

Consolidated Financial Statements for the Year Ended March 31, 2018
FY2018 (April 1, 2017 - March 31, 2018) [UNAUDITED]

May 11, 2018

Company name: Takara Bio Inc.
 Stock exchange listings: Tokyo Stock Exchange (1st section)
 Code number: 4974
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 Company representative: Koichi Nakao, President
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 Scheduled date of general shareholders' meeting: June 22, 2018
 Scheduled date of starting delivery of dividends: June 28, 2018
 Notes: 1. The accompanying financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan.
 2. Amounts are rounded down to the nearest million yen.

1. Results for the year ended March 31, 2018 (Apr. 1, 2017 – Mar. 31, 2018)

(1) Operating results

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

	Year ended Mar. 31, 2018		Year ended Mar. 31, 2017	
	(Millions of yen)	(%)	(Millions of yen)	(%)
Net sales	32,312	10.0	29,375	(1.2)
Operating income	3,555	11.0	3,202	20.1
Ordinary income	3,861	7.9	3,579	8.4
Net income (loss) attributable to owners of the parent	2,335	72.6	1,352	1.4
Net income per share (in yen)	19.39		11.24	
Fully diluted net income per share (in yen)	-		-	
Return on equity		3.8		2.3
Ordinary income to total assets ratio		5.7		5.4
Operating income to net sales ratio		11.0		10.9
Note: Comprehensive income	2,455	(- %)	92	(85.8%)
Reference: Income (loss) from equity method investment	-		-	

(2) Financial position

	As of Mar. 31, 2018	As of Mar. 31, 2017
	(Millions of yen)	(Millions of yen)
Total assets	68,854	67,143
Net assets	61,959	59,985
Equity ratio (%)	89.8	89.2
Net assets per share (in yen)	513.66	497.32
(Reference) Equity	61,852	59,884

(3) Cash flow

	Year ended Mar. 31, 2018	Year ended Mar. 31, 2017
	(Millions of yen)	(Millions of yen)
Cash flow from operating activities	3,935	3,584
Cash flow from investing activities	(14,755)	13,493
Cash flow from financing activities	(1,205)	(280)
Cash and cash equivalents, end of year	10,051	22,200

2. Dividends

	Annual dividends per share in yen		
	Year ended Mar. 31, 2017	Year ended Mar. 31, 2018	Year ending Mar. 31, 2019 (Forecast)
First quarter end	-	-	-
Second quarter end	0.00	0.00	0.00
Third quarter end	-	-	-
Year end	4.00	4.50	6.00
Annual	4.00	4.50	6.00
Total dividend (Millions of yen)	481	541	
Payout ratio (%)	35.6	23.2	23.3
Dividend on equity (%)	0.8	0.9	

3. Forecast for the year ending March 31, 2019 (Apr. 1, 2018 – Mar. 31, 2019)

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

	Six months ending Sep. 30, 2018		Year ending Mar. 31, 2019	
	(Millions of yen)	(%)	(Millions of yen)	(%)
Net sales	17,755	25.7	36,800	13.9
Operating income	2,500	263.1	5,000	40.6
Ordinary income	2,557	233.8	5,200	34.6
Net income attributable to owners of the parent	1,646	444.1	3,100	32.8
Net income attributable to owners of the parent per share (in yen)	13.68		25.74	

4. Others

(1) Changes in subsidiaries during the period

(Changes in specified subsidiaries resulting in change of scope) : Yes

Newly included: 2 (Name) Rubicon Genomics, Inc., WaferGen Bio-systems, Inc.

Excluded: 2 (Name) Rubicon Genomics, Inc., WaferGen Bio-systems, Inc.

Note: For details, please see 3. Consolidated Financial Statements and Important Notes (5) Notes to Consolidated Financial Statements (Changes in Subsidiaries during the Period) on page 10 of the attached document.

(2) Changes in accounting policies, changes in accounting estimates, and retrospective restatement

1) Changes based on revisions of accounting standard: No

2) Changes other than ones based on revisions of accounting standard: No

3) Changes in accounting estimates: No

4) Restatement: No

(3) Number of outstanding shares (common stock)

1) Number of outstanding shares at year end (Treasury stocks are included)

As of March 31, 2018	120,415,600
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As of March 31, 2017	120,415,600
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2) Number of treasury stocks at year end

As of March 31, 2018	-
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As of March 31, 2017	-
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3) Average number of outstanding shares

As of March 31, 2018	120,415,600
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As of March 31, 2017	120,415,600
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These financial statements are not subject to auditing.

Comment regarding appropriate use of earnings forecasts and other special notes

Forward-looking statements contained in this document are determined by the Takara Bio Group based on information currently available to the Group and include a number of uncertainties. Actual results could differ from these forecasts due to changes in conditions that occur in the future. For information regarding the above, please refer to 1. Financial Results Overview (4) Future Outlook, on page 3 of the attached document.

The Group will hold a briefing for institutional investors and analysts on May 15, 2018. The material handed out at this briefing and a review of questions and answers will be posted on our website.

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1. Financial Results Overview

(1) Overview of Financial Results for the Year Ended March 31, 2018

In the fiscal year under review, ended March 31, 2018, the Japanese economy continued to maintain a moderate recovery as corporate earnings and employment and income situations improved. In contrast, although the global economy including the U.S. showed a sign of recovery, the future of the global economy continues to be unpredictable due to the upsurge in uncertainty regarding such issues as policy trends in the U.S. and global geopolitical risk.

