cellartis® brand strengths and sales.

Going forward, we will concentrate on genetic engineering and advanced cell biology, in addition to developing products in the regenerative medicine and cell therapy fields, markets that are likely to see strong growth. Among our efforts to expand sales in genetic engineering, we are expanding the range of applied fields for PCR technology and developing new products related to next-generation sequencing, a growth market. For the fields of regenerative medicine and cell therapy, we are developing new products pertaining to iPS cells and genome editing, two fields of active research.

Future Initiatives

- Enhance our product development capabilities by establishing different development focuses that utilize the characteristics of our four research and development bases in Japan, the U.S., Europe, and China
- Step up development of new products and services in the field of stem cell applications including iPS cells, as well as in the field of cellular biology research with next-generation sequencers and genome editing techniques, among other things
- Expand CDMO business, including contracted development and production of virus vectors for gene therapy, contracted cell processing for cell therapy, and contracted genetic analysis using our Center for Gene and Cell Processing and Biomedical Center in Kusatsu, Shiga, as well as our cell processing facility in Tonomachi, Kawasaki, Kanagawa
- Implement strategies for three brands — TaKaRa®, Clontech® and Cellartis® and strengthen selling power by training personnel and building a marketing structure in every one of our sales facilities around the world
- Strengthen and improve the efficiency of production frameworks at production facilities in Japan, China, and India, and rebuild our logistics framework

Contracted Services

Our CDMO (Contract Development and Manufacturing Organization) business provides high added-value contracted services as an R&D partner to our customers. This involves using the Center for Gene and Cell Processing, put into operation in October of 2014, to provide support services for new product development, including regenerative medicine production and cell processing. We also provide a seamless package of development support services for regenerative medicine and other products as well as genetic testing support services such as genetic analysis using next-generation sequencers at the Biomedical Center.

1. Contract Services for Developing Regenerative Medicine Products

The Pharmaceutical and Medical Device Act and Act on the Safety of Regenerative Medicine went into effect in November 2014, paving the way for growth in the market for regenerative medicine and cell therapy, with R&D currently picking up pace alongside expanding industrial applications. With the Center for Gene and Cell Processing leading the way, Takara Bio conducts contracted services that include manufacturing and developing cells, virus vectors, and plasmid vectors for gene transduction based on Good Gene, Cellular and Tissue-based Products Manufacturing Practices (GCTP) and Good Manufacturing Practices (GMP). We also conduct quality and safety testing and produce and store cell banks as a part of the comprehensive services we provide to support R&D in regenerative medicine and cell therapy and their industrial applications. Our acquisition of accreditation of "foreign cell processor" to conduct specific processed cell manufacturing in May 2015 has enabled us to provide medical institutions with contracted cell processing services. Additionally, the CDM Center—a base for the development of regenerative medicines, biopharmaceuticals, and related products and services—acquired ISO 9001 certification and built a quality management system in June of 2015. It provides optimal services by utilizing the technologies and expertise cultivated through clinical development efforts for gene and cell therapies.

2. Contracted Gene Analysis Services

Leveraging its extensive gene analysis techniques and expertise, Takara Bio provides contracted services for gene research through the Biomedical Center. In addition to genetic testing support services such as human genome sequence analysis, comprehensive cancer gene analysis, and intestinal flora analysis, we provide advanced genetic engineering research support services utilizing state-of-the-art technologies and equipment used in techniques such as next-generation sequencing and genome editing. We are also focused on bioinformatics (life information science), providing high added-value services such as next-generation data mining to draw out useful information from vast quantities of acquired data.

Biomedical Center

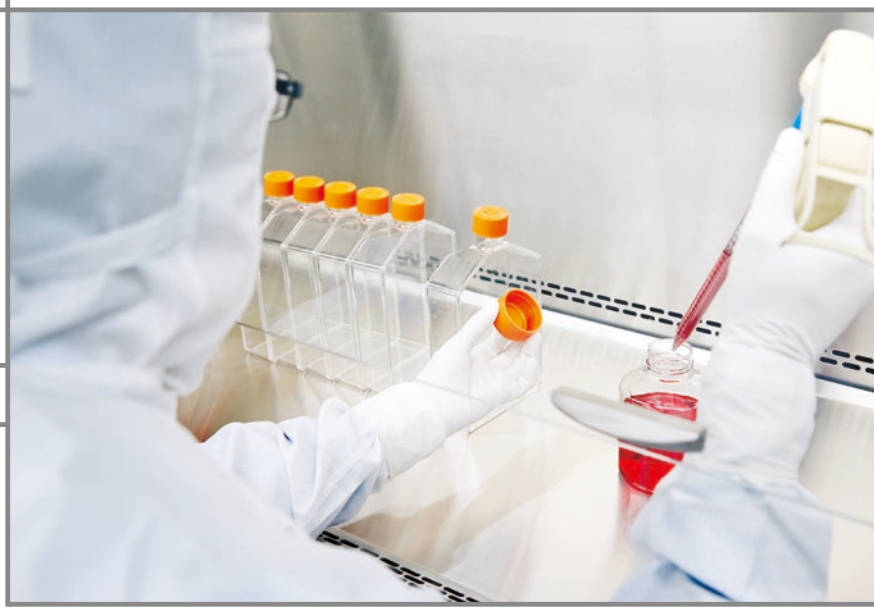
Genetic testing support services

Center for Gene and Cell Processing

Development support services for regenerative medicine products

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.



Cell culture

Production of vectors

Gene Therapy

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

Through "selection and concentration," we aim to quickly get products to market by selecting development projects where Takara Bio will on its own complete all steps up to applying for approval.

Oncolytic Virus
HF10

HF10 is an attenuated strain of the herpes simplex virus 1 (HSV-1) that exhibits antitumor activity when inserted into a cancerous region. It also strengthens immunity to cancer cells, giving it promise as a means to prevent tumors from forming, even in regions where HF10 was not administered. This type of virus is called an oncolytic virus. Takara Bio acquired its HF10 business from M's Science Corporation in November 2010. Oncolytic viruses selectively replicate within tumorous tissue and break it down without doing excessive damage to normal tissue. Many oncolytic viruses involve gene recombination or foreign gene insertion, but HF10 is a spontaneously mutating virus that involves no genetic modification whatsoever.

As an independent development project, we are currently conducting Phase I clinical trials targeting solid cancers such as melanoma at the National Cancer Center Hospital. Takara Bio aims for commercialization by fiscal 2019.

In the U.S., we are working with partners to conduct Phase II clinical trials for melanoma at such organizations as the Huntsman Cancer Institute. In Japan, we are making preparations to begin Phase I and II clinical trials by fiscal 2017 with Nagoya University targeting pancreatic cancer.

Engineered T-Cell Therapy
1. siTCR Gene Therapy

TCR gene therapies involve transducing autologous lymphocytes with TCR genes capable of recognizing cancer antigens, and putting the lymphocytes back into the patient, allowing these lymphocytes to identify and attack cancer cells, thereby eliminating them. siTCR gene therapy is a Takara Bio proprietary TCR therapy that involves the use of the siTCR vector technique. The siTCR technique minimizes the involvement of endogenous TCRs and allows for obtaining more lymphocytes that express the target TCR. This is thought to reduce the risk of side effects and improve effectiveness.

As an independent development project, we plan to begin Phase I and II clinical trials for NY-ESO-1 siTCR gene therapy targeting synovial sarcoma by fiscal 2017, with the aim of commercialization to be achieved in fiscal 2021.

Takara Bio is also currently conducting clinical development of siTCR gene therapies as a joint project with Mie University. Phase I clinical trials (investigator-initiated trial) began in March of 2014 for the MAGE-A4 antigen-specific siTCR therapy targeting solid cancers such as esophageal cancer. This clinical trial was the first in the country for cancer immunotherapy. We are also conducting

Future Initiatives

As for development projects Takara Bio is conducting on its own, we are focusing on the following three projects with the aim of applying for approval as quickly as possible in Japan.

- Conduct clinical development for the oncolytic virus HF10 to treat melanoma (Objective: apply for approval by FY 2019)
- Conduct clinical development for NY-ESO-1 siTCR gene therapy for synovial sarcoma (Objective: apply for approval by FY 2021)
- Conduct clinical development for CD19 CAR gene therapy targeting adult B-cell acute lymphocytic leukemia (Objective: apply for approval by FY 2021)

Other projects being conducted involve joint development with partners as part of partner projects.

investigator-initiated Phase I clinical trials for NY-ESO-1 siTCR gene therapy targeting esophageal cancer and other solid cancers. Both clinical trials involved the use of siTCR vectors jointly developed by Takara Bio and Mie University.

2. CAR Gene Therapy

Chimeric Antigen Receptors (CARs) are receptors that are made by artificially combining parts derived from antibodies that specifically recognize certain cancer antigens with parts with cytotoxic functions derived from T-cell receptors. CAR gene therapies involve putting autologous lymphocytes transduced with CAR genes back into the patient, allowing these lymphocytes to indentify and attack cancer cells, thereby eliminating them.

As an independent development project, Takara Bio plans to begin Phase I and II clinical trials for CD19 CAR gene therapy targeting adult B-cell acute lymphocytic leukemia by fiscal 2017, with the aim of commercialization by 2021.

We are also working with Jichi Medical University to conduct clinical research into the CD19 antigen-specific CAR gene therapy targeting non-Hodgkin lymphoma, a type of malignant lymphoma, and will apply our findings in future clinical research.

3. MazF Gene Therapy

AIDS is a disease wherein the immunological function of the entire body is compromised due to HIV infecting and replicating within immune cells. MazF gene therapy involves the *ex vivo* transduction of retrovirus vectors that express MazF, an endoribonuclease derived from *E. coli*, conditionally upon HIV infection into T cells derived from the patient. Due to the function of MazF, MazF-transduced T cells put back into the patient prohibit the replication of HIV even if so infected. This allows immune cells to maintain their functionality and makes MazF gene therapy a promising solution for treating HIV infections. With this therapy, we aim to create a functional cure that will prevent symptoms of HIV-induced disorders such as AIDS from appearing in the patient's lifetime, something not achievable with current treatments that use anti-HIV medications.

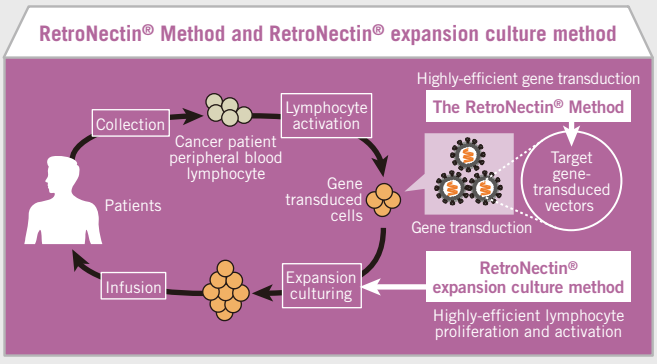
In collaboration with the University of Pennsylvania and Drexel University in the United States, Takara Bio is currently conducting Phase I clinical trials targeting HIV infections.

Utilizing Takara Bio Techniques for Engineered T-Cell Therapy

In engineered T-cell 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 patient.

Jointly developed between Takara Bio and Indiana University in the United States, the RetroNectin® Method enhances the efficiency of gene transduction into hematopoietic cells such as hematopoietic stem cells and lymphocytes. It is a standard gene transduction method for *ex vivo* gene therapy and is used in clinical development for over 60 gene therapies around the world.

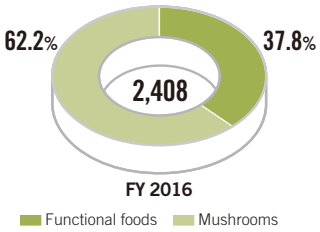
In addition, Takara Bio has 10 licensees permitted to use patents relating to RetroNectin® reagent commercially.



AgriBio Business

Takara Bio works to discover the functionality of 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.

Sales Composition (Millions of Yen)



Fucoidan Supplement 50

Nokogiriyashi (saw palmetto) + Isosamidin

Agafit™

Functional Food Business

Takara Bio conducts functional research into traditional Japanese food ingredients, while at the same time developing and producing functional foods made from these ingredients.

