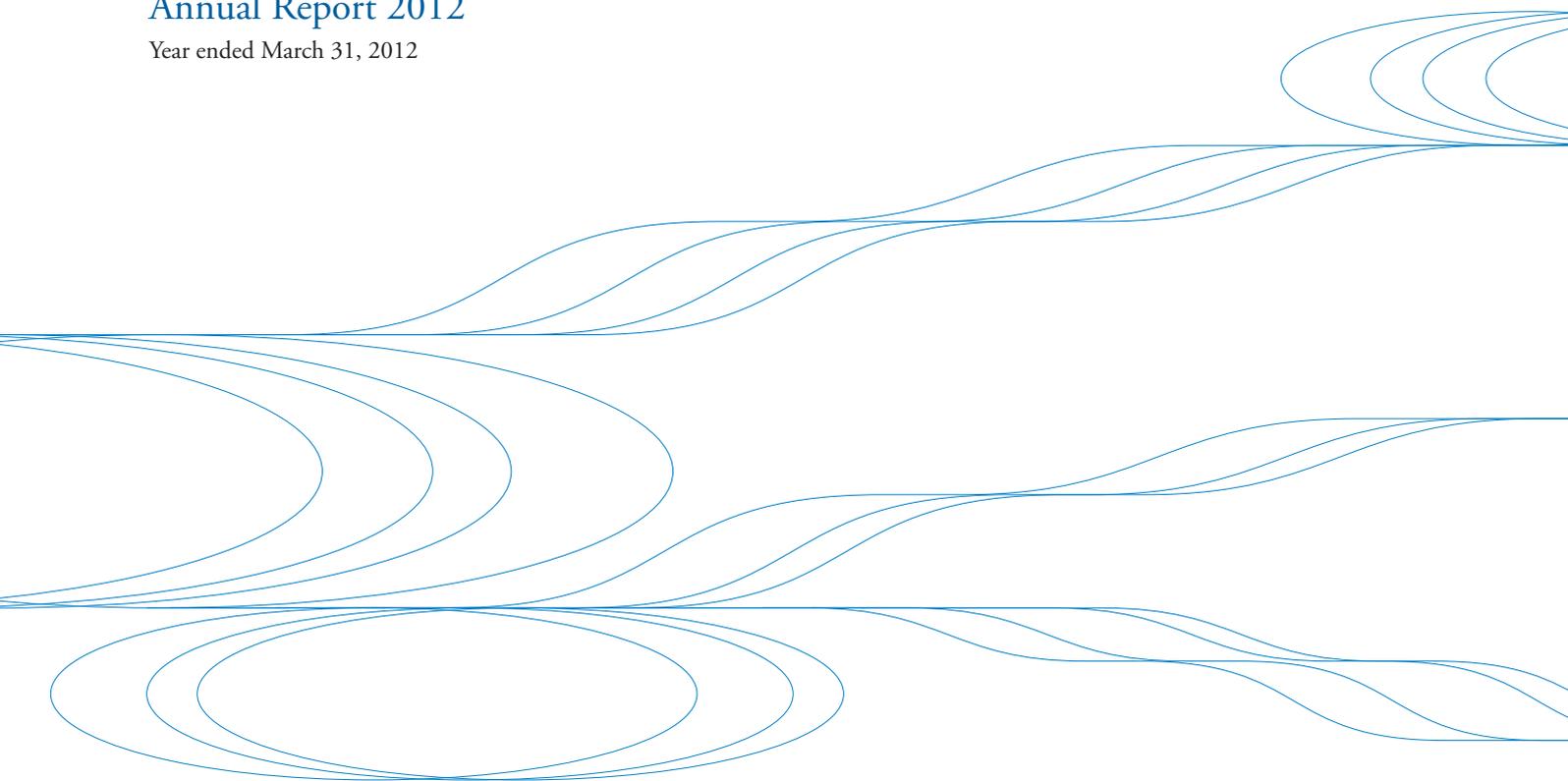


**TaKaRa**

# For the *Sake* of the Next

Annual Report 2012

Year ended March 31, 2012



**TAKARA HOLDINGS INC.**

# 宝 藏

*Takara* (treasure):

Precious stones, earthenware, money, or other property that is carefully stored under a roof

Fertile land, plentiful sunshine, and bountiful showers—since ancient times, the Japanese have valued bounties nurtured in their rice paddy fields as an irreplaceable treasure. Originally meaning grain harvested from the fields, the name Takara\* resonates powerfully with the values of the Japanese as a people that agriculture has sustained from generation to generation. Thus, depending on the Chinese character used, in Japanese the word *takara* can mean “treasure” or “from the rice paddy field.”

The Takara Group has unlocked new potential in the culinary, lifestyle, and life science fields through our fermentation technologies for traditional Japanese sake and our cutting-edge innovation in biotechnologies. Going forward, we will continue to benefit society by creating new value as well as providing products and services rooted in our long-standing affinity with nature.

\*Source: *Daigenkai*; Fumihiko Otsuki; Fuzanbo

# Corporate Philosophy

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

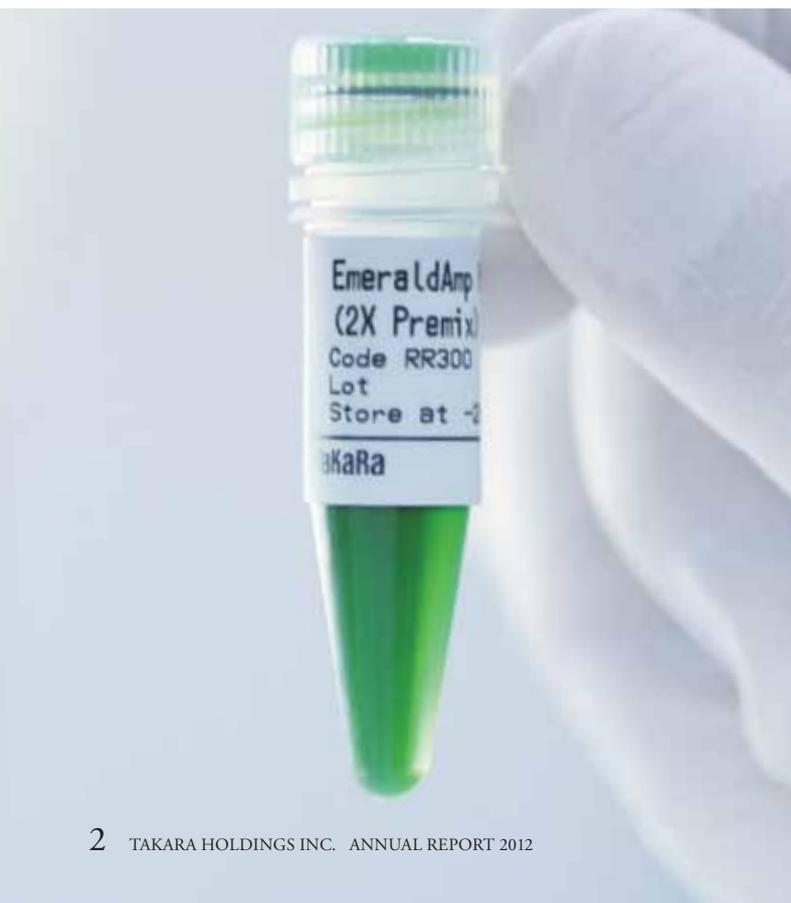
## Takara Group Milestones

1842	Company is founded.
1897	Takara logo is registered as trademark.
1925	Takara Shuzo Co., Ltd. (predecessor of Takara Holdings Inc.), is established.
1949	Takara Shuzo is listed on the Tokyo Stock Exchange.
1979	Japan's first restriction enzymes are launched, starting the Biomedical business.
1982	Local production of sake is begun in the United States.
1993	Long-term management concept Takara Innovation-21 (TI-21) is launched.
2000	Long-term management concept Takara Evolution-100 (TE-100) is launched.
2002	Company is transferred to holding company structure. Takara Holdings Inc. is established.
2004	Takara Bio Inc. is listed on Mothers board of the Tokyo Stock Exchange.
2006	Group's businesses are reorganized, and Takara Healthcare Inc. is established.
2011	Long-term management vision Takara Group Vision 2020 is launched. Takara Group Medium-Term Management Plan FY2014 is launched.

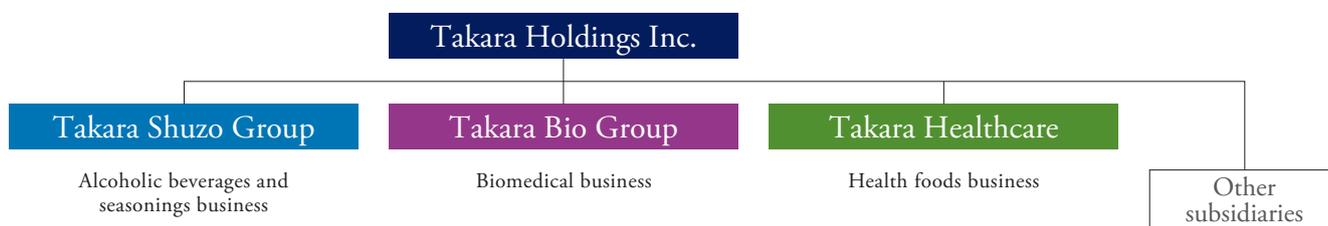


As a pure holding company, Takara Holdings Inc. maximizes its business results by coordinating and controlling the management of all Group companies under its umbrella. These are the Takara Shuzo Group, which develops the Alcoholic beverages and seasonings business; the Takara Bio Group, which advances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

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



# Business Structure



## Business Lines

### Takara Shuzo Group



The Takara Group's core business, the Takara Shuzo Group, has developed the Alcoholic beverages and seasonings business since the Takara Group's foundation. For 170 years, the Takara Shuzo Group has marketed reliable products supported by sound technology. Its lineup spans a broad range of product categories, including shochu, sake, light-alcohol refreshers, wine, whisky, Chinese alcoholic beverages, seasonings, and raw alcohol. Moreover, it rolls out these products not only in Japan but also in markets worldwide, through subsidiaries in the United States, China, and Europe.

> For details, please see page 28.

### Takara Bio Group



The Takara Bio Group strives to contribute to the health of humankind by developing revolutionary biomedical technologies, such as gene therapy. The mainstay of the Takara Bio Group's technology and earnings is the genetic engineering research business, which provides stable earnings. Meanwhile, the Takara Bio Group is fostering the agribio business as a second earnings mainstay. Further, the Takara Bio Group is working to commercialize gene and cell therapies by investing management resources in the gene medicine business.

> For details, please see page 29.

### Takara Healthcare



Takara Healthcare utilizes the Takara Group's unique ingredients and technologies to provide its customers with safe, reliable health foods, thereby helping people to live healthy, active lives. Using ingredients that Takara Bio has developed, Takara Healthcare develops products and sells them mainly through direct marketing activities and mail-order sales. By pursuing such initiatives, Takara Healthcare creates synergies within the Takara Group and accelerates the growth of the Health foods business.

> For details, please see page 29.

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## Forward-Looking Statements

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

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

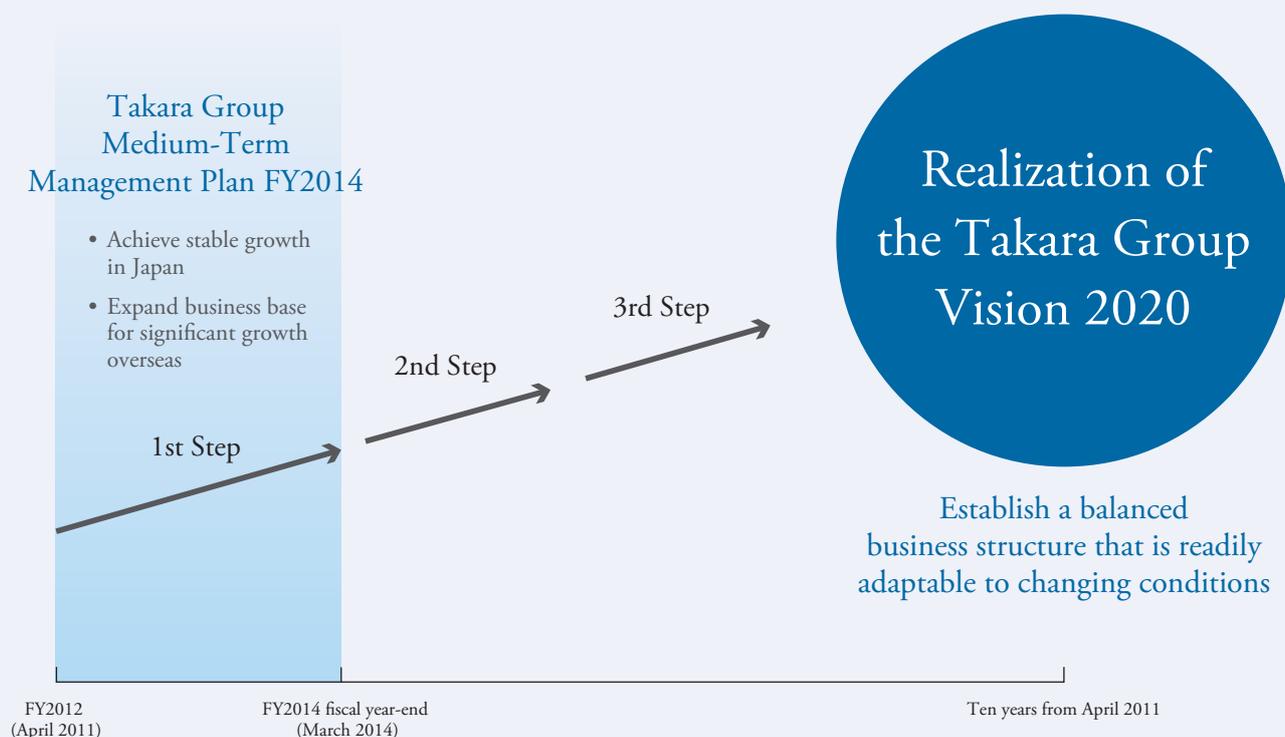
# Long-Term Management Vision— Takara Group Vision 2020

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

Aiming to raise its long-term corporate value, the Takara Group has moved Group management forward based on medium-term management plans prepared in order to realize long-term management concepts. These efforts have steadily expanded the Takara Group's business base.

From April 2011, the Takara Group has been seeking sustained growth based on a new long-term management vision (the Takara Group Vision 2020) and a new medium-term management plan (the Takara Group Medium-Term Management Plan FY2014), which sets out the first step toward realizing the vision.

## Roadmap for Realizing the Takara Group Vision 2020



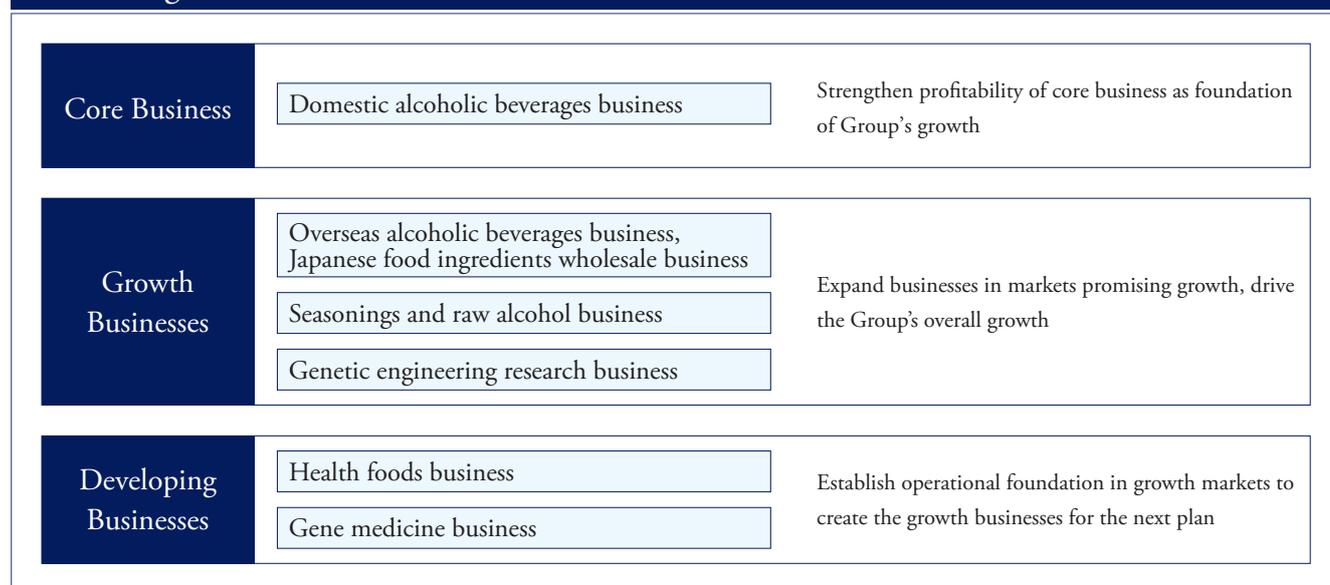
# Takara Group Medium-Term Management Plan FY2014

Covering the period through 2020, our long-term management vision, the Takara Group Vision 2020, calls on us to grow businesses in markets in Japan and overseas where we can leverage our strengths while establishing a balanced business structure that is readily adaptable to changing conditions. As the first step on the way to realizing this goal, we prepared the Takara Group Medium-Term Management Plan FY2014. Under this plan, we aim to achieve stable growth in Japan while expanding our business base in order to grow significantly overseas.

## Basic Policy

Aiming to realize the Takara Group Vision 2020, achieve stable growth in Japan while expanding business base in order to grow significantly overseas

## Positioning of Businesses and Business Policies



Develop Corporate Culture/Personnel

Strengthen Group's Management Base

Promote Social and Environmental Activities

## Financial Policy

While maintaining a sound financial position, the Group aims to invest in both growth and developing businesses, return profits to shareholders actively, and increase ROE (return on equity).

## Tangible Goals for Final Fiscal Year (Fiscal 2014)

### Raise level of net sales and operating income

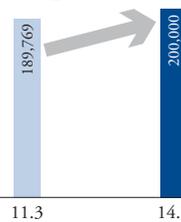
(Millions of Yen)

Consolidated net sales **At least ¥200 billion**

Consolidated operating income **At least ¥10 billion**

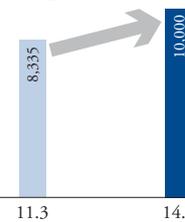
Consolidated net sales

Up 5.4%



Consolidated operating income

Up 20.0%



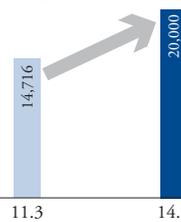
### Expand business base in order to grow significantly overseas

Overseas sales **At least ¥20 billion**

Overseas sales as a percentage of net sales **At least 10%**

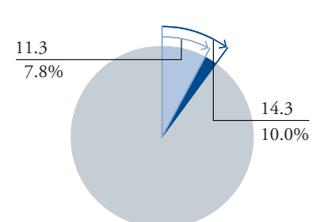
Overseas sales

Up 35.9%



Overseas sales as a percentage of net sales

Up 2.2 percentage points



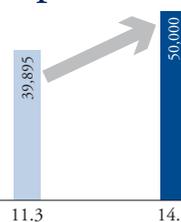
### Expand growth businesses and establish foundations of developing businesses

Net sales of growth businesses and developing businesses **At least ¥50 billion**

Net sales of growth businesses and developing businesses as a percentage of net sales **At least 25%**

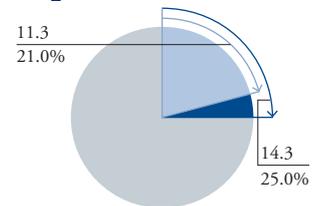
Net sales of growth businesses and developing businesses

Up 25.3%



Net sales of growth businesses and developing businesses as a percentage of net sales

Up 4.0 percentage points



# Takara Group Medium-Term Management Plan FY2014 Initiatives by Business

## Core Business

Domestic alcoholic beverages business

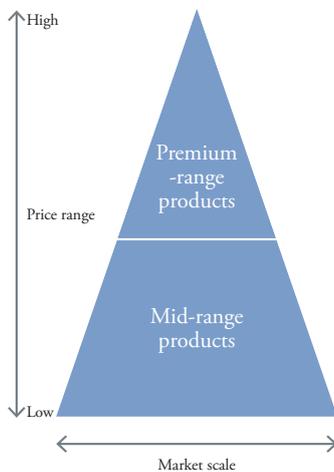
Takara Shuzo Group

Business Policy

Generate stable cash flows and support the Group's growth

Business Strategies

- New product development: Develop highly original new products with differentiated quality
- Brand nurturing: Foster array of powerful brands for premium-range and mid-range products
- Strengthen profitability: Strengthen profit management and promote operational efficiency



New premium-range product  
(launched June 2011)

Sparkling sake  
*Sho-Chiku-Bai Shirakabe-gura Mio*

A combination of just the right amount of acidity with a hint of sweetness and enjoyably refreshing bubbles, the sparkling sake *Sho-Chiku-Bai Shirakabe-gura Mio* is attracting attention as a beverage that gives sake new appeal amid declining sake consumption volumes.

Catering to preferences of men and women in their 20s and 30s, this sake is marketed in a comparatively small bottle—enabling customers to enjoy it as they would a *chu-bi* beverage—and has a low alcohol content and an easy-to-drink slightly sweet flavor.



New mid-range product  
(launched September 2011)

*Sho-Chiku-Bai Ten* 900ml  
“eco pouch”

Refreshingly dry with a distinctively rich, sharp flavor achieved through a unique two-stage yeast fermentation process, *Sho-Chiku-Bai Ten* has become a firm favorite of many customers since launching in 2003.