Under these circumstances and based on the newly established three-year Takara Bio's Medium-Term Management Plan FY2020, the Takara Bio Group (the Group) promoted strategies of three core business segments: the Bioindustry Business, the Gene Therapy Business, and the AgriBio Business and strengthened business bases which support them to enhance the Group's standing as a global and industrial company for regenerative medical products and, further, promoted initiatives aimed at achieving prodigious growth.

As a result, overall net sales increased 10% year on year to ¥32,312 million, on contributions from newly consolidated subsidiaries and from sales for contracted services greatly exceeding those of the same period of the previous fiscal year. Cost of sales increased 9.9% year on year to ¥13,657 million, and gross profit increased 10% year on year to ¥18,655 million due to the increase in net sales. Selling, general and administrative (SG&A) expensed increased 9.8% year on year to ¥15,099 due to the increase in personnel costs of newly consolidated subsidiaries and amortization of goodwill, but the Group recorded operating income up 11.0% year on year to ¥3,555 million.

As regards non-operating income and expenses, ordinary income increased 7.9% to ¥3,861 despite a decline in interest income.

Regarding extraordinary income and losses, income before income taxes and minority interests increased 19.8% year on year to ¥3,361 million, and net income attributable to owners of the parent increased 72.6% year on year to ¥2,335 due to the elimination of income taxes in accordance with the Group's appropriation of deferred tax assets.

The statuses of Group business segments are as follows.

Bioindustry Business

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

In the fiscal year under review, sales by product category saw sales of scientific instruments decline year-on-year, but sales of research reagents and contracted services increase year on year.

As a result of the above, sales to external customers for this business increased 11.3% year on year to ¥29,568, and gross profit increased 10.7% year on year to ¥17,553. Selling, general and administrative (SG&A) expensed increased 12.7% year on year to ¥10,870 due to the increase in personnel costs of newly consolidated subsidiaries and amortization of goodwill, but group recorded operating income up 7.5% year on year to ¥6,683 million.

Gene Therapy Business

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

In the fiscal year under review, ¥500 million in licensing fees for development and sales related to the oncolytic virus HF10 was generated.

As a result, net sales to external customers for this business were ¥500 million (Year on year ratio 100%), and gross profit was also ¥500 million. SG&A expenses decreased 3.0% year on year to ¥1,822 million due to decrease R&D expenses. Accordingly, operating loss increased to ¥1,322 million, compared with ¥1,380 million in the same period of previous fiscal year.

AgriBio Business

This business uses its unique leading-edge biotechnology to identify the scientific basis of foodstuffs. Based on this evidence, it develops, manufactures, and sells functional food ingredients. The AgriBio Business focuses on rolling out products related to Gagome kombu (kelp)-derived "Fucoidan," agar-derived agaro-oligosaccharide, Ashitaba (Angelica herb)-derived "Chalcone," the herb (Peucedanum japonicum)-derived "Isosamidin," yam (Dioscorea esculenta)-derived "Yamsgenin", and mushroom.

In the fiscal year under review, net sales of mushroom-related products increased year on year, and net sales of functional foods-related products declined year on year.

Consequently, net sales to external customers for this business decreased 2.5% year on year to ¥2,243 million, and gross profit increased 1.4% to ¥601 million due to a decline of cost percentage from change of product composition and others. SG&A

The original disclosure in Japanese was released on May 11, 2018 at 15:00 (GMT+8)

expenses increased 1.1% year on year to ¥494 million, and the operating income increased 2.7% year on year to ¥107 million.

(2) Overview of Financial Position for the Year Ended March 31, 2018

At the end of the fiscal year under review, ended March 31, 2018, total assets were ¥68,854 million, an increase of ¥1,710 million compared with that at the end of the previous fiscal year. This increase primarily resulted from a decrease of ¥10,540 million in cash and deposits despite an increase of ¥11,862 million in intangible assets.

Total liabilities were ¥6,894 million, a decrease of ¥263 million compared with that at the end of the previous fiscal year. This increase primarily resulted from a decrease of ¥153 million in accounts payable-other amount and a decrease of ¥91 million in provision for bonus.

Total net assets stood at ¥61,959 million, an increase of ¥1,973 million compared with that at the end of the previous fiscal year. The main factors were an increase of ¥1,853 million in retained earnings.

(3) Overview of Cash Flows for the Year Ended March 31, 2018

Net cash provided by operating activities was ¥3,935 million, up by ¥351 million compared with the previous fiscal year. This was primarily due to an increase of ¥555 million in payments due to the increase in income before taxes and minority interests.

Net cash provided by investing activities was ¥14,755 million, a transition from revenue to expenditure compared with the previous fiscal year, with expenses increasing by ¥28,249 million. This was primarily due to a ¥12,396 million increase in purchase of shares of subsidiaries resulting in change in scope of consolidation, and the elimination of ¥10,679 million from proceeds from sales and redemption of securities.

Net cash used in financing activities was ¥1,205 million, a ¥925 million increase compared with the previous fiscal year. This was primarily because of a ¥547 million increase in redemption of bonds, and a ¥264 million increase in cash dividends paid.

As a result of the above, cash and cash equivalents at fiscal year-end, including the effect of exchange rate change on cash and cash equivalents, stood at ¥10,051 million, down ¥12,149 million from the previous fiscal year-end.

(4) Future Outlook

The Group established and initiated the three-year Takara Bio Medium-Term Management Plan FY2020 (“Medium-Term Management Plan”), which began in the fiscal year under review and lasts until FY2020. The Group aims to steadily implement the strategies outlined in the Medium-Term Management Plan, enhance its standing as a global and industrial company for regenerative medical products, and achieve prodigious growth.

