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

Company name: Takara Holdings Inc.
 Stock exchange listings: Tokyo Stock Exchange (1st section)
 Code number: 2531
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 Quarterly statement filing date (as planned): February 9, 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 nine months ended December 31, 2017 (April 1, 2017 – December 31, 2017)

(1) Operating results

Note: Percentages indicated changes from the same period of the previous fiscal year.

	Nine months ended December 31, 2017		Nine months ended December 31, 2016	
	(Millions of yen)	(%)	(Millions of yen)	(%)
Net sales	204,266	18.6	172,218	1.2
Operating income(loss)	13,604	6.8	12,741	26.3
Ordinary income(loss)	13,984	4.3	13,403	23.4
Net income (loss) attributable to owners of the parent	10,396	17.1	8,876	35.6
Net income (loss) per share (Yen)	51.74		44.11	
Fully diluted net income per share (Yen)	-		-	
Note: Comprehensive income	14,849	852.7	1,558	(66.7)

(2) Financial position

	As of December 31, 2017	As of March 31, 2017
	(Millions of yen)	(Millions of yen)
Total assets	291,649	274,368
Net assets	175,764	165,920
Equity ratio (%)	49.6	49.2
(Reference) Equity	144,728	135,043

2. Dividends

	Dividend per share (Yen)		
	Year ended March 31, 2017	Year ending March 31, 2018	Year ending March 31, 2018 (Forecast)
First quarter end	-	-	-
Second quarter end	-	-	-
Third quarter end	-	-	-
Year end	13.00		15.00
Annual	13.00		15.00

Notes: Correction of dividend forecast from the most recent dividend forecast : No

3. Forecast for the year ending March 31, 2018 (April 1, 2017 – March 31, 2018)

Note: Percentages indicated changes from the same period of the previous fiscal year.

	Year ending March 31, 2018	
	(Millions of yen)	(%)
Net sales	270,000	15.3
Operating income(loss)	15,300	12.9
Ordinary income(loss)	15,800	10.1
Net income (loss) attributable to owners of the parent	10,400	22.6
Net income (loss) per share (Yen)	51.84	

Note: Correction of financial forecast from the most recent financial forecast : No

4. Others

(1) Material changes in subsidiaries during this period

(Changes in scope of consolidations resulting from change in specific subsidiaries) : Yes

Newly included: 3 (Name) WaferGen Bio-systems, Inc., Rubicon Genomics, Inc., Takara Shuzo International Co., Ltd.

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

(2) Applying of specific accounting treatments of the quarterly consolidated financial statements : No

(3) 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

(4) Number of outstanding shares (common stock)

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

As of December 31, 2017 : 201,699,743

As of March 31, 2017 : 217,699,743

2) Number of treasury stocks at year end

As of December 31, 2017 : 2,069,154

As of March 31, 2017 : 16,475,731

3) Average number of outstanding shares

Nine months ended December 31, 2017 : 200,960,374

Nine months ended December 31, 2016 : 201,224,286

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1. Qualitative Information for the Nine Months Ended December 31, 2017

(1) Consolidated Financial Results

In the nine months ended December 31, 2017, although personal spending was weak, the Japanese economy maintained a moderate recovery as corporate earnings and the hiring environment improved backed by robust demand inside and outside Japan.

On the other hand, overseas, while the American economy continued on a recovery path, there was continued uncertainty for the future of the global economy caused by the downside risk in emerging country economies, the Brexit issue in the U.K., the impact of future policies in the U.S. and other issues.

Under these economic circumstances, in fiscal 2018, the Company initiated the Takara Group Medium-Term Management Plan FY2020, as the last step towards achieving its long-term Takara Group Vision 2020. By further increasing the overseas sales ratio together with having a full product line-up and many products with a competitive edge both in Japan and overseas, the Company is aiming to build up a great number of fields in which it can beat competitors and establish a balanced business foundation able to grow revenues significantly no matter what environmental changes occur.

As a result, in the nine months ended December 31, 2017, net sales were up 18.6% year on year to ¥204,266 million. Gross profit rose 12.6% year on year to ¥79,779 million. Operating income increased by 6.8% year on year to ¥13,604 million while ordinary income rose 4.3% year on year to ¥13,984 million. Net income attributable to owners of the parent increased by 17.1% year on year to ¥10,396 million.

Results by business segment were as follows.