Functional foods developed by Takara Bio are marketed by Takara Healthcare Inc. (a wholly owned subsidiary of Takara Holdings Inc.). We also provide functional food ingredients to food and cosmetic manufacturers to be used as raw materials for products including foods, drinks, and cosmetics.

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 particular to Ashitaba.

4. Agar-derived "Agaphytose®"

Known as the "king of dietary fiber," agar is made from *gelidium*, *gracilaria*, and other kinds of seaweed.

Takara Bio focuses on agaro-oligosaccharides derived from heating agar in an acidic solution, and has developed a proprietary method for producing agar-derived Agaphytose® which features unique functions not found in other 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

Future Initiatives

- Conduct research with medical research organizations and conduct in-house research aimed at accumulating evidence-based data on functional food ingredients such as Fucoidan derived from Gagome kombu (kelp), *Peucedanum japonicum*-derived Isosamidin, *Angelica keiskei*-derived Chalcone, agar-derived Agaphytose®, *Dioscorea esculenta*-derived Yamsgenin, and Terpene from mushrooms
- Develop foods with function claims
- Improve awareness by publishing evidence-based data online and sharing information at research conferences
- Reinforce our quality control and assurance systems and cut production costs
- Streamline Honshimeji and Hatakeshimeji mushroom production at Mizuho Norin Co., Ltd.
- Expand mushroom sales by bolstering sales of frozen mushrooms to highly profitable channels

(*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.

6. Mushroom "Terpene"

Terpene is the generic name for substances with an isoprene structure, a structure found throughout nature. Lycopene, a health-promoting constituent of tomatoes, is one example.

Takara Bio's research focuses on the functions of mushroom terpenes, which are among the compounds present in Bunashimeji mushrooms (*Hypsizigus marmoreus*).

Mushroom Business

Takara Bio is developing new species of mushrooms and new cultivation techniques, while creating mass-production techniques.

We were the first to establish a technique for mass-producing the Bunashimeji mushrooms that are widely sold at supermarkets and other retail food outlets. We licensed our mass-production technique with JA ZEN-NOH (National Federation of Agricultural Cooperative Associations) Nagano in 1973, and our success in commercializing mushrooms was the start of our mushroom business. We have since developed mass-production techniques for a range of high value-added mushrooms.

Currently, Takara Bio produces Honshimeji mushrooms and Hatakeshimeji mushrooms through Mizuho Norin Co., Ltd. (located in Kyotanba-cho, Kyoto) a joint venture company formed among Takara Bio, Kyotanba-cho, and the Kyotanba Forestry Association, both of which are in Kyoto Prefecture. Takara Bio holds over 90% of the market for Honshimeji mushrooms, known for their exquisite taste—"matsutake smells good, shimeji tastes good (Kaori matsutake and Aji shimeji)," as the saying goes.

In October 2015, Mizuho Norin Co., Ltd received "Kyoto Brand Goods" certification from the Kyoto Hometown Product Association for its Kyotamba Daikoku Honshimeji mushroom.

Leveraging the brand strength of products made in Kyotanba, we are working to improve profitability here by focusing on exploring new business opportunities in the restaurant industry, which includes hotels and high-class Japanese food restaurants, in addition to supermarkets and other retailers.

Honshimeji

Hatakeshimeji

TOPICS for FY 2016

Bioindustry Business

Launch of Culture Medium for iPS Cells Customized for Regenerative Medicine Research

June 2015 saw Takara Bio's worldwide launch of the Cellartis® DEF-CS™ 500 Xeno-Free Culture Medium, a culture medium for iPS cells customized for regenerative medicine research.

When cultivating iPS cells, there is a need for stable iPS cell cultivation under highly-safe conditions, especially in regenerative medicine research aimed at clinical applications. To satisfy this need, Takara Bio's product contains no components derived from animals or humans and exhibit little variation between lots, enabling safer, highly reproducible cultivation.

Cellartis® DEF-CS™ 500 Xeno-Free Culture Medium

Bioindustry Business

Commencement of State-of-the-Art Intestinal Flora Analysis Service

In October 2015, Takara Bio expanded the scope of its intestinal flora analysis service that had previously been provided only to researchers. Takara Bio now provides an "intestinal self-check" service for companies in the healthcare and other industries.

R&D concerning intestinal flora is being actively undertaken for the recent discovery that intestinal flora changes depending on diet, everyday habits, and level of health, and is closely correlated with illness and obesity, among other things.

With this service, we use a proprietary method to analyze genetic data for intestinal bacteria acquired using next-generation sequencers and then report analysis results, including information on bacteria ratios and bacteria of significant interest.

Intestinal self-check

Bioindustry Business

Center for Gene and Cell Processing Won 2016 Facility of the Year Award

Takara Bio's Center for Gene and Cell Processing (Kusatsu, Shiga Prefecture) won the 2016 Facility of the Year Awards Category Winner for Facility Integration run by International Society for Pharmaceutical Engineering, Inc. This award was granted in recognition of the Center for Gene and Cell Processing's having achieved harmony in terms of design, operation, and environment as a facility engaged in the safe and efficient manufacture of many regenerative medicines and other products necessary for CDMO business.

FOYA 2016
Facility of the Year Awards
CATEGORY WINNER
Facility Integration

FOYA Award

HISTORY

- Bioindustry Business
- Gene Therapy Business
- AgriBio Business
- History

1970
- Developed the world's first large-scale production technology for Bunashimeji mushrooms

1973
- Licensed Bunashimeji large-scale production technologies to JA ZEN-NOH Nagano

1979
- Commenced sales of the first domestically produced restriction enzymes as reagents for genetic engineering research

1988
- Acquired exclusive distribution rights in Japan for a gene amplification system using PCR technology

1993
- Established Takara Biotechnology (Dalian) Co., Ltd. in China
- Obtained broad-ranging, PCR-related patent licenses legally binding worldwide

1995
- Established Takara Biomedical Europe S.A. (currently Takara Bio Europe S.A.S.)
- Developed a highly-efficient retroviral transduction method for hematopoietic stem cells (the RetroNectin® Method)
- Established Bohan Biomedical Inc. (currently Takara Korea Biomedical Inc.)

1996
- Determined the chemical structure of "Fucoidan," a product derived from Gagome kombu (kelp), and began marketing
- Apoidan-U (now part of the Fucoidan series).

2001
- Established Mizuho Norin Co., Ltd.

2002
- **Took over Takara Shuzo Co.'s biotechnology business and established Takara Bio Inc. in the city of Otsu, Shiga.**
- Established Takara Bio Farming Center Inc.

Gene Therapy Business

Announcement of Clinical Trial Results for Oncolytic Virus HF10

At the 40th ESMO European Cancer Congress held in Vienna, Austria in September 2015, Takara Bio presented the results of Phase I clinical trials that had been conducted in the United States. Regarding the product's safety, no serious adverse events were experienced. As to its effectiveness in melanoma patients, conspicuous results were seen in six of the nine subjects that could be evaluated. One subject saw tumors shrink by 45% in areas where HF10 was administered.

We also presented interim results for Phase II clinical trials being conducted in the United States at the 27th AACR-NCIEORTC International Conference held in Boston in October 2015. No serious side effects have been observed in these trials. Tumor shrinkage was observed in nine of the 24 subjects that could be evaluated, and three subjects saw tumors completely disappear.

AgriBio Business

Kyotamba Daikoku Honshimeji Mushroom Becomes a Certified Kyoto Brand Good

In October 2015, produced by Mizuho Norin Co., Ltd., a joint venture company formed among Takara Bio, the town of Kyotamba, and the Kyotamba Forestry Association, Daikoku Honshimeji mushroom was certified by the Kyoto Hometown Product Association as a Kyoto Brand Good.

Certified by the Kyoto Hometown Product Association, Kyoto Brand Products are particularly high-quality agricultural, forestry, and marine products and products processed from them that are produced in Kyoto Prefecture and that include distinctive agricultural products that have been refined over many years, such as traditional Kyoto vegetables. To date, 31 items* have been certified. These items are sold with the “Kyo mark” that symbolizes deliciousness and trustworthiness.

*As of August, 2016

Daikoku Honshimeji mushrooms' “Kyo Mark”

AgriBio Business

Agaphytose® Confirmed to Inhibit Worsening of the Intestinal Environment

A Takara Bio research team has verified that Agaphytose®, a functional food ingredient derived from agar, curbs the formation of cancer cells by inhibiting the worsening of intestinal environments.

Despite a fatty diet causing an imbalance of intestinal flora in mice, it was discovered that imbalance was inhibited in those given Agaphytose®. Furthermore, researchers found that the increase of secondary bile acid (deoxycholic acid), a carcinogen generated when intestinal flora balance worsens, in these mice was inhibited.

Agaphytose® was also found to inhibit the formation of cancerous lesions when administered to laboratory mice given azoxymethane, a chemical that causes intestinal cancer, and eating fatty diets.

2004
- Takara Biomedical Technology (Beijing) Co., Ltd.
- Listed on the TSE Mothers Index
- Commenced large-scale commercial production of Honshimeji mushrooms.

2005
- Established Takara Bio USA Holdings Inc.
- Acquired U.S.-based Clontech Laboratories, Inc. (now Takara Bio USA, Inc.).

2007
- Established KINOKO CENTER KIN INC.

2010
- Acquired oncolytic virus HF10 business

2011
- Established DSS Takara Bio India Pvt. Ltd.

2012
- Initiated a Phase I clinical trials of MazF gene therapy for HIV infections in the United States

2014
- Acquired Cellectis AB (now Takara Bio Europe AB)
- Completed construction of the Center for Gene and Cell Processing. Began full-scale CDMO business providing manufacturing and development support services for biopharmaceuticals, etc.

2015
- Initiated Phase I clinical trials in Japan for HF10 targeting solid cancers such as melanoma
- The Center for Gene and Cell Processing obtained accreditation of “foreign cell processor” to conduct specific processed cell manufacturing.
- Construction completed for new research facility in Kusatsu, Shiga. Headquarters functions relocated.

2016
- Changed its listing to the First Section of the Tokyo Stock Exchange.

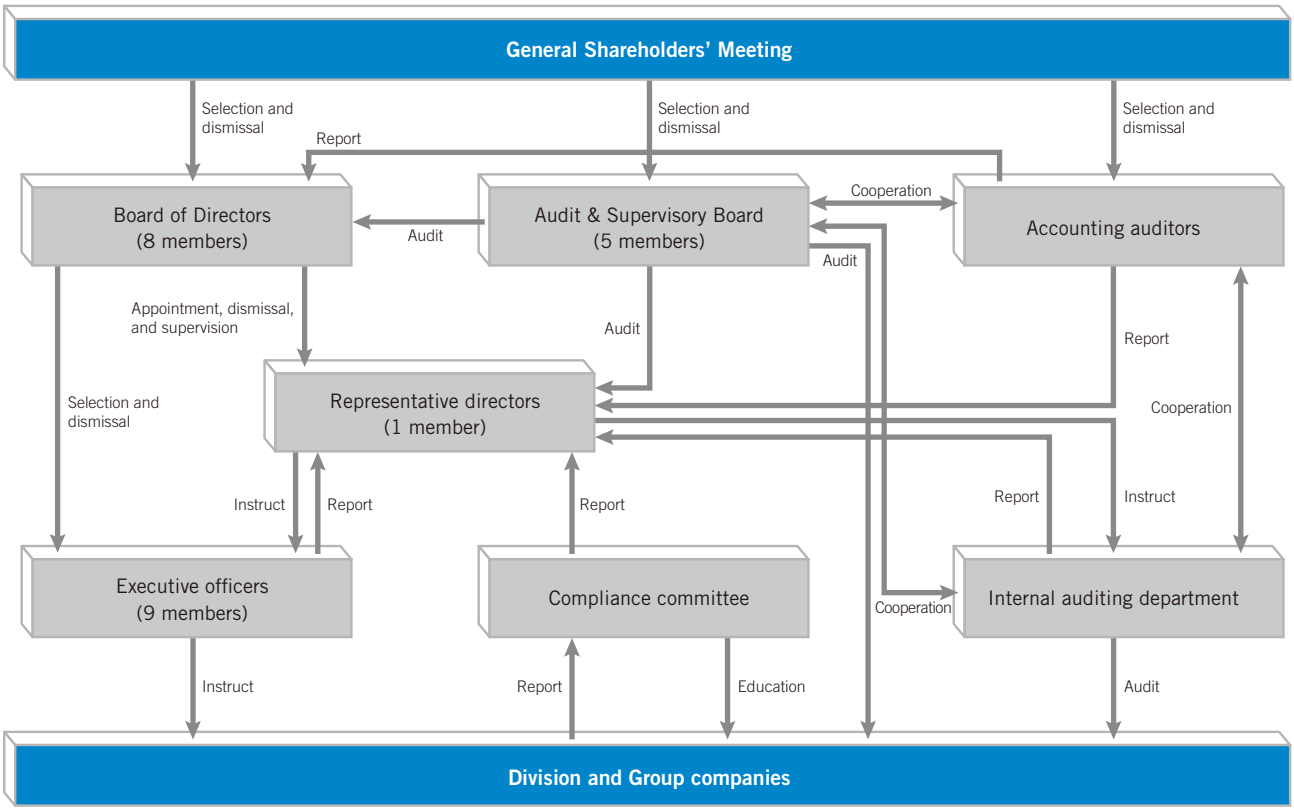
Corporate Governance Structure

Guided by its corporate philosophy of "contributing to the health of humankind through the development of revolutionary biotechnologies such as gene therapy", Takara Bio fulfills its social obligations as a company and sees a path to achieving sustainable growth and improving corporate value over the medium- to long-term by satisfying the expectations of our shareholders and many other stakeholders. This is why it is necessary to continually improve our corporate governance structure, which works to ensure our corporate activities are always conducted fairly and in good faith. Through this structure, we ensure the transparency and improve the efficiency of our management practices while making decisions with speed.