In the year ending March 31, 2019, the second year of the plan, the Group is forecasting net sales of ¥36,800 million, operating income of ¥5,000 million, ordinary income of ¥5,200 million and net income attributable to owners of the parent of ¥3,100 million with licensing fees for development and sales related to NY-ESO-1 siTCR™ and CD19 CAR gene therapy products. Also, the Group revises up the operating income targets in final fiscal year of the plan, considering the agreement for the development and sales and other change factors.

For a comparison of results with the year ended March 31, 2018, refer to “(3) Comparative Statement of Income Relating to Consolidated Earnings Forecasts” under “3. Supplementary Information” on page 19. For details on the Medium-Term Management Plan revised, refer to “Announcement on revision of Takara Bio Medium-Term Management Plan FY2020” released today, May 11, 2018.

2. Basic Concept on Selection of Accounting Standards

The Group drafts consolidated financial statements based on Japanese standards taking into consideration comparability between fiscal periods as well as comparability among companies.

The Group’s policy regarding the application of International Financial Reporting Standards is to apply them as appropriate after taking into consideration domestic and international circumstances.

3. Consolidated Financial Statements and Important Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	Previous Fiscal Year (Apr. 1, 2016 – Mar. 31, 2017)	Fiscal Year under Review (Apr. 1, 2017 – Mar. 31, 2018)
Assets		
Current assets		
Cash and deposits	28,078	17,537
Notes and accounts receivable-trade	7,455	8,031
Securities	2,000	2,000
Merchandise and finished goods	4,032	4,484
Work in process	459	334
Raw materials and supplies	970	1,192
Deferred tax assets	252	515
Other	745	978
Allowance for doubtful accounts	(30)	(42)
Total current assets	43,964	35,032
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	12,699	12,825
Accumulated depreciation	(5,032)	(5,611)
Buildings and structures, net	7,667	7,214
Machinery, equipment and vehicles	6,866	7,561
Accumulated depreciation	(4,517)	(5,360)
Machinery, equipment and vehicles, net	2,349	2,201
Tools, furniture and fixtures	6,174	7,080
Accumulated depreciation	(3,946)	(4,613)
Tools, furniture and fixtures, net	2,228	2,466
Land	7,297	6,588
Lease assets	23	16
Accumulated depreciation	(22)	(16)
Lease assets, net	0	—
Construction in progress	34	63
Total Property, plant and equipment	19,577	18,534
Intangible assets		
Goodwill	1,213	8,259
Technology assets	—	4,670
Other	1,087	1,223
Total intangible assets	2,301	14,163
Investments and other assets		
Long-term prepaid expenses	856	800
Deferred tax assets	26	139
Net defined benefit asset	40	95
Other	387	87
Allowance for doubtful accounts	(11)	—
Total investments and other assets	1,299	1,123
Total noncurrent assets	23,178	33,821
Total assets	67,143	68,854

(Millions of yen)

	Previous Fiscal Year (Apr. 1, 2016 – Mar. 31, 2017)	Fiscal Year under Review (Apr. 1, 2017 – Mar. 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,944	1,875
Short-term bank loans	47	—
Accounts payable-other	2,058	1,905
Accrued income taxes	375	431
Provision for bonuses	425	333
Other	1,174	1,199
Total current liabilities	6,025	5,745
Noncurrent liabilities		
Long-term debt	82	—
Deferred tax liabilities	210	183
Net defined benefit liability	622	659
Other	215	307
Total noncurrent liabilities	1,131	1,149
Total liabilities	7,157	6,894
Net assets		
Shareholders' equity		
Common stock	14,965	14,965
Capital surplus	32,893	32,893
Retained earnings	10,432	12,285
Total shareholders' equity	58,291	60,144
Accumulated other comprehensive income		
Foreign currency translation adjustment	2,023	2,042
Remeasurements of defined benefit plans	(429)	(334)
Total accumulated other comprehensive income	1,593	1,707
Noncontrolling interests	100	106
Total net assets	59,985	61,959
Total liabilities and net assets	67,143	68,854

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

(Millions of yen)

	Previous Fiscal Year (Apr. 1, 2016 –Mar. 31, 2017)	Fiscal Year under Review (Apr. 1, 2017 –Mar. 31, 2018)
Net sales	29,375	32,312
Cost of sales	12,422	13,657
Gross profit	16,952	18,655
Selling, general and administrative expenses		
Promotion expenses	854	729
Provision of allowance for doubtful accounts	(1)	11
Employees' salaries and bonuses	3,082	3,675
Provision for bonuses	236	164
Retirement benefit expenses	135	177
Research and development expenses	4,101	4,653
Other	5,341	5,687
Total selling, general and administrative expenses	13,749	15,099
Operating income	3,202	3,555
Non-operating income		
Interest income	108	77
Subsidy income	226	197
Foreign exchange gains	—	5
Rent of Real estate	36	88
Other	73	32
Total non-operating income	445	402
Non-operating expenses		
Interest expenses	2	19
Foreign exchange losses	44	—
Real estate leasing expense	10	28
Dormant fixed asset cost	9	45
Other	1	2
Total non-operating expenses	68	96
Ordinary income	3,579	3,861
Extraordinary income		
Gain on sales of noncurrent assets	2	0
Total extraordinary income	2	0
Extraordinary losses		
Loss on sales and retirement of noncurrent assets	108	55
Impairment loss	667	446
Total extraordinary losses	775	501
Income before income taxes	2,805	3,361
Income taxes-current	1,492	1,155
Income taxes-deferred	(43)	(132)
Total income taxes	1,449	1,023
Net income	1,356	2,338
Net income (loss) attributable to the noncontrolling interest	3	3
Net income attributable to owners of the parent	1,352	2,335