The meeting of the Company's Board of Directors held on February 16, 2017 resolved to spin off (incorporation-type company split) the overseas business of Takara Shuzo Co., Ltd., a consolidated subsidiary of the Company, and transfer it to the newly established Takara Shuzo International Co., Ltd. on July 3, 2017. As a result of reviewing its reporting segments in accordance with this, the Company changed its reporting segments starting from the three months ended June 30, 2017, and year on year comparisons below compare the figures for the same period of the previous fiscal year reclassified into the post-change segments.

[Takara Shuzo Group]

For alcoholic beverages, in the nine months ended December 31, 2017, sales of shochu declined compared with the same period of the previous fiscal year, but sales of sake performed well and sales of light-alcohol refreshers, where Takara Shochu Highball remained robust, rose, so sales of alcoholic beverages overall increased.

In the Seasonings Business, sales increased due to healthy sales of cooking sake, while sales of raw alcohol and other products were also up.

As a result, net sales for Takara Shuzo rose 1.6% year on year to ¥117,845 million. Cost of sales increased by 1.9% year on year to ¥70,038 million. As a result, gross profit rose 1.1% year on year to ¥47,806 million. SG&A expenses were flat year on year at ¥41,108 million. Accordingly, Takara Shuzo recorded operating income up 8.4% year on year to ¥6,698 million.

[Takara Shuzo International Group]

In the nine months ended December 31, 2017, sales in the Japanese food wholesale business in overseas markets increased with the contribution of sales from Mutual Trading Co., Inc. (U.S.), which became a consolidated subsidiary at the end of the third quarter of the previous fiscal year, and other companies. Sales of whiskey and other products also increased in the overseas alcoholic beverages business. As a result, net sales for the Takara Shuzo International Group increased by 133.2% year on year to ¥51,364 million. Cost of sales increased by 144.4% year on year to ¥36,170 million. As a result, gross profit rose by 110.4% year on year to ¥15,194 million. SG&A expenses were up 127.7% year on year to ¥11,988 million. Accordingly, the Takara Shuzo International Group recorded operating income up 64.0% year on year to ¥3,206 million.

[Takara Bio Group]

Net sales for the nine months ended December 31, 2017 increased 9.7% year on year, to ¥22,646 million, on contributions from newly consolidated subsidiaries and from sales for contract services greatly exceeding those of the same period of the previous fiscal year. Also, cost of sales increased 21.9% year on year, to ¥9,879 million due to the increase in net sales and the recording of amortization of intangible assets accompanying the acquisition of newly consolidated subsidiaries, and gross profit increased by 1.8%, to ¥12,766 million. SG&A expenses increased by 13.7% year on year, to ¥11,157 million, due to increases in personnel costs of newly consolidated subsidiaries and amortization of goodwill. Accordingly, operating income declined 41.0% year on year, to ¥1,608 million.

[Other]

Net sales of business segments other than the reported segments for the nine months ended December 31, 2017 fell by 1.8% year on year to ¥29,090 million as TAKARA CHOU UN Co., Ltd. was excluded from the scope of consolidation at the beginning of the third quarter accompanying the sale of shares in that company. Cost of sales declined by 3.0%

year on year to ¥24,374 million. Consequently, gross profit increased by 5.1% to ¥4,715 million. SG&A expenses fell by 3.6% year on year to ¥2,599 million. As a result, operating income increased by 18.2% year on year to ¥2,115 million.

Breakdown of sales results by product category

Segment	Equivalent Period of Previous Fiscal Year (From April 1, 2016, to December 31, 2016)	Period under Review (from April 1, 2017, to December 31, 2017)	YoY Comparison
Product category	Amount (Millions of yen)	Amount (Millions of yen)	(%)
Takara Shuzo			
Shochu	44,124	42,763	96.9
Sake	18,003	18,302	101.7
Light-alcohol refreshers	23,916	26,447	110.6
Other alcoholic beverages	5,386	5,133	95.3
Alcoholic beverages total	91,432	92,647	101.3
<i>Hon Mirin</i>	11,591	11,304	97.5
Other seasonings	7,334	7,851	107.1
Seasonings total	18,925	19,156	101.2
Raw alcohol, etc.	5,667	6,041	106.6
Total	116,025	117,845	101.6
Takara Shuzo International Group			
Overseas Alcoholic Beverages Business	6,623	7,424	112.1
Japanese Food Wholesales Business in overseas markets	15,785	45,231	286.5
Other	—	33	—
Elimination of intraGroup transaction on consolidation	(387)	(1,324)	—
Total	22,021	51,364	233.2
Takara Bio Group	20,645	22,646	109.7
Reported segment total	158,691	191,856	120.9
Other	29,628	29,090	98.2
Segment total	188,320	220,946	117.3
Sales not allocated to business segments and intersegment transactions	(16,102)	(16,680)	—
Total	172,218	204,266	118.6

Notes: Amounts include alcohol tax but do not include consumption tax.