The Board of Directors consists of eight members (including two external directors) 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, its management policies, and legal matters, as well as overseeing the execution of Board member affairs. 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 three of our five ASB members are external. We have established an internal auditing department comprising four 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 60.91% of the voting rights as of the end of March 2016. 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 29, 2016

Board of Directors

Koichi Nakao

President, Chairman & President of Subsidiaries, Representative Director

Apr. 1985 Joins Takara Shuzo Co., Ltd.
Apr. 2002 Director
Jun. 2003 Managing Director & Executive Officer
Jun. 2004 Senior Managing Director & Executive Officer
Apr. 2006 Senior Managing Director & Executive Officer, COO
Jun. 2007 Vice President & Executive Officer, COO
Jun. 2008 Vice President, COO
May 2009 President (incumbent)
President, Takara Bio USA Holdings Inc. (incumbent)
Jun. 2009 Director, Takara Holdings Inc. (incumbent)
Jun. 2015 Chairman & President of Subsidiaries, Representative Director (incumbent)

Hisashi Ohmiya

Senior Managing Director & Senior Corporate Executive Officer

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 & Senior Corporate Executive Officer

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)
Jun. 2015 Senior Corporate Executive Officer (incumbent)

Shuichiro Matsuzaki

Senior Managing Director & Senior Corporate Executive Officer

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)
Jun. 2015 Senior Corporate Executive Officer (incumbent)

Takao Okane

Senior Managing Director & Senior Corporate Executive Officer

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
Jun. 2015 Senior Executive Officer
Jun. 2016 Senior Managing Director (incumbent),
Senior Corporate Executive Officer (incumbent)

Junichi Mineno, Ph.D.

Managing Director & Senior Executive Officer

Apr. 1984 Joins Takara Shuzo Co., Ltd.
Apr. 2011 Executive Officer
Jun. 2012 Senior Executive Officer
Jun. 2014 Managing Director (incumbent)
Jun. 2015 Senior Executive Officer (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)

Nobuko Kawashima

Director (External Director)

Apr. 1986 Joined The Long-Term Credit Bank of Japan
Sep. 1987 Joined Dentsu Communication Institute Inc.
Sep. 1991 Research fellow at the Centre for Cultural Policy Studies of the University of Warwick
Apr. 1999 Full-time lecturer with the Faculty of Economics at Doshisha University
Apr. 2004 Professor with the Faculty of Economics at Doshisha University (incumbent)
Jun. 2016 Director (incumbent)

Audit & Supervisory Board Members

Akihiko Kita

Standing Audit & Supervisory Board Member

Apr. 1984 Takara Shuzo Co., Ltd. (currently Takara Holdings Inc.)
Apr. 2011 Deputy Division Manager, Takara Bio AgriBio Business Unit
Apr. 2013 Division Manager, Takara Bio AgriBio Business Unit
Apr. 2014 Executive Officer
Functional Foods Department Manager
Kusu Plant Manager
Apr. 2015 Deputy Division Manager, AgriBio Business Unit
Jun. 2016 Standing 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. 2002 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)

Tomio Kamada

External Audit & Supervisory Board Member

Apr. 1972 Joins Takara Shuzo Co., Ltd.
Jun. 2007 Standing Audit & Supervisory Board Member, Takara Holdings Inc.
Audit & Supervisory Board Member, Takara Shuzo Co., Ltd.
Jun. 2009 Audit & Supervisory Board Member (incumbent)

Kunihiko Kamata

External Audit & Supervisory Board Member

Apr. 1992 Registered as an attorney at law (Osaka Bar Association)
Mar. 1993 Registered as a patent attorney
Apr. 2007 Part-time lecturer at Meijo University (incumbent)
Jan. 2011 Daiichi Law Office, P.C. (incumbent)
Jun. 2016 Audit & Supervisory Board Member (incumbent)

Yasuo Himeiwa

External Audit & Supervisory Board Member

Aug. 1983 Joined the accounting firm of Peat Marwick Mitchell & Co. (currently KPMG)
Aug. 1990 Registered as a Certified Public Accountant of Japan
Aug. 1994 European Director at KPMG Project Japan
Jan. 1996 Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
Feb. 2001 Senior partner at Ernst & Young ShinNihon LLC
Sep. 2003 Partner at KPMG AZSA LLC
Jul. 2009 Director, AZSA LLC Osaka GJP (Global Japanese Practice)
May 2015 KPMG AZSA LLC National Employee Association Chairman
Jun. 2016 Director, Himeiwa Accounting Office (incumbent)
Audit & Supervisory Board Member (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
Senior Executive Officer

Masanari Kitagawa, Ph.D.
Executive Officer

Masaharu Watabe
Executive Officer

Masanobu Kimura
Executive Officer

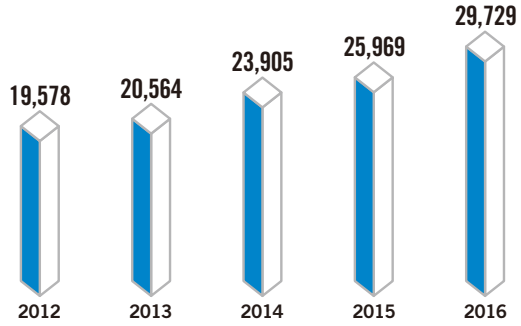
Mutsumi Sano, Ph.D.
Executive Officer

Five-Year Financial Summary

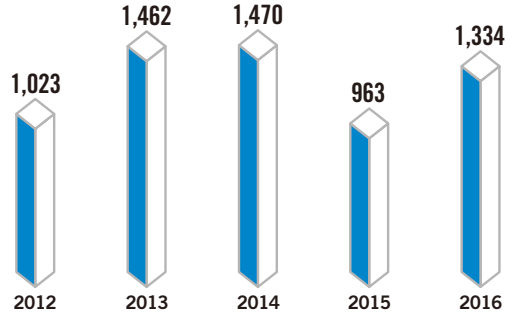
(Millions of Yen)	2012	2013	2014	2015	2016
For the Years Ended March 31:					
Net sales (sales to customers)	19,578	20,564	23,905	25,969	**29,729**
Cost of sales	9,194	9,540	11,331	12,142	**13,405**
Selling, general and administrative expenses	8,836	9,332	10,619	11,524	**13,655**
Operating income	1,547	1,691	1,954	2,302	**2,667**
Income before income taxes and minority interests	1,662	2,268	2,185	2,481	**2,905**
Income attributable to owners of parent	1,023	1,462	1,470	963	**1,334**
Depreciation	1,077	1,104	1,157	1,347	**1,687**
Capital expenditures	926	2,397	5,538	4,762	**2,090**
R&D expenses	2,658	2,715	3,026	3,401	**4,275**
As of March 31:					
Total assets	44,032	46,649	62,500	66,425	**66,591**
Total equity	38,413	41,465	57,127	59,642	**60,110**
Per Share of Common Stock (Yen):					
Basic net income	9.06	12.94	12.50	8.01	**11.08**
Equity	339.73	364.65	473.93	494.46	**498.34**
Ratios (%):					
Return on assets (ROA)	2.3	3.1	2.7	1.5	**2.0**
Return on equity (ROE)	2.7	3.7	3.0	1.7	**2.2**
Equity ratio	87.1	88.8	91.3	89.6	**90.1**

Note: Figures have been rounded down to the nearest million yen.

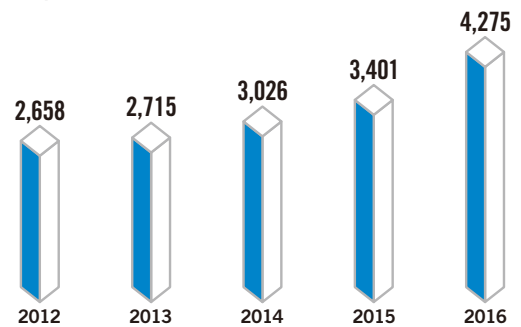
Net Sales (Millions of Yen)



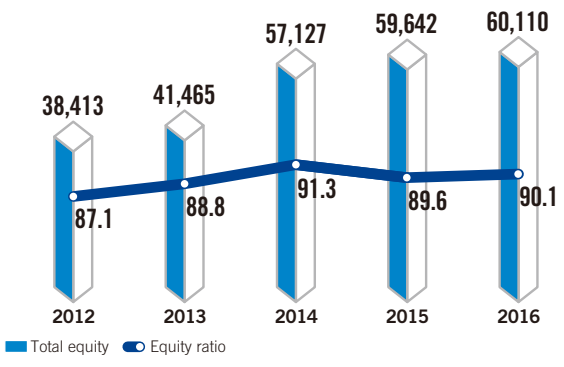
Income Attributable to Owners of Parent (Millions of Yen)



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: Bioindustry, AgriBio, and Gene Therapy. For fiscal 2016, ended March 31, 2016, net sales increased 14.5% year-over-year to ¥29,729 million. Although a depreciated yen played a part, this increase owed primarily to a dramatic rise in sales of research reagents, our mainstay product, over last period and strong sales in contracted services and scientific instruments.

Income

Cost of sales in fiscal 2016 was up 10.4%, year-over-year, to ¥13,405 million due to increased net sales. Gross profit also rose 18.0%, year-over-year, to ¥16,323 million. Selling, general and administrative (SG&A) expenses increased 18.5%, year-over-year, to ¥13,655 million, as personnel expenses and R&D expenses rose. As a result, operating income increased 15.8%, year-over-year, to ¥2,667 million.

While there was a ¥70 million increase in the loss on sales and disposals of property, plant and equipment and an impairment loss on idle assets of ¥33 million, other income (expenses) increased ¥60 million year-over-year due to a rise in research subsidy income of ¥130 million and an increase in interest income of ¥23 million.

This resulted in income before income taxes and minority interests of ¥2,905 million. Although a deferred tax asset reversal was conducted in the previous term, an increase in income taxes for prior periods resulted in income attributable to owners of parent of ¥1,334 million.