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Previous Fiscal Year (Apr. 1, 2016 –Mar. 31, 2017)	Fiscal Year under Review (Apr. 1, 2017 –Mar. 31, 2018)
Net income	1,356	2,338
Other comprehensive income		
Foreign currency translation adjustment	(1,091)	21
Remeasurements of defined benefit plans	(172)	95
Total other comprehensive income	(1,264)	117
Comprehensive income	92	2,455
Comprehensive income attributable to:		
Owners of the parent	94	2,449
Noncontrolling interest	(2)	5

(3) Consolidated Statements of Changes in Net Assets
Previous Fiscal Year (Apr. 1, 2016 – Mar. 31, 2017)

(Millions of Yen)

	Shareholders' equity				Accumulated other comprehensive income			Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	14,965	32,893	9,295	57,155	3,109	(257)	2,852	102	60,110
Changes of items during the period									
Dividends from surplus			(216)	(216)					(216)
Net income			1,352	1,352					1,352
Net changes of items other than shareholders' equity					(1,086)	(172)	(1,258)	(2)	(1,260)
Total changes of items during the period	—	—	1,136	1,136	(1,086)	(172)	(1,258)	(2)	(124)
Balance at the end of current period	14,965	32,893	10,432	58,291	2,023	(429)	1,593	100	59,985

Fiscal Year under Review (Apr. 1, 2017 – Mar. 31, 2018)

(Millions of Yen)

	Shareholders' equity				Accumulated other comprehensive income			Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	14,965	32,893	10,432	58,291	2,023	(429)	1,593	100	59,985
Changes of items during the period									
Dividends from surplus			(481)	(481)					(481)
Net income			2,335	2,335					2,335
Capital increase (decrease) of consolidated subsidiaries		(0)		(0)				0	—
Net changes of items other than shareholders' equity					19	95	114	5	120
Total changes of items during the period	—	(0)	1,853	1,853	19	95	114	5	1,973
Balance at the end of current period	14,965	32,893	12,285	60,144	2,042	(334)	1,707	106	61,959

(4) Consolidated Statements of Cash Flows

(Millions of Yen)

	Previous Fiscal Year (Apr. 1, 2016 – Mar. 31, 2017)	Fiscal Year under Review (Apr. 1, 2017 – Mar. 31, 2018)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	2,805	3,361
Depreciation and amortization	1,722	2,568
Impairment loss	667	446
Depreciation and amortization on other	165	160
Amortization of goodwill	162	489
Increase (decrease) in allowance for doubtful accounts	(9)	0
Increase (decrease) in provision for bonuses	218	(276)
Increase (decrease) in net defined benefit liability	135	35
Interest income	(108)	(77)
Interest expenses	2	19
Loss (gain) on sales and retirement of non-current assets	105	54
Decrease (increase) in notes and accounts receivable-trade	(720)	(246)
Decrease (increase) in inventories	(594)	(301)
Increase (decrease) in notes and accounts payable-trade	288	(341)
Increase (decrease) in other current liabilities	403	(675)
Other, net	(164)	(197)
Subtotal	5,079	5,020
Interest and dividend income received	99	94
Interest expenses paid	(2)	(3)
Income taxes paid	(1,419)	(1,175)
Income taxes paid for prior periods	(172)	—
Net cash provided by (used in) operating activities	3,584	3,935
Net cash provided by (used in) investing activities		
Payments for time deposits	(5,776)	(12,383)
Proceeds from time deposits	13,392	10,860
Purchases of marketable securities	(7,026)	(4,000)
Proceeds from sales and redemption of securities	14,679	4,000
Purchase of property, plant and equipment and intangible assets	(1,443)	(1,499)
Proceeds from sales of property, plant and equipment and intangible assets	14	465
Purchase of other depreciable assets	(74)	(93)
Purchase of shares of subsidiaries accompanying changes in the scope of consolidation	—	(12,396)
Other, net	(272)	291
Net cash provided by (used in) investing activities	13,493	(14,755)
Net cash provided by (used in) financing activities		
Increase (decrease) in short-term bank loans, net	(14)	—
Repayments of long-term debt	(47)	(130)
Redemption of bonds	—	(547)
Cash dividends paid	(216)	(480)
Repayments of lease obligations	(1)	(46)
Net cash provided by (used in) financing activities	(280)	(1,205)
Effect of exchange rate change on cash and cash equivalents	(166)	(123)
Net increase (decrease) in cash and cash equivalents	16,631	(12,149)
Cash and cash equivalents at beginning of period	5,568	22,200
Cash and cash equivalents at end of period	22,200	10,051

(5) Notes to Consolidated Financial Statements

(Notes on Premise of Going Concern)

No items to report.

(Changes in Subsidiaries during the period)

Takara Bio USA Holdings Inc. acquiring shares of Rubicon Genomics, Inc., Rubicon Genomics, Inc was included in the scope of consolidation for the three months ended June 30, 2017 as a specified subsidiary. However, as Rubicon Genomics, Inc. was extinguished due to an absorption-type merger in which consolidated subsidiary Takara Bio USA, Inc. was the surviving company, this entity has been excluded from the scope of consolidation for the three months ended June 30, 2017.