The *Sho-Chiku-Bai Ten* 900ml “eco pouch” is environment friendly because this original pouch-pack container uses approximately 50% less packaging than a cardboard carton for an equivalent volume.



## Growth Business

Overseas alcoholic beverages business,  
Japanese food ingredients wholesale business

Takara Shuzo Group

Business Policy

Create a Japanese food ingredients wholesale network overseas and utilize synergies between the businesses to accelerate business growth and drive the Group's overall growth

Business Strategies

- Expansion of overseas alcoholic beverages business: Claim larger share of Japanese restaurant market and expand presence in mass retail channels
- Establishment of sales network for Japanese food ingredients wholesaling: Build and extend overseas sales network

Expansion of overseas alcoholic  
beverages business

Build foundations for overwhelming  
No. 1 position in overseas sake market

- Grow sales and market share in Japanese restaurant market
- Expand presence in mass retail channels
- Provide stable supply of high-quality sake to markets worldwide

Establishment of sales network for Japanese  
food ingredients wholesaling

Build and extend sales network and accelerate expansion of  
business in European market

- Expand European distribution network through FOODEX.
- Strengthen marketing to Japanese restaurants in Europe

Popularize Japanese cuisine worldwide through overseas alcoholic beverages business and Japanese food ingredients wholesale business and expand overseas business

## Growth Business

### Seasonings and raw alcohol business

Takara Shuzo Group

#### Business Policy

Expand seasonings business for food processing and raw alcohol business while leveraging business integration to grow B-to-B operations

#### Business Strategies

- Expanding seasonings business for food processing: Help customers solve problems by leveraging technological capabilities to develop products and advance solutions-based sales efforts
- Expanding raw alcohol business: Grow operations through new business model and increase profitability by establishing competitive superiority

## Growth Business

### Genetic engineering research business

Takara Bio Group



#### Business Policy

Develop core technologies and open up markets in Japan and overseas, including emerging countries, and increase sales and strengthen profitability further

#### Business Strategies

- Shifting from genetic engineering to advanced cell biology: Step up new product development in advanced cell biology field and advance tie-ups with companies promising technological synergies
- Shifting from supporting academic research to supporting industry: Develop application fields for gene-amplification technology (Polymerase Chain Reaction (PCR) technology)
- Shifting from supporting basic research to supporting leading-edge research: Develop research reagents for high-speed sequence analysis

## Developing Business

### Health foods business

Takara Bio Group

Takara Healthcare



#### Business Policy

Increase sales and establish a business foundation in preparation for dramatic growth

#### Business Strategies

- Leverage Takara Bio's technological capabilities to strengthen scientific evidence for health food ingredients
- Invest effectively and efficiently to acquire customers for mail-order sales
- Grow sales in B-to-B market

## Developing Business

### Gene medicine business

Takara Bio Group

#### Business Policy

Advance clinical development with a view to commercializing Japan's first *ex vivo* gene therapy and seek higher sales from cell-therapy-related businesses

#### Business Strategies

- Advance clinical development with a view to commercializing *ex vivo* gene therapies
- Strengthen business supporting drug discovery by leveraging technology and expertise
- Advance clinical development of cancer immunotherapy to strengthen scientific evidence
- Increase sales of cell-therapy-related businesses (technical support services for cancer immunotherapy, cell culture media, and gas-permeable bags)

#### Schedule for clinical development of gene medicine

Therapies	Preclinical trials/ Clinical Research	Phase I Clinical Trials	Phase II Clinical Trials	Phase III Clinical Trials	Commercialization
HSV-TK gene therapy		→	→		
		→	→		FY2018
		→			
HF10 anti-cancer therapy		→			FY2019
MazF gene therapy		→			FY2023
TCR gene therapy		→			
		→			
		→			

→ clinical trials    → clinical research

# Performance Highlights

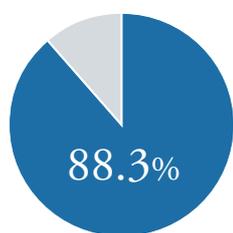
## Takara Holdings

Consolidated net sales **¥198,690** million  
(+4.7% YoY)

Consolidated operating income **¥9,264** million  
(+11.2% YoY)

## Takara Shuzo Group

Net Sales by Business Segment

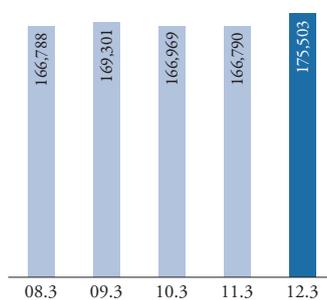


Net sales **¥175,503** million  
(+5.2% YoY)

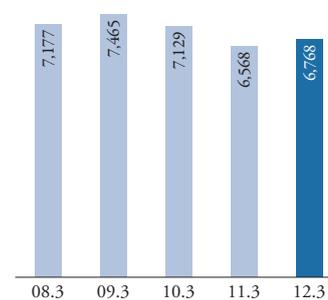
Operating income **¥6,768** million  
(+3.0% YoY)



Net sales  
(Millions of Yen)

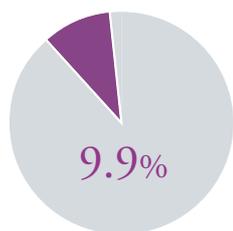


Operating income  
(Millions of Yen)



## Takara Bio Group

Net Sales by Business Segment

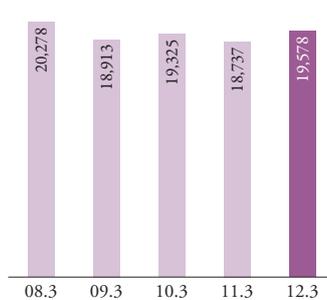


Net sales **¥19,578** million  
(+4.5% YoY)

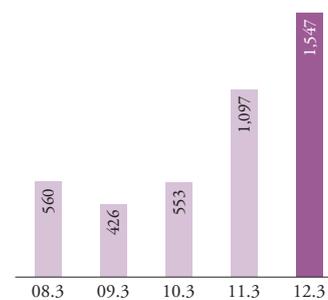
Operating income **¥1,547** million  
(+41.0% YoY)



Net sales  
(Millions of Yen)

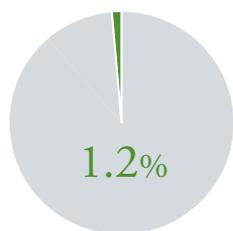


Operating income  
(Millions of Yen)



## Takara Healthcare

Net Sales by Business Segment

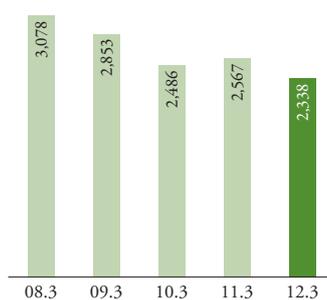


Net sales **¥2,338** million  
(-8.9% YoY)

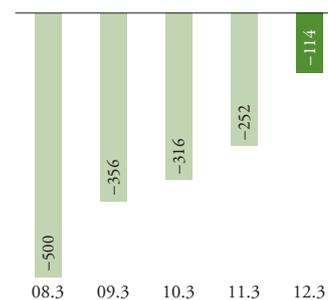
Operating loss **¥114** million  
(improved ¥137 million YoY)



Net sales  
(Millions of Yen)



Operating loss  
(Millions of Yen)



## Performance Overview

For fiscal 2012, ended March 31, 2012, Takara Holdings posted record consolidated net sales, up 4.7% year on year, to ¥198,690 million, thanks to increases in revenues from the Takara Shuzo Group and the Takara Bio Group.

Consolidated operating income rose 11.2% year on year, to ¥9,264 million, reflecting higher earnings from all reported segments.

## Performance Overview

The Takara Shuzo Group saw a significant rise in revenue from light-alcohol refreshers and higher sales in all categories, except for *hon mirin* alcohol-based seasonings. These factors and a full-year contribution to business results from the group's French subsidiary, FOODEX S.A.S., as a result of its inclusion as a consolidated subsidiary in the previous fiscal year, grew net sales 5.2% year on year, to ¥175,503 million.

Operating income was up 3.0% year on year, to ¥6,768 million, despite an increase in the cost of sales ratio due to raw material price hikes, higher transportation costs resulting from earthquake damage to distribution centers, and a rise in promotion expenses associated with stepped-up sales of shochu products and light-alcohol refreshers.

## Performance Overview

The Takara Bio Group's mainstay genetic engineering research business saw strong growth in research reagent sales despite yen appreciation as well as higher sales of scientific instruments centered on mass spectrometry equipment. Also, the gene medicine business generated favorable revenue from technical support services relating to cancer immunotherapy. And, the agribio business posted increased revenue from mushroom products. As a result, net sales rose 4.5% year on year, to ¥19,578 million.

Operating income increased a steep 41.0% year on year, to ¥1,547 million, due to continuation of the previous fiscal year's improvement in the cost of sales ratio and largely unchanged SG&A expenses.

## Performance Overview

Takara Healthcare's net sales declined 8.9% year on year, to ¥2,338 million, because a favorable performance by fucoidan-related products and the OEM (original equipment manufacturer) business centered on hair care related products was unable to fully counteract lower sales in the tea beverage PB (private brand) supply business.

Gross profit rose 3.2% year on year, to ¥845 million, on increased sales of high-margin fucoidan-related products. Operating loss improved ¥137 million year on year, to ¥114 million, as a result of multifaceted efforts to reduce SG&A expenses. Further, the operating losses of Takara Healthcare have resulted from forward-looking expenditure on advertising and promotion aimed at nurturing its health food products business.

Note: The overview of business segments on this page corresponds to the Company's reporting segments. Reporting segments are those segments of the Takara Group for which discrete financial information can be obtained and that are subject to periodic examination by the Group's highest management decision-making body in order to determine the allocation of management resources and evaluate business results. The Takara Group comprises three reporting segments: the Takara Shuzo Group, the Takara Bio Group, and Takara Healthcare. Further, the business results of the printing business and other subsidiaries, net of intercompany eliminations, are included in "Other" in the "Consolidated Financial Highlights" on page 30 of this report.

## Main Initiatives

Apr. 2011	Long-term management vision the Takara Group Vision 2020 is launched. The Takara Group Medium-Term Management Plan FY2014 is launched.
Dec.	As a return to shareholders, 2.2 million shares of treasury stock (¥1,070 million) are acquired.

## Main Initiatives

Jun. 2011	Sparkling sake <i>Sho-Chiku-Bai Shirakabe-gura Mio</i> is launched.
Sep.	<i>Sho-Chiku-Bai Ten</i> "eco pouch" is launched.
Oct.	<i>Shirashinken honkaku</i> barley shochu <i>Dokutsu Kame Chozo</i> is launched.
Mar. 2012	<i>Kobaku no Yokaichi honkaku</i> barley shochu is launched.
Mar.	<i>MIN+</i> ("Mintas") mint shochu is launched.

## Main Initiatives

May 2011	Safety testing service for biopharmaceuticals is launched in Japan.
Jun.	Whole human genome sequence analysis service is launched.
Jul.	Contract with Kyoto University's Center for iPS Cell Research and Application (CiRA) in relation to the manufacture and supply of plasmid vectors for iPS cell generation intended for use in clinical trials is concluded.
Oct.	Clinical development project for gene therapy targeting non-Hodgkin lymphoma is launched.
Jan. 2012	Sales contract with Immuno-Biological Laboratories Co., Ltd., is concluded.
Mar.	Investigational new drug (IND) application for HIV gene therapy is submitted to U.S. Food and Drug Administration (FDA).

## Main Initiatives

Jun. 2011	Renewed <i>Glucosamin+agar-oligosaccharide</i> is launched.
Oct.	<i>Agar Beauty Placenta</i> beauty supplement that includes agar-derived agar-oligosaccharide is launched.

# To Our Shareholders and Investors



From left: Hisashi Ohmiya, Chairman, and Toshio Kakimoto, President

A decade has passed since the Takara Group transferred to a holding company system. During this time, we have paved the way for heightening corporate value even further.

At this juncture, we have rejuvenated our senior management team, which is tasked with rapidly establishing a balanced business structure that is readily adaptable to changing conditions.

The General Shareholders' Meeting on June 28, 2012, saw the inception of a new senior management team, with former president Hisashi Ohmiya becoming chairman and former vice president Toshio Kakimoto becoming president.

Prior to assuming his new position as chairman, Hisashi Ohmiya led the Takara Group as its president for 19 years, including a period heading the management team of Takara Shuzo Co., Ltd., the predecessor of Takara Holdings Inc. During this time, the Takara Shuzo Group built a system that develops and nurtures products with differentiated quality and laid the foundations of business management that generates stable earnings while enabling forays overseas and into other growth areas. Similarly, the Takara Bio Group—established based on operations begun by Hisashi Ohmiya and listed in 2004 to realize further growth—has succeeded in building a business management platform that promises to grow earnings stably while investing in R&D. As a result, the Takara Bio Group began paying a fiscal year-end dividend from fiscal 2012.

Having paved the way to future growth in this manner, we decided this would be an opportune moment to rejuvenate our senior management team and foster the next generation of business managers. With President Toshio Kakimoto at the helm and Chairman Hisashi Ohmiya providing support based on his extensive experience and personal connections, we will step up the pace of efforts to realize the Takara Group Medium-Term Management Plan FY2014 and the Takara Group Vision 2020.

July 2012



Hisashi Ohmiya,  
Chairman  
Takara Holdings Inc.



Toshio Kakimoto,  
President  
Takara Holdings Inc.

> Looking Back at Fiscal 2012 Business Results

The Takara Group achieved record net sales thanks to a concerted effort.

In fiscal 2012, ended March 31, 2012, the extensive damage resulting from the Great East Japan Earthquake and uncertainty about power supplies stemming from a subsequent accident at a nuclear power station significantly curtailed economic activity in Japan. In addition, consumer spending was sluggish due to global economic trends, such as yen appreciation and Europe's financial crisis, and concerns about future pensions and higher consumption tax in Japan.

Despite these challenging business conditions, the Takara Group grew net sales to a new record of ¥198,690 million, up 4.7% year on year, which reflected higher revenue from the Takara Shuzo Group and the Takara Bio Group. Operating income was up 11.2% year on year, to ¥9,264 million, due to higher earnings from the Takara Shuzo Group and the Takara Bio Group and Takara Healthcare's improved operating loss. Although recognizing an extraordinary loss due to the earthquake and the negative effect of a change in income tax rates, the Group increased net income 5.5% year on year, to ¥3,995 million. Thus, the Group was able to post significantly better results in tough business conditions.

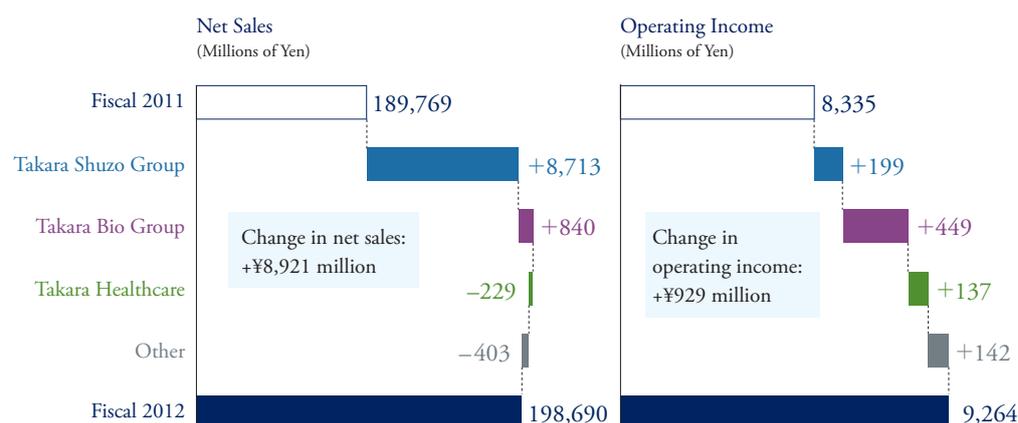
Looking at business results by business group, the Takara Shuzo Group achieved a sharp rise in sales of the light-alcohol refreshers *Takara Shochu High Ball* and *Takara Can Chu-Hi Jika-Shibori*, while shochu and sake also sold briskly. In addition, our French subsidiary, FOODEX S.A.S., saw a sharp year-on-year increase in sales and, having become a consolidated subsidiary in the previous fiscal year, made a full-year contribution to business results. As a result, the group's net sales rose 5.2% from the previous fiscal year. Operating income was up 3.0% as higher net sales absorbed continuing high raw material prices.

The Takara Bio Group recorded a 4.5% rise in net sales year on year, attributable to an increase in revenue from mainstay research reagents, despite yen appreciation, and favorable revenue from scientific instruments, the gene medicine business for technical support services relating to cancer immunotherapy, and mushroom products. This rise in sales and an improved cost of sales ratio enabled a 41.0% jump in operating income to a new record high.

Although Takara Healthcare saw net sales decline as a result of lower revenue from the tea beverage PB (private brand) supply business, its operating loss improved markedly due to increased sales of high-margin fucoidan-related products.

As well as demonstrating that the business groups' initiatives are generating steady earnings, fiscal 2012 business results testify to the concrete progress made toward the Group's goal of establishing a balanced business structure that is readily adaptable to changing conditions.

Analysis of Changes in Consolidated Financial Results for Fiscal 2012





➤ Evaluating the First Year of the Takara Group Medium-Term Management Plan FY2014

**We took a solid first step toward achievement of the plan's targets.**

In April 2011, the Takara Group embarked on a journey to realize the Takara Group Vision 2020. As the first step toward realization of this vision, the Group prepared the Takara Group Medium-Term Management Plan FY2014, which calls on it to achieve stable growth in Japan while expanding its business base in order to grow significantly overseas. Accordingly, the Group is taking concrete measures with its sights fixed on these goals. In the plan's first fiscal year, fiscal 2012, the Group made good progress toward the tangible goals for the final fiscal year, fiscal 2014.

Regarding the net sales target of at least ¥200.0 billion, the Group has increased net sales to a level that should make this achievable one year ahead of schedule, in fiscal 2013. As for the operating income target of at least ¥10.0 billion, which requires a more than ¥1.6 billion addition to earnings over three years, in fiscal 2012 the Group grew operating income by more than ¥0.9 billion. Aiming to reach these targets, the Group intends to advance operations even more rapidly.

To realize the vision's goal of establishing a balanced business structure that is readily adaptable to changing conditions, growth in Japan and overseas and earnings growth in all businesses is indispensable. In the





Takara Shuzo Group, the mainstay domestic alcoholic beverages business is generating stable cash flows, while investments in the overseas alcoholic beverages business and the Japanese food ingredients wholesale business are bearing fruit. Meanwhile, the Takara Bio Group is aggressively opening up markets in emerging countries—steadily growing sales in China and launching full-fledged sales of research reagents in India. Furthermore, the Takara Bio Group is increasing sales in the gene medicine business, positioned as a future growth business, while moving forward with clinical development aimed at commercializing gene therapies. In Takara Healthcare, rising sales of health food products are improving the balance between income and expenditure, and the company aims to move into a position of profitability in fiscal 2013.

#### > Adhering to a Consistent Management Strategy

### We will continue developing businesses based on a clear long-term growth strategy.

Throughout a 170-year history stretching back to its founding as a sake brewery in Fushimi, Kyoto, in 1842, the Takara Group has unflinchingly innovated in the Alcoholic beverages and seasonings business and other areas where it can bring its strengths to bear. We take a long-term view toward nurturing unique businesses and differentiated products that are created leveraging the Takara Group's technological capabilities. This approach is at the heart of the Takara Group's corporate culture as well as being the business management strategy that has driven the Group's progress.

Trends of recent years have made creating hit products in the manner we used to challenging. This is because, as well as a shrinking of the Takara Shuzo Group's mainstay alcoholic beverages market in Japan, consumer demand is fragmenting. Further, in the Takara Bio Group's mainstay research reagents market product lifecycles are shortening as technological trends evolve rapidly.

To sustain growth in such conditions, the Takara Group must unearth latent customer demand by analyzing social trends constantly and market a broad array of differentiated products. Consequently, even if the sales of one product weaken, other products will compensate for this. This approach is reflected in our long-term vision, which calls for strengthening our present business portfolio by establishing an earnings structure that is balanced in terms of businesses, products, and regions.

The Group's technological capabilities enable such advancement of products and businesses and underpin its track record of bringing products to market as new solutions. These capabilities are our competitive advantage. Therefore, the Group will continue honing them to further business development going forward.

> Pursuing Strategies to Grow Overseas Sales

## The Takara Shuzo Group will grow overseas sales by popularizing Japanese cuisine worldwide.

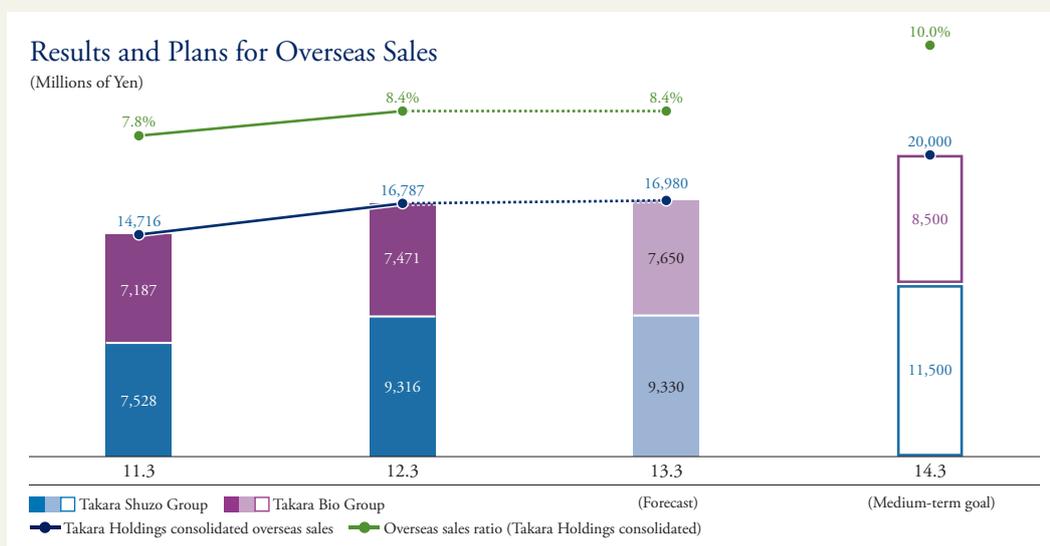
Boosting the Takara Shuzo Group's overseas sales is key if the Takara Group is to grow overseas sales to account for at least 10% of net sales, the target set out in the Takara Group Medium-Term Management Plan FY2014. A large share of the Takara Bio Group's sales, more than 38%, already comes from outside Japan. Meanwhile, the Takara Shuzo Group generates about 5% of net sales overseas. By its final year, fiscal 2014, the plan calls for a 52.8% rise in this group's overseas sales versus those of fiscal 2011. Although this is an ambitious target, the Group is striving to reach it to establish a balanced business structure that is readily adaptable to changing conditions. The Takara Shuzo Group must develop a rich lineup of products that have earned consumer endorsement in Japan and roll them out overseas.