Segment Review

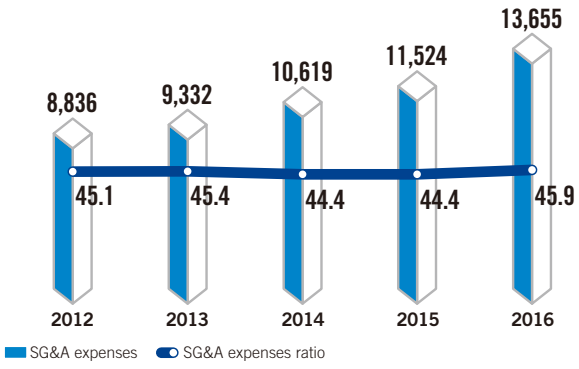
Bioindustry Business

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

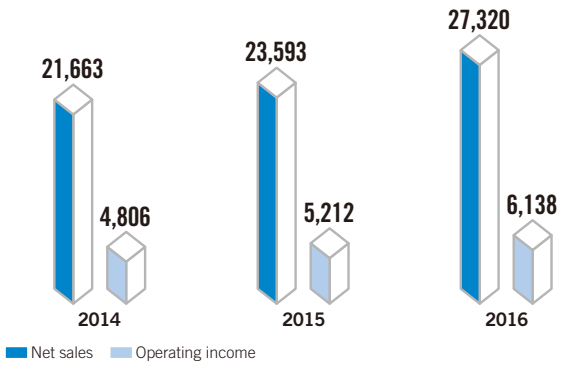
Analyzing sales by product category, sales for research reagents, the category's mainstay product, saw a dramatic increase, a fact that owes partially to yen depreciation. Year-over-year sales increased for both contract services and the scientific instruments category.

As a result, the business segment recorded a year-over-year increase of 15.8% in sales to external customers, to ¥27,320 million, and 16.8% in gross profit, to ¥15,642 million. SG&A expenses rose by 16.2%, to ¥9,504 million, owing to higher personnel expenses, R&D expenses, and other overhead. Operating income increased by 17.8% year-over-year to ¥6,138 million.

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



Bioindustry
Net Sales / Operating Income (Millions of Yen)

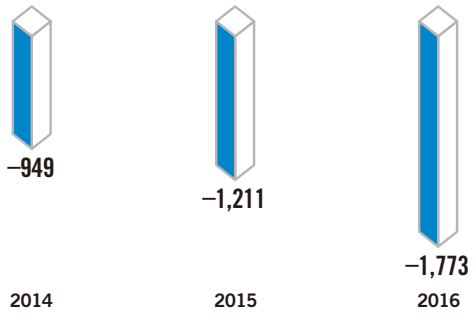


Gene Therapy Business

The business focuses on the early commercialization of gene therapies for cancer. These therapies utilize original Takara Bio technologies such as the RetroNectin® Method, a high efficiency gene transduction method; RetroNectin® expansion-culture system, a highly efficient lymphocyte propagation technology; as well as siTCR and the endoribonuclease.

For fiscal 2016, this segment had no sales. SG&A expenses increased 46.4% year-over-year to ¥1,773 million owing mainly to R&D expenses, while operating loss increased to ¥1,773 million from the previous fiscal year's ¥1,211 million.

Gene Therapy
Operating Loss (Millions of Yen)

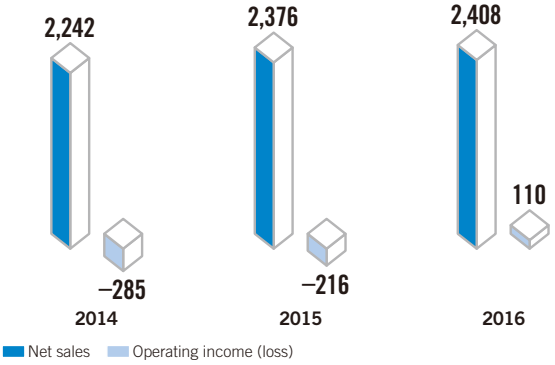


AgriBio Business

In the AgriBio Business, the Group uses the Group's unique 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 "Agaphytose®," yam-derived "Yamsgenin," and mushroom products.

In fiscal 2016, although mushroom sales dropped year-over-year, functional foods improved. Sales to external customers rose 1.3% to ¥2,408 million and the cost rate improved on account of mushroom business restructuring. Gross profit increased 56.5% year-over-year to ¥681 million. SG&A expenses decreased 12.5% year-over-year to ¥570 million owing in part to decreases in R&D expenses and shipping expenses, among others. This brought operating income to ¥110 million from the previous fiscal year's ¥216 million loss, a major improvement and a return to operating profits.

AgriBio
Net Sales / Operating Income (Loss) (Millions of Yen)



Financial Condition

Total current assets as of the end of the fiscal year ended March 31, 2016 (the fiscal year-end) on a consolidated basis were ¥66,591 million, a year-over-year increase of ¥165 million. This owed mainly to a ¥461 million increase in inventories.

Total liabilities as of the fiscal year-end were ¥6,480 million, a year-over-year decrease of ¥302 million. This was primarily due to a ¥248 million decrease in notes and accounts payable – trade, a ¥243 million decrease in deferred tax liabilities.

Total net assets as of the fiscal year-end were ¥60,110 million, a year-over-year increase of ¥467 million. This owed mainly to a ¥668 million decrease in foreign currency translation adjustment and a ¥1,153 million increase in retained earnings.

Cash Flows

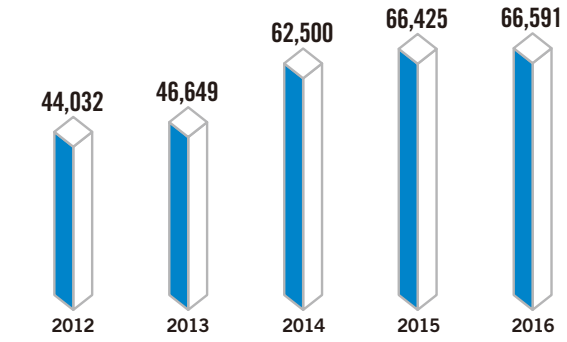
Net cash provided by operating activities was ¥3,021 million, down ¥536 million compared with the previous fiscal year. This was primarily due to a ¥710 million increase in accounts payable – trade from increased inventories.

Net cash used in investing activities was ¥4,177 million, up ¥1,008 million compared with the previous fiscal year. Primary factors included a ¥2,323 million decrease in purchases of property, plant and equipment and a ¥3,800 million increase in expenditures for fund management.

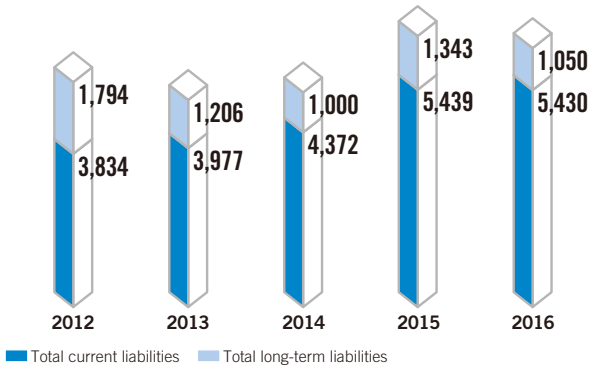
Net cash from financing activities was negative ¥221 million, on par with the previous fiscal year.

As a result, the balance of cash and cash equivalents at the end of the consolidated fiscal year was ¥5,568 million, a year-over-year decrease of ¥1,502 million.

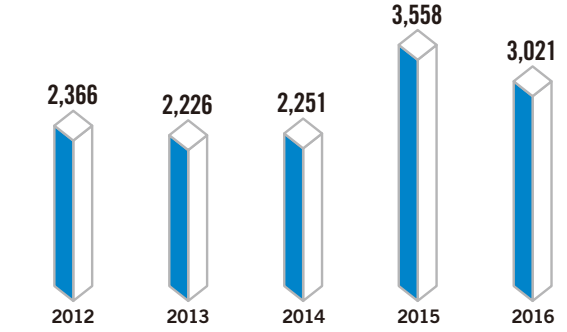
Total Assets (Millions of Yen)



Total Liabilities (Millions of Yen)



Net Cash Provided by Operating Activities (Millions of Yen)



Cash Flows from Business Activities

(Millions of Yen)	2012	2013	2014	2015	2016
Net cash provided by operating activities	¥ 2,366	¥ 2,266	¥ 2,251	¥ 3,558	**¥ 3,021**
Net cash provided by (used in) investing activities	(531)	(2,079)	(14,480)	(3,168)	**(4,177)**
Net cash provided by (used in) financial activities	(4)	149	11,281	(231)	**(221)**

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 2015, ended March 31, 2015, and any other statements with respect to future events are based on the Group's assumptions as of June 27, 2015.

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 2015 were ¥4,275 million, or 14.4% 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 2016, Takara Biotechnology (Dalian), a Chinese subsidiary, accounted for nearly all of the research reagent production, a core Takara Bio Group product that generated 68.9% 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 prompted many enterprises to conduct R&D for cell and gene therapies, including large pharmaceutical companies and venture businesses in the United States and Europe.

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 have imposed restrictions on the descriptions of foods' efficacies and effects. However the new Foods with Function Claims system was put into effect in April 2015. The Group is currently undertaking a variety of initiatives including research and development with a focus on conducting business using this system. However, if the Group is slow to take advantage of the system, or if a competitor commercializes a similar product or technology before the Group does, the Group's business strategies and performance could be affected.

5. Parent company of Takara Bio

As of March 31, 2016, 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, 2015, 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 48 affiliated companies (45 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 11 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 2016 was ¥905 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 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 26, 2015.

Name	Position at Takara Bio	Position at Takara Holdings
Hisashi Ohmiya	Chairman	Chairman
Koichi Nakao	President & CEO	Director

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. 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.

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, Takara Bio revenue could be affected and relocation expenses incurred until we are able to secure an alternative site.

Property	Use	Lessor	Amount of transaction (Year ended March 31, 2016, Millions of yen)	Transaction terms, etc.
6F and basement, Takara Meiji Yasuda Building (Chuo-ku, Tokyo)	Takara Bio, Tokyo Branch	Takara Shuzo	13	Area: 140.85m^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, 2016, Takara Bio had licenses for the use of 68 registered and 23 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 business strategies and performance.

Company name (Address)	Details of transaction	Amount of transaction (Year ended March 31, 2016, Millions of yen)	Terms of transaction, etc.
Takara Holdings Inc. (Shimogyo-ku, Kyoto)	License for use of trademarks	8	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, 2016, Millions of yen)	Terms of transaction, etc.
Takara Holding Inc. (Shimogyo-ku, Kyoto)	Contracting of computer-related services, lease of equipment, etc.	299	Type of agreement: Lease agreement Basis for computation of rental fees: Market price of land, building, etc.
	Lease of company housing	1	Type of agreement: Lease agreement Basis for computation of rental fees: Market price of land, building, etc.
Takara Shuzo Co., Ltd. (Fushimi-ku, Kyoto)	Temporary transfer of employees to Takara Bio	8	Type of agreement: Staffing agreement

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.
3. Takara Network System Co., Ltd. was acquired by Takara Holdings, Inc. on April 1, 2015.

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 Group's business strategies and performance.

7. 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 the Group's business strategies and performance may be affected.

8. 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 ("Applera") through its Applied Biosystems Group based on an agreement between F. Hoffman-La Roche and Applera. 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	Yukihiro Nishiyama, M's Science Corporation, Nagoya Industrial Science Research Institute
Contract	Memorandum on Changes to Agreements Concerning Equity Transfer, Joint Application, Licensing, Etc.
Conclusion date	November 26, 2010
Term	From November 26, 2010 to the patent expiration date
Summary	In 2010 Takara Bio took over M's Science Corporation's HF10 business and inherited all of the corporation's rights and obligations pertaining to HF 10. This memorandum ensures Takara Bio's partial ownership of patent rights and exclusive use of patents pertaining to HF10. Takara Bio will provide a milestone payment to the Nagoya Industrial Science Research Institute. It will also pay a running royalty tied to sales after the approval of HF10.

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.

9. 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. 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.

10. 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 made obsolete 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.

11. 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 a health impairment is caused by any drug, medical device, regenerative medical products, food, or research reagent, any reagent and cell or gene therapy product used in a clinical trial, or any 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 business strategies and performance.

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

12. 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 (hereinafter "Cartagena Act"); and the Group is committed to observing these laws and regulations. In addition, in the production, sale, and trade of research reagents, Takara Bio is required to follow relevant legislation, such as the Poisonous and Deleterious Substances Control Law and the Quarantine Act. However, research reagents are not drugs or regenerative medical products as defined by the Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics (hereinafter "Pharmaceuticals and Medical Devices Act"), and therefore are not regulated by that law.

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 strategies and performance.