Also, due to the wholly owned subsidiary Takara Bio USA Holdings Inc. acquiring shares of WaferGen Bio-systems, Inc., WaferGen Bio-systems, Inc., its subsidiary WaferGen Biosystems Europe S.a.r.l., and WaferGen, Inc. were included in the scope of consolidation for the three months ended June 30, 2017. However, as WaferGen Bio-systems, Inc. and WeferGen, Inc. were extinguished due to an absorption-type merger in which consolidated subsidiary Takara Bio USA, Inc. was the surviving company, and due to WaferGen Biosystems Europe S.a.r.l. being insignificant as a defunct company, these entities has been excluded from the scope of consolidation for the six months ended September 30, 2017. Note that during this period, WaferGen Bio-systems, Inc. qualified as a specified subsidiary of the Company.

(Business combination-related events)

(Business combination due to Acquisition)

1. Acquisition of Rubicon Genomics, Inc.

The Group made the decision at the board of directors' meeting held on December 15, 2016 pursuant to which wholly owned subsidiary Takara Bio USA Holdings, Inc. (TBUSH) would acquire the shares of Rubicon Genomics, Inc. ("Rubicon") and make it a subsidiary. Based on this, TBUSH acquired shares of Rubicon Genomics, Inc. on January 17, 2017 (US local time)

(1) Outline of the business combination

1) Name to be acquired company and business description

Name to be acquired company	Rubicon Genomics, Inc.
Business description	Manufacture and sales of research reagents

2) Primary reason for the business combination

The Group is concentrating on developing the next-generation sequencing reagent kits that are used in a wide range of fields from basic research to industrial applications. By welcoming Rubicon into the Group, Rubicon's sample preparation technology for ultra-low DNA sequence analysis complements the Group's sample preparation technology for ultra-low RNA sequence analysis, allowing the Group to provide a wide range of products and services in the field of ultra-low nucleic acid analysis. Additionally, the Group will be able to provide products and services in a wide range of fields from basic research to industrial applications by adding WaferGen Bio-systems, Inc.'s pre-processing system (instruments) for next generation sequence analysis.

3) Date of business combination

January 17, 2017 (US local time)

4) Legal form of business combination

Acquisition of shares

5) Name of the acquired company after the combination

Rubicon Genomics, Inc.
Rubicon merged with Takara Bio USA, Inc., a wholly owned subsidiary TBUSH as of March 31, 2017 (US local time)

6) Ration of voting rights acquired

100%

7) Basis for determining the acquiring company

Share acquisition in consideration for cash.

(2) Period of acquired company's performance stated on the consolidated financial statements

From January 17, 2017 to December 31, 2017

(3) Acquisition costs of the acquired company and related details of each class of consideration for acquisition are as follows:

	(Thousands of U.S. Dollars)	
<u>Consideration for acquisition</u>	<u>Cash</u>	<u>\$74,426</u>
Acquisition costs		\$74,426

(4) Description and amount of major acquisition-related costs

	(Thousands of U.S. Dollars)
Advisory fees and commissions	Cash \$2,934

(5) Amount of goodwill, reason of occurrence, and method/period of amortization

1) Amount of goodwill:

(Thousands of U.S. Dollars)
\$44,328

2) Reason of occurrence

It has been occurred primarily due to perspective on excess earning possibilities expected from business development in the future.

3) Method and term of amortization

Equivalent amortization over 20 years

(6) Major description and amount of assets received on the date of business combination and liability owed.

	(Thousands of U.S. Dollars)
Current assets	\$4,837
<u>Non-current assets</u>	<u>\$77,880</u>
Total assets	\$82,717
Current liabilities	\$3,429
<u>Non-current liabilities</u>	<u>\$4,861</u>
Total liabilities	\$8,290

(7) Amount divided to non-current assets other than goodwill and related details of each major class and period of weighted average amortization of each entire and major class.

Period of weighted average amortization	(Thousands of U.S. Dollars)	
<u>Class</u>	<u>amount</u>	<u>Period of weighted average amortization</u>
Technology assets	\$32,100	7 years
Customers-related assets	\$600	9 years

(8) Estimated amount and calculation method of influence on consolidated statement of income in the fiscal year, in case of assuming completion of business combination at the first day of consolidated fiscal year.

	(Thousands of U.S. Dollars)
Net sales	\$555
Operating income	(\$1,310)
Ordinary income	(\$1,317)
Income before income taxes and minority interest	(\$9,932)
Net income attributable to owners of parent	(\$9,932)
Net income per share	(\$0.08)

(Calculation method for estimated amount)

Estimated amount of influence is the amount difference between net sales/profit and loss information stated on consolidated statements of income and net sales/profit and loss information calculated when assuming completion of business combination at the first day of consolidated fiscal year.

There notes are not subject to audit certification.

2. Acquisition of WaferGen Bio-systems, Inc.

The Group made the decision at the board of directors' meeting held on May 13, 2016 pursuant to which wholly owned subsidiary Takara Bio USA Holdings, Inc ("TBUSH") would acquire the shares of WaferGen Bio-systems, Inc. ("WaferGen") and TBUSH entered into a merger agreement with WaferGen on the same day. Based on the agreement, TBUSH completed the acquisition on February 28, 2017 (US local time)

(1) Outline of the business combination

1) Name to be acquired company and business description

Name to be acquired company	WaferGen Bio-systems, Inc.
Business description	Manufacture and sales of research reagents and equipment

2) Primary reason for the business combination

The Group supplies research reagents, scientific instruments, and contract services to biotechnology researchers. Specifically, the Group focuses on development of reagent kits for next generation sequencers and reagent kits using SMART technology which efficiently amplifies genes from ultra low of RNA samples under the brand name of

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

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 device and single-cell reagent kits from the combination of WaferGen technology including single-cell analysis and molecular biotechnology of the Group.