The market for Japanese food is expanding overseas due to growing health awareness in developed countries and rising income levels in emerging countries. The Takara Shuzo Group has an overseas business that sells Japanese alcoholic beverages and seasonings and a business in Europe that imports and wholesales Japanese food ingredients. These businesses comprise one of the Takara Group's growth areas.

Manufacturing and selling products such as sake and *mirin* in the United States, Takara Sake USA Inc. has been growing sales more than 8% per year on a U.S. dollar basis. Recently, we finished ramping up production capacity at our U.S. sake brewery, which is likely to operate at full capacity for several years to come. In fiscal 2012, due to higher depreciation accompanying the expansion of production facilities, operating income declined. However, aiming to reach the plan's final year targets—net sales of US\$30 million and operating income of US\$1,465 thousand—the company will increase sales and production efficiency even further.

In addition, developing our Japanese food ingredients wholesale business in Europe, FOODEX has continued to grow sales at an annualized rate of more than 20% on a euro basis. Moreover, it boasts a high operating income margin of around 12%. The company is extending its France-centered distribution network to encompass other European countries. As a result of these efforts, the company expects to reach the plan's €43 million net sales and €5,132 thousand operating income targets for fiscal 2014 one year ahead of schedule.

The Takara Shuzo Group will grow overseas sales by continuing to expand the overseas alcoholic beverages business and the Japanese food ingredients wholesale business and by popularizing Japanese cuisine worldwide through these businesses. As well as in European and North American markets, the Takara Bio Group will grow sales in emerging countries such as China and India. Through such initiatives, the Takara Group aims to increase the overseas sales of the entire Group.





### > Advancing Business Results and Returning Profits to Shareholders in Fiscal 2013

#### Anticipating a steady rise in earnings levels, we decided to increase the level of our dividends.

Facing challenging business conditions resulting from continuing high raw material prices, the Takara Shuzo Group will heighten profitability in Japan by developing and nurturing differentiated products while expanding overseas businesses, thereby establishing a balanced business structure. For the fiscal year ending March 31, 2013, the group anticipates higher revenue and earnings as sake and light-alcohol refreshers drive sales growth.

In the Takara Bio Group, the genetic engineering research business will continue developing markets in Japan and overseas actively. At the same time, the group intends to move forward with clinical development aimed at commercializing gene therapies. For the fiscal year ending March 31, 2013, taking into account increases in R&D expenses, the group expects to increase revenue and earnings by growing sales centered on research reagents.

Although Takara Healthcare will likely see sales decrease slightly, the company anticipates achieving operating income by growing sales of mainstay fucoidan-related products while curbing SG&A expenses.

As a result, the Takara Group expects to realize higher revenue and earnings, posting year-on-year increases of 2.1% in net sales, to ¥202.8 billion, and 2.5% in operating income, to ¥9.5 billion.

Regarding returns to shareholders, our basic policy is to maintain stable dividends while taking into account operating performance when deciding on dividends and share buybacks each year, which contribute to improving capital efficiency. We plan to pay cash dividends of ¥9.00 per share for the fiscal year ending March 31, 2013, the same level as for fiscal 2012, for which we increased cash dividends ¥0.50 per share. At the same time, aiming to maintain a shareholder return payout of at least 50%, we will actively provide returns to shareholders through share buybacks.

As we take on an array of fresh challenges, we would like to ask our shareholders and investors for their continued support.

# Greetings from the Newly Inaugurated President

On the Occasion of the 101st General Shareholders' Meeting on June 28, I became the president of Takara Holdings Inc.

In my new role, I intend to advance toward the realization of the Takara Group Vision 2020 tirelessly.



I am Toshio Kakimoto, the new president.

The Takara Group has built a highly unique business portfolio that combines stable earnings from its mainstay Alcoholic beverages and seasonings business and promising growth businesses, including the Bio-medical business and the Health foods business. By strengthening our current business portfolio in Japan and overseas, we aim to establish a balanced business structure that is readily adaptable to changing conditions.

This strategy is set out in our long-term management vision, the Takara Group Vision 2020. The first step toward the realization of this vision is the realization of the goals set out in the Takara Group Medium-Term Management Plan FY2014. As vice president, I was involved in the preparation of the long-term management vision and the medium-term management plan. As president, I have rededicated myself to further advancing these management initiatives.

After joining the predecessor of Takara Holdings Inc., Takara Shuzo Co., Ltd., in 1973, for many years I was involved in the technology and production field, where I concentrated on new product development and heightening quality. In 2010, I became vice president and became involved in the general management of the Group while having overall control of Takara Shuzo's sales division. In light of these experiences, my motto is "product development clues are to be found in the frontline of our business."

Conditions in Japan's alcoholic beverages market are challenging as society ages, alcohol consumption trends change, and deflation makes consumers more budget minded. Moreover, biotechnology is progressing rapidly and development competition is becoming fiercer. Nevertheless, I am confident we can create opportunities for new growth by using our technological capabilities to develop high-value-added products and services that earn customer endorsement. To this end, my leadership will mobilize the Group's collective capabilities.

Based on a newly reorganized senior management team, I intend to work toward realizing further growth and increasing corporate value unstintingly. As we take on new challenges, I would like to ask our shareholders and investors for their continued support.

A handwritten signature in black ink that reads "T. Kakimoto". The signature is written in a cursive, flowing style.

President  
Takara Holdings Inc.

# Corporate Social Responsibility

The Takara Group will meet the expectations of all of its stakeholders by providing safe, reliable products and services while contributing to the progress of medicine in order to enrich people's lives.

## CSR Initiatives—Fundamentals

The overriding goal of the Takara Group as a corporate citizen is to contribute to society through its main business in accordance with its corporate philosophy. Given the likelihood of multifaceted change in Japan and overseas, we are convinced that strengthening the integration of corporate social responsibility (CSR) initiatives and growth strategies is critical in order to increase the Group's overall corporate value.

Mindful of this, we have set out further strengthening of CSR initiatives as a key element underpinning the business targets of the Takara Group Medium-Term Management Plan FY2014. To this end, the Takara Group will build a compliance system that integrates Group companies in Japan and overseas; step up environmental activities, including promoting the preservation of biodiversity and reducing CO<sub>2</sub> emission volumes; and develop the corporate culture and personnel essential for growth of the Group as a whole.

## CSR Initiatives—Priorities

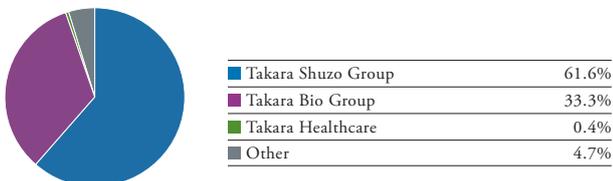
At the Takara Group, we believe that continuing to provide safe, reliable products and services is the most important task of its CSR initiatives. The Group will realize sustainable growth by enriching people's lives through such products and services while benefiting society through environmental preservation activities, etc.

## CSR Initiatives—the Takara Group

Our main CSR initiatives center on the Takara Shuzo Group, which accounts for roughly 90% of the Group's overall revenues. Making alcoholic beverages and seasonings, the Takara Shuzo Group's main business, is based on water and cereals that nature provides and the natural action of microorganisms. Because producing alcoholic beverages and seasonings relies on the power of nature in this way, we have set out harmony with nature as our first priority and consequently pursue environment-friendly activities. Other important CSR tasks include appropriate disposing of empty containers—an unavoidable problem for companies selling alcoholic beverages—and conducting campaigns that promote awareness of appropriate alcohol consumption levels and manners relating to alcohol consumption.

As for the Takara Bio Group, although generating about 10% of the Takara Group's total revenues, it accounts for at least 30% of the Takara Group's employees and approximately 90% of R&D expenses. The Takara Bio Group uses innovative biotechnology to develop and commercialize such leading-edge medical technologies as gene and cell therapies for cancer, HIV, and other unmet medical needs. The Takara Bio Group conducts R&D appropriately from the viewpoint of bioethics.

### Employees by Business Segment



### R&D Expenses by Business Segment



For more information about the Takara Shuzo Group's CSR initiatives, please see the "Green-ink" corporate reports (only available in Japanese).

<http://www.takarashuzo.co.jp/environment/greenpdf/>

## CSR Initiatives—Main Focuses

### Quality and safety: Quality testing (Takara Shuzo)

In order to meet the need for safe, reliable food, Takara Shuzo systematically enforces uncompromising quality control at all stages of its operations, from product planning through to manufacturing and shipment. Further, we provide customers with accurate information through labeling detailing our analysis of products' ingredients and nutritional constituents.



### Quality and safety: Prevention of accidental alcohol ingestion (Takara Shuzo)

Aiming to prevent the accidental consumption of alcohol by the visually impaired, Takara Shuzo became the first company in Japan to include the Japanese word for “alcoholic beverage” in braille on the tops of canned *chu-hi* products in 1995. In 2002, we were also the first in Japan to do the same for the caps of alcoholic beverages sold in cardboard cartons.



### Quality and safety: Appropriate consumption of alcohol (Takara Shuzo)

Takara Shuzo promotes a range of initiatives reminding people to drink in moderation and follow the rules on alcohol consumption, which is an important responsibility of companies selling alcoholic beverages. As well as publishing the *Maintaining a Positive Relationship with Alcohol* booklet, which includes basic information on alcoholic beverages and how to drink them correctly, Takara Shuzo has included warnings against underage drinking and drink-driving on the labels of its alcoholic beverages since 1995.



### Bioethics and safety: Monitoring ethics and safety (Takara Bio)

Takara Bio conducts R&D that uses tissues, cells, clinical specimens, genomes, and genes derived from humans. Using these, Takara Bio conducts businesses related to gene investigation and contract operations as well as businesses that provide human tissue or cell products. In addition to ensuring compliance with relevant laws and statutory regulations as a matter of course, Takara Bio views respecting human rights and ensuring that the above-mentioned operational activities contribute to society appropriately as important and has established bioethics and safety rules as well as an in-house bioethics committee that scrutinizes operations rigorously.

### Environmental preservation: Promotion of 4Rs (Takara Shuzo)

Dealing with the empty containers left over after alcoholic beverages have been consumed is a major problem for the alcoholic beverage industry. In relation to packaging, Takara Shuzo promotes the 4Rs (refuse, reduce, reuse, and recycle principles) in support of environment-friendly practices. In accordance with these principles, the company minimizes the need for new containers through selling products by the weight of their content and using bottles that can be refilled.



### Social contribution: Environmental education campaigns (Takara Holdings, Takara Shuzo)

Every year since its establishment as a public trust fund in 1985, the Takara Harmonist Fund has supported the efforts of groups and individuals dedicated to the environmental activities or conducting environmental research. Over this period, the fund has assisted 291 projects and donated approximately ¥140 million. Further, since 2004 the Takara Shuzo Group has provided environmental education through the Takara Shuzo Farm School, which teaches children—the leaders of the next generation—about the preciousness of nature and the importance of biodiversity.

#### Takara Shuzo Farm School wins special prize at 9th Corporate Philanthropy Awards

Our Takara Shuzo Farm School environmental event claimed a special prize at the 9th Corporate Philanthropy Awards, organized by the Japan Philanthropic Association, a public interest incorporated association. In 2003, the association established the Corporate Philanthropy Awards to “recognize social contribution activities that are based on companies' principal operations.” Our prize reflected high acclaim for “focusing on rice as the most important raw material for a company engaged in the production of rice-based products such as sake and discovering a way to contribute to society based on rice paddies.”

Takara Shuzo Farm School is an environmental education program in which participants learn about nature's bounty and ecology by experiencing farm work, such as rice planting, weeding, and rice harvesting; observing nature in and around rice paddies; and learning about the processes by which harvested rice becomes *mochi* rice cakes or *hon mirin* alcohol-based seasonings. Between 2004 and 2010, Takara Shuzo conducted these programs in Chiba Prefecture, and it has been conducting them in Kyoto Prefecture since 2011.



# Corporate Governance

## Basic Policy on Corporate Governance

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

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

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

## Corporate Governance Structure

The Company has adopted the corporate auditor system of corporate governance, and, as of June 28, 2012, the Board of Corporate Auditors comprised five corporate auditors, including three external auditors. The Company's Board of Directors comprised nine directors, including one external director.

Under this structure, in addition to the audits conducted by the corporate auditors, the external director liaises with the Board of Corporate Auditors and the director responsible for internal control to contribute to the audit and supervision of business execution, thereby strengthening supervisory functions regarding the Company's management. The external director maintains a high degree of independence and possesses a broad knowledge based on the perspective of all stakeholders, including shareholders.

Further, as a holding company, Takara Holdings has formulated the "Rules and Regulations for Overseeing Group Companies" with the goal of facilitating independence and autonomy among Group companies in order to maximize the corporate value of the overall Group. The Company has also established the Group Strategy Committee, Mother Business Consultation and Coordination Committee, Takara Bio Coordination Committee, Takara Healthcare Strategic Committee, and Functional Subsidiary Consultation and Coordination Committee, which are required to deliberate and report in advance on major matters.

## Audit Environment

The Company's corporate auditors audit the execution of duties by the directors through participation at the Board of Directors' meeting and other important meetings; examination of operations, assets, and key documents; and, where deemed necessary, interviews with directors and personnel responsible for specific areas of the Company's operations. With regard to internal audits, the Company has established the Audit Division, which acts independently from the departments that receive audits. The Audit Division conducts audits in accordance with the Company's Internal Audit Regulations and works to maintain proper execution of duties through the implementation of any measures deemed necessary. The Audit Division, the Board of Corporate Auditors, and the accounting auditors regularly exchange opinions concerning audit plans and policies and the status of audit implementation, and strive to maintain mutual cooperation through the exchange of opinions and information and by holding discussions.

## Activities with Important Repercussions for Corporate Governance

[Policies concerning our publicly traded subsidiary Takara Bio Inc.](#)

Takara Holdings Inc. is the parent company of Takara Bio Inc., holding 70.8% of the voting rights of Takara Bio (Tokyo Stock Exchange Mothers; Securities code number: 4974) as of March 31, 2012. The relationship between the Company and Takara Bio is outlined below.

### 1) Listed subsidiary Takara Bio

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

As of March 31, 2012, Takara Holdings is a pure holding company comprising 37 subsidiaries and five affiliates. Takara Bio is positioned as the subsidiary specializing in biotechnology and promoting biotechnology-related businesses for the Group.

### 2) Holding company management of Group companies

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

Further, although Takara Bio's representative directors, and other Board members and executive officers, are requested to attend meetings of the Group Strategy Committee, Takara Bio Coordination Committee, and other committees of the Company, the objective of this attendance is to discuss overall Group

policies and facilitate reporting among Group companies, and does not inhibit the autonomy or independence of Takara Bio.

### Policies on response to large-scale purchases of the Company's shares (takeover defense guidelines)

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

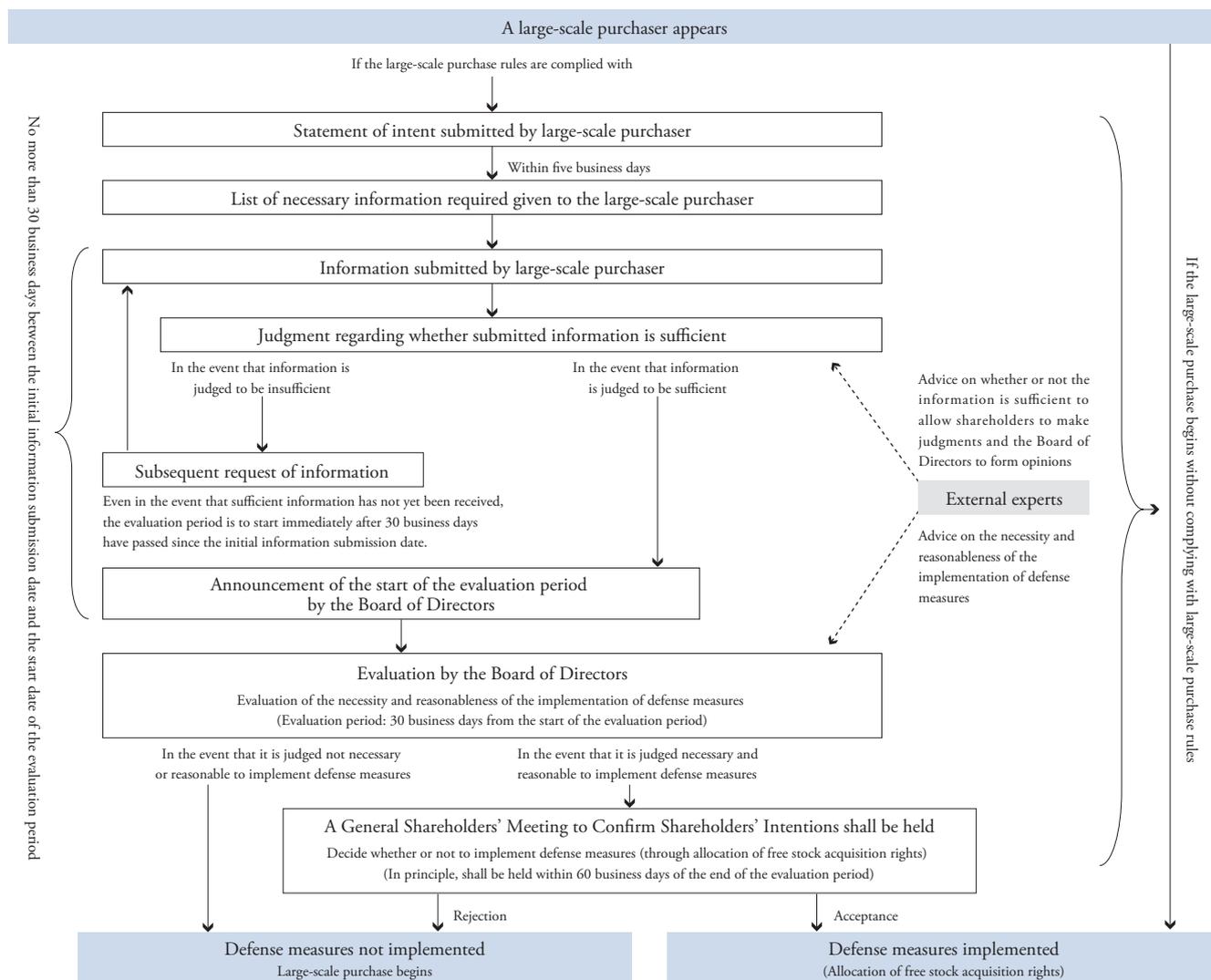
However, believing that policies better reflecting the opinion of shareholders are needed for optimizing the joint benefit of

shareholders, the Board of Directors revised its Takeover Defense Guidelines. The Board determined at its meeting held on May 15, 2007, that in the future it would introduce measures for preventing takeovers at its general shareholders' meeting after conferring with shareholders, and that decisions regarding actions in this regard would be made at general shareholders' meetings as a rule. For details, see our website: <http://www.takara.co.jp/english/> and official company accounts (Japanese language only).

At the 96th General Shareholders' Meeting, held on June 28, 2007, Takeover Defense Guidelines were introduced and approved. At the 99th General Shareholders' Meeting, held on June 29, 2010, the partial amendment and continuation of these measures was approved.