(2) Consolidated Financial Position

As of December 31, 2017, current assets were ¥177,711 million, an increase of ¥3,799 million compared with that at the end of the previous fiscal year. This was primarily due to increases of ¥12,640 million in notes and accounts receivable – trade, ¥3,416 million in merchandise and finished goods, and ¥5,536 million in other due to increases in accounts receivable – other and others despite decreases of ¥15,644 million in cash and deposits and ¥2,796 million in securities.

Noncurrent assets were ¥113,937 million, an increase of ¥13,481 million compared with that at the end of the previous fiscal year. This was primarily due to an increase in intangible fixed assets of ¥12,326 million.

As a result, total assets were ¥291,649 million, an increase of ¥17,280 million compared with that at the end of the previous fiscal year.

As of December 31, 2017, current liabilities were ¥57,234 million, a decrease of ¥8,272 million compared with that at the end of the previous fiscal year. This was primarily due to decreases of ¥10,000 million in the current portion of bonds and ¥2,818 million in short-term loans payable despite an increase of ¥5,293 million in accrued alcohol tax.

Noncurrent liabilities were ¥58,649 million, an increase of ¥15,708 million compared with that at the end of the previous fiscal year. This was primarily due to an increase in bonds payable of ¥15,000 million.

As a result, total liabilities were ¥115,884 million, an increase of ¥7,436 million compared with that at the end of the previous fiscal year.

As of December 31, 2017, total net assets were ¥175,764 million, an increase of ¥9,844 million compared with that at the end of the previous fiscal year. This was primarily due to ¥10,396 million in net income attributable to owners of the parent. In the nine month period ended December 31, 2017, the Company acquired and cancelled treasury stock.

As a result, the equity ratio totaled 49.6%, compared with 49.2% at the end of the previous fiscal year.

(3) Qualitative Information Regarding Consolidated Forecasts

The Group's consolidated business results in the nine months ended December 31, 2017 progressed largely in line with plans in relation to the consolidated business results forecast released on November 7, 2017, and the Company has made no revisions to the consolidated business results forecast.

3. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheets

(Millions of Yen)

	As of Mar. 31, 2017	As of Dec. 31, 2017
Assets		
Current assets		
Cash and deposits	58,073	42,428
Notes and accounts receivable-trade	57,951	70,592
Securities	13,237	10,441
Merchandise and finished goods	35,300	38,716
Work in process	1,244	1,026
Raw materials and supplies	3,306	4,269
Other	5,035	10,571
Allowance for doubtful accounts	(236)	(334)
Total current assets	173,912	177,711
Noncurrent assets		
Property, plant and equipment	59,174	56,712
Intangible assets		
Goodwill	6,626	13,997
Other	3,630	8,584
Total intangible assets	10,256	22,582
Investments and other assets		
Investment securities	25,583	29,707
Other	5,533	5,016
Allowance for doubtful accounts	(90)	(89)
Total investments and other assets	31,025	34,633
Total noncurrent assets	100,456	113,937
Total assets	274,368	291,649

(Millions of Yen)

	As of Mar. 31, 2017	As of Dec. 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable-trade	16,804	17,046
Short-term loans payable	9,206	6,388
Current portion of bonds	10,000	—
Accrued alcohol tax	7,593	12,886
Accrued expenses	5,562	5,965
Income taxes payable	2,468	3,111
Provision for promotion	1,899	2,160
Other provision	2,552	1,365
Other	9,418	8,309
Total current liabilities	65,506	57,234
Noncurrent liabilities		
Bonds payable	10,000	25,000
Long-term loans payable	10,996	10,886
Net defined benefit liability	8,961	8,731
Long-term deposits received	5,342	5,322
Other	7,640	8,708
Total noncurrent liabilities	42,941	58,649
Total liabilities	108,447	115,884
Net assets		
Shareholders' equity		
Capital stock	13,226	13,226
Capital surplus	1,650	1,801
Retained earnings	119,729	116,938
Treasury stock	(9,939)	(1,367)
Total shareholders' equity	124,667	130,599
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,583	12,455
Deferred gains or losses on hedges	0	198
Foreign currency translation adjustment	1,426	2,089
Remeasurements of defined benefit plans	(634)	(614)
Total accumulated other comprehensive income	10,375	14,129
Noncontrolling interests	30,877	31,036
Total net assets	165,920	175,764
Total liabilities and net assets	274,368	291,649