- 3) Date of business combination
February 28, 2017 (US local time)
 - 4) Legal form of business combination
Acquisition of shares
 - 5) Name of the acquired company after the combination
WaferGen Bio-systems, Inc.
WaferGen. merged with Takara Bio USA, Inc., a wholly owned subsidiary TBUSH as of May 31, 2017 (US local time)
 - 6) Ration of voting rights acquired
100%
 - 7) Basis for determining the acquiring company
Share acquisition in consideration for cash.
- (2) Period of acquired company's performance involved in the consolidated statements
From March 1, 2016 to December 31, 2017
- (3) Acquisition costs of the acquired company and related details of each class of consideration for acquisition are as follows:

(Thousands of U.S. Dollars)		
<u>Consideration for Acquisition</u>	Cash	\$37,545
Acquisition costs		\$37,545

- (4) Description and amount of major acquisition-related costs

(Thousands of U.S. Dollars)		
Advisory fees and commissions	Cash	\$3,855

- (5) Amount of goodwill, reason of occurrence, and method/period of amortization

- 1) Amount of goodwill: (Thousands of U.S. Dollars)
\$22,682

- 2) Reason of occurrence

It has been occurred primarily due to perspective on excess earning possibilities expected from business development in the future.

- 3) Method and term of amortization

Equivalent amortization over 20 years

- (6) Major description and amount of assets received on the date of business combination and liability owed.

(Thousands of U.S. Dollars)	
Current assets	\$4,669
<u>Non-current assets</u>	<u>\$46,080</u>
Total assets	\$50,749
Current liabilities	\$8,257
<u>Non-current liabilities</u>	<u>\$4,946</u>
Total liabilities	\$13,204

- (7) Amount divided to non-current assets other than goodwill and related details of each major class and period of weighted average amortization of each entire and major class.

(Thousands of U.S. Dollars)		
Class	amount	Period of weighted average amortization
Technology assets	\$15,200	8 years
Customers-related assets	\$300	9 years

The original disclosure in Japanese was released on May 11, 2018 at 15:00 (GMT+8)

- (8) Estimated amount and calculation method of influence on consolidated statement of income in the fiscal year, in case of assuming completion of business combination at the first day of consolidated fiscal year.

(Thousands of U.S. Dollars)

Net sales	\$537
Operating income	(\$7,476)
Ordinary income	(\$7,555)
Income before income taxes and minority interest	(\$7,555)
Net income attributable to owners of parent	(\$7,557)
Net income per share	(\$0.06)

(Calculation method for estimated amount)

Estimated amount of influence is the amount difference between net sales/profit and loss information stated on consolidated statements of income and net sales/profit and loss information calculated when assuming completion of business combination at the first day of consolidated fiscal year.

There notes are not subject to audit certification.

(Segment Information)

1. Outline of Reportable Segments

The Group's reportable segments are components of the Group for which separate financial information is available that is evaluated regularly by the Board of Directors to determine allocation of management resources and assess performance.

The Group has established business divisions by product and service. Each division drafts comprehensive strategies for the products and service including Japanese and overseas subsidiaries and implements them in their business activities.

Accordingly, the Group is comprised of segments by products and services based on these business divisions and has defined three reportable segments. These three reportable segments are Bioindustry, Gene Therapy, and AgriBio.

The primary products of each segment are presented in the following table.

Reportable segment	Primary products
Bioindustry	Research reagents (genetic, cellular and protein engineering reagents), scientific instruments, contracted services and compensation for gene related patents, etc.
Gene Therapy	Licensing fees for development and sales relating to the gene therapy products
AgriBio	Functional foods (products related to Gagome kombu [kelp]-derived "Fucoidan," agar-derived agaro-oligosaccharide, Ashitaba [Angelica herb]-derived "Chalcone," the herb [Peucedanum japonicum]-derived "Isosamidin," yam-derived "Yamsgenin," and products related to mushroom "Terpene"); functional food R&D contracting; compensation for patents, etc., relating to functional foods; mushroom cultivation (honshimeji mushrooms, hatakeshimeji mushrooms, brown beech mushrooms, and cultivation medium activators) and compensation for patents relating to mushrooms

2. Calculation Method for Net Sales, Income or Loss, Assets, Liabilities, and Other Items of Each Reportable Segment

The accounting treatment of reportable business segments is in accordance with the accounting policies adopted for the creation of consolidated financial statements.

The figures for the income of reportable segments are based on operating income.

Corporate income is based on the prevailing market price.

3. Net sales, Income (Loss), Assets, Liabilities, and Other Items by Reportable Segment
Previous Fiscal Year (From Apr. 1, 2016, to Mar. 31, 2017)

(Millions of yen)

	Bioindustry	Gene Therapy	AgriBio	Total	Adjustment (Note: 1)	Amount recognized in consolidated financial statements (Note: 2)
Net sales						
External customers	26,573	500	2,301	29,375	—	29,375
Corporate	—	—	5	5	(5)	—
Total	26,573	500	2,307	29,380	(5)	29,375
Segment income (loss)	6,218	(1,380)	104	4,942	(1,739)	3,202
Segment assets	51,017	3,663	2,625	57,306	9,837	67,143
Other items						
Depreciation and amortization	1,165	331	101	1,598	123	1,722
Amortization of goodwill	162	—	—	162	—	162
Increase in total fixed assets, property, plant and equipment and intangible assets	1,036	562	18	1,616	32	1,648

Notes: 1. The adjustment for segment income was a loss of ¥1,739 million comprising of the Company not allocated to reportable segments. Expenses of the Company primarily consist of general and administrative expenses and R&D expenses not attributed to reportable segments.