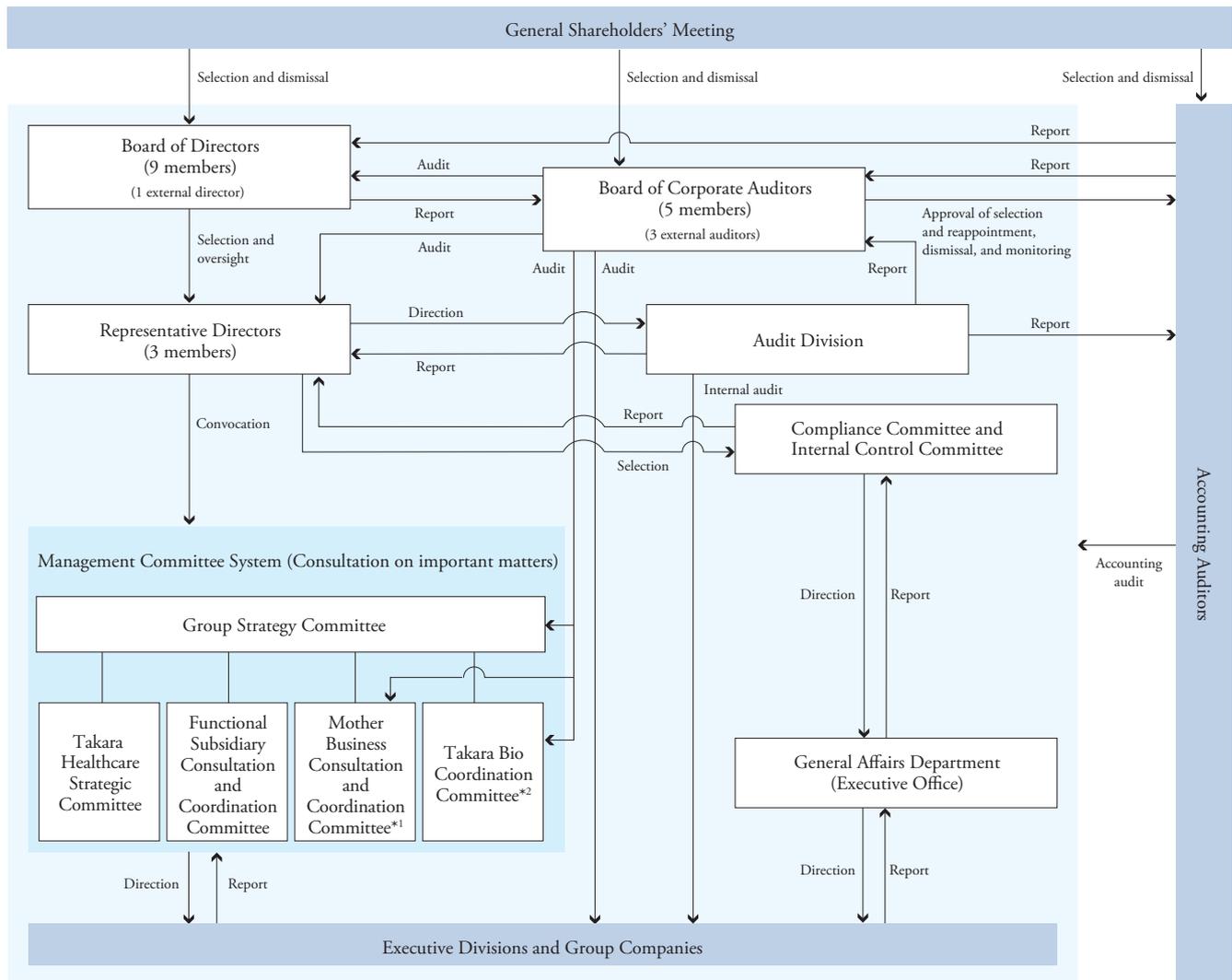
## Large-Scale Purchase Rules

1. The large-scale purchaser must provide the Board of Directors with sufficient information regarding the large-scale purchase in advance.
2. (a) All large-scale purchasers shall wait until the end of the evaluation of the purchase proposal by a Board of Directors' meeting, which shall be held no later than 30 business days from the start of the evaluation period, before starting their large-scale purchase.  
(b) In the event that a General Shareholders' Meeting to Confirm Shareholders' Intentions is held, the large-scale purchaser shall not begin its large-scale purchase until the end of the General Shareholders' Meeting to Confirm Shareholders' Intentions.



# Corporate Governance System

(As of June 28, 2012)



\*1 Consultation and coordination committee for the "mother" business segment (Takara Shuzo Group)

\*2 The role of the Takara Bio Coordination Committee is to receive reports on the business activities of Takara Bio Inc. The committee does not inhibit Takara Bio's autonomy, and its prior approval is not required for the decisions of Takara Bio's Board of Directors.

## Overview of Management Committee System

### Group Strategy Committee

Comprising the directors and corporate auditors of Takara Holdings Inc. and the representative directors of Takara Shuzo Co., Ltd., Takara Bio Inc., and Takara Healthcare Inc., this committee discusses important matters relating to the overall operational management of the Takara Group, including Group management strategy, medium-to-long-term plans, fiscal year budgets, fiscal year initiative plans, fiscal year investment and loan plans, dividend policy, and biannual business result reviews.

### Mother Business Consultation and Coordination Committee

Comprising the directors and corporate auditors of Takara Holdings and the directors, corporate auditors, and executive officers of Takara Shuzo, this committee decides important matters that affect the Takara Shuzo Group's operational management, operations, financial position, and business results; conducts prior deliberation of specific matters, including responses to important matters arising; and reports business results and initiatives.

### Takara Bio Coordination Committee

Comprising the representative directors, executives responsible for operational management, executives responsible for accounting, executives responsible for finance and investor relations, and corporate auditors of Takara Holdings and directors, corporate auditors, and executive officers of Takara Bio, this committee reports the business results and initiatives of Takara Bio.

### Takara Healthcare Strategic Committee

Comprising the representative directors, executives responsible for operational management, executives responsible for accounting, and executives responsible for finance and investor relations of Takara Holdings; the representative directors and executives responsible for the agrbio business of Takara Bio; and the president of Takara Healthcare, this committee decides important matters that affect Takara Healthcare's operational management, operations, financial position, and business results; conducts prior deliberation of specific matters, including responses to important matters arising; and reports business results and initiatives.

### Functional Subsidiary Consultation and Coordination Committee

Comprising executives with overall control of operational management, executives responsible for operational management, executives responsible for accounting, and executives responsible for finance and investor relations of Takara Holdings and the presidents of functional subsidiaries (Taihei Printing Co., Ltd., Kawahigashi Shoji Co., Ltd., and Takara Network System Co., Ltd.), this committee decides important matters that affect functional subsidiaries' operational management, operations, financial position, and business results; conducts prior deliberation of specific matters, including responses to important matters arising; and reports business results and initiatives.

## Executives Involvement in Committees

Directors/auditors		Committee (meeting frequency)						
		Group Strategy Committee (6 times a year)	Mother Business Consultation and Coordination Committee (every month)	Takara Bio Coordination Committee (every month)	Takara Healthcare Strategic Committee (4 times a year)	Functional Subsidiary Consultation and Coordination Committee (4 times a year)	Compliance Committee (twice a year)	Internal Control Committee (twice a year)
Chairman	Hisashi Ohmiya	○	○	○	○		○	○
Vice Chairman	Tadashi Ohmiya	○	○	○	○	Chairman	○	○
President	Toshio Kakimoto	Chairman	Chairman	Chairman	Chairman		Chairman	Chairman
Director	Masaharu Yano	○	○				○	○
Director	Shuichiro Matsuzaki	○	○	○	○	○	○	○
Director	Takao Okane	○	○				○	○
Director	Daisuke Nakao	○	○				○	○
Director	Koichi Nakao	○		○	○		○	○
Director (External Director)	Takehiko Ueta	○	○				○	○
Standing Auditor	Tomio Kamada	○	○	○			○	○
Standing Auditor (External Auditor)	Kunihiro Handa	○	○	○			○	○
Corporate Auditor	Hideo Tomomura	○	○	○			○	○
Corporate Auditor (External Auditor)	Kozo Kagawa	○	○				○	○
Corporate Auditor (External Auditor)	Kumiko Kitai	○	○				○	○

## Message to Investors from the External Director

**Takehiko Ueta** External Director, Takara Holdings Inc.

### The Role of an External Director

First, let me briefly introduce myself. I was the president of Dai-Ichi Kogyo Seiyaku Co., Ltd., which manufactures and sells surfactants and various other industrial agents, for six years. Subsequently, in 2007, I became an external director of Takara Holdings Inc. Drawing on my experience as the chief executive of a listed company, I provide opinions at meetings of the Board of Directors of Takara Holdings as required. In addition, I help strengthen business management oversight by collaborating with the Board of Corporate Auditors to conduct investigative interviews of executive officers.

### Corporate Governance

With regard to corporate governance, Takara Holdings has two distinctive features. The first is an uncompromising corporate culture, which the previous president, Hisashi Ohmiya, currently the chairman, built over 19 years. This uncompromising corporate culture is evident in an approach to business management that always bases decisions on the interests of stakeholders while being determined to reach targets and avoid using outside factors as an excuse.

The second distinctive feature is the Company's governance system. Takara Holdings has 37 consolidated subsidiaries centered on three operating companies in different fields—Takara Shuzo Co., Ltd., Takara Bio Inc., and Takara Healthcare Inc. In order to ensure coherent decision making as a corporate group, as well as the Board of Directors, it has a Management Committee System, which discusses important matters and monitors the financial positions of subsidiaries carefully. This system effectively optimizes the Group's business management and prevents



irregularities on the part of operating companies. As the external director, I am actively involved in the operation of this system.

With the appointment of Toshio Kakimoto as the new president, as the external director I intend to provide advice based on objective information to ensure Takara Holdings resolutely maintains these distinctive features, the two flagships of its corporate governance.

### The Takara Group's Strengths

While founded on steadiness, the Takara Group has an extremely strong appetite for taking on challenges. This steadiness and ambitiousness have led the Takara Group to enter the Biomedical business, which has evolved from its fermentation technologies, and embark upon overseas forays by acquiring businesses closely connected to its existing businesses. I think this corporate culture will be a major asset in business development going forward. As the external director, I want my recommendations to ensure these strengths that have supported the Takara Group remain undiminished and drive further development.

# Board of Directors and Auditors

As of June 28, 2012



## Hisashi Ohmiya <sup>(69)</sup>

Chairman, Takara Holdings Inc.  
Chairman, Takara Shuzo Co., Ltd.  
Chairman, Takara Bio Inc.

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



## Tadashi Ohmiya <sup>(62)</sup>

Vice Chairman, Takara Holdings Inc.  
(Operational Management,  
Finance & Investor Relations,  
Accounting, Environment &  
Public Relations)  
Vice President, Takara Shuzo Co., Ltd.

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



## Toshio Kakimoto <sup>(61)</sup>

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

Apr. 1973 Joins Company  
Apr. 2001 General Manager of Technology and Supply Planning Office  
Jun. 2004 Managing Director, Takara Shuzo Co., Ltd.  
Jun. 2010 Vice President, Takara Holdings Inc.  
Vice President, Takara Shuzo Co., Ltd.  
Jun. 2012 President, Takara Holdings Inc. (incumbent)  
President, Takara Shuzo Co., Ltd. (incumbent)



## Koichi Nakao <sup>(50)</sup>

President, Takara Bio Inc.  
Director, Takara Holdings Inc.

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

## Directors

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### Masaharu Yano <sup>(63)</sup>

Director, Takara Holdings Inc. (Environment & Public Relations)  
Managing Director, Takara Shuzo Co., Ltd.  
Apr. 2002 Director, Human Resources Division, Mizuho Bank, Ltd.  
Jun. 2002 Retires from Mizuho Bank, Ltd.  
Standing Auditor, Takara Holdings Inc.  
Jun. 2004 Director, Takara Holdings Inc. (incumbent)  
Jun. 2005 General Manager of Finance Division

### Shuichiro Matsuzaki <sup>(56)</sup>

Director, Takara Holdings Inc.  
(Operational Management, Finance & Investor Relations, Accounting)  
Senior Managing Director, Takara Shuzo Co., Ltd.  
Apr. 1980 Joins Company  
Apr. 2003 General Manager of Finance Group  
Apr. 2004 General Manager of Finance Division  
Jun. 2005 Director, Takara Holdings Inc. (incumbent)  
General Manager of Accounting Division  
General Manager of Investor Relations Office  
Jun. 2007 General Manager of Finance Division

### Takao Okane <sup>(60)</sup>

Director, Takara Holdings Inc. (General Affairs, Personnel)  
Director, Takara Shuzo Co., Ltd.  
Apr. 1977 Joins Company  
Apr. 2001 General Manager of Tokyo Office  
Jun. 2003 Managing Director, Japan Synthetic Alcohol Co., Ltd.  
Jun. 2005 General Manager of General Affairs & Personnel Division,  
Takara Holdings Inc.  
Jun. 2007 Director, Takara Holdings Inc. (incumbent)

### Daisuke Nakao <sup>(58)</sup>

Director, Takara Holdings Inc.  
Senior Managing Director, Takara Shuzo Co., Ltd.  
Apr. 1976 Joins Company  
Jun. 2001 Director  
Mar. 2002 Retires as Director  
Apr. 2002 Senior Executive Officer, Takara Shuzo Co., Ltd.  
(upon divestiture)  
Jun. 2006 Managing Director, Takara Shuzo Co., Ltd.  
Jun. 2009 Director, Takara Holdings Inc. (incumbent)  
Senior Managing Director,  
Takara Shuzo Co., Ltd. (incumbent)

### Takehiko Ueta <sup>(72)</sup>

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

## Auditors

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### Tomio Kamada <sup>(62)</sup>

Standing Auditor, Takara Holdings Inc.  
Apr. 1972 Joins Company  
Apr. 2001 General Manager of Overseas Division  
Nov. 2003 Director and General Manager of Administrative Division,  
Nissin Shurui Co., Ltd.  
Jun. 2007 Standing Auditor, Takara Holdings Inc. (incumbent)

### Kunihiro Handa <sup>(58)</sup>

Standing Auditor (External Auditor), Takara Holdings Inc.  
Jun. 2005 General Manager of Planning Control Division,  
The Norinchukin Bank  
Jun. 2007 Retires from The Norinchukin Bank  
Director, Kyodo Leasing Co., Ltd.  
Oct. 2008 Executive Officer, JA Mitsui Leasing, Ltd.  
Jun. 2009 Standing Auditor (External Auditor),  
Takara Holdings Inc. (incumbent)

### Hideo Tomomura <sup>(64)</sup>

Corporate Auditor, Takara Holdings Inc.  
Apr. 1972 Joins Company  
Jun. 2000 General Manager of Personnel Division  
Apr. 2003 General Manager of General Affairs & Personnel Group  
Apr. 2004 General Manager of General Affairs & Personnel Division  
Jun. 2005 Managing Director, Japan Synthetic Alcohol Co., Ltd.  
Jun. 2008 Corporate Auditor, Takara Holdings Inc. (incumbent)  
Standing Auditor, Takara Shuzo Co., Ltd. (incumbent)

### Kozo Kagawa <sup>(68)</sup>

Corporate Auditor (External Auditor), Takara Holdings Inc.  
Apr. 2007 Professor Emeritus, Kobe University (incumbent)  
Lecturer, English and International Affairs Faculty,  
Osaka Jogakuin College  
Apr. 2008 Vice President, Osaka Jogakuin College  
Jun. 2008 Corporate Auditor (External Auditor),  
Takara Holdings Inc. (incumbent)  
Apr. 2012 Department Chair, Graduate School of International  
Collaboration and Coexistence in the 21st Century,  
Osaka Jogakuin College (incumbent)

### Kumiko Kitai <sup>(59)</sup>

Corporate Auditor (External Auditor), Takara Holdings Inc.  
Aug. 2005 Director-General, The Equal Employment,  
Children and Families Bureau, Ministry of Health,  
Labour and Welfare  
Aug. 2007 Senior Managing Director,  
Japan Industrial Safety & Health Association  
Jun. 2011 Corporate Auditor (External Auditor),  
Takara Holdings Inc. (incumbent)

# Business Outline

## Takara Shuzo Group

The history of the Takara Group's core Alcoholic beverages and seasonings business goes back to 1842. For 170 years, it has been our mission to provide reliable products that are in tune with the changing times and diversifying customer tastes and values and are backed by our ingenuity and proven technologies. Takara Shuzo Group's products span a broad range of categories, including shochu, sake, light-alcohol refreshers, wine, whisky, Chinese alcoholic beverages, seasonings, and raw alcohol. It operates not only in Japan but also globally through subsidiaries in the United States, China, and Europe.

### Shochu

Proprietary technologies garnered over many years have consistently enabled Takara Shuzo to realize shochu products that satisfy changing consumer preferences and develop the shochu market continually. For *ko*-type shochu, Takara Shuzo has built the largest share of the market based on Japan's most popular shochu brand, *Takara Shochu*, which has now been on the market for a century; a premium shochu blended with 3% barrel-aged shochu, *Gokujo Takara Shochu*; and another long-seller, *Takara Shochu Jun*. Meanwhile in the *honkaku* shochu market, Takara Shuzo has launched and nurtured a range of unique shochu products. These include *Ikkomon*, a 100% sweet-potato-based shochu; *Shirashinken honkaku* barley shochu, which accentuates the rich flavor of barley; and *Yokaichi*, catering to those who wish to enjoy shochu casually with their evening meal.



### Sake

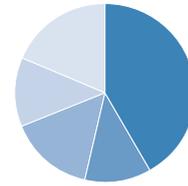
As the sake for celebrations, *Sho-Chiku-Bai* has become the foremost brand in the special occasion and gift sake market. Also, Takara Shuzo produces such quality sake as the new-concept sparkling sake *Sho-Chiku-Bai Shirakabe-gura Mio* and *Sho-Chiku-Bai Shirakabe-gura Kimoto Junmai* at a specially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



### Light-alcohol refreshers

The original flavors of our light-alcohol refreshers have earned the support of a large customer group. Mainstay products include *Takara Can Chu-Hi*, launched in 1984 as Japan's first canned *chu-hi* product, and

## Sales by Product Category



Shochu	41.9%
Sake	11.9%
Light-Alcohol Refreshers	15.2%
Seasonings	12.6%
Other	18.4%

*Takara Shochu High Ball*, which realizes the distinctively dry *chu-hi* flavor that has long been a favorite in the neighborhood bars of downtown Tokyo. Furthermore, Takara Shuzo also develops and nurtures a wide spectrum of products to meet diverse consumer tastes. For example, we market a differentiated canned *chu-hi* product featuring strictly selected delicious fruit juices that are freshly squeezed at orchards, *Takara Can Chu-Hi Jika-Shibori*, and *Takara Can Chu-Hi Jika-Shibori Kuchidoke*, with a distinctively smooth taste and a mild sweetness.



### Seasonings

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



### Overseas Business

Generating interest as a delicious and healthy cuisine, Japanese food is globalizing. In step with this trend, the popularity of sake and *mirin* is increasing. *Sho-Chiku-Bai* sake, *Takara Mirin*, and other Takara products are now available in more than 40 countries across Europe, North America, and Asia. Since 2010, Takara Shuzo has been accelerating the further spread of Japanese food culture worldwide by developing a Japanese food ingredients wholesale business in Europe and offering packages combining Japanese alcoholic beverages and food ingredients.



## Takara Bio Group

The mission of the Takara Group's Biomedical business is to contribute to the health of humankind by developing revolutionary biomedical technologies such as cell medicine and gene therapy. The Takara Bio Group—whose role is to make this a reality—is generating stable earnings from the genetic engineering research business, which forms the core of both its technology and earnings base. It is also fostering the agribio business as a second earnings source and working to commercialize gene and cell therapies by investing resources in the gene medicine business.

### Genetic Engineering Research

This business supports biotechnology research worldwide, from basic research conducted at universities to industrial companies working in such fields as drug-discovery research. The Takara Bio Group closely reflects market needs by developing and supplying advanced Polymerase Chain Reaction (PCR) research reagents used in gene-amplification and real-time PCR systems. In addition to the field of genetic engineering, Takara Bio intends to focus on R&D in the field of advanced cell biology—a market that promises growth. Takara Bio will heighten its presence in the global market by manufacturing a lineup of highly cost-competitive products in China and selling them worldwide while advancing tie-ups with companies that have technology conducive to mutually complementary relationships. In the contract research services business, Takara Bio offers high-value-added contract research services. These include high-speed sequence analysis and contract production services for iPS cells. Also, the Takara Bio Group provides next-generation data mining services, which extract useful information from the extremely large amounts of data produced by analysis.



### Agribio

In this business, Takara Bio uses the group's biotechnology to analyze the properties of traditional Japanese foodstuffs. It then uses these ingredients to develop and manufacture health food products. Also, Takara Bio takes advantage of its technologies for breeding and large-scale cultivation of mushrooms in order to produce and sell mushrooms. In the Health foods business, Takara Bio researches the properties of Gagome kombu (kelp) "fucoidan," agar-derived "agaro-oligosaccharide," Ashitaba (angelica herb) "chalcone," mushroom "terpene," yam (*Dioscorea esculenta*) "Yamsenin™," and herb

(*Peucedanum japonicum*) "Isosamidin."

Based on these ingredients, Takara Bio develops and produces health foods, which it delivers to consumers through Takara Healthcare Inc. In addition, Takara Bio also supplies food manufacturers with functional food ingredients for food products and beverages through Takara Healthcare. Further, the mushroom business licenses bacterial strains and large-scale production technology for Bunashimeji mushrooms to entities including JA ZEN-NOH (National Federation of Agricultural Cooperative Associations) Nagano. And, Takara Bio produces and sells Hatakeshimeji and Honshimeji mushrooms.

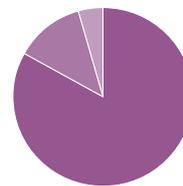


### Gene Medicine

Applying technologies developed in the genetic engineering research business, Takara Bio develops and commercializes core technologies essential to gene medicine. One of these is the RetroNectin® Method, which enables the efficient transduction of genes into blood cells and is becoming the standard gene transduction method in *ex vivo* gene therapy. Another core technology is the RetroNectin® expansion-culture system, which gene and cell therapies use. Takara Bio's system enables the culturing of large volumes of cell populations containing a high proportion of naive T-cells with significant *in vivo* persistence and superior antigen recognition properties. By licensing these technologies worldwide, Takara Bio aims to spread their use and increase earnings. In addition, the company conducts in-house clinical development of gene and cell therapies for cancer and HIV. Also, for cancer immunotherapy Takara Bio provides medical institutions with technical support services for cell processing as well as marketing cell culture media and gas-permeable bags.