The relevant laws and regulations such as the Pharmaceuticals and Medical Devices Act, the Act on the Safety of Regenerative Medicine, 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 are targeted at securing the quality, effectiveness, and safety of drugs, regenerative medical products, quasi-drugs, specific processed cells, cosmetics, and medical devices, and the trading of these products requires approval or permission from the relevant authorities. If the Group is unable to obtain permission to continue conducting research projects as part of its Gene Therapy business, the Group's business strategies and performance could be affected.

(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 strategies and 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 Food Labeling Act, the Act on Standardization and Proper Quality Labeling of Agricultural and Forestry Products, the Pharmaceuticals and Medical Devices Act, 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 strategies and performance.

13. Risks of lawsuits, etc.

As of June 26, 2015, 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 strategies and 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.

14. Intangible fixed assets related to Clontech Laboratories, Inc.
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, Inc., 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 26, 2015, 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, Inc., 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, March 26, 2015). Consequently, Takara Bio is amortizing this goodwill amount using the straight-line method over a 20-year period.

15. Exchange rate fluctuation
The translation into yen of costs, income, and trade receivables and payables associated with business undertaken by the Group denominated in foreign currencies is exposed to currency exchange rate fluctuation risk. The Group takes such measures as conducting forward foreign-exchange contracts to minimize the negative impact of exchange rate fluctuation, but such risks cannot be completely avoided.

Additionally, sales, expenses, assets, and other such line items on the foreign currency financial statements of overseas consolidated subsidiaries are converted into yen for the purpose of creating consolidated financial statements. Consequently, exchange rate fluctuations may affect the Group's business performance.

16. Overseas business expansion
The Group conducts business operations that include research and development, manufacturing, and sales in regions that include North America, Europe, and Asia (mainly China). Significant changes concerning the economic, political, or social climate in these countries and regions, the occurrence of problems concerning international taxation such as transfer price taxation systems, or the occurrence of natural disasters such as earthquakes may affect the Group's business strategies and performance.

17. Natural disasters
The Group's business activities may be impeded by natural disasters such as storms, earthquakes, lightning strikes, and floods, by fires or other accidents, or by worldwide pandemics of infectious diseases. To minimize damage suffered in such cases, we conduct inspections and training, and create communication systems and business continuity plans. Nevertheless, damage caused to people or things as a result of such incidents may affect the Group's business strategies and performance.

Consolidated Financial Statements

Consolidated Balance Sheet

Takara Bio Inc. and Subsidiaries
March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2016**	**2015**	**2016**
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	**¥ 5,568**	¥ 7,071	**$ 49,274**
Marketable securities (Notes 4 and 16)	**9,721**	2,723	**86,026**
Time deposits (Note 16)	**13,815**	14,089	**122,256**
Notes and accounts receivable:			
Trade (Note 16)	**6,830**	6,741	**60,442**
Other	**538**	521	**4,761**
Allowance for doubtful accounts (Note 16)	**(41)**	(50)	**(362)**
Inventories (Note 5)	**5,100**	4,639	**45,132**
Deferred tax assets (Note 14)	**202**	375	**1,787**
Prepaid expenses and other current assets	**422**	336	**3,734**
Total current assets	**42,158**	36,447	**373,079**
PROPERTY, PLANT AND EQUIPMENT (Notes 6 and 8):			
Land	**7,696**	7,698	**68,106**
Buildings and structures	**13,605**	11,823	**120,398**
Machinery, equipment and vehicles	**7,014**	7,075	**62,070**
Tools, furniture and fixtures	**5,766**	5,845	**51,026**
Lease assets	**28**	41	**247**
Construction in progress	**22**	2,005	**194**
Total property, plant and equipment	**34,135**	34,489	**302,079**
Accumulated depreciation	**(13,600)**	(13,956)	**(120,353)**
Net property, plant and equipment	**20,534**	20,532	**181,716**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 16)	**2**	4,998	**17**
Goodwill (Note 7)	**1,641**	1,840	**14,522**
Long-term prepaid expenses	**1,021**	1,174	**9,035**
Trademarks	**661**	662	**5,849**
Asset for retirement benefits (Note 9)	**73**	72	**646**
Deferred tax assets (Note 14)	**21**	4	**185**
Other assets	**488**	692	**4,318**
Allowance for doubtful accounts	**(11)**	(0)	**(97)**
Total investments and other assets	**3,897**	9,445	**34,486**
TOTAL	**¥ 66,591**	¥ 66,425	**$ 589,300**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
CURRENT LIABILITIES:			
Short-term bank loans (Notes 8 and 16)	**¥ 16**	¥ 9	**$ 141**
Current portion of long-term debt (Notes 8 and 16)	**48**	48	**424**
Notes and accounts payable (Note 16):			
Trade	**1,690**	1,939	**14,955**
Construction and other	**1,526**	1,714	**13,504**
Accrued income taxes (Notes 14 and 16)	**515**	258	**4,557**
Accrued expenses	**1,138**	997	**10,070**
Other current liabilities (Note 17)	**493**	470	**4,362**
Total current liabilities	**5,430**	5,439	**48,053**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 16)	**130**	179	**1,150**
Liability for retirement benefits (Note 9)	**488**	475	**4,318**
Deferred tax liabilities (Note 14)	**196**	439	**1,734**
Other long-term liabilities (Note 10)	**234**	248	**2,070**
Total long-term liabilities	**1,050**	1,343	**9,292**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 15 and 17)			
EQUITY (Notes 11, 12 and 20):			
Common stock, authorized, 400,000,000 shares; issued, 120,415,600 shares in 2016 and 2015	**14,965**	14,965	**132,433**
Capital surplus	**32,893**	32,893	**291,088**
Retained earnings	**9,295**	8,142	**82,256**
Accumulated other comprehensive income:			
Foreign currency translation adjustments	**3,109**	3,777	**27,513**
Defined retirement benefit plans (Note 9)	**(257)**	(238)	**(2,274)**
Total	**60,007**	59,541	**531,035**
Noncontrolling interests	**102**	101	**902**
Total equity	**60,110**	59,642	**531,946**
TOTAL	**¥ 66,591**	¥ 66,425	**$ 589,300**

See notes to consolidated financial statements.

Consolidated Statement of Income

Takara Bio Inc. and Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET SALES	**¥ 29,729**	¥ 25,969	**$ 263,088**
COST OF SALES (Notes 9 and 15)	**13,405**	12,142	**118,628**
Gross profit	**16,323**	13,827	**144,451**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9, 13 and 15)	**13,655**	11,524	**120,840**
Operating income	**2,667**	2,302	**23,601**
OTHER INCOME (EXPENSES):			
Interest income	**170**	146	**1,504**
Subsidy income	**419**	288	**3,707**
Foreign exchange gain (loss)	**21**	(5)	**185**
Interest expense	**(2)**	(11)	**(17)**
Loss on sales and disposals of property, plant and equipment	**(113)**	(43)	**(1,000)**
Impairment loss (Note 6)	**(281)**	(247)	**(2,486)**
Other, net	**26**	51	**230**
Other income, net	**238**	178	**2,106**
INCOME BEFORE INCOME TAXES	**2,905**	2,481	**25,707**
INCOME TAXES (Note 14):			
Current	**1,473**	978	**13,035**
Prior periods	**180**		**1,592**
Deferred	**(88)**	543	**(778)**
Total income taxes	**1,565**	1,521	**13,849**
NET INCOME	**1,340**	959	**11,858**
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**5**	(4)	**44**
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	**¥ 1,334**	¥ 963	**$ 11,805**

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.s and 19):			
Basic net income	**¥ 11.08**	¥ 8.01	**$ 0.09**
Cash dividends applicable to the year	**1.80**	1.50	**0.01**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Takara Bio Inc. and Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCOME	**¥ 1,340**	¥ 959	**$ 11,858**
OTHER COMPREHENSIVE INCOME (LOSS) (Note 18):			
Foreign currency translation adjustments	**(672)**	1,856	**(5,946)**
Defined retirement benefit plans	**(18)**	(240)	**(159)**
Total other comprehensive income (loss)	**(691)**	1,615	**(6,115)**
COMPREHENSIVE INCOME	**¥ 648**	¥ 2,574	**$ 5,734**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	**¥ 646**	¥ 2,574	**$5,716**
Noncontrolling interests	**1**	0	**8**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Takara Bio Inc. and Subsidiaries
Year Ended March 31, 2016

	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	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2014 (as previously reported)	120,415	¥14,965	¥ 32,893	¥7,280	¥1,926	¥ 2	¥57,068	¥ 58	¥57,127
Cumulative effect of accounting change (Note 2.j)				42			42		42
BALANCE, APRIL 1, 2014 (as restated)	120,415	14,965	32,893	7,322	1,926	2	57,110	58	57,169
Net income attributable to owners of the parent				963			963		963
Cash dividends, ¥1.2 per share				(144)			(144)		(144)
Net change in the year					1,851	(240)	1,610	43	1,653
BALANCE, MARCH 31, 2015	120,415	14,965	32,893	8,142	3,777	(238)	59,541	101	59,642
Net income attributable to owners of the parent				**1,334**			**1,334**		**1,334**
Cash dividends, ¥1.5 per share				**(180)**			**(180)**		**(180)**
Net change in the year					**(668)**	**(18)**	**(687)**	**1**	**(686)**
BALANCE, MARCH 31, 2016	**120,415**	**¥14,965**	**¥32,893**	**¥9,295**	**¥3,109**	**¥(257)**	**¥60,007**	**¥102**	**¥60,110**

	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	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2015	$132,433	$291,088	$72,053	$33,424	$(2,106)	$526,911	$893	$527,805
Net income attributable to owners of the parent			**11,805**			**11,805**		**11,805**
Cash dividends, $0.01 per share			**(1,592)**			**(1,592)**		**(1,592)**
Net change in the year				**(5,911)**	**(159)**	**(6,079)**	**8**	**(6,070)**
BALANCE, MARCH 31, 2016	**$132,433**	**$291,088**	**$82,256**	**$27,513**	**$(2,274)**	**$531,035**	**$902**	**$531,946**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Takara Bio Inc. and Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 2,905**	¥ 2,481	**$ 25,707**
Adjustments for:			
Income taxes paid	**(1,460)**	(979)	**(12,920)**
Depreciation and amortization	**1,868**	1,483	**16,530**
Loss on sales and disposals of property, plant and equipment	**113**	43	**1,000**
Impairment loss	**281**	247	**2,486**
Changes in assets and liabilities:			
Increase in trade notes and accounts receivables	**(165)**	(264)	**(1,460)**
Decrease (increase) in inventories	**(600)**	110	**(5,309)**
Increase (decrease) in trade notes and accounts payables	**(202)**	255	**(1,787)**
Increase in liability for retirement benefits	**13**	166	**115**
Other, net	**265**	13	**2,345**
Total adjustments	**115**	1,077	**1,017**
Net cash provided by operating activities	**3,021**	3,558	**26,734**
INVESTING ACTIVITIES:			
Payments for time deposits	**(14,473)**	(20,380)	**(128,079)**
Proceeds from time deposits	**14,672**	22,376	**129,840**
Purchases of marketable securities	**(5,453)**	(3,269)	**(48,256)**
Proceeds from sales of marketable securities	**3,453**	8,269	**30,557**
Purchases of investment securities		(4,996)	
Purchases of property, plant and equipment	**(2,263)**	(4,587)	**(20,026)**
Additions to long-term prepaid expenses	**(111)**	(304)	**(982)**
Payment for purchase of Takara Bio Europe AB, net of cash acquired (Note 3)		(276)	
Other, net	**(0)**	0	**(0)**
Net cash used in investing activities	**(4,177)**	(3,168)	**(36,964)**
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans, net	**7**	(81)	**61**
Repayments of long-term debt	**(48)**	(48)	**(424)**
Cash dividends paid	**(180)**	(143)	**(1,592)**
Other, net		42	
Net cash used in financing activities	**(221)**	(231)	**(1,955)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(125)**	481	**(1,106)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,502)**	640	**(13,292)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**7,071**	6,430	**62,575**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 5,568**	¥ 7,071	**$ 49,274**

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 the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform them to the classifications used in 2016.