2. Segment income (loss) has been adjusted to the operating income of consolidated financial statements.

Fiscal Year under Review (From Apr. 1, 2017, to Mar. 31, 2018)

(Millions of yen)

	Bioindustry	Gene Therapy	AgriBio	Total	Adjustment (Note: 1)	Amount recognized in consolidated financial statements (Note: 2)
Net sales						
External customers	29,568	500	2,243	32,312	—	32,312
Corporate	—	—	7	7	(7)	—
Total	29,568	500	2,251	32,320	(7)	32,312
Segment income (loss)	6,683	(1,322)	107	5,467	(1,912)	3,555
Segment assets	52,185	2,594	2,165	56,946	11,907	68,854
Other items						
Depreciation and amortization	2,049	300	90	2,441	127	2,568
Amortization of goodwill	489	—	—	489	—	489
Increase in total fixed assets, property, plant and equipment and intangible assets	1,302	118	32	1,453	85	1,539

Notes: 1. The adjustment for segment income was a loss of ¥1,912 million comprising of the Company not allocated to reportable segments. Expenses of the Company primarily consist of general and administrative expenses and R&D expenses not attributed to reportable segments.

2. Segment income (loss) has been adjusted to the operating income of consolidated financial statements.

4. Information about impairment loss for non-current assets

Previous fiscal year (From Apr. 1, 2016, to Mar. 31, 2017)

	Bioindustry	Gene Therapy	AgriBio	Reconciliations	Consolidated
Impairment loss	384	—	—	283	667

Notes: The amount of “Reconciliations” is impairment loss of corporate assets which does not belong to the reportable segments.

Fiscal year under review (From Apr. 1, 2017, to Mar. 31, 2018)

	Bioindustry	Gene Therapy	AgriBio	Reconciliations	Consolidated
Impairment loss	—	—	—	446	446

Notes: The amount of “Reconciliations” is impairment loss of corporate assets which does not belong to the reportable segments.

(Per Share Information)

	Previous fiscal year (From Apr. 1, 2016, to Mar. 31, 2017)	Fiscal year under review (From Apr. 1, 2017, to Mar. 31, 2018)
Net assets per share	¥497.32	¥513.66
Net income per share	¥11.24	¥19.39

Notes: 1. Fully diluted net income per share is not presented since there were no potential shares.

2. The basis of calculation of net income per share is as follows.

	Previous fiscal year (From Apr. 1, 2016, to Mar. 31, 2017)	Fiscal year under review (From Apr. 1, 2017, to Mar. 31, 2018)
Net income per share		
Net income attributable to owners of the parent (¥ million)	1,352	2,335
Amount not attributable to common shareholders (¥ million)	—	—
Net income attributable to owners of the parent in accordance with the common stock (¥ million)	1,352	2,335
Average number of shares outstanding during the term (1,000 shares)	120,415	120,415

(Significant Subsequent Events)

(Execution of Significant agreement)

The Group entered into an agreement with Otsuka Pharmaceutical Co., Ltd (“Otsuka”) for domestic co-development and exclusive sales of NY-ESO-1 siTCR™ gene therapy product (Development code: TBI-1301, TBI-1301-A) and CD19 CAR gene therapy product (TBI-1501) as of April 9, 2018.

Under the agreement, both companies will aim cooperatively for the early manufacture and sales approval of two therapeutic products in Japan. The Group is responsible for manufacturing and quality control of the two therapeutic products, investigational products, while Otsuka is responsible for clinical trials, other clinical studies, regulatory submissions for manufacture and sales approval, and safety data collection of the products. After acquisition for manufacture and sales approval, the Group and Otsuka are exclusively responsible for manufacturing and selling in Japan, respectively. There are no limitation on the target indications in the agreement. Otsuka also holds a right of first refusal for nine Asian countries outside Japan.

The Group will receive certain upfront and milestone payments from Otsuka depending on the achievement of certain development based on the execution of the agreement. The Group will supply Otsuka with the products under certain financial condition. As for NY-ESO-1 siTCR™ gene therapy product, The Group will receive milestone payments upon the achievement of target sales in addition to the running royalty on Net Sales. Above up front and milestone payments will be up to a maximum total amount of around 6.3 billion yen.

4. Supplementary Information

(1) Trends in Key Management Indicators

1) Cash Flow

(Millions of yen)

Term	Previous fiscal year (From Apr. 1, 2016, to Mar. 31, 2017)	Fiscal year under review (From Apr. 1, 2017, to Mar. 31, 2018)
Net cash provided by (used in) operating activities	3,584	3,935
Net cash provided by (used in) investing activities	13,493	(14,755)
Net cash provided by (used in) financing activities	(280)	(1,205)

2) Net Sales by Region

Equivalent Period of Previous Fiscal Year (from Apr. 1, 2016 to Mar. 31, 2017)

(Millions of yen)

Japan	U.S.	China	Asia, excluding China	Europe	Other	Total
14,561	6,063	4,754	1,406	2,336	253	29,375

Period under Review (from Apr. 1, 2017 to Mar. 31, 2018)

(Millions of yen)

Japan	U.S.	China	Asia, excluding China	Europe	Other	Total
14,266	7,240	5,524	1,754	3,257	268	32,312

3) R&D Expenses by Reportable Segment

(Millions of yen)

Term	Previous fiscal year (From Apr. 1, 2016, to Mar. 31, 2017)	Fiscal year under review (From Apr. 1, 2017, to Mar. 31, 2018)
Bioindustry	2,094	2,693
Gene therapy	1,860	1,804
AgriBio	29	6
Corporate	116	148
Total	4,101	4,653