## Sales by Business Category



Genetic Engineering Research	83.3%
Agribio	12.4%
Gene Medicine	4.3%

## Takara Healthcare

Takara Healthcare uses the Takara Group's unique ingredients and technologies to provide customers with safe and reliable health foods through direct marketing channels, thereby helping people to live healthy and active lives. The Takara Group is growing the Health foods business more rapidly by promoting synergies. In these joint efforts, Takara Healthcare draws on marketing expertise from the Takara Shuzo Group to sell health foods featuring functional ingredients that the Takara Bio Group's research has identified.

# Consolidated Financial Highlights

Takara Holdings Inc. and Consolidated Subsidiaries  
Years ended March 31

	Millions of Yen					Thousands of U.S. Dollars (Note 2)
	2012	2011	2010	2009	2008	2012
<b>For the Years Ended March 31:</b>						
Net sales	¥198,690	¥189,769	¥190,525	¥192,790	¥191,878	\$2,423,048
Takara Shuzo Group	175,503	166,790	166,969	169,301	166,788	2,140,280
Takara Bio Group	19,578	18,737	19,325	18,913	20,278	238,756
Takara Healthcare	2,338	2,567	2,486	2,853	3,078	28,512
Other (including eliminations)	1,269	1,673	1,743	1,722	1,733	15,475
Cost of sales	121,462	115,480	115,805	118,849	117,864	1,481,243
Gross profit	77,228	74,289	74,719	73,941	74,014	941,804
Selling, general and administrative (SG&A) expenses	67,963	65,953	66,146	65,090	65,507	828,817
Operating income (loss)	9,264	8,335	8,572	8,851	8,506	112,975
Takara Shuzo Group	6,768	6,568	7,129	7,465	7,177	82,536
Takara Bio Group	1,547	1,097	553	426	560	18,865
Takara Healthcare	(114)	(252)	(316)	(356)	(500)	(1,390)
Other (including eliminations)	1,063	921	1,206	1,315	1,268	12,963
Income before income taxes and minority interests	8,590	7,505	8,208	8,193	8,321	104,756
Net income	3,995	3,788	4,677	5,639	4,658	48,719
Depreciation and amortization	5,209	5,384	5,652	5,992	6,384	63,524
Capital expenditures	5,330	3,735	3,645	3,616	3,852	65,000
Research and development (R&D) expenses	3,027	3,076	3,665	3,343	3,643	36,914
Cash flows provided by operating activities	9,013	9,462	10,452	8,954	9,816	109,914
Cash flows provided by (used in) investing activities	(4,779)	(11,323)	(7,350)	(7,769)	(411)	(58,280)
Cash flows provided by (used in) financing activities	(3,265)	(3,199)	(3,219)	(9,294)	3,414	(39,817)
Free cash flow (Note 3)	4,233	(1,861)	3,102	1,184	9,404	51,621
<b>As of March 31:</b>						
Total assets	¥197,437	¥192,448	¥195,495	¥190,792	¥207,843	\$2,407,768
Interest-bearing debt	38,493	38,881	39,162	39,092	43,717	469,426
Total equity	107,659	106,895	109,206	105,316	113,273	1,312,914
Total shareholders' equity	94,783	94,308	96,666	93,093	99,969	1,155,890
<b>Per Share of Common Stock (Yen and U.S. Dollars (Note 2)):</b>						
Basic net income	¥ 19.32	¥ 18.21	¥ 22.20	¥ 26.32	¥ 21.53	\$0.23
Total equity	461.41	454.21	459.92	437.42	462.00	5.63
Cash dividends	9.00	8.50	8.50	8.50	8.50	0.10
<b>Ratios (%):</b>						
Return on assets (ROA)	2.0%	2.0%	2.4%	2.8%	2.2%	—
Return on equity (ROE)	4.2	4.0	4.9	5.8	4.6	—
Equity ratio	48.0	49.0	49.4	48.8	48.1	—
Dividend payout ratio	46.6	46.7	38.3	32.3	39.5	—
Shareholder return payout (Note 4)	51.7	58.6	60.6	79.0	—	—

Notes: 1. Japanese yen amounts are rounded down to the nearest million yen. Per share data information is rounded to the nearest yen, and ratios to the first decimal place.

2. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥82 to U.S.\$1, the approximate rate of exchange at March 31, 2012.

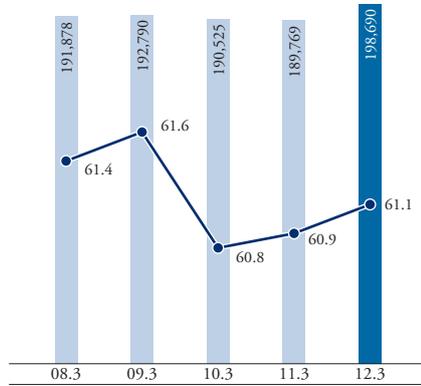
3. Free cash flow = Cash flows provided by operating activities + Cash flows provided by (used in) investing activities

4. Shareholder return payout = (Total dividends + Amount of share buybacks) ÷ Deemed consolidated net income\*

\* Deemed consolidated net income = (Consolidated ordinary income – Interest income and dividends + Interest payments) × (1 – Effective tax rate)

### Net Sales Cost of Sales Ratio

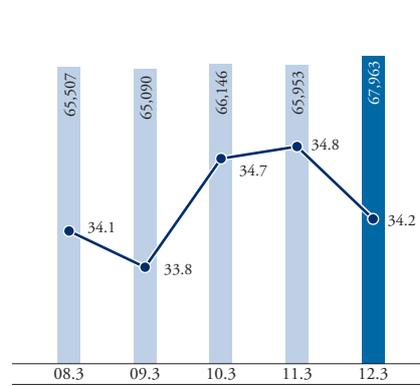
(Millions of Yen / %)



■ Net Sales  
● Cost of Sales Ratio

### SG&A Expenses SG&A Expenses Ratio

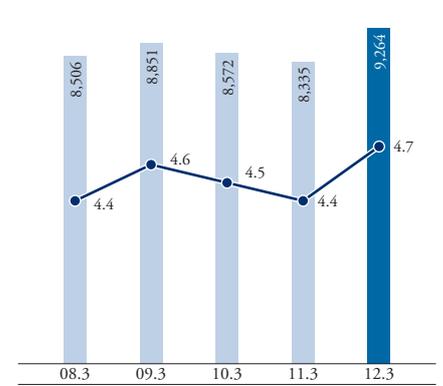
(Millions of Yen / %)



■ SG&A Expenses  
● SG&A Expenses Ratio

### Operating Income Operating Income to Net Sales Ratio

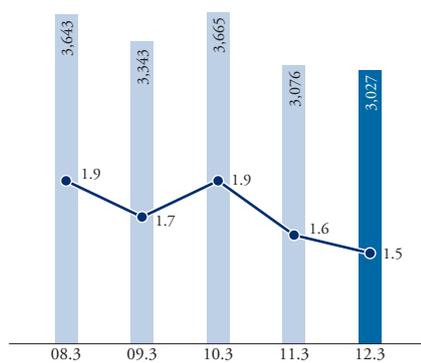
(Millions of Yen / %)



■ Operating Income  
● Operating Income to Net Sales Ratio

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

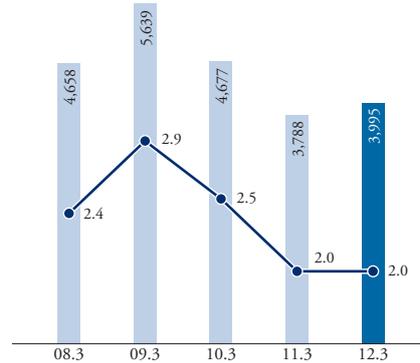
(Millions of Yen / %)



■ R&D Expenses  
● R&D Expenses to Net Sales Ratio

### Net Income Net Income to Net Sales Ratio

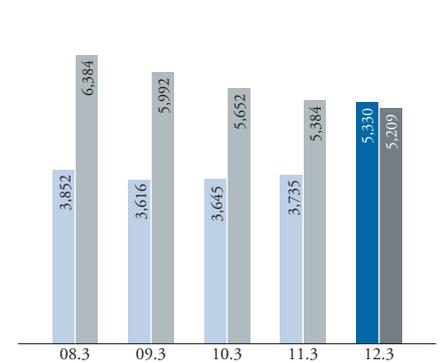
(Millions of Yen / %)



■ Net Income  
● Net Income to Net Sales Ratio

### Capital Expenditures Depreciation and Amortization

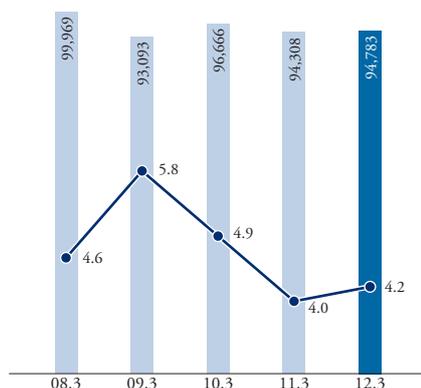
(Millions of Yen)



■ Capital Expenditures  
■ Depreciation and Amortization

### Total Shareholders' Equity ROE

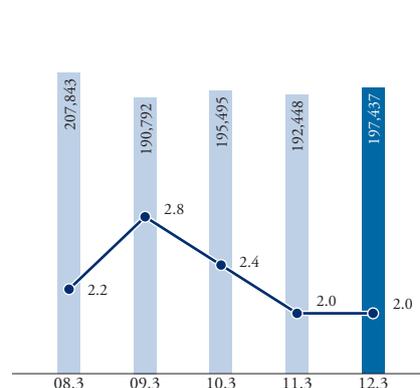
(Millions of Yen / %)



■ Total Shareholders' Equity  
● ROE

### Total Assets ROA

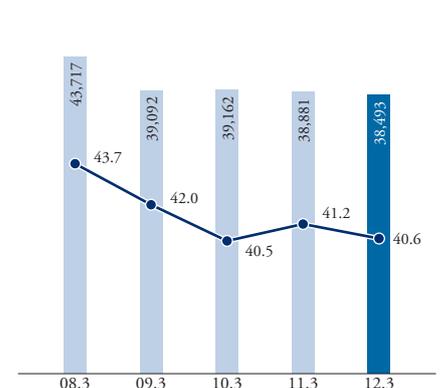
(Millions of Yen / %)



■ Total Assets  
● ROA

### Interest-Bearing Debt D/E Ratio

(Millions of Yen / %)



■ Interest-Bearing Debt  
● D/E Ratio  
D/E ratio = Interest-bearing debt ÷ Total shareholders' equity × 100

# Major Consolidated Subsidiaries

As of March 31, 2012

Name	Address	Issued Capital	Percentage of Equity Owned	Line of Business
TAKARA SHUZO CO., LTD.	20 Naginataboko-cho, Shijo-dori Karasuma Higashi-iru, Shimogyo-ku, Kyoto 600-8688, Japan TEL 075-241-5110	¥1,000 million	100.0%	Manufacture and sale of alcoholic beverages, seasonings, and raw alcohol

## Subsidiaries of Takara Shuzo Co., Ltd.

Takara Butsuryu System Co., Ltd.	55-13 Osumihama, Kyotanabe, Kyoto 610-0343, Japan TEL 0774-68-1720	¥50 million	(100.0%)	Transportation, warehousing, automobile service, non-life insurance agent, travel agent, etc.
TAKARA CHOU UN Co., Ltd.	22-38, Nishidomari-cho, Nagasaki 850-0075, Japan TEL 095-894-8701	¥250 million	(100.0%)	Transportation, customs broker, warehousing, etc.
Komaki-zyouzou Co., Ltd.	12 Tokiyoshi, Satsuma-cho, Satsuma-gun, Kagoshima 895-1816, Japan TEL 0996-53-0001	¥16 million	(50.0%)	Manufacture and sale of shochu
Luc Corporation, Ltd.	2-12, 3-chome, Akasaka, Minato-ku, Tokyo 107-0052, Japan TEL 03-3586-7501	¥80 million	(100.0%)	Import and sale of wine
Takara Bussan Co., Ltd.	9 Butai-cho, Fushimi-ku, Kyoto 612-8338, Japan TEL 075-601-6267	¥10 million	(100.0%)	Sale of feed
Takara Yoki Co., Ltd.	609 Takenaka-cho, Fushimi-ku, Kyoto 612-8061, Japan TEL 075-605-4540	¥30 million	(100.0%)	Wholesale of glass bottles
Total Management Business Co., Ltd.	609 Takenaka-cho, Fushimi-ku, Kyoto 612-8061, Japan TEL 075-623-2660	¥20 million	(100.0%)	Advertising agency, marketing research, sales promotion planning, temporary staffing service, and restaurant management
Takara Sake USA Inc.	708 Addison St., Berkeley, CA 94710, U.S.A. TEL 510-540-8250	US\$7,000 thousand	(90.0%)	Manufacture and sale of alcoholic beverages
Age International, Inc.	229 W. Main St., Frankfort, KY 40602, U.S.A. TEL 502-223-9874	US\$250 thousand	(100.0%)	Sale of bourbon whisky
The Tomatin Distillery Co., Ltd.	Tomatin, Inverness-shire, IV13 7YT Scotland, U.K. TEL 1463-248-148	£3,297 thousand	(80.6%)	Manufacture and sale of Scotch whisky
Takara Shuzo Foods Co., Ltd.	506 Room, Huatengbeitang Commercial Tallbuilding No. 37 Nanmofang Road, Chaoyang District, Beijing, China 100022 TEL 10-519-0975	RMB130,000 thousand	(62.0%)	Manufacture and sale of alcoholic beverages, seasonings, and raw alcohol; import and sale of Takara Shuzo Group's products
Shanghai Takara Shuzo International Trading Co., Ltd.	Room 105, Building 12, No. 505, Zhong Shan Nan Road Shanghai, China 200010 TEL 21-6152-6623	RMB4,896 thousand	(100.0%)	Import and sale of Takara Shuzo Group's products, and export of quality Chinese products
FOODEX S.A.S.	4, impasse des Carrières, 75016 Paris, France TEL 1-4647-4439	€250 thousand	(80.0%)	Import and wholesale of alcoholic beverages, foods, seasonings, etc.
TAKARA BIO INC.	Seta 3-4-1, Otsu, Shiga 520-2193, Japan TEL 077-543-7212	¥9,069 million	70.8%	Manufacture and sale of research reagents and scientific instruments, contract research services and commercialization of gene therapy and cell therapy, and manufacture and sale of health foods and mushroom products

## Subsidiaries of Takara Bio Inc.

Mizuho Nourin Co., Ltd.	38 Mitsueda, Hoidani, Kyotamba-cho, Funai-gun, Kyoto 622-0313, Japan	¥10 million	(49.0%)	Production and sale of mushrooms
Takara Bio Farming Center Inc.	4217 Nagayoshi, Otsu-cho, Soh-gun, Kagoshima 899-7306, Japan	¥3 million	(48.3%)	Production and sale of Ashitaba (angelica herb) and other agricultural products
Kinoko Center Kin Inc.	9006 Aza-Kin, Kin-cho, Kunigami-gun, Okinawa 904-1201, Japan	¥5 million	(49.0%)	Production and sale of mushrooms
Takara Biotechnology (Dalian) Co., Ltd.	No.19 Dongbei 2nd Street, Development Zone, Dalian, China 116600	¥2,350 million	(100.0%)	Development, production, and sale of research reagents
Takara Bio Europe S.A.S.	2, avenue du president Kennedy, 78100 St Germain en Laye, France	€600 thousand	(100.0%)	Sale of research reagents
Takara Korea Biomedical Inc.	Lotte New T Castle 601, 429-1, Gasan-dong, Gumchun-gu, Seoul 153-803, Korea	₩3,860 million	(100.0%)	Sale of research reagents and scientific instruments
Takara Biomedical Technology (Beijing) Co., Ltd.	Life Science Park, 22 KeXueYuan Road, Changping District, Beijing, China 102206	¥1,030 million	(100.0%)	Sale of research reagents, cell culture media, and gas-permeable bags
Clontech Laboratories, Inc.	1290 Terra Bella Avenue, Mountain View, CA 94043, U.S.A.	US\$83 thousand	(100.0%)	Development and sale of research reagents
DSS Takara Bio India Private Limited	A-5 Mohan Co-op Industrial Estate, Mathura Road, New Delhi 110044, India	RP45 million	(51.0%)	Sale of research reagents

## Subsidiaries of Takara Holdings Inc.

Takara Healthcare Inc.	85-1 Mikura-cho, Sanjo-dori Karasuma Nishi-iru, Nakagyo-ku, Kyoto 604-8166, Japan TEL 075-229-6901	¥90 million	100.0%	Development and sale of health foods
Taihei Printing Co., Ltd.	55 Kakegoshi-cho, Nishi-shichijo, Shimogyo-ku, Kyoto 600-8881, Japan TEL 075-313-7141	¥90 million	100.0%	Printing
Takara Network System Co., Ltd.	20 Naginataboko-cho, Shijo-dori Karasuma Higashi-iru, Shimogyo-ku, Kyoto 600-8688, Japan TEL 075-241-5139	¥30 million	100.0%	Development, operation, and maintenance of information systems
Kawahigashi Shoji Co., Ltd.	9 Butai-cho, Fushimi-ku, Kyoto 612-8338, Japan TEL 075-601-5211	¥30 million	100.0%	Sale of alcoholic beverages and real estate leasing

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



# Management's Discussion and Analysis

In the fiscal year under review, ended March 31, 2012, activity in the Japanese economy was limited due to the impact of the Great East Japan Earthquake, which occurred March 11, 2011, and to the concern for the electricity shortages that were the result of the ensuing incidents at the Tokyo Electric Power Company, Incorporated's Fukushima Daiichi Nuclear Power Station. While there were signs of recovery in the second half of the fiscal year driven by the post-earthquake reconstruction demand, the continued appreciation of the Japanese yen coupled with the effects of the financial crisis in Europe contributed to a persistence of the sense of uncertainty regarding the future of the economy. Further, consumer spending was sluggish due to concerns for the future of pensions and the potential increases in consumption tax.

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

## Net Sales

Consolidated net sales increased 4.7% year on year, to ¥198,690 million, allowing the Group to achieve a record high for net sales regardless of the lingering impact of the Great East Japan Earthquake.

Analysis of performance by business segment is as follows.

## Takara Shuzo Group

In the Group's core Alcoholic beverages and seasonings business, competition further intensified owing to such factors as a declining drinking population, diversifying consumer tastes, and realignment in distribution channels triggered by deregulation in recent years. In addition, the decline in consumer confidence, a result of the concern for the future and the weak economy, and the shift toward low-priced products has made it difficult to transfer the impact of rising raw material prices to product selling prices, adding further difficulty to the operating environment.

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

Takara Shuzo Co., Ltd., the core operating company of the segment, suffered damages to its distribution bases in East Japan due to the earthquake. However, the company worked to rapidly

reestablish production and supply systems while also accurately responding to market demand trends.

For fiscal 2012, the Takara Shuzo Group's net sales rose 5.2% year on year, to ¥175,503 million, thanks to brisk sales of light-alcohol refreshers and a full-year contribution to business results from the group's French subsidiary, FOODEX S.A.S., as a result of its inclusion as a consolidated subsidiary in the previous fiscal year. The breakdown of the segment's net sales by product category is as follows.

(Percentages indicate year-on-year change)

- **Shochu**  
¥73,458 million (increased 1.0%)
- **Sake**  
¥20,967 million (increased 0.8%)
- **Light-alcohol refreshers**  
¥26,725 million (increased 20.1%)
- **Other liquors**  
¥10,776 million (increased 11.4%)
- **Hon Mirin alcohol-based seasonings**  
¥14,718 million (decreased 1.4%)
- **Other seasonings**  
¥7,423 million (increased 4.7%)
- **Raw alcohol**  
¥6,512 million (increased 3.8%)
- **Other**  
¥14,922 million (increased 14.1%)

## Takara Bio Group

Leveraging biotechnologies it has cultivated over many years, the Takara Bio Group focused its management resources on three businesses areas—the genetic engineering research business, the gene medicine business, and the agribio business—and worked to improve business results.

For fiscal 2012, the Takara Bio Group's net sales were up 4.5% year on year, to ¥19,578 million, reflecting a year-on-year increase in revenue from mainstay research reagents, despite yen appreciation, and favorable revenue in the gene medicine business from technical support services relating to cancer immunotherapy. The breakdown of this segment's net sales by product and service category is as follows.

(Percentages indicate year-on-year change)

- **Genetic engineering research**  
¥16,300 million (increased 2.6%)
  - **Research reagents**  
¥11,516 million (increased 3.0%)
  - **Scientific instruments**  
¥2,628 million (increased 4.6%)
  - **Contract research services and other**  
¥2,155 million (decreased 1.6%)

- **Gene medicine**

¥842 million (increased 70.8%)

- **Agribio**

¥2,435 million (increased 3.1%)

## Takara Healthcare

As its highest priority, Takara Healthcare is working to increase sales by building a mail-order sales network for health food products realized through the technology of Takara Bio Inc. We aim to move this division into a position of profitability as soon as possible.

For fiscal 2012, Takara Healthcare's net sales declined 8.9% year on year, to ¥2,338 million, because lower sales in the tea beverage PB (private brand) supply business counteracted a favorable performance by fucoidan-related products and the OEM (original equipment manufacturer) business centered on hair care related products.

## Other

Other comprises other subsidiaries, including a printing business. Net sales in this segment declined 6.1% year on year, to ¥7,704 million.

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

Gross profit was up 4.0%, to ¥77,228 million, due to the increase in net sales, which was able to offset the slight increase in the cost of sales ratio due to the fact that raw material prices rose to a level that exceeded the influence of the strong yen, to changes in product lineups, and to the impact of the earthquake.

SG&A expenses rose 3.0%, to ¥67,963 million, largely due to the increased distribution and sales promotion expenses, which were incurred despite the continual cost-cutting measures the Group has implemented in response to the harsh economic conditions. Regardless, operating income increased 11.2%, to ¥9,264 million, as a result of the higher gross profit.