(2) Consolidated Quarterly Statements of Income and Consolidated Quarterly Statements of Comprehensive Income**(Consolidated Statements of Income)****(For the Nine Months Ended December 31, 2017 and 2016)**

(Millions of Yen)

	FY2017 (Apr. 1, 2016 – Dec. 31, 2016)	FY2018 (Apr. 1, 2017 – Dec. 31, 2017)
Net sales	172,218	204,266
Cost of sales	101,336	124,486
Gross profit	70,881	79,779
Selling, general and administrative expenses	58,139	66,175
Operating income	12,741	13,604
Non-operating income		
Dividends income	453	497
Other	674	644
Total non-operating income	1,128	1,141
Non-operating expenses		
Interest expenses	321	463
Other	144	297
Total non-operating expenses	466	761
Ordinary income	13,403	13,984
Extraordinary income		
Gain on sales of stocks of subsidiaries and affiliates	—	3,312
Gain on step acquisitions	864	—
Other	66	174
Total extraordinary income	931	3,486
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	108	106
Impairment loss	199	—
Other	17	0
Total extraordinary losses	325	106
Income before income taxes and minority interests	14,009	17,364
Income taxes-current	4,461	5,824
Income taxes-deferred	(13)	342
Total income taxes	4,448	6,167
Net income	9,560	11,197
Net income attributable to the noncontrolling interest	684	800
Net income attributable to owners of the parent	8,876	10,396

(Consolidated Quarterly Statements of Comprehensive Income)
(For the Nine Months Ended December 31, 2017 and 2016)

(Millions of Yen)

	FY2017 (Apr. 1, 2016 – Dec. 31, 2016)	FY2018 (Apr. 1, 2017 – Dec. 31, 2017)
Net income	9,560	11,197
Other comprehensive income		
Valuation difference on available-for-sale securities	2,777	2,872
Deferred gains or losses on hedges	668	201
Foreign currency translation adjustment	(11,449)	541
Remeasurements of defined benefit plans	0	36
Total other comprehensive income	<u>(8,002)</u>	<u>3,651</u>
Comprehensive income	<u>1,558</u>	<u>14,849</u>
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	2,592	14,150
Comprehensive income attributable to noncontrolling interest	(1,033)	698

(3) Notes on Consolidated Quarterly Financial Statements

(Notes on Premise of Going Concern)

No items to report.

(Notes on Material Changes in Shareholders' Equity)

(Acquisition and Cancellation of Treasury Stock)

The meeting of the Company's Board of Directors held on November 7, 2017 approved the acquisition of treasury stock based on the provisions for Article 156 of the Companies Act described in Article 165 (3) of the same act and the cancellation of treasury stock based on the provision of Article 178 of the Companies Act. As a result, in the nine months ended December 31, 2017, the Company acquired and cancelled treasury stock as outlined below.

1. Acquisition of treasury stock

(1) Classification of stock acquired: Common stock of the Company

(2) Number of shares acquired: 1,592,500 shares

(3) Total cost of acquisition: ¥1,999 million

As a result, treasury stock increased by ¥1,999 million.

2. Cancellation of treasury stock

(1) Classification of stock cancelled: Common stock of the Company

(2) Number of shares cancelled: 16,000,000 shares

(3) Total amount of shares cancelled: ¥10,572 million

(4) Date of cancellation: December 29, 2017

As a result, capital surplus fell by ¥0 million while retained earnings and treasury stock both fell by ¥10,572 million.

(Material Changes in Subsidiaries during the Nine Months Ended December 31, 2017)

Due to Takara Bio Inc.'s wholly owned subsidiary Takara Bio USA Holdings Inc. acquiring shares of WaferGen Bio-systems, Inc., WaferGen Bio-systems, Inc. and its subsidiaries 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 WaferGen, 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 have been excluded from the scope of consolidation for the three months ended September 30, 2017. Note that during this period, WaferGen Bio-systems, Inc. qualified as a specified subsidiary of the Company.

In addition, due to Takara Bio USA Holdings Inc.'s purchase of shares of Rubicon Genomics, Inc., Rubicon Genomics, Inc. had been included in the scope of consolidation as a specified subsidiary for the three months ended June 30, 2017. 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 for the three months ended June 30, 2017, Rubicon Genomics, Inc. has been excluded from the scope of consolidation.