(2) Comparative consolidated statement of income

(Rounded down to one million yen)

	Year ended Mar. 31, 2017	Year ended Mar. 31, 2018	Year on year Change	Year on year Ratio
(Net Sales)				
Research reagents	19,436	22,207	2,770	114.3%
Scientific instruments	2,911	2,635	(275)	90.5%
Contracted services	3,800	4,210	409	110.8%
Other	424	514	90	121.3%
Bioindustry Total	26,573	29,568	2,995	111.3%
Gene therapy	500	500	—	100.0%
Functional foods	842	693	(148)	82.3%
Mushrooms	1,459	1,550	90	106.2%
AgriBio total	2,301	2,243	(58)	97.5%
Total Net Sales	29,375	32,312	2,937	110.0%
(Operating Income and Loss)				
Net Sales	29,375	32,312	2,937	110.0%
Cost of sales	12,422	13,657	1,234	109.9%
Gross profits	16,952	18,655	1,702	110.0%
SG&A expenses	13,749	15,099	1,349	109.8%
Transportation expenses	594	643	48	108.1%
Advertising expenses	89	83	(5)	93.5%
Promotion expenses	854	729	(124)	85.4%
R&D expenses	4,101	4,653	552	113.5%
Administrative expenses, other	7,917	8,750	833	110.5%
Enterprise taxes (external standards taxation)	192	239	46	124.3%
Operating income	3,202	3,555	352	111.0%
(Non-operating Income and Expenses)				
Non-operating income	445	402	(42)	90.4%
Non-operating expenses	68	96	27	139.4%
Ordinary income	3,579	3,861	282	107.9%
(Extraordinary Income & Losses)				
Extraordinary income	2	0	(1)	30.3%
Extraordinary losses	775	501	(274)	64.6%
Income before income taxes and minority interests	2,805	3,361	555	119.8%
Income taxes	1,449	1,023	(426)	70.6%
Net Income	1,356	2,338	981	172.4%
Net income (loss) attributable to non controlling interests	3	3	(0)	92.3%
Net income attributable to owners of the parent	1,352	2,335	982	172.6%
Depreciation and amortization (Property, plant and equipment and intangible assets)	1,722	2,568	846	149.2%
Amortization of goodwill	162	489	327	301.6%

Profit and loss by business segment (Operating income)

	Fiscal year ended Mar. 31, 2017	Fiscal year ended Mar. 31, 2018	Year on year Change	Year on year Ratio
Bioindustry	6,218	6,683	465	107.5%
Gene therapy	(1,380)	(1,322)	57	—
AgriBio	104	107	2	102.7%
Corporate	(1,739)	(1,912)	(172)	—
Total	3,202	3,555	352	111.0%

(3) Comparative Statement of Income Relating to Consolidated Earnings Forecasts

(Rounded down to one million yen)

	Year ended Mar. 31, 2018 Actual	Year ending Mar. 31, 2019 Current forecast for FY2019	Year on year Change	Year on year Ratio
(Net Sales)				
Research reagents	22,207	24,071	1,864	108.4%
Scientific instruments	2,635	3,262	627	123.8%
Contracted services	4,210	5,002	791	118.8%
Other	514	382	(132)	74.3%
Bioindustry Total	29,568	32,719	3,150	110.7%
Gene therapy	500	1,860	1,360	372.1%
Functional foods	693	555	(137)	80.2%
Mushrooms	1,550	1,664	113	107.3%
AgriBio total	2,243	2,219	(23)	98.9%
Total Net Sales	32,312	36,800	4,487	113.9%
(Operating Income and Loss)				
Net Sales	32,312	36,800	4,487	113.9%
Cost of sales	13,657	15,122	1,464	110.7%
Gross profits	18,655	21,677	3,022	116.2%
SG&A expenses	15,099	16,677	1,577	110.5%
Transportation expenses	643	758	115	117.9%
Advertising expenses	83	93	10	112.9%
Promotion expenses	729	812	83	111.5%
R&D expenses	4,653	5,229	576	112.4%
Administrative expenses, other	8,750	9,513	762	108.7%
Enterprise taxes (external standards taxation)	239	269	29	112.4%
Operating income	3,555	5,000	1,444	140.6%
(Non-operating Income and Expenses)				
Non-operating income	402	257	(145)	64.0%
Non-operating expenses	96	57	(38)	59.7%
Ordinary income	3,861	5,200	1,338	134.6%
(Extraordinary Income & Losses)				
Extraordinary income	0	—	(0)	—
Extraordinary losses	501	555	53	110.7%
Income before income taxes and minority interests	3,361	4,644	1,283	138.2%
Income taxes	1,023	1,529	506	149.5%
Net Income	2,338	3,115	777	133.3%
Net income (loss) attributable to noncontrolling interests	3	15	12	514.0%
Net income attributable to owners of the parent	2,335	3,100	764	132.8%

Depreciation and amortization (Property, plant and equipment and intangible assets)	2,568	2,828	259	110.1%
Amortization of goodwill	489	510	21	104.3%

Profit and loss by business segment (Operating income)

	Year ended Mar. 31, 2018 Actual	Year ending Mar. 31, 2019 Current forecast for FY2019	Year on year Change	Year on year Ratio
Bioindustry	6,683	7,523	839	112.6%
Gene therapy	(1,322)	(309)	1,013	—
AgriBio	107	98	(8)	92.3%
Corporate	(1,912)	(2,312)	(400)	—
Total	3,555	5,000	1,444	140.6%