The following is an overview of each business segment.

## Takara Shuzo Group

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

As for Takara Shuzo, the Great East Japan Earthquake in March 2011 significantly affected its distribution bases. However, it only affected the company's production bases slightly. Conse-

quently, the company was able to restore production and supply operations rapidly and concentrate on providing stable product supplies. As a result, sales were favorable centered on light-alcohol refreshers, and as a whole the segment grew net sales 5.2% year on year, to ¥175,503 million. The segment's operating income only rose 3.0% year on year, to ¥6,768 million, because of a deterioration in the gross profit margin due to a hike in the price of mainstay ingredient ethanol (ethyl alcohol), higher transportation costs arising from the emergency response to the earthquake, and a rise in sales promotion expenses attributable to product mix changes.

## Takara Bio Group

Overall, the segment saw higher net sales due primarily to a rise in mainstay research reagent sales, despite yen appreciation, and a significant increase in revenue from the gene medicine business. The segment's operating income was up 41.0% year on year, to ¥1,547 million, because while net sales grew, SG&A expenses remained unchanged year on year thanks to lower personnel expenses and R&D expenses. As a result, Takara Bio Inc. paid shareholders a dividend for the first time since its establishment.

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

## Takara Healthcare

Since its establishment, Takara Healthcare has been incurring a deficit. However, its first priority is to move into a position of profitability as soon as possible by increasing sales through the construction of a mail-order sales network for health food products. With the segment halving its operating loss year on year, to ¥114 million, in fiscal 2012, the prospect of achieving operating income for the fiscal year ending March 31, 2013, has emerged. This improvement was due to the reduction of SG&A expenses, which compensated for an 8.9% year-on-year decline in net sales, to ¥2,338 million, as a result of lower sales in the tea beverage PB supply business.

## Other

In fiscal 2012, operating income in Other was ¥190 million.

## Other Income (Expenses) and Net Income

In regard to non-operating income and expenses, interest and dividends income as well as subsidy income contributed to higher non-operating income, and non-operating expenses such as interest expenses and bond issuance cost were lower. Accordingly, ordinary income increased 14.1% year on year, to ¥9,617 million.

In regard to extraordinary income and loss, there were losses attributable to the disposal of products due to the impact of the earthquake. However, these losses were less than the combined total of the disposal-related losses and loss on adjustment for changes of accounting standard for asset retirement obligations recorded in the previous fiscal year. As a result, income before income taxes and minority interests increased 14.5% year on year, to ¥8,590 million. Also, net income was up 5.5% year on year, to ¥3,995 million, regardless of the decline in deferred tax assets following changes in income tax rates.

## Cash Flows

Net cash provided by operating activities decreased ¥448 million year on year, to ¥9,013 million. Major factors increasing cash included income before income taxes and minority interests of ¥8,590 million, depreciation and amortization of ¥5,209 million, and increase in liquor taxes payable of ¥2,524 million. Major factors decreasing cash included increase in trade receivables of ¥5,787 million and income taxes paid of ¥2,507 million.

Net cash used in investing activities decreased ¥6,543 million, to ¥4,779 million. Major factors decreasing cash included purchases of property, plant, and equipment and intangible assets of ¥4,456 million.

Net cash used in financing activities was relatively unchanged from the previous fiscal year, at ¥3,265 million. Major factors decreasing cash included purchases of treasury stock of ¥1,085 million and cash dividends paid of ¥1,781 million.

As a result, cash and cash equivalents, end of year, including foreign currency translation adjustments on cash and cash equivalents, stood at ¥29,165 million, up ¥781 million from the previous fiscal year-end.

## Financial Position

Total assets at fiscal year-end stood at ¥197,437 million, up ¥4,988 million from the previous fiscal year-end. This included total current assets of ¥126,078 million, up ¥6,370 million from the previous fiscal year-end. Major factors included an increase in notes and accounts receivable—trade, net, due to higher sales and the fact that fiscal year-end was a holiday for financial institutions.

Noncurrent assets were ¥71,359 million, down ¥1,382 million from the previous fiscal year-end. Major factors included a ¥351

million increase in net property, plant, and equipment, a result of the acquisition of land for real estate leasing operations; and a ¥1,733 million decrease in total investments and other assets following a decrease in goodwill of ¥486 million and a decline in deferred tax assets of ¥509 million that accompanied the lowering of the effective income tax rate.

Total current liabilities were ¥51,247 million, up ¥9,794 million from the previous fiscal year-end, due mainly to the transference of ¥5,000 million worth of bonds payable from noncurrent liabilities to current portion of long-term debt and to an increase in accrued liquor tax, a result of the fact that fiscal year-end was a holiday for financial institutions and other factors. Total long-term liabilities were ¥38,530 million, down ¥5,570 million, primarily due to the transference of bonds payable to current portion of long-term debt. As a result, total liabilities rose ¥4,223 million, to ¥89,777 million.

Total equity amounted to ¥107,659 million, an increase of ¥764 million from the previous fiscal year-end, reflecting a ¥746 million increase in negative foreign currency translation adjustments and a ¥1,070 million increase in treasury stock, acquired as part of measures for returns to shareholders, which offset a ¥2,227 million rise in retained earnings.

## Medium-to-Long-Term Business Strategies

From April 2011, the Group embarked on a new drive toward realizing a long-term management vision, the Takara Group Vision 2020, which covers a ten-year period. Further, as the first step toward realizing this vision, the Group has prepared the Takara Group Medium-Term Management Plan FY2014 for the three-year period from fiscal 2012 to fiscal 2014.

The Takara Group Medium-Term Management Plan FY2014 establishes the basic policy of aiming to achieve stable growth in Japan while expanding the business base in order to grow significantly overseas. The following is an outline of the plan.

### Basic policy

Aiming to realize the Takara Group Vision 2020, achieve stable growth in Japan while expanding the business base in order to grow significantly overseas

### Tangible goals

FY2014: Takara Group net sales: at least ¥200 billion; operating income at least ¥10 billion; overseas sales accounting for at least 10% of net sales; growth businesses + developing businesses accounting for at least 25% of net sales

## Positioning of businesses and business policies

The Group classifies its businesses as core business, growth businesses, or developing businesses according to their level of maturity.

Core business	Strengthen profitability of core business as foundation of Group's growth
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### Domestic alcoholic beverages business

We will develop new products with differentiated quality and originality as well as foster brands. Also, by further strengthening profit management and increasing operational efficiency, we will strengthen profitability and achieve stable growth. And, we will generate stable cash flows and support the Group's growth.

Growth businesses	Expand businesses in markets promising growth, drive the Group's overall growth
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### Overseas alcoholic beverages business,

#### Japanese food ingredients wholesale business

We will establish sales networks overseas for the wholesale of Japanese food ingredients. And, by maximizing synergies between the Japanese food ingredients wholesale business and the overseas alcoholic beverages business, we will accelerate business growth and drive the Group's overall growth.

### Seasonings and raw alcohol business

We will expand businesses in the seasonings business for food processing and raw alcohol business areas. At the same time, we intend to leverage the synergies from the integration of both businesses, accelerate the growth of B-to-B business, and drive the Group's overall growth.

### Genetic engineering research business

By developing core technologies and opening up markets in Japan and overseas, including emerging countries, we will further increase sales and strengthen profitability, thereby driving the Group's overall growth.

Developing businesses	Establish operational foundation in growth markets to create the growth businesses for the next plan
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### Health foods business

We will take steps to establish a business foundation with a view to dramatic growth. We aim to strengthen scientific evidence for health food ingredients by using Takara Bio's technologies. Also, through effective and efficient investment we will acquire new

mail-order customers. And, we intend to increase sales by stepping up B-to-B sales promotion. Through these initiatives, we aim to move Takara Healthcare Inc. into a position of profitability in fiscal 2013, the year ending March 31, 2013.

### Gene medicine business

Aiming to commercialize Japan's first *ex vivo* gene therapy, we will advance clinical development. At the same time, we will seek higher sales of technical support services for cancer immunotherapy.

## Financial Policy

While maintaining a sound financial position, the Group aims to invest in both growth and developing businesses, return profits to shareholders actively, and increase ROE (return on equity).

## Analysis of Capital Resources and Liquidity

Regarding the Takara Group's liquidity, at the end of fiscal 2012, cash and cash equivalents stood at ¥29,165 million, up ¥781 million from the previous fiscal year-end. This increase was attributable to a ¥6,543 million decrease in net cash used in investing activities compared with the previous fiscal year's net cash used in investing activities, which included the acquisition of FOODEX S.A.S. as a consolidated subsidiary. This decrease offset a ¥448 million decline in net cash provided by operating activities, due to higher trade receivables, and a slight increase in net cash used in financing activities. Further, the acquisition of time deposits and short-term investment securities included in net cash used in investing activities are short-term investments for the purpose of managing surplus funds. Taking this into account, cash and cash equivalents were up from the previous fiscal year-end.

At the moment, the Group plans to conduct capital investment, finance returns to shareholders, and invest in growth and developing businesses using only funds on hand and internal reserves. In April 2012, however, to redeem bonds maturing in the fiscal year ending March 31, 2013, and onward, the Group raised ¥10,000 million by issuing straight bonds. Taking these factors and the current plan into consideration, the Group has adequate liquidity.

Capital investment scheduled for the Takara Shuzo Group in fiscal 2013 is expected to be less than depreciation. However, there is the possibility that Takara Holdings will issue corporate bonds to acquire additional funds in the event that capital in excess of internal funds is required for new M&A activities or other investments. The Company's outstanding bonds have affirmed an A rating from Rating and Investment Information, Inc. (R&I), and Japan Credit Rating Agency, Ltd. (JCR). In addition, the Company has established commitment lines totaling ¥10,000 million to finance its dynamic working capital requirements.

Currently, the Takara Bio Group intends to finance short-term R&D and capital investment through internal funds. However, it may be necessary to raise funds from other sources to finance the launch of new businesses and to expand the scope of existing businesses.

## Business Risks

The following are major potential risks to which the Takara Group (the Group and its affiliated companies) is exposed to in its business and other activities. In addition, conditions that may not become a risk are also described from the viewpoint of positive information disclosure to investors.

Upon identification of the possibility of such risks, the Group will make its best efforts to avoid such an occurrence or take countermeasures against such an occurrence. Please note that the following descriptions do not cover all of the risk factors concerning investment decisions.

Descriptions related to the possible occurrence of events in the future are based on the Group's judgments as of June 28, 2012, the date on which it filed its official company accounts.

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

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

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

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

#### <2> Risks concerning market competition

The recent deregulation in alcoholic beverage retail licensing has drastically changed the liquor distribution structure and prompted competing companies to reduce prices and pursue new product strategies, which has intensified competition in the marketplace. In such a competitive business environment, the Group is striving to address the challenges by developing and cultivating

high-value-added products, strengthening its brand power, carrying out sales activities that reflect the changes in distribution channels, and cutting costs. However, if competition increases to a level that cannot be countered by these measures and strategies, the Group's business performance and financial position may be adversely affected.

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

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

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

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

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

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

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

It has been said that drinking alcoholic beverages in moderation generally relieves weariness, increases appetite, eases stress, and works as a social lubricant. On the other hand, many problems in habitual drinking have been pointed out, such as intoxication, organ damage due to chronic drinking, alcoholism, under-age drinking, and damage to the fetus owing to drinking by pregnant women, characteristics of which are not seen in any other beverages or foods.

Realizing these problems, the Group, as an organization producing and selling alcoholic beverages, is carrying out various activities to spread the idea of “controlled, moderate drinking” from the viewpoint of meeting its social responsibilities by helping to maintain and improve people’s health. If these alcohol-attributable problems become more serious within society, the Group’s production and sales activities may be further regulated or otherwise affected, and the future growth, business performance, and financial position of the Group’s alcoholic beverages business may deteriorate.

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

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

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

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

Currently, the revenue base of the Group’s Biomedical business is generated by the genetic engineering research business, whose major product is research reagents related to the real-time Polymerase Chain Reaction (PCR) method. However, the real-time PCR license granted to the Group is not an exclusive license, with many other companies similarly granted the real-time PCR license, thereby intensifying competition. Moreover, unlike medical equipment, since neither permission nor approval is required for the manufacture and sale of scientific instruments, entry into

the market is relatively easy; therefore, there are many competing companies in the market.

In the gene medicine business, various genetic gene transfer methods and effective vectors have been developed recently, and the applications of gene therapy are expanding from congenital diseases, infectious diseases, and various types of cancer to non-fatal chronic illnesses. Moreover, today, cell therapy is used to improve the quality of life (QOL) of patients and not just as a cure for a disease. Thus, a potentially enormous market has opened up, which has resulted in many enterprises investing in gene and cell therapies R&D, centering on Western start-up businesses.

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

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

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

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

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

R&D activities in the genetic engineering research business are regulated by relevant legislations, such as the Law Concerning Prevention from Radiation Hazards Due to Radioisotopes, Etc., and the Law Concerning the Conservation and Sustainable Use of Biological Diversity through Regulations on the Use of Living Modified Organisms, and the Group intends to observe these laws and

regulations. In sales of research reagents, the Group is also required to follow the Poisonous and Deleterious Substance Control Law. Research reagents are not drugs as defined by the Pharmaceutical Affairs Law, and consequently are not regulated by that law. However, if these regulations are tightened or new regulations are enforced following the expansion of industries providing research support services, the Group's business may be adversely affected.

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

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

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

In biotechnology-related industries, where the success of business depends solely on the success of R&D activities, the Group regards securing intellectual property rights, including patents, as extremely important, and it protects technologies developed in-house with patents to prevent competitors from imitating them. The Group will continue placing the highest priority on applying for patents in its R&D activities. All applications are not always registered, however, and when a registered patent is made invalid for any reason, or expires, the Group's business strategies or operational results may suffer an impact. In addition, the Group is always mindful that, in biotechnology-related industries with continuous cutthroat competition in R&D, its technology that is protected by a patent may be superseded at any time by a competitor.

The Group is also willing to acquire or buy licenses for promising patent rights held by third parties, but this strategy may be prohibitively expensive or alternatively there is a possibility that the Group may not be able to acquire licenses for necessary patent rights.

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

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

The Group owns marketable securities. If their market values fall

drastically, the difference between the acquisition cost and market price is booked as a loss for the fiscal year. Such a loss may adversely affect the Group's business performance and financial position.

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

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

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

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

#### <4> *Risks concerning overseas operations*

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

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

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

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

exchange rates. Therefore, fluctuations in exchange rates may adversely affect the Group's business performance and financial position.

*<6> Risks concerning product liability*

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

*<7> Risks concerning legal regulations*

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

Also, as a corporation involved in the manufacture and sale of food products, the Group maintains business facilities, manages equipment, containers and packages, as well as controls production processes and sales activities in accordance with the provisions of the Food Sanitation Law. The Group observes the Food Sanitation Law and takes extra care to control food hygiene. Food safety matters, including food hygiene and such problems as intentional interference, are an unavoidable issue. Therefore, if any problem should arise related to this issue, the business performance of the Group may be adversely affected.

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

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

*<8> Risks concerning information control*

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

*<9> Risks concerning lawsuits*

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

# Consolidated Balance Sheets

Takara Holdings Inc. and Consolidated Subsidiaries  
March 31, 2012 and 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
<b>ASSETS</b>			
CURRENT ASSETS (Note 16):			
Cash and cash equivalents	¥ 29,165	¥ 28,384	\$ 355,670
Time deposits	15,822	15,566	192,951
Marketable securities (Note 3)	1,515	1,496	18,475
Notes and accounts receivable:			
Trade	50,579	44,945	616,817
Associated companies	145	159	1,768
Other	644	1,087	7,853
Allowance for doubtful accounts	(71)	(81)	(865)
Inventories (Notes 4 and 6)	24,481	24,298	298,548
Deferred tax assets (Note 12)	2,346	2,568	28,609
Prepaid expenses and other current assets	1,449	1,282	17,670
<b>Total current assets</b>	<b>126,078</b>	<b>119,707</b>	<b>1,537,536</b>
PROPERTY, PLANT, AND EQUIPMENT (Note 5):			
Land	14,291	13,386	174,280
Buildings and structures	42,087	42,658	513,256
Machinery, equipment, and vehicles	74,328	74,834	906,439
Tools, furniture, and fixtures	10,280	10,268	125,365
Lease assets	1,245	934	15,182
Construction in progress	621	253	7,573
<b>Total</b>	<b>142,854</b>	<b>142,335</b>	<b>1,742,121</b>
Accumulated depreciation	(100,857)	(100,690)	(1,229,963)
<b>Net property, plant, and equipment</b>	<b>41,996</b>	<b>41,645</b>	<b>512,146</b>
INVESTMENTS AND OTHER ASSETS (Note 16):			
Investment securities (Note 3)	15,648	15,745	190,829
Investments in, and advances to, associated companies	2,801	2,781	34,158
Goodwill	3,531	4,017	43,060
Deferred tax assets (Note 12)	2,894	3,404	35,292
Other assets	4,486	5,146	54,707
<b>Total investments and other assets</b>	<b>29,362</b>	<b>31,095</b>	<b>358,073</b>
<b>TOTAL</b>	<b>¥ 197,437</b>	<b>¥ 192,448</b>	<b>\$ 2,407,768</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
<b>LIABILITIES AND EQUITY</b>			
CURRENT LIABILITIES (Note 16):			
Short-term bank loans (Note 5)	¥ 4,924	¥ 5,101	\$ 60,048
Current portion of long-term debt (Note 5)	5,346	300	65,195
Notes and accounts payable:			
Trade	13,956	13,440	170,195
Associated companies	7	25	85
Construction and other	2,930	2,531	35,731
Liquor taxes payable (Note 6)	10,589	8,065	129,134
Accrued income taxes	2,207	1,785	26,914
Accrued expenses	6,001	5,627	73,182
Accrued sales promotion expenses	1,708	1,576	20,829
Other current liabilities (Note 12)	3,572	2,996	43,560
<b>Total current liabilities</b>	<b>51,247</b>	<b>41,453</b>	<b>624,963</b>
LONG-TERM LIABILITIES (Note 16):			
Long-term debt (Note 5)	21,008	26,010	256,195
Liability for retirement benefits (Note 7)	9,625	9,644	117,378
Deposits	5,881	6,119	71,719
Deferred tax liabilities (Note 12)	1,074	1,269	13,097
Other	941	1,056	11,475
<b>Total long-term liabilities</b>	<b>38,530</b>	<b>44,100</b>	<b>469,878</b>
CONTINGENT LIABILITIES (Note 15)			
EQUITY (Notes 8 and 19):			
Common stock, authorized, 870,000,000 shares; issued, 217,699,743 shares	13,226	13,226	161,292
Capital surplus	3,195	3,197	38,963
Retained earnings	88,012	85,784	1,073,317
Treasury stock, at cost—12,277,683 shares in 2012 and 10,069,310 shares in 2011	(6,922)	(5,852)	(84,414)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	2,805	2,754	34,207
Deferred loss on derivatives under hedge accounting (Note 17)	(17)	(32)	(207)
Foreign currency translation adjustments	(5,516)	(4,770)	(67,268)
<b>Total</b>	<b>94,783</b>	<b>94,308</b>	<b>1,155,890</b>
Minority interests	12,876	12,587	157,024
<b>Total equity</b>	<b>107,659</b>	<b>106,895</b>	<b>1,312,914</b>
<b>TOTAL</b>	<b>¥ 197,437</b>	<b>¥ 192,448</b>	<b>\$ 2,407,768</b>

# Consolidated Statements of Income

Takara Holdings Inc. and Consolidated Subsidiaries  
Years ended March 31, 2012 and 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
NET SALES (Notes 10 and 21)	¥ 198,690	¥ 189,769	\$ 2,423,048
COST OF SALES (Notes 6, 7, 10, 14, and 21)	121,462	115,480	1,481,243
Gross profit	77,228	74,289	941,804
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 7, 11, 14, and 21)	67,963	65,953	828,817
Operating income	9,264	8,335	112,975
OTHER INCOME (EXPENSES):			
Interest and dividend income	539	473	6,573
Real estate rent	108	111	1,317
Subsidy income	193	104	2,353
Gain on sales of property, plant, and equipment	233	72	2,841
Compensation for transfer	193		2,353
Interest expense	(501)	(566)	(6,109)
Loss on disposals of property, plant, and equipment	(404)	(238)	(4,926)
Adjustment for initial application of accounting standard for asset retirement obligations (Note 2.1)		(424)	
Losses from a natural disaster (Note 13)	(754)	(396)	(9,195)
Other, net	(282)	35	(3,439)
Other expenses, net	(674)	(829)	(8,219)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	8,590	7,505	104,756
INCOME TAXES (Note 12):			
Current	3,321	3,646	40,500
Deferred	851	(183)	10,378
Total income taxes	4,173	3,463	50,890
NET INCOME BEFORE MINORITY INTERESTS (Note 1)	4,417	4,042	53,865
MINORITY INTERESTS IN NET INCOME	421	254	5,134
NET INCOME	¥ 3,995	¥ 3,788	\$ 48,719
		Yen	U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.t and 19):			
Basic net income	¥ 19.32	¥ 18.21	\$ 0.23
Diluted net income		18.21	
Cash dividends applicable to the year	9.00	8.50	0.10

See notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

Takara Holdings Inc. and Consolidated Subsidiaries  
Years ended March 31, 2012 and 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
NET INCOME BEFORE MINORITY INTERESTS	¥ 4,417	¥ 4,042	\$ 53,865
OTHER COMPREHENSIVE INCOME (LOSS) (Note 18):			
Unrealized gain (loss) on available-for-sale securities	53	(1,260)	646
Deferred gain (loss) on derivatives under hedge accounting	17	(40)	207
Foreign currency translation adjustments	(892)	(2,227)	(10,878)
Share of other comprehensive income in associates	(18)	(42)	(219)
Total other comprehensive loss	(839)	(3,570)	(10,231)
COMPREHENSIVE INCOME (Note 18)	¥ 3,577	¥ 471	\$ 43,621
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 18):			
Owners of the parent	¥ 3,314	¥ 633	\$ 40,414
Minority interests	263	(161)	3,207