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. 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 ¥113 to $1, the approximate rate of exchange at March 31, 2016. U.S. dollar figures of less than a thousand dollars are rounded down to the nearest thousand dollars, except for per share data. 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, 2016, include the accounts of the Company and all 11 (11 in 2015) subsidiaries (collectively, the "Group").

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

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 over a certain period, not exceeding 20 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" which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions issued by the Accounting Standards Board of Japan (the "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 Statement — In May 2006, the ASBJ issued PITF No. 18. PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that 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 recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development (R&D); and (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.

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."

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.

In September 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:

(a) *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 noncontrolling 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 previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling 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 is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) *Presentation of the consolidated balance sheet* — In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(c) *Presentation of the consolidated statement of income* — In the consolidated statement of income, "income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) *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 previous 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.

(e) *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 previous 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 (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs 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 (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) 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 shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income 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 (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were

applied prospectively.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

There is no impact from this accounting change.

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 deposit, 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 marketable and investment securities consist of held-to-maturity debt securities and available-for-sale securities. Held-to-maturity debt securities are reported at amortized cost. 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 straight-line method. 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 9.

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 in March 2015, the ASBJ also issued 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, 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, all 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), (b) and (c) above, effective March 31, 2014. As a result, asset for retirement benefits of ¥29 million and liability for retirement benefits of ¥294 million were recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, increased by ¥2 million. The impact on per share information is not disclosed because it is immaterial.

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 issued 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.

The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet.

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 lease periods as their useful lives and no residual value.

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 to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. 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 attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

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

t. 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.

u. New Accounting Pronouncements

Tax Effect Accounting — On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

3 BUSINESS COMBINATION

Year Ended March 31, 2015

1. Overview of the Business Combination by Means of Acquisition

(1) Acquired firm and description of business

Acquired firm: Cellectis AB

Description of business: Manufacturing and sales of stem cell products

(2) Purpose of acquisition

By acquiring the technology of Cellectis AB (differentiation-inducting techniques, differentiating Hepatocyte cell or Pancreatic cell from iPS cell), the Company can acquire stem cell related products (ES cell, iPS cell, and Differentiating cell) and expand its product lineup in the Bioindustry Segment, thus improving its business performance.

(3) Date of completion of business combination

August 29, 2014 (acquisition date)

(4) Legal form of business combination

Acquisition of stock by cash

(5) Name of acquired company after business combination

At the time of acquisition the company's name was Cellectis AB, but on September 1, 2014, the Company changed its company name to Takara Bio Europe AB.

(6) Percentage of total shares

100%

(7) Basis for determining the acquired company

The acquired company was determined to be Cellectis AB as the Company paid cash and acquired 100% of stock of Cellectis AB.

2. Included performance period of the Company in consolidated financial statements

From October 1, 2014 to December 31, 2014

3. Acquisition cost of acquired company

		Millions of Yen
		2015
Direct cost	Cash	**¥ 234**
Incidental expenses	Advisory cost etc.	**107**
Acquisition cost		**¥ 341**

4. Recognized goodwill, cause of occurrence, method and period of amortization

(1) Amount of goodwill recognized

¥304 million

(2) Cause of occurrence

The Company recognized excess earning power from expected future business development.

(3) Amortization method and period

Amortized over 8 years using the straight-line method

5. Acquired assets and liabilities at acquisition date

	Millions of Yen
Current assets	**¥ 164**
Fixed assets	**43**
Total assets	**¥ 208**
Current liabilities	**¥ 170**
Total liabilities	**¥ 170**

6. Estimated impact on consolidated income statement and method of calculation assuming that the business combination was completed at the beginning of the fiscal year

(1) Impact on consolidated income statement

	Millions of Yen
Sales	**¥ 360**
Operating (loss)	**(252)**
Ordinary (loss)	**(147)**
Net (loss)	**(147)**

(2) Method of calculation

The Company calculated the amount of the impact by comparing the difference between the amount of sales and income assuming that the business combination was completed at the beginning of fiscal year and amount of sales and income information from the current consolidated fiscal year.

Additionally, the Company calculated the amortization amount of goodwill by assuming the business combination was completed at the beginning of fiscal year.

Please note that the Company did not receive an audit certificate for the above note.

4 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Current:			
Corporate bonds	**¥ 6,998**		**$ 61,929**
Certificates of deposit	**2,723**	¥ 2,723	**24,097**
Noncurrent:			
Nonmarketable equity securities	**¥ 2**	¥ 2	**$ 17**
Corporate bonds		4,996	

The cost and aggregate fair values of marketable and investment securities at March 31, 2016 and 2015, were as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2016								
Securities classified as:								
Available-for-sale:								
Debt securities and other	**¥ 723**			**¥ 723**	**$ 6,398**			**$ 6,398**
Held-to-maturity	**8,998**	**¥ 1**		**8,999**	**79,628**	**$ 8**		**79,637**
March 31, 2015								
Securities classified as:								
Available-for-sale:								
Debt securities and other	¥ 723			¥ 723				
Held-to-maturity	6,996		¥ 5	6,990				

5 INVENTORIES

Inventories at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Finished products and merchandise	**¥ 3,822**	¥ 3,560	**$ 33,823**
Work in process	**331**	217	**2,929**
Raw materials and supplies	**946**	860	**8,371**
Total	**¥ 5,100**	¥ 4,639	**$ 45,132**

6 LONG-LIVED ASSETS

Impairment Loss

The Group reviewed its long-lived assets for impairment as of March 31, 2016 and 2015. As a result, the Group recognized an impairment loss of ¥281 million ($2,486 thousand) and ¥247 million as other expense for idle property group which was written down to the recoverable amounts for the years ended March 31, 2016 and 2015, respectively.

March 31, 2016		Millions of Yen				
		Asset Type and Impairment Loss				
Utilization	Location	Building and Structures	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Dismantling Cost	Total
Idle property	Otsu City, Shiga Pref.	**¥ 209**	**¥ 0**	**¥ 8**	**¥ 63**	**¥ 281**
Total		**¥ 209**	**¥ 0**	**¥ 8**	**¥ 63**	**¥ 281**

March 31, 2015		Millions of Yen				
		Asset Type and Impairment Loss				
Utilization	Location	Building and Structures	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Land	Total
Idle property	Yokkaichi City, Mie Pref.	¥ 9	¥ 39	¥ 0	¥ 150	¥ 199
Idle property	Kusatsu City, Shiga Pref.	4	7	3		15
Idle property	Kyotanba City, Kyoto Pref.				31	31
Total		¥ 14	¥ 47	¥ 3	¥ 181	¥ 247

March 31, 2016		Thousands of U.S. Dollars				
		Asset Type and Impairment Loss				
Utilization	Location	Building and Structures	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Dismantling Cost	Total
Idle property	Otsu City, Shiga Pref.	**$ 1,849**	**$ 0**	**$ 70**	**$ 557**	**$ 2,486**
Total		**$ 1,849**	**$ 0**	**$ 70**	**$ 557**	**$ 2,486**

① Reason for recognizing impairment loss

In the fiscal year ended March 31, 2016, the Company moved its headquarters from Otsu City to Kusatsu City, Shiga Prefecture in August, 2015. The Company recognized impairment loss on unutilized assets of the former headquarters at Otsu City.

In the fiscal year ended March 31, 2015, following the reconstruction of the mushroom business (production stoppage of Honshimeji in Kusu Factory), the Company recognized impairment loss of unutilized assets.

② Method of calculating recoverable amount

In the fiscal year ended March 31, 2016, recoverable amounts were measured by value in use, which was considered zero because future cash flows were not expected.

In the fiscal year ended March 31, 2015, recoverable amounts were measured by the net selling price, estimated based on real estate appraisal value and other items.

7 GOODWILL

Goodwill at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Goodwill on purchase of a specific business	**¥ 1,641**	¥ 1,840	**$ 14,522**
Total	**¥ 1,641**	¥ 1,840	**$ 14,522**

8 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 9.50% and 0% to 9.55% at March 31, 2016 and 2015, respectively.

Long-term debt at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Loans principally from banks and the local government, due serially to 2022 with interest rates ranging from 0% to 1.75% in 2016 and 0% to 11.00% in 2015:			
Collateralized	**¥ 122**	¥ 142	**$ 1,079**
Unsecured	**55**	83	**486**
Obligation under finance leases	**1**	2	**8**
Total	**179**	228	**1,584**
Less current portion	**48**	48	**424**
Long-term debt, less current portion	**¥ 130**	¥ 179	**$ 1,150**

Annual maturities of long-term debt as of March 31, 2016, for the next five years and thereafter were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 48	$ 424
2018	48	424
2019	20	176
2020	20	176
2021	20	176
2022 and thereafter	21	185
Total	¥ 179	$ 1,584

At March 31, 2016, buildings and structures of ¥324 million ($2,867 thousand); and land of ¥250 million ($2,212 thousand) were pledged as collateral for long-term debt (including current portion of long-term debt) of ¥122 million ($1,079 thousand).

9 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 partially 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, 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. Under the defined benefit corporate pension plans, employees terminating their employment are entitled to certain lump-sum severance payments or pension 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.

Some subsidiaries apply the simplified method to calculate liabilities for retirement benefits and retirement benefit costs.

Year Ended March 31, 2016

(1) The changes in defined benefit obligation for the year ended March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 958	$ 8,477
Current service cost	81	716
Interest cost	8	70
Actuarial gains	(13)	(115)
Benefits paid	(20)	(176)
Others	(5)	(44)
Balance at end of year	¥ 1,008	$ 8,920

(2) The changes in plan assets for the year ended March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 554	$ 4,902
Expected return on plan assets	9	79
Actuarial losses	(51)	(451)
Contributions from the employer	93	823
Benefits paid	(9)	(79)
Others	(3)	(26)
Balance at end of year	¥ 593	$ 5,247

(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, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥ 521	$ 4,610
Plan assets	(593)	(5,247)
Total	(72)	(637)
Unfunded defined benefit obligation	487	4,309
Net liability arising from defined benefit obligation	¥ 415	$ 3,672
Liability for retirement benefits	¥ 488	$ 4,318
Asset for retirement benefits	(73)	(646)
Net liability arising from defined benefit obligation	¥ 415	$ 3,672

(4) The components of net periodic benefit costs for the year ended March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 81	$ 716
Interest cost	8	70
Expected return on plan assets	(9)	(79)
Recognized actuarial losses	46	407
Amortization of transitional obligation	(26)	(230)
Net periodic benefit costs	¥ 98	$ 867

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the year ended March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Prior service cost	¥ (26)	$ (230)
Actuarial gains	7	61
Total	¥ (18)	$ (159)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥ 133	$ 1,176
Unrecognized actuarial losses	(391)	(3,460)
Total	¥ (257)	$ (2,274)

(7) Plan assets for the year ended March 31, 2016, were as follows:

a. Components of plan assets

Plan assets consisted of the following:

Debt investments	**55%**
General account of insurance company	**28**
Equity investments	**13**
Cash and cash equivalents	**1**
Others	**3**
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.

(8) Assumptions used for the year ended March 31, 2016, were set forth as follows:

Discount rate:	
Defined benefit	**0.9%**
Lump sum pension distribution	**1.0%**
Expected rate of return on plan assets	**2.0%**
Average rate of increase in salary	**4.1%**

(9) Contributions paid to the defined contribution pension plan were ¥103 million ($911 thousand) for the year ended March 31, 2016.

Year Ended March 31, 2015

(1) The changes in defined benefit obligation for the year ended March 31, 2015, were as follows:

	Millions of Yen
Balance at beginning of year (as previously reported)	¥ 788
Cumulative effect of accounting change	(64)
Balance at beginning of year (as restated)	723
Current service cost	66
Interest cost	6
Actuarial losses	189
Benefits paid	(33)
Others	6
Balance at end of year	¥ 958

(2) The changes in plan assets for the year ended March 31, 2015, were as follows:

	Millions of Yen
Balance at beginning of year	¥ 524
Expected return on plan assets	9
Actuarial losses	(47)
Contributions from the employer	90
Benefits paid	(27)
Others	4
Balance at end of year	¥ 554

(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, 2015, was as follows:

	Millions of Yen
Funded defined benefit obligation	¥ 482
Plan assets	(554)
Total	(71)
Unfunded defined benefit obligation	475
Net liability arising from defined benefit obligation	¥ 403
Liability for retirement benefits	¥ 475
Asset for retirement benefits	(72)
Net liability arising from defined benefit obligation	¥ 403

(4) The components of net periodic benefit costs for the year ended March 31, 2015, were as follows:

	Millions of Yen
Service cost	¥ 66
Interest cost	6
Expected return on plan assets	(9)
Recognized actuarial losses	21
Amortization of transitional obligation	(26)
Net periodic benefit costs	¥ 57

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the year ended March 31, 2015, were as follows:

	Millions of Yen
Prior service cost	¥ (26)
Actuarial losses	(215)
Total	¥ (242)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2015, were as follows:

	Millions of Yen
Unrecognized prior service cost	¥ 160
Unrecognized actuarial losses	(398)
Total	¥ (238)

(7) Plan assets for the year ended March 31, 2015, were as follows:

a. Components of plan assets

Plan assets consisted of the following:

Debt investments	51%
General account of insurance company	28
Equity investments	17
Cash and cash equivalents	1
Others	3
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.