As Takara Shuzo International Co., Ltd. was newly established during the six months ended September 30, 2017, it has been included in the scope of consolidation.

In the nine months ended December 31, 2017, TAKARA CHOU UN Co., Ltd. was excluded from the scope of consolidation due to the transfer of all shares owned in that company.

(Segment Information)

I. Equivalent Period of Previous Fiscal Year (From April 1, 2016, to December 31, 2016)

1. Net Sales and Income (Loss) by Reported Segment

<Information for the nine months ended December 31, 2016 stated based on post-change classifications>

(Millions of yen)

	Reported Segment				Other (Note: 1)	Total	Adjustment (Note: 2)	Amount recognized in consolidated quarterly statements of income (Note: 3)
	Takara Shuzo	Takara Shuzo Internation al Group	Takara Bio Group	Subtotal				
Net sales								
External customers	115,990	21,800	20,036	157,827	14,390	172,217	0	172,218
Intersegment	34	221	608	864	15,238	16,102	(16,102)	—
Total	116,025	22,021	20,645	158,691	29,628	188,320	(16,102)	172,218
Segment income (loss)	6,181	1,955	2,724	10,862	1,789	12,651	89	12,741

- Notes:
- Other includes business segments that are not part of reported segments, such as the Company's real estate rental business and the transportation business of domestic Group companies among others.
 - Details of adjustment amounts are as follows.
 - Net sales to external customers are income from business contracting recorded at the Company.
 - Segment income (loss) comprises -¥32 million of intersegment eliminations and ¥121 million in income of the Company not allocated to business segments.
 - Segment income (loss) has been adjusted to the operating income of consolidated quarterly statements of income.

2. Information on Impairment Loss on Noncurrent Assets, Goodwill, etc. by Reportable Segment
(Significant Impairment Losses Concerning Noncurrent Asset)

An impairment loss of ¥199 million has been recorded in the Takara Bio Group segment.

II. Period under Review (From April 1, 2017, to December 31, 2017)

1. Net Sales and Income (Loss) by Reported Segment

(Millions of yen)

	Reported Segment				Other (Note: 1)	Total	Adjustment (Note: 2)	Amount recognized in consolidated quarterly statements of income (Note: 3)
	Takara Shuzo	Takara Shuzo Internation al Group	Takara Bio Group	Subtotal				
Net sales								
External customers	117,566	51,123	22,112	190,803	13,455	204,258	7	204,266
Intersegment	278	241	533	1,053	15,634	16,688	(16,688)	—
Total	117,845	51,364	22,646	191,856	29,090	220,946	(16,688)	204,266
Segment income	6,698	3,206	1,608	11,513	2,115	13,629	(25)	13,604

- Notes:
- Other includes business segments that are not part of reported segments, such as the Company's real estate rental business and the transportation business of domestic Group companies among others.
 - Details of adjustment amounts are as follows.
 - Net sales to external customers are income from business contracting recorded at the Company.
 - Segment income (loss) comprises ¥60 million of intersegment eliminations and ¥86 million in losses of the Company not allocated to business segments.
 - Segment income (loss) has been adjusted to the operating income of consolidated quarterly statements of income.

2. Matters Concerning Changes to Reporting Segments

The meeting of the Company's Board of Directors held on February 16, 2017 resolved to spin off (incorporation-type company split) the overseas business of Takara Shuzo Co., Ltd., a consolidated subsidiary of the Company, and transfer it to the newly established Takara Shuzo International Co., Ltd. on July 3, 2017. As a result of revising its reporting segments in accordance with this, the Company changed its reporting segments to "Takara Shuzo," "Takara Shuzo International Group," and "Takara Bio Group" starting from the three months ended June 30, 2017.

The segment information for the nine months ended December 31, 2016 discloses information prepared based on the post-change segments.

3. Information on Impairment Loss on Noncurrent Assets, Goodwill, etc. by Reportable Segment (Significant Changes to the Amount of Goodwill)

In the Takara Bio Group segment, goodwill was recorded due to the acquisition of shares in WaferGen Bio-systems, Inc. and Rubicon Genomics, Inc. by the Takara Bio Inc.'s wholly owned subsidiary Takara Bio USA Holdings Inc. The increase in goodwill due to this event in the nine months ended December 31, 2017 was ¥7,713 million. Note that as the allocation of the acquisition cost has not been completed, this is a tentatively calculated amount.