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

Takara Holdings Inc. and Consolidated Subsidiaries  
Years ended March 31, 2012 and 2011

	Thousands	Millions of Yen									
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2010	210,179	¥ 13,226	¥ 3,198	¥ 83,785	¥ (4,650)	¥ 4,007	¥ 18	¥ (2,918)	¥ 96,666	¥ 12,540	¥ 109,206
Net income				3,788					3,788		3,788
Cash dividends, ¥8.5 per share				(1,789)					(1,789)		(1,789)
Net increase of treasury stock	(2,550)		(1)		(1,201)				(1,202)		(1,202)
Net change in the year						(1,252)	(50)	(1,851)	(3,154)	46	(3,108)
BALANCE, MARCH 31, 2011	207,630	13,226	3,197	85,784	(5,852)	2,754	(32)	(4,770)	94,308	12,587	106,895
Net income				3,995					3,995		3,995
Cash dividends, ¥9.0 per share				(1,767)					(1,767)		(1,767)
Net increase of treasury stock	(2,208)		(1)		(1,070)				(1,072)		(1,072)
Net change in the year						51	14	(746)	(680)	289	(391)
BALANCE, MARCH 31, 2012	205,422	¥ 13,226	¥ 3,195	¥ 88,012	¥ (6,922)	¥ 2,805	¥ (17)	¥ (5,516)	¥ 94,783	¥ 12,876	¥ 107,659

	Thousands of U.S. Dollars (Note 1)										
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity	
BALANCE, MARCH 31, 2011	\$ 161,292	\$ 38,987	\$ 1,046,146	\$ (71,365)	\$ 33,585	\$ (390)	\$ (58,170)	\$ 1,150,097	\$ 153,500	\$ 1,303,597	
Net income			48,719					48,719		48,719	
Cash dividends, \$0.10 per share			(21,548)					(21,548)		(21,548)	
Net increase of treasury stock			(12)	(13,048)				(13,073)		(13,073)	
Net change in the year					621	170	(9,097)	(8,292)	3,524	(4,768)	
BALANCE, MARCH 31, 2012	\$ 161,292	\$ 38,963	\$ 1,073,317	\$ (84,414)	\$ 34,207	\$ (207)	\$ (67,268)	\$ 1,155,890	\$ 157,024	\$ 1,312,914	

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Takara Holdings Inc. and Consolidated Subsidiaries  
Years ended March 31, 2012 and 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 8,590	¥ 7,505	\$ 104,756
Adjustments for:			
Income taxes paid	(2,507)	(3,620)	(30,573)
Depreciation and amortization	5,209	5,384	63,524
Increase in accrued sales promotion expenses	132	114	1,609
Net loss on sales and disposals of property, plant, and equipment	171	166	2,085
Loss on write-down of investment securities	108	254	1,317
Changes in assets and liabilities:			
(Increase) decrease in trade receivables	(5,787)	932	(70,573)
Increase in inventories	(455)	(435)	(5,548)
(Increase) decrease in interest and dividend receivable	(23)	18	(280)
Increase in other current assets	(175)	(98)	(2,134)
Increase (decrease) in trade payables	570	(555)	6,951
Increase in liquor taxes payable	2,524	126	30,780
Increase (decrease) in consumption taxes payable	391	(106)	4,768
Other, net	262	(223)	3,195
Total adjustments	422	1,956	5,146
Net cash provided by operating activities	9,013	9,462	109,914
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sales of property, plant, and equipment	647	87	7,890
Proceeds from sales and redemption of marketable securities	1,680	2,255	20,487
Proceeds from sales of investments in subsidiaries and associated companies		87	
Purchases of property, plant, and equipment	(4,335)	(2,688)	(52,865)
Purchases of marketable securities and investment securities	(2,030)	(3,603)	(24,756)
Increase in time deposits, net	(276)	(4,062)	(3,365)
Purchase of FOODEX S.A.S., net of cash acquired		(3,384)	
Other, net	(465)	(14)	(5,670)
Net cash used in investing activities	(4,779)	(11,323)	(58,280)
<b>FINANCING ACTIVITIES:</b>			
Proceeds from issuance of bonds		9,923	
Redemption of bonds		(5,000)	
Purchases of treasury stock	(1,085)	(1,207)	(13,231)
Cash dividends paid	(1,781)	(1,796)	(21,719)
Other, net	(397)	(5,119)	(4,841)
Net cash used in financing activities	(3,265)	(3,199)	(39,817)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON</b>			
CASH AND CASH EQUIVALENTS	(186)	(179)	(2,268)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	781	(5,240)	9,524
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	28,384	33,624	346,146
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 29,165	¥ 28,384	\$ 355,670

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Takara Holdings Inc. and Consolidated Subsidiaries  
Years ended March 31, 2012 and 2011

## 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2011 financial statements to conform to the classifications used in 2012.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Takara Holdings Inc. (the “Company”) is incorporated and operates. Japanese yen figures less than a million yen are rounded down to the nearest million yen, except for per share data and the amounts in Note 9. 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 ¥82 to \$1, the approximate rate of exchange at March 31, 2012. U.S. dollar figures less than a thousand dollars are rounded down to the nearest thousand dollar, except for per share data and the amounts in Note 9. 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, 2012 include the accounts of the Company and its 37 (36 in 2011) subsidiaries (together, the “Group”). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in three (three in 2011) associated companies are accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

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

**b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (PITF) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and 5) exclusion of minority interests from net income, if contained in net income.

**c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**—In March 2008, the ASBJ issued ASBJ Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments.” The new standard requires adjustments to

be made to conform the associate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate’s financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and 5) exclusion of minority interests from net income, if contained in net income.

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

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

procedures used in the purchase allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

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

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

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

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

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

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

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

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

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

**k. Retirement and Pension Plans**—Each of the employees' retirement benefit programs of the Company and certain subsidiaries consist of an unfunded lump-sum severance payment plan and a defined benefit corporate pension plan as described in Note 7.

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

**l. Asset Retirement Obligations**—In March 2008, the ASBJ published ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and 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 the 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 increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**m. 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.

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

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

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

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

All other leases are accounted for as operating leases.

**p. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements 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.

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

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

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

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements 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 payments of royalties and foreign currency import transactions. Payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Foreign currency options are utilized to hedge foreign currency exposures in the procurement of raw materials from overseas suppliers. These options, which qualify for hedge accounting, are measured at fair value at the balance sheet date and the unrealized gains or losses are deferred until maturity as an other liability or asset. Foreign currency swaps are utilized to hedge market risk from the changes in foreign exchange rates associated with advances to subsidiaries denominated in foreign currencies.

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

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

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

**u. Accounting Changes and Error Corrections**—In December 2009, 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 with revision of accounting standards, the new policy is applied retrospectively, unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentations—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. This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

#### **v. New Accounting Pronouncements**

**Accounting Standard for Retirement Benefits**—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000, and the other related practical guidance, being followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet

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

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

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

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

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013, 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 expects to apply the revised accounting standard from the end of the annual period beginning on April 1, 2013 and is in the process of measuring the effects of applying the revised accounting standard for the year ending March 31, 2014.

### 3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Current:			
Government and corporate bonds	¥ 987	¥ 975	\$ 12,036
Other	528	521	6,439
Total	¥ 1,515	¥ 1,496	\$ 18,475
Non-current:			
Investment equity securities	¥ 15,597	¥ 15,667	\$ 190,207
Government and corporate bonds	50	78	609
Total	¥ 15,648	¥ 15,745	\$ 190,829

The costs and aggregate fair values of marketable and investment securities at March 31, 2012 and 2011, were as follows:

March 31, 2012	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 10,194	¥ 5,369	¥ 1,092	¥ 14,470
Debt securities	485	3		489
Others	528			528
Held-to-maturity	500			500

March 31, 2011	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 9,993	¥ 5,714	¥ 1,165	¥ 14,541
Debt securities	500	5		505
Others	521			521
Held-to-maturity	500			500

March 31, 2012	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$ 124,317	\$ 65,475	\$ 13,317	\$ 176,463
Debt securities	5,914	36		5,963
Others	6,439			6,439
Held-to-maturity	6,097			6,097

The information for available-for-sale securities, which were sold during the years ended March 31, 2012 and 2011, is as follows:

March 31, 2012	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 3	¥ 2	¥ 0
Debt securities	41	1	
Total	¥ 45	¥ 3	¥ 0

March 31, 2011	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 873	¥ 417	
Debt securities	42		
Total	¥ 915	¥ 417	

March 31, 2012	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	\$ 36	\$ 24	\$ 0
Debt securities	500	12	
Total	\$ 548	\$ 36	\$ 0

The impairment losses on available-for-sale equity securities for the years ended March 31, 2012 and 2011, were ¥108 million (\$1,317 thousand) and ¥254 million, respectively.

#### 4. INVENTORIES

Inventories at March 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Finished products and merchandise	¥ 13,184	¥ 13,394	\$ 160,780
Semifinished products	7,662	7,157	93,439
Work in process	886	964	10,804
Raw materials and supplies	2,747	2,782	33,500
Total	¥ 24,481	¥ 24,298	\$ 298,548

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

Short-term bank loans consisted principally of term loans with interest at annual rates ranging from 0.741% to 3.250% and from 0.750% to 19.177% at March 31, 2012 and 2011, respectively.

Long-term debt at March 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Loans principally from banks, due serially to January 2022, with interest rates ranging from 0% to 9.50% (0% to 4.78% in 2011):			
Collateralized	¥ 197	¥ 215	\$ 2,402
Unsecured	392	427	4,780
0.89% unsecured bonds, due May 2013	5,000	5,000	60,975
1.40% unsecured bonds, due September 2012	5,000	5,000	60,975
1.96% unsecured bonds, due September 2017	5,000	5,000	60,975
0.587% unsecured bonds, due May 2015	5,000	5,000	60,975
1.561% unsecured bonds, due May 2020	5,000	5,000	60,975
Obligation under finance leases	764	668	9,317
Total	26,354	26,311	321,390
Less current portion	5,346	300	65,195
Long-term debt, less current portion	¥ 21,008	¥ 26,010	\$ 256,195

Annual maturities of long-term debt as of March 31, 2012, for the next five years and thereafter were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2013	¥ 5,346	\$ 65,195
2014	5,324	64,926
2015	279	3,402
2016	5,126	62,512
2017	97	1,182
2018 and thereafter	10,180	124,146
Total	¥ 26,354	\$ 321,390

At March 31, 2012, buildings and structures of ¥372 million (\$4,536 thousand) and land of ¥250 million (\$3,048 thousand) were pledged as collateral for long-term debt (including current portion of long-term debt) of ¥197 million (\$2,402 thousand).

#### 6. LIQUOR TAXES PAYABLE

Liquor taxes are calculated at various rates according to the quantities of categorized beverages containing more than 1% of alcohol when delivered from manufacturing lots or taken outside of the bonded area. Liquor taxes are included in cost of sales and inventories. Liquor taxes payable are to be paid by the end of the second month following delivery or after being taken outside the bonded area.

## 7. RETIREMENT AND PENSION PLANS

The Company and certain of its subsidiaries have severance payment plans for employees. In conjunction with the enactment of the Defined Benefit Corporation Pension Act, the Company and certain of its subsidiaries reviewed and revised part of their retirement benefit regulations effective on April 1, 2011. The companies plan to transfer from the current lump-sum payment plans and tax-qualified pension plans to new lump-sum payment plans and defined benefit corporate pension plans.

Under most circumstances, employees terminating their employment are entitled to certain lump-sum severance payments based on their rate of pay at the time of termination, length of service, and certain other factors. In most circumstances, if the termination is involuntary, caused

by retirement at the mandatory retirement age, or caused by death, employees are entitled to greater payments than in the case of voluntary termination.

The Company and certain domestic subsidiaries have defined benefit corporate pension plans covering all employees. Under the plans, employees terminating their employment are, in most circumstances, entitled to pension payments based on their rates of pay at the time of termination and length of service.

Certain domestic subsidiaries have contributory-funded pension plans of the integrated establishment type.

In addition, certain information related to multi-employer plans, for which contribution amounts are accounted for as a net periodic benefit, is disclosed as follows:

### (1) Financial status of entire multi-employer plans

#### a. Contributory-funded pension plan for Truck Business in Kyoto Prefecture

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31, 2012	As of March 31, 2011	As of March 31, 2012
Amount of plan assets	¥ 9,505	¥ 10,210	\$ 115,914
Amount of benefit obligation in pension financial calculation	12,837	13,051	156,548
Net balance	¥ (3,331)	¥ (2,840)	\$ (40,621)

#### b. Contributory-funded pension plan for Truck Business in Nagasaki Prefecture

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31, 2012	As of March 31, 2011	As of March 31, 2012
Amount of plan assets	¥ 8,504	¥ 8,655	\$ 103,707
Amount of benefit obligation in pension financial calculation	7,923	8,043	96,621
Net balance	¥ 581	¥ 612	\$ 7,085

### (2) Percentage of the Group's contribution in the entire multi-employer plans

#### a. Contributory-funded pension plan for Truck Business in Kyoto Prefecture

As of March 31, 2012	4.1%
As of March 31, 2011	3.9%

#### b. Contributory-funded pension plan for Truck Business in Nagasaki Prefecture

As of March 31, 2012	9.6%
As of March 31, 2011	11.6%

### (3) Supplementary explanation

The primary factors of the net balance related to the contributory-funded pension plan for the Truck Business in Kyoto Prefecture in (1) above comprise the amount of prior service cost in the pension financial calculation of ¥1,358 million (\$16,560 thousand) (¥834 million in the prior fiscal year); adjustment for valuation of assets of ¥711 million (\$9,402 thousand) (¥1,531 million in the prior fiscal year); and current deficit of ¥1,262 million (\$15,390 thousand) (¥475 million in the prior fiscal year). The companies will ratably amortize prior service costs (benefit) over 11 years and three months.

The primary factors of the net balance related to the contributory-funded pension plan for the Truck Business in Nagasaki Prefecture in (1)

above comprise the amount of prior service cost in the pension financial calculation of ¥695 million (\$8,475 thousand) (¥738 million in the prior fiscal year) and current surplus of ¥1,277 million (\$15,573 thousand) (¥1,351 million in the prior fiscal year). The companies will ratably amortize prior service costs (benefit) over 10 years and nine months.

In addition, the percentage figure disclosed in (2) above does not represent the actual obligation attributable to the Group.

The above information related to multi-employer plans is based upon the pension financial calculation as of March 31, 2011 and 2010, the most recent available date.

The liability for employees' retirement benefits at March 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Projected benefit obligation	¥ 11,431	¥ 14,056	\$ 139,402
Fair value of plan assets	(4,320)	(4,140)	(52,682)
Unrecognized prior service cost	2,909		35,475
Unrecognized actuarial gain	(488)	(448)	(5,951)
Prepaid pension cost	93	176	1,134
Net liability	¥ 9,625	¥ 9,644	\$ 117,378

The components of net periodic benefit costs for the years ended March 31, 2012 and 2011, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Service cost	¥ 652	¥ 820	\$ 7,951
Interest cost	186	231	2,268
Expected return on plan assets	(91)	(109)	(1,109)
Amortization of prior service cost	(323)		(3,939)
Recognized actuarial loss	235	66	2,865
Net periodic benefit costs	¥ 660	¥ 1,009	\$ 8,048

Assumptions used for the years ended March 31, 2012 and 2011, are set forth as follows:

	2012	2011
Discount rate	mainly 1.6%	mainly 1.6%
Expected rate of return on plan assets	mainly 2.0%	mainly 2.5%
Amortization period of prior service cost	10 years	
Recognition period of actuarial gain/loss	10 years	mainly 10 years

## 8. EQUITY

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

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all of the above criteria.

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

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

### (b) Increases/decreases and transfer of common stock, reserve, and surplus

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

### (c) Treasury stock and treasury stock acquisition rights

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

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

## 9. STOCK OPTIONS

The stock options outstanding of Takara Bio Inc., the Company's consolidated subsidiary, as of March 31, 2012, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
The First Stock Option	Eight directors of subsidiary 273 employees of subsidiary	3,400,000 shares	2003.9.19	¥ 500 (\$ 6.09)	From September 20, 2005 to September 20, 2013
The Second Stock Option	Eight directors of subsidiary Three corporate auditors of subsidiary 120 employees of subsidiary	1,288,000 shares	2003.9.19	¥ 500 (\$ 6.09)	From April 1, 2004 to September 20, 2013
The Third Stock Option	Three directors of subsidiary 28 employees of subsidiary	200,000 shares	2004.5.17	¥ 500 (\$ 6.09)	From September 20, 2005 to September 20, 2013
The Fourth Stock Option	Nine directors of subsidiary Three corporate auditors of subsidiary Eight employees of subsidiary	312,000 shares	2004.5.17	¥ 500 (\$ 6.09)	From April 1, 2004 to September 20, 2013

The stock option activity was as follows:

For the Year Ended March 31, 2012	Shares			
	The First Stock Option	The Second Stock Option	The Third Stock Option	The Fourth Stock Option
Vested				
April 1, 2011—Outstanding	1,464,000	572,000	44,000	156,000
Vested				
Exercised	(4,000)			
Canceled	(48,000)			
March 31, 2012—Outstanding	1,412,000	572,000	44,000	156,000
Exercise price	¥ 500 (\$ 6.09)	¥ 500 (\$ 6.09)	¥ 500 (\$ 6.09)	¥ 500 (\$ 6.09)
Average stock price at exercise	¥ 469 (\$ 5.71)			

On April 1, 2011, Takara Bio Inc., the Company's consolidated subsidiary, made a four hundred-for-one stock split of the common stock. Information presented in Note 9 has been restated to reflect the four hundred-for-one stock split.

## 10. RELATED PARTY TRANSACTIONS

Net sales and purchases representing transactions of the Group with associated companies for the years ended March 31, 2012 and 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Net sales	¥ 697	¥ 877	\$ 8,500
Purchases	69	66	841

## 11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥3,027 million (\$36,914 thousand) and ¥3,076 million for the years ended March 31, 2012 and 2011, respectively.

## 12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2012 and 2011. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Current deferred tax assets:			
Inventories	¥ 223	¥ 247	\$ 2,719
Accrued bonuses	762	823	9,292
Accrued sales promotion expenses	649	646	7,914
Tax loss carryforwards	124	177	1,512
Enterprise tax payable	181	177	2,207
Unrealized profit on sale of inventories	202	214	2,463
Other	219	320	2,670
Less valuation allowance	(13)	(23)	(158)
Total	¥ 2,352	¥ 2,583	\$ 28,682
Current deferred tax liabilities:			
Other	¥ 6	¥ 14	\$ 73
Total	¥ 6	¥ 14	\$ 73
Net current deferred tax assets	¥ 2,346	¥ 2,568	\$ 28,609
Net current deferred tax liabilities	¥ 0		\$ 0
Non-current deferred tax assets:			
Retirement benefits	¥ 3,437	¥ 4,031	\$ 41,914
Tax loss carryforwards	1,713	2,191	20,890
Marketable and investment securities	467	516	5,695
Depreciation	538	620	6,560
Deduction of foreign corporation tax carried forward		341	
Other	777	883	9,475
Less valuation allowance	(1,969)	(2,853)	(24,012)
Total	¥ 4,965	¥ 5,731	\$ 60,548
Non-current deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 1,522	¥ 1,874	\$ 18,560
Basis difference of acquired intangible assets	196	258	2,390
Deferred gain on fixed assets	357	386	4,353
Deferred gain on fixed assets inherited by corporate division	537	637	6,548
Other	531	440	6,475
Total	¥ 3,144	¥ 3,595	\$ 38,341
Net non-current deferred tax assets	¥ 2,894	¥ 3,404	\$ 35,292
Net non-current deferred tax liabilities	¥ 1,074	¥ 1,269	\$ 13,097

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2012 and 2011, was as follows:

	2012	2011
Normal effective statutory tax rate in Japan	41.0%	41.0%
Expenses not deductible for income tax purposes	4.8	5.6
(Decrease) increase in valuation allowance	(3.2)	4.7
Effect of change in the normal effective statutory tax rate	7.6	
Other—net	(1.6)	(5.2)
Actual effective tax rate	48.6%	46.1%

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 41% to 38% effective for the fiscal years beginning on or after April 1, 2012, through March 31, 2015, and to 36% afterwards. The effect of this

change was to decrease deferred taxes in the consolidated balance sheet as of March 31, 2012 by ¥445 million (\$5,426 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥656 million (\$8,000 thousand).

At March 31, 2012, the Company and certain subsidiaries have tax loss carryforwards aggregating to approximately ¥4,890 million (\$59,634 thousand), which are available to be offset against taxable income of such subsidiaries. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 166	\$ 2,024
2015	551	6,719
2018	2,364	28,829
2019 and thereafter	1,807	22,036
Total	¥ 4,890	\$ 59,634

### 13. LOSSES FROM A NATURAL DISASTER

“Losses from a natural disaster,” which is presented in “Other Income (Expenses)” in the consolidated statement of income for the year ended March 31, 2012, were recorded due to the Great East Japan Earthquake. Provision for allowance for losses from a natural disaster, included in

“Losses from a natural disaster,” was estimated for restoration and other expenses related to the earthquake amounting to ¥3 million (\$36 thousand) and ¥156 million for the years ended March 31, 2012 and 2011, respectively.

### 14. LEASES

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

Total rental expenses for the years ended March 31, 2012 and 2011, were ¥2,131 million (\$25,987 thousand) and ¥2,208 million, respectively, including ¥279 million (\$3,402 thousand) and ¥342 million of lease payments under finance leases, respectively.