(8) Assumptions used for the year ended March 31, 2015, were set forth as follows:

Discount rate:	
Defined benefit	**0.9%**
Lump sum pension distribution	**1.0%**
Expected rate of return on plan assets	**2.0%**
Average rate of increase in salary	**4.1%**

(9) Contributions paid to the defined contribution pension plan were ¥67 million for the year ended March 31, 2015.

10 ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	**¥ 35**	¥ 35	**$ 309**
Reconciliation associated with passage of time	**0**	0	**0**
Balance at end of year	**¥ 35**	¥ 35	**$ 309**

11 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 including (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 being prescribed as one year rather than the normal two-year 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 within equity 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.

12 RELATED-PARTY DISCLOSURES

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

13 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,275 million ($37,831 thousand) and ¥3,401 million for the years ended March 31, 2016 and 2015, respectively.

14 INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 33% and 35% for the years ended March 31, 2016 and 2015, 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, 2016 and 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deferred tax assets:			
Inventories	**¥ 195**	¥ 190	**$ 1,725**
Unrealized profit on sales of inventories	**175**	104	**1,548**
Accrued bonuses	**58**	60	**513**
Retirement benefits	**47**	53	**415**
Reconciliation related to retirement benefits	**77**	76	**681**
Depreciation	**43**	51	**380**
Impairment loss	**192**	118	**1,699**
Tax loss carryforwards	**463**	441	**4,097**
Other	**310**	323	**2,743**
Less valuation allowance	**(1,008)**	(931)	**(8,920)**
Deferred tax assets	**¥ 557**	¥ 489	**$ 4,929**
Deferred tax liabilities:			
Goodwill	**¥ 248**	¥ 249	**$ 2,194**
Undistributed profit of foreign subsidiaries	**194**	213	**1,716**
Other	**87**	85	**769**
Deferred tax liabilities	**¥ 530**	¥ 548	**$ 4,690**
Net deferred tax assets (liabilities)	**¥ 26**	¥ (59)	**$230**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2016 and 2015, is as follows:

	2016	2015
Normal effective statutory tax rate in Japan	**33.0%**	35.0%
Expenses not deductible for income tax purposes	**0.6**	0.4
Valuation allowance	**7.1**	19.6
Per capita rate of local tax	**0.3**	0.6
Tax rate difference of subsidiaries	**(4.1)**	(8.2)
Elimination in consolidation	**2.4**	4.0
Tax credit	**(1.0)**	(0.8)
Goodwill depreciation	**2.1**	1.9
Undistributed profit of foreign subsidiaries	**(0.7)**	1.9
Effect of tax rate reduction		(0.1)
Foreign withholding tax	**6.2**	5.5
Income taxes for prior periods	**6.2**	
Reconciliation of transfer pricing	**1.5**	
Other, net	**0.3**	1.4
Actual effective tax rate	**53.9%**	61.3%

On March 29, 2016, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from 32% to 31% for the fiscal years beginning on or after April 1, 2016, and to 30% for the fiscal years beginning on or after April 1, 2018.

The effect of this change was not significant.

At March 31, 2016, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥1,431 million ($12,663 thousand) which are available to be offset against taxable income of the Company and 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	**$ 1,734**
2019	106	**938**
2020	86	**761**
2021	31	**274**
2022	55	**486**
2023	224	**1,982**
2024	180	**1,592**
2025 and thereafter	286	**2,530**
Total	¥ 1,167	**$ 10,327**

15 LEASES

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

Total rental expense for the years ended March 31, 2016 and 2015, was ¥431 million ($3,814 thousand) and ¥362 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 209	$ 1,849
Due after one year	583	5,159
Total	¥ 793	$ 7,017

16 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 6 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 17 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 financial investments, 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, 2016	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	**¥ 5,568**	**¥ 5,568**	
Time deposits	**13,815**	**13,815**	
Notes and accounts receivable - trade	**6,830**	**6,830**	
Allowance for doubtful accounts	**(41)**	**(41)**	
Marketable securities	**9,721**	**9,723**	**¥ 1**
Total	**¥ 35,894**	**¥ 35,895**	**¥ 1**
Short-term bank loans	**¥ 16**	**¥ 16**	
Notes and accounts payable - trade	**1,690**	**1,690**	
Current portion of long-term debt	**48**	**48**	**¥ (0)**
Notes and accounts payable - Construction and other	**1,526**	**1,526**	
Accrued income taxes	**515**	**515**	
Long-term debt	**130**	**133**	**(3)**
Total	**¥ 3,929**	**¥ 3,932**	**¥ (3)**
Derivatives (*)	**¥ (4)**	**¥ (4)**	

	Millions of Yen		
March 31, 2015	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 7,071	¥ 7,071	
Time deposits	14,089	14,089	
Notes and accounts receivable - trade	6,741	6,741	
Allowance for doubtful accounts	(50)	(50)	
Marketable securities	2,723	2,723	
Investment securities	4,996	4,990	¥ (5)
Total	¥ 35,570	¥ 35,564	¥ (5)
Short-term bank loans	¥ 9	¥ 9	
Notes and accounts payable - trade	1,939	1,939	
Current portion of long-term debt	48	48	¥ 0
Notes and accounts payable - Construction and other	1,714	1,714	
Accrued income taxes	258	258	
Long-term debt	178	180	(2)
Total	¥ 4,149	¥ 4,151	¥ (2)
Derivatives (*)	¥ 0	¥ 0	

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

March 31, 2016	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$ 49,274	$ 49,274	
Time deposits	122,256	122,256	
Notes and accounts receivable - trade	60,442	60,442	
Allowance for doubtful accounts	(362)	(362)	
Marketable securities	86,026	86,044	$ 8
Total	$ 317,646	$ 317,654	$ 8
Short-term bank loans	$ 141	$ 141	
Notes and accounts payable - trade	14,955	14,955	
Current portion of long-term debt	415	415	$ (0)
Notes and accounts payable - Construction and other	13,504	13,504	
Accrued income taxes	4,557	4,557	
Long-term debt	1,150	1,176	(26)
Total	$ 34,761	$ 34,787	$ (26)
Derivatives (*)	$ (35)	$ (35)	

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 and investment securities

The fair values of marketable and investment 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 4.

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 17.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Nonmarketable equity securities	¥ 2	¥ 2	$ 17
Total	¥ 2	¥ 2	$ 17

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

March 31, 2016	Millions of Yen Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 5,568			
Time deposits	13,815			
Notes and accounts receivable - trade	6,830			
Marketable securities	9,723			
Total	¥ 35,937			

March 31, 2016	Thousands of U.S. Dollars Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	**$ 49,274**			
Time deposits	**122,256**			
Notes and accounts receivable - trade	**60,442**			
Marketable securities	**86,044**			
Total	**$ 318,026**			

Please see Note 8 for annual maturities of long-term debt.

17 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 the Group's 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

At March 31, 2016	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Buying USD	**¥ 239**		**¥ (2)**	**¥ (2)**
Selling EUR	**107**		**(0)**	**(0)**
CNY	**51**		**(0)**	**(0)**
Nondeliverable forward:				
Selling WON	**¥ 47**		**¥ (1)**	**¥ (1)**

At March 31, 2015	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Buying USD	¥ 184		¥ 0	¥ 0
GBP	9		(0)	(0)
AUD	0		(0)	(0)
CNY	46		1	1
Selling EUR	57		0	0
CNY	134		(0)	(0)
Nondeliverable forward:				
Buying WON	¥ 0		¥ (0)	¥ (0)
Selling WON	55		(0)	(0)
INR	0		(0)	(0)

At March 31, 2016	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Buying USD	**$ 2,115**		**$ (17)**	**$ (17)**
Selling EUR	**946**		**(0)**	**(0)**
CNY	**451**		**(0)**	**(0)**
Nondeliverable forward:				
Selling WON	**$ 415**		**$ (8)**	**$ (8)**

Derivative Transactions to Which Hedge Accounting is Applied

At March 31, 2016	Hedged Item	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Buying EUR	**Payables**	**¥ 3**		**¥ (0)**
USD	**Payables**	**43**		**(0)**

At March 31, 2015	Hedged Item	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Buying EUR	Payables	¥ 3		¥ (0)
USD	Payables	60		(0)

At March 31, 2016	Hedged Item	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Buying EUR	**Payables**	**$ 26**		**$ (0)**
USD	**Payables**	**380**		**(0)**

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

18 OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥ (672)**	¥ 1,856	**$ (5,946)**
Total	**¥ (672)**	¥ 1,856	**$ (5,946)**
Defined retirement benefits plans:			
Adjustments arising during the year	**¥ (38)**	¥ (236)	**$ (336)**
Reclassification adjustments to profit	**19**	(5)	**168**
Amount before income tax effect	**(18)**	(242)	**(159)**
Income tax effect		1	
Total	**¥ (18)**	¥ (240)	**$ (159)**
Total other comprehensive income	**¥ (691)**	¥ 1,615	**$ (6,115)**

19 NET INCOME PER SHARE

Reconciliation of the differences between basic net income per share ("EPS") for the years ended March 31, 2016 and 2015, is as follows:

For the year ended March 31, 2016:	Millions of Yen Net Income Attributable to Owners of the Parent	Thousands of Shares Weighted-Average Shares	Yen EPS	U.S. Dollars EPS
Basic EPS				
Net income available to common shareholders	**¥ 1,334**	**120,415**	**¥ 11.08**	**$ 0.09**
For the year ended March 31, 2015:				
Basic EPS				
Net income available to common shareholders	¥ 963	120,415	¥ 8.01	

Diluted net income per share is not disclosed because no dilutive securities are outstanding for the years ended March 31, 2016 and 2015.

20 SUBSEQUENT EVENTS

Significant Subsequent Event

(Company Acquisition by Acquisition of Shares)

On May 13, 2016, the board of directors meeting of the Company resolved that Takara Bio USA Holdings Inc. ("TBUSH"), a wholly owned subsidiary of the Company, will acquire all shares issued by WaferGen Bio-systems, Inc. ("WaferGen"), and TBUSH entered into a merger agreement with WaferGen on the same day.

1. Reason for the share acquisition

The Group supplies research reagents, scientific instruments, and contracted service to biotechnology researchers.

Specially, the Group focuses on development of reagent kits for next generation sequencers and reagent kits using SMART technology which efficiently amplifies genes from micro amounts of RNA samples under the brand name of Clontech®.

Currently, the Group is developing reaction reagents optimized for automatic analysis devices targeted for use in the clinical field.

Additionally, WaferGen provides devices and reagent kits for single cell analysis, and their unique massively-parallel qPCR device for small amount samples, to biotechnology companies, pharmaceutical companies and clinical laboratories.

The Group expects synergies and increased sales of equipment and single cell reagent kits from the combination of WaferGen technology including single cell analysis and molecular biotechnology of the Group.

2. Name, business description, and scale of the company subject to acquisition

(1) Name of to be acquired company
WaferGen Bio-systems, Inc.