#### *Pro forma information of leased property whose lease inception was before March 31, 2008*

ASBJ Statement No. 13, “Accounting Standard for Lease Transactions” requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee and whose lease inception was before March 31,

2008, to continue to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the consolidated financial statements. The Company applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for such leases as operating lease transactions.

As discussed in Note 2.o, the Company and its domestic subsidiaries account for leases that existed at March 31, 2008 (“the transition date”), and which do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, and on a “as if capitalized” basis for the years ended March 31, 2012 and 2011, was as follows:

	Millions of Yen				
	2012				
	Buildings and Structures	Machinery and Vehicles	Furniture and Fixtures	Other	Total
Acquisition cost	¥ 77	¥ 254	¥ 308	¥ 138	¥ 777
Accumulated depreciation	54	225	249	135	664
Net leased property	¥ 23	¥ 28	¥ 58	¥ 2	¥ 112

	Millions of Yen				
	2011				
	Buildings and Structures	Machinery and Vehicles	Furniture and Fixtures	Other	Total
Acquisition cost	¥ 77	¥ 534	¥ 922	¥ 138	¥ 1,672
Accumulated depreciation	43	423	705	107	1,279
Net leased property	¥ 34	¥ 110	¥ 217	¥ 30	¥ 392

	Thousands of U.S. Dollars				
	2012				
	Buildings and Structures	Machinery and Vehicles	Furniture and Fixtures	Other	Total
Acquisition cost	\$ 939	\$ 3,097	\$ 3,756	\$ 1,682	\$ 9,475
Accumulated depreciation	658	2,743	3,036	1,646	8,097
Net leased property	\$ 280	\$ 341	\$ 707	\$ 24	\$ 1,365

Obligations under finance leases as of March 31, 2012 and 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
	Due within one year	¥ 83	¥ 292
Due after one year	32	112	390
Total	¥ 115	¥ 404	\$ 1,402

The amount of obligations under finance leases includes the imputed interest expense portion.

Depreciation expense computed by the straight-line method was ¥279 million (\$3,402 thousand) and ¥342 million for the years ended March 31, 2012 and 2011, respectively.

Obligations under operating leases as of March 31, 2012 and 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
	Due within one year	¥ 545	¥ 547
Due after one year	2,857	3,449	34,841
Total	¥ 3,403	¥ 3,996	\$ 41,500

## 15. CONTINGENT LIABILITIES

At March 31, 2012, the Group was contingently liable for ¥78 million (\$951 thousand) of loans guaranteed.

## 16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### Group policy for financial instruments

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

### Nature and extent of risks arising from financial instruments and risk management for financial instruments

#### Credit risk and market risk

Although receivables, such as notes and trade accounts, are exposed to customer credit risk, the Group manages due dates and account balances for every customer to identify doubtful receivables early and to mitigate default risk.

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

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

Bank loans and bonds are utilized for financing of business transactions and capital investments. Payment terms of bank loans and bonds are a maximum of 10 years and eight years after the balance sheet date, respectively.

Derivative transactions entered into by the Group have been made in accordance with internal policies of the Financial Department, which regulates the authorization, purpose, credit limit amount, evaluation of the counterparties, and reporting procedures. Derivative transactions mainly include forward foreign currency contracts, currency options, and

currency swaps for the purpose of hedging against the market risk of fluctuation in foreign currency exchange rates of transactions in foreign currencies. Although derivative transactions are exposed to the market risk of fluctuation in foreign currency exchange rates, these transactions are made only for the purpose of mitigating the risks of assets, liabilities, and transactions that become a hedged item. As the Group established a limit on contract amounts, the Group also believes that the effect of market risks to its business administration is not significant. As the Group manages its exposure to credit risk by limiting its funding to high credit rating bonds, the Group recognizes that the exposure to credit risk is extremely low.

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

#### Liquidity risk management

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

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

Fair values of financial instruments are based on the market price in active markets or other rational valuation techniques, if a market price does not exist. Fair values of financial instruments fluctuate as a result of adopting different preconditions because the calculation of fair values include fluctuation factors. With respect to the contract amounts related to derivative transactions in Note 17, the amounts do not reflect market risks related to derivative transactions.

Fair values of financial instruments are based on the quoted price in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Also see Note 17 for the details of fair value for derivatives.

#### Concentration of credit risk

As of March 31, 2012, 48% of total receivables is from three major customers.

### Fair value of financial instruments

March 31, 2012	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 30,843	¥ 30,843	
Notes and accounts receivable	50,651	50,651	
Marketable securities and investment securities	30,133	30,133	
Total	¥ 111,627	¥ 111,627	
Notes and accounts payable	¥ 13,976	¥ 13,976	
Short-term bank loans	5,018	5,020	¥ 1
Current portion of long-term bonds	5,000	5,026	26
Liquor taxes payable	10,589	10,589	
Accrued income taxes	2,207	2,207	
Bonds	20,000	20,701	701
Long-term bank loans	496	494	(2)
Total	¥ 57,288	¥ 58,016	¥ 727
Derivatives	¥ (39)	¥ (39)	

March 31, 2011	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 32,782	¥ 32,782	
Notes and accounts receivable	45,023	45,023	
Marketable securities and investment securities	27,236	27,236	
Total	¥ 105,042	¥ 105,042	
Notes and accounts payable	¥ 13,489	¥ 13,489	
Short-term bank loans	5,182	5,185	¥ 2
Liquor taxes payable	8,065	8,065	
Accrued income taxes	1,785	1,785	
Bonds	25,000	25,478	478
Long-term bank loans	561	551	(10)
Total	¥ 54,085	¥ 54,555	¥ 470
Derivatives	¥ (10)	¥ (10)	

March 31, 2012	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 376,134	\$ 376,134	
Notes and accounts receivable	617,695	617,695	
Marketable securities and investment securities	367,475	367,475	
Total	\$ 1,361,304	\$ 1,361,304	
Notes and accounts payable	\$ 170,439	\$ 170,439	
Short-term bank loans	61,195	61,219	\$ 12
Current portion of long-term bonds	60,975	61,292	317
Liquor taxes payable	129,134	129,134	
Accrued income taxes	26,914	26,914	
Bonds	243,902	252,451	8,548
Long-term bank loans	6,048	6,024	(24)
Total	\$ 698,634	\$ 707,512	\$ 8,865
Derivatives	\$ (475)	\$ (475)	

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

#### *Cash and cash equivalents*

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

#### *Notes and accounts receivable*

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

#### *Marketable securities and investment securities*

Marketable securities are mainly certificates of deposit or held-to-maturity securities. The carrying values of marketable securities and investment securities approximate fair value due to their short maturities. Investment securities are mainly stock and are measured at the market price. Moreover, information regarding the classification of securities is included in Note 3.

#### *Notes and accounts payable*

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

#### *Liquor taxes payable*

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

#### *Accrued income taxes*

The carrying values of accrued income taxes approximate fair value because of their short maturities.

#### *Short-term bank loans*

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

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

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

#### *Long-term bank loans*

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

#### *Derivatives*

The information of the fair value for derivatives is included in Note 17.

Investments in equity instruments that do not have a quoted market price in an active market and securities without contractual maturities (the totals included in the consolidated balance sheets at March 31, 2012 and 2011, are ¥3,977 million (\$48,500 thousand) and ¥3,955 million, respectively) do not have fair values because their fair value cannot be reliably determined. Moreover, deposits from customers do not have fair values because their fair value cannot be reliably determined.

#### Maturity analysis for financial assets and securities with contractual maturities

March 31, 2012	Millions of Yen		Thousands of U.S. Dollars	
	Due in One Year or Less	Due after One Year through Five Years	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	¥ 30,843		\$ 376,134	
Notes and accounts receivable	50,651		617,695	
Marketable and investment securities				
Held-to-maturity securities:				
(1) Corporate bonds	500		6,097	
(2) Others	1,999		24,378	
Available-for-sale securities with contractual maturities:				
(1) Government bonds and municipal bonds	453		5,524	
(2) Corporate bonds	30	¥ 2	365	\$ 24
(3) Others	12,674		154,560	
<b>Total</b>	<b>¥ 97,151</b>	<b>¥ 2</b>	<b>\$ 1,184,768</b>	<b>\$ 24</b>

## 17. DERIVATIVES

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

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

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

Derivative transactions entered into by the Group have been made in accordance with internal policies of the Financial Department, which regulates the authorization, purpose, credit limit amount, evaluation of the counterparties, and reporting procedures.

#### Derivative transactions to which hedge accounting is not applied

At March 31, 2012	Millions of Yen			Unrealized Gain/Loss
	Contract Amount	Contract Amount Due after One Year	Fair Value	
Foreign currency forward contracts:				
Buying U.S. dollar	¥ 264		¥ 0	¥ 0
Buying euro	39		(0)	(0)
Buying British pound	2		(0)	(0)
Buying Chinese yuan	167		(0)	(0)
Selling euro	99		(1)	(1)
Non-deliverable forward contracts:				
Buying Korean won	4		(0)	(0)
Selling Korean won	40		(0)	(0)
<b>Total</b>	<b>¥ 619</b>		<b>¥ (3)</b>	<b>¥ (3)</b>

At March 31, 2011	Millions of Yen			Unrealized Gain/Loss
	Contract Amount	Contract Amount Due after One Year	Fair Value	
Foreign currency forward contracts:				
Buying euro	¥ 17		¥ 0	¥ 0
Selling euro	40		(0)	(0)
Selling Chinese yuan	20		(0)	(0)
Non-deliverable forward contracts:				
Selling Korean won	60		(1)	(1)
<b>Total</b>	<b>¥ 139</b>		<b>¥ (1)</b>	<b>¥ (1)</b>

At March 31, 2012	Thousands of U.S. Dollars			Unrealized Gain/Loss
	Contract Amount	Contract Amount Due after One Year	Fair Value	
Foreign currency forward contracts:				
Buying U.S. dollar	\$ 3,219		\$ 0	\$ 0
Buying euro	475		(0)	(0)
Buying British pound	24		(0)	(0)
Buying Chinese yuan	2,036		(0)	(0)
Selling euro	1,207		(12)	(12)
Non-deliverable forward contracts:				
Buying Korean won	48		(0)	(0)
Selling Korean won	487		(0)	(0)
Total	\$ 7,548		\$ (36)	\$ (36)

#### Derivative transactions to which hedge accounting is applied

At March 31, 2012	Millions of Yen			Fair Value
	Hedged Item	Contract Amount	Contract Amount Due after One Year	
Foreign currency options:				
Buying call option U.S. dollar	Payables	¥ 927		¥ (29)
Selling put option U.S. dollar	Payables	768		21
Foreign currency swaps:				
U.S. dollar	Advances	58		8
Foreign currency forward contracts:				
Buying U.S. dollar	Payable	243		3
Buying euro	Payable	9		(0)
Total		¥ 2,006		¥ (5)

At March 31, 2011	Millions of Yen			Fair Value
	Hedged Item	Contract Amount	Contract Amount Due after One Year	
Foreign currency options:				
Buying call option U.S. dollar	Payables	¥ 1,853	¥ 926	¥ (39)
Selling put option U.S. dollar	Payables	1,536	768	(3)
Foreign currency swaps:				
U.S. dollar	Advances	116	58	16
Foreign currency forward contracts:				
Buying U.S. dollar	Payable	495		2
Buying euro	Payable	10		
Buying euro	Advances	83		4
Total		¥ 4,095	¥ 1,753	¥ (19)

At March 31, 2012	Thousands of U.S. Dollars			Fair Value
	Hedged Item	Contract Amount	Contract Amount Due after One Year	
Foreign currency options:				
Buying call option U.S. dollar	Payables	\$ 11,304		\$ (353)
Selling put option U.S. dollar	Payables	9,365		256
Foreign currency swaps:				
U.S. dollar	Advances	707		97
Foreign currency forward contracts:				
Buying U.S. dollar	Payable	2,963		36
Buying euro	Payable	109		(0)
Total		\$ 24,463		\$ 60

## 18. COMPREHENSIVE INCOME

The components of other comprehensive income for the year ended March 31, 2012, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2012	2012
Unrealized gain on available-for-sale securities:		
Gains arising during the year	¥ (381)	\$ (4,646)
Reclassification adjustments to profit	106	1,292
Amount before income tax effect	(274)	(3,341)
Income tax effect	327	3,987
<b>Total</b>	<b>¥ 53</b>	<b>\$ 646</b>
Deferred gain on derivatives under hedge accounting:		
Gains arising during the year	¥ (76)	\$ (926)
Acquisition adjustment of asset	106	1,292
Amount before income tax effect	30	365
Income tax effect	(12)	(146)
<b>Total</b>	<b>¥ 17</b>	<b>\$ 207</b>
Foreign currency translation adjustments:		
Adjustments arising during the year	¥ (895)	\$ (10,914)
Reclassification adjustments to profit	3	36
<b>Total</b>	<b>¥ (892)</b>	<b>\$ (10,878)</b>
Share of other comprehensive income in associates:		
Gains arising during the year	¥ (23)	\$ (280)
Reclassification adjustments to profit	5	60
<b>Total</b>	<b>¥ (18)</b>	<b>\$ (219)</b>
<b>Total other comprehensive income</b>	<b>¥ (839)</b>	<b>\$ (10,231)</b>

The corresponding information for the year ended March 31, 2011, was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

## 19. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2012 and 2011, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Shares	EPS	EPS
For the year ended March 31, 2012:				
Basic EPS				
Net income available to common shareholders	¥ 3,995	206,794	¥ 19.32	\$ 0.23

Diluted net income per share for the year ended March 31, 2012, is not disclosed because it is anti-dilutive.

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Shares	EPS	EPS
For the year ended March 31, 2011:				
Basic EPS				
Net income available to common shareholders	¥ 3,788	208,048	¥ 18.21	
Effect of dilutive securities				
Stock option				
Diluted EPS				
Net income for computation	¥ 3,788	208,048	¥ 18.21	

## 20. SUBSEQUENT EVENTS

### a. Appropriations of retained earnings

On May 9, 2012, the Board of Directors of the Company resolved to propose a cash dividend of ¥9.0 (\$0.1) per share to shareholders of record as of March 31, 2012, or a total of ¥1,851 million (\$22,573 thousand), for approval at the general shareholders' meeting to be held on June 28, 2012.

Appropriations of retained earnings as of March 31, 2012, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥9.0 (\$0.1) per share	¥ 1,851	\$ 22,573

### b. Issuance of unsecured bonds

On April 26, 2012, the Company issued ¥5,000 million (\$60,975 thousand) of 12th unsecured bonds, at the issue price of 100% of the face value of the bonds. The bonds bear interest at the rate of 0.468% per annum for the period from April 26, 2012, to April 26, 2017.

On April 26, 2012, the Company issued ¥5,000 million (\$60,975 thousand) of 13th unsecured bonds, at the issue price of 100% of the face value of the bonds. The bonds bear interest at the rate of 1.162% per annum for the period from April 26, 2012, to April 26, 2022.

## 21. SEGMENT INFORMATION

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

### 1. Description of reportable segments

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

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

	Millions of Yen						
	2012						
	Reportable Segment						
	Takara Shuzo Group	Takara Bio Group	Takara Healthcare	Total	Other	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥ 174,726	¥ 18,934	¥ 2,334	¥ 195,995	¥ 2,329	¥ 365	¥ 198,690
Intersegment sales or transfers	777	644	3	1,424	5,375	(6,800)	
Total	175,503	19,578	2,338	197,420	7,704	(6,434)	198,690
Segment profit	6,768	1,547	(114)	8,201	190	873	9,264
Segment assets	122,993	44,032	818	167,844	7,723	21,869	197,437
Other:							
Depreciation	3,225	1,077	12	4,315	112	3	4,431
Amortization of goodwill	146	124		271			271
Investment in equity method affiliate	296			296	20	2,470	2,786
Increase in property, plant, and equipment and intangible assets	2,743	926	32	3,702	2,252	(624)	5,330

Millions of Yen							
2011							
Reportable Segment							
	Takara Shuzo Group	Takara Bio Group	Takara Healthcare	Total	Other	Reconciliations	Consolidated
<b>Sales:</b>							
Sales to external customers	¥ 165,872	¥ 18,197	¥ 2,563	¥ 186,633	¥ 2,790	¥ 345	¥ 189,769
Intersegment sales or transfers	918	540	4	1,462	5,418	(6,880)	
Total	166,790	18,737	2,567	188,095	8,208	(6,535)	189,769
Segment profit	6,568	1,097	(252)	7,413	219	702	8,335
Segment assets	118,314	42,594	646	161,555	6,359	24,533	192,448
<b>Other:</b>							
Depreciation	3,284	1,122	10	4,416	117	17	4,551
Amortization of goodwill	64	136		201		38	239
Investment in equity method affiliate	304			304	20	2,440	2,766
Increase in property, plant, and equipment and intangible assets	2,735	928		3,663	70	1	3,735

Thousands of U.S. Dollars							
2012							
Reportable Segment							
	Takara Shuzo Group	Takara Bio Group	Takara Healthcare	Total	Other	Reconciliations	Consolidated
<b>Sales:</b>							
Sales to external customers	\$ 2,130,804	\$ 230,902	\$ 28,463	\$ 2,390,182	\$ 28,402	\$ 4,451	\$ 2,423,048
Intersegment sales or transfers	9,475	7,853	36	17,365	65,548	(82,926)	
Total	2,140,280	238,756	28,512	2,407,560	93,951	(78,463)	2,423,048
Segment profit	82,536	18,865	(1,390)	100,012	2,317	10,646	112,975
Segment assets	1,499,914	536,975	9,975	2,046,878	94,182	266,695	2,407,768
<b>Other:</b>							
Depreciation	39,329	13,134	146	52,621	1,365	36	54,036
Amortization of goodwill	1,780	1,512		3,304			3,304
Investment in equity method affiliate	3,609			3,609	243	30,121	33,975
Increase in property, plant, and equipment and intangible assets	33,451	11,292	390	45,146	27,463	(7,609)	65,000

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

2. Details of "Reconciliations" are as follows:

- (1) Sales to external customers are income from real estate rent recognized by the Company.
  - (2) Segment profit includes eliminations of intersegment transactions of ¥61 million (\$743 thousand) and ¥103 million, and income of the Company not allocated to operating segments of ¥811 million (\$9,890 thousand) and ¥637 million as of March 31, 2012 and 2011, respectively.
  - (3) Segment assets include assets of the Company not allocated to operating segments of ¥27,771 million (\$338,670 thousand) and ¥29,882 million, and other adjustment (principally eliminations of intersegment transactions) of ¥(5,902) million (\$71,975 thousand) and ¥(5,348) million as of March 31, 2012 and 2011, respectively. Assets attributed to the Company include surplus funds and long-term investment assets.
3. Segment profit has been adjusted to the operating income in the consolidated statements of income.

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Takara Holdings Inc.:

We have audited the accompanying consolidated balance sheet of Takara Holdings Inc. and subsidiaries as of March 31, 2012, 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 conformity 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 conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Takara Holdings Inc. and subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### **Convenience Translation**

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

June 8, 2012



# Investor Information

As of March 31, 2012

Trade Name	Takara Holdings Inc.	Established	September 6, 1925
Business	Holding company	Issued Capital	¥13,226 million
Head Office	20 Naginataboko-cho, Shijo-dori Karasuma Higashi-iru, Shimogyo-ku, Kyoto 600-8688, Japan	Company Representative	Toshio Kakimoto, President (As of June 28, 2012)
Telephone	075-241-5130	Website	<a href="http://www.takara.co.jp/english/">http://www.takara.co.jp/english/</a>

## Stock and Investor Information

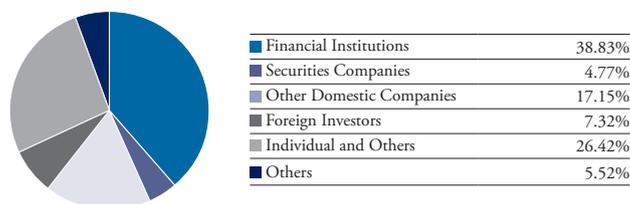
Common Stock	
Authorized	870,000,000 shares
Issued and Outstanding	217,699,743 shares
Number of Shareholders	28,781
Stock Listings (Common Stock)	Tokyo, Osaka
Securities Code Number	2531
Shareholder Registry Administrator	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo
Inquiries to Shareholder Registry Administrator	Mizuho Trust & Banking Co., Ltd. Stock Agency Transfer Department 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-8507, Japan Telephone: 0120-288-324 (toll free, within Japan only)
Annual Meeting of Shareholders	The annual meeting of shareholders of the Company is normally held in June each year in Kyoto, Japan. In addition, the Company may hold a special meeting of shareholders whenever necessary by giving at least two weeks, advance notice to shareholders.
Independent Auditor	Deloitte Touche Tohmatsu LLC

### Principal Shareholders

Name	Number of Shares Held (Thousands)	Percentage of Shares Held (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	11,517	5.29
Mizuho Corporate Bank, Ltd.	9,738	4.47
Japan Trustee Services Bank, Ltd. (Trust Account)	9,568	4.40
The Norinchukin Bank	9,500	4.36
Meiji Yasuda Life Insurance Company	5,370	2.47
Bank of Kyoto, Ltd.	5,000	2.30
KOKUBU & CO., LTD.	3,489	1.60
Takara Group Employees' Shareholding Association	3,063	1.41
Japan Alcohol Trading Co., Ltd.	3,000	1.38
JPMorgan Securities Japan Co., Ltd.	2,855	1.31

Notes: (1) Number of shares is rounded down to the nearest thousand.  
(2) In addition to the shareholdings listed above, the Company held treasury stock totaling 12,008,889 shares (equivalent to 5.52% of voting rights).