(2) Address
34700 Campus Drive Fremont, CA 94555 United States

(3) Title and name of representative
Dr. Rolland Carlson, CEO, President and Director

(4) Business description
Manufacturing and sales of research reagents and equipment

(5) Consolidated financial position as of December 31, 2015 and consolidated operating results for the year then ended

	Thousands of U.S. Dollars
Common stock and preferred stock	**$ 122,543**
Net assets	**15,697**
Total assets	**22,873**
Revenue	**7,167**
Operating loss	**(15,092)**

(6) Date of establishment
October 22, 2002

(7) Principal shareholder and shareholding ratios
Affiliates of Sabby Management, LLC: 9.96%

3. Number and acquisition price of the shares to be acquired, and the ownership ratio after the acquisition

(1) Number of shares held before the acquisition
- shares (Number of voting rights: -)

(2) Number of shares acquired (*)
Common stock: 18,753,136 shares
(Number of voting rights: 18,753,136)
Preferred stock: 430 shares

(3) Amount of shares to be acquired
Pursuant to the terms and subject to the conditions of the merger agreement, the acquisition price will be determined by multiplying Wafergen's revenue amount for the year ending December 2016 by a certain multiplying factor considering adjustment items. The multiplying factor and adjustment items are described in the merger agreement. The revenue multiple amount is capped at $50.0 million.

(4) Number of shares to be held after the acquisition (*)
Common stock: 18,753,136 shares
(Number of voting rights: 18,753,136,
Ownership ratio: 100%)
Preferred stock: 430 shares
(Note)
* number of shares at May 12, 2016 (Japan time)
The final number of shares may change in the case that stock options or warrants are exercised (it is possible that the number of shares will increase to a maximum of 47,728,515 shares).

4. Acquisition process

TBUSH will establish a special purpose company ("SPC") and SPC will merge with WaferGen. In this procedure, TBUSH will acquire 100% of the shares of WaferGen in cash from existing shareholders of WaferGen. The acquisition is expected to be legally effective around March 2017 after the terms and conditions of the merger agreement are satisfied, including approval at WaferGen shareholders meetings.

5. Schedule

(1) May 13, 2016 (Japan time)
Entry into the merger agreement

(2) August, 2016 (Planned)
Approval of the merger agreement at WaferGen's shareholders meeting

(3) February, 2017 (Planned)
Completion of WaferGen's audited financial statements for the year ending December 31, 2016 and finalizing the acquisition prices

(4) March, 2017 (Planned)
Acquisition of the shares

6. Fundraising method

The transaction will be funded by the Group's funds on hand

(Appropriations of Retained Earnings)

The following appropriation of retained earnings at March 31, 2016, was approved at the Company's shareholders' meeting held on June 24, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥1.80 ($0.01) per share	**¥ 216**	**$ 1,911**

21 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 Bioindustry, Gene Therapy and AgriBio segments.

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

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

The AgriBio segment consists of the businesses for 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

	2016					
	Bioindustry	Gene Therapy	AgriBio	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	**¥ 27,320**	**¥**	**¥ 2,408**	**¥ 29,729**		**¥ 29,729**
Intersegment sales or transfers			**7**	**7**	**¥ (7)**	
Total	**¥ 27,320**	**¥**	**¥ 2,416**	**¥ 29,736**	**¥ (7)**	**¥ 29,729**
Segment profit (loss)	**¥ 6,138**	**¥ (1,773)**	**¥ 110**	**¥ 4,475**	**¥ (1,808)**	**¥ 2,667**
Segment assets	**37,304**	**3,266**	**2,910**	**43,481**	**23,109**	**66,591**
Other:						
Depreciation	**1,177**	**304**	**102**	**1,584**	**103**	**1,687**
Amortization of goodwill	**181**			**181**		**181**
Increase in property, plant and equipment and intangible assets	**1,580**	**199**	**96**	**1,876**	**214**	**2,090**

	Millions of Yen					
	2015					
	Bioindustry	Gene Therapy	AgriBio	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥ 23,593	¥	¥ 2,376	¥ 25,969		¥ 25,969
Intersegment sales or transfers			4	4	¥ (4)	
Total	¥ 23,593	¥	¥ 2,381	¥ 25,974	(4)	¥ 25,969
Segment profit (loss)	¥ 5,212	¥ (1,211)	¥ (216)	¥ 3,784	¥ (1,481)	¥ 2,302
Segment assets	33,800	4,080	3,588	41,469	24,956	66,425
Other:						
Depreciation	1,047	128	110	1,286	60	1,347
Amortization of goodwill	136			136		136
Increase in property, plant and equipment and intangible assets	1,195	1,284	61	2,541	2,220	4,762

	Thousands of U.S. Dollars					
	2016					
	Bioindustry	Gene Therapy	AgriBio	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	**$ 241,769**	**$**	**$ 21,309**	**$ 263,088**		**$ 263,088**
Intersegment sales or transfers			**61**	**61**	**$ (61)**	
Total	**$ 241,769**	**$**	**$ 21,380**	**$ 263,150**	**$ (61)**	**$ 263,088**
Segment profit (loss)	**$ 54,318**	**$ (15,690)**	**$ 973**	**$ 39,601**	**$ (16,000)**	**$ 23,601**
Segment assets	**330,123**	**28,902**	**25,752**	**384,787**	**204,504**	**589,300**
Other:						
Depreciation	**10,415**	**2,690**	**902**	**14,017**	**911**	**14,929**
Amortization of goodwill	**1,601**			**1,601**		**1,601**
Increase in property, plant and equipment and intangible assets	**13,982**	**1,761**	**849**	**16,601**	**1,893**	**18,495**

Note: 1. Reconciliations of segment profit include unallocated operating expenses of ¥1,808 million ($16,000 thousand) and ¥1,481 million for the years ended March 31, 2016 and 2015, 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			
	2016							
	Bioindustry	Gene Therapy	AgriBio	Total	Bioindustry	Gene Therapy	AgriBio	Total
Sales to external customers	**¥ 27,320**	**¥**	**¥ 2,408**	**¥ 29,729**	**$ 241,769**	**$**	**$ 21,309**	**$ 263,088**

	Millions of Yen			
	2015			
	Bioindustry	Gene Therapy	AgriBio	Total
Sales to external customers	¥ 23,593	¥	¥ 2,376	¥ 25,969

(5) Information about geographical areas is as follows.

(a) Sales

Millions of Yen

2016						
Japan	USA	China	Asia (except for China)	Europe	Other	Total
¥ 13,615	**¥ 5,985**	**¥ 5,809**	**¥ 1,565**	**¥ 2,334**	**¥ 418**	**¥ 29,729**

Millions of Yen

2015						
Japan	USA	China	Asia (except for China)	Europe	Other	Total
¥ 12,919	¥ 4,362	¥ 4,994	¥ 1,338	¥ 2,068	¥ 286	¥ 25,969

Thousands of U.S. Dollars

2016						
Japan	USA	China	Asia (except for China)	Europe	Other	Total
$ 120,486	**$ 52,964**	**$ 51,407**	**$ 13,849**	**$ 20,654**	**$ 3,699**	**$ 263,088**

(b) Property, plant and equipment

Millions of Yen

2016					
Japan	USA	China	Asia (except for China)	Europe	Total
¥ 17,496	**¥ 287**	**¥ 2,468**	**¥ 248**	**¥ 34**	**¥ 20,534**

Millions of Yen

2015					
Japan	USA	China	Asia (except for China)	Europe	Total
¥ 17,095	¥ 304	¥ 2,809	¥ 273	¥ 50	¥ 20,532

Thousands of U.S. Dollars

2016					
Japan	USA	China	Asia (except for China)	Europe	Total
$ 154,831	**$ 2,539**	**$ 21,840**	**$ 2,194**	**$ 300**	**$ 181,716**

(6) Information about impairment losses

Millions of Yen

	2016				
	Bioindustry	Gene Therapy	AgriBio	Reconciliations	Consolidated
Impairment loss				**¥ 281**	**¥ 281**

Millions of Yen

	2015				
	Bioindustry	Gene Therapy	AgriBio	Reconciliations	Consolidated
Impairment loss				¥ 247	¥ 247

Thousands of U.S. Dollars

	2016				
	Bioindustry	Gene Therapy	AgriBio	Reconciliations	Consolidated
Impairment loss				**$ 2,486**	**$ 2,486**

Note: Amount of "Reconciliations" is impairment loss of corporate assets which does not belong to the reportable segments.

(7) Information about amortization of goodwill and goodwill at March 31, 2016 and 2015, is as follows.

Millions of Yen

	2016					
	Bioindustry	Gene Therapy	AgriBio	Total	Reconciliations	Consolidated
Amortization of goodwill	**¥ 181**			**¥ 181**		**¥ 181**
Goodwill at March 31, 2016	**1,641**			**1,641**		**1,641**

Millions of Yen

	2015					
	Bioindustry	Gene Therapy	AgriBio	Total	Reconciliations	Consolidated
Amortization of goodwill	¥ 136			¥ 136		¥ 136
Goodwill at March 31, 2015	1,840			1,840		1,840

Thousands of U.S. Dollars

	2016					
	Bioindustry	Gene Therapy	AgriBio	Total	Reconciliations	Consolidated
Amortization of goodwill	**$ 1,601**			**$ 1,601**		**$ 1,601**
Goodwill at March 31, 2016	**14,522**			**14,522**		**14,522**

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, 2016, 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, 2016, 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.

Emphasis of Matter

As discussed in Note 20 to the consolidated financial statements, on May 13, 2016, the board of directors meeting of Takara Bio Inc. resolved that Takara Bio USA Holdings Inc., a wholly owned subsidiary of Takara Bio Inc., will acquire all shares issued by WaferGen Bio-systems, Inc., and Takara Bio USA Holdings Inc. entered into a merger agreement with WaferGen Bio-systems, Inc. on the same day. Our opinion is not modified in respect of this matter.

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, 2016

Member of
Deloitte Touche Tohmatsu Limited

Investor Information As of March 31, 2016

Corporate Data

Trade Name
Takara Bio Inc.

Head Office
Nojihigashi 7-4-38, Kusatsu, Shiga 525-0058, Japan
Telephone: +81-77-565-6920

Established
April 1, 2002

Issued Capital
¥14,965,828,496

Number of Employees of Takara Bio Group
1,273

URL
www.takara-bio.com

Main Offices

Headquarters and Research Laboratory
Nojihigashi 7-4-38, Kusatsu, Shiga 525-0058, Japan

Kusatsu Office
Nojihigashi 7-2-62, Kusatsu, Shiga 525-0058, Japan

Eastern Japan Sales
Nihonbashi 2-15-10, Chuo-ku, Tokyo 103-8232, 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, and related contracted services
Takara Korea Biomedical Inc.	Seoul, Korea	₩3,860 million	Sale of research reagents and scientific instruments
Takara Biomedical Technology (Beijing) Co., Ltd.	Beijing, People's Republic of China	¥1,030 million	Sale of research reagents
DSS Takara Bio India Pvt. Ltd.	New Delhi, India	Rs.110 million	Production and sale of research reagents
Takara Bio USA Holdings Inc.	Mountain View, U.S.A.	US$70,857 thousand	Subsidiary management
Takara Bio USA, 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	EUR891 thousand	Sale of research reagents
Takara Bio Europe AB	Gothenburg, Sweden	2,222 thousand Swedish kronas	Development, production, sale of research reagents, and related contracted services
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 of Ashitaba and other agricultural products
KINOKO CENTER KIN INC.	Okinawa, Japan	¥5 million	Production and sale of mushrooms

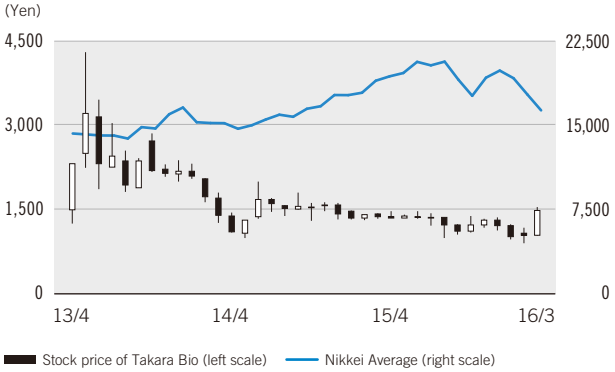
Investor Information

Common Stock

Authorized Shares	400,000,000 shares
Issued and Outstanding	120,415,600 shares
Number of Shareholders	55,919
Major Shareholder	Takara Holdings Inc. (60.91% equity owned)
Stock Listing	First Section of Tokyo Stock Exchange (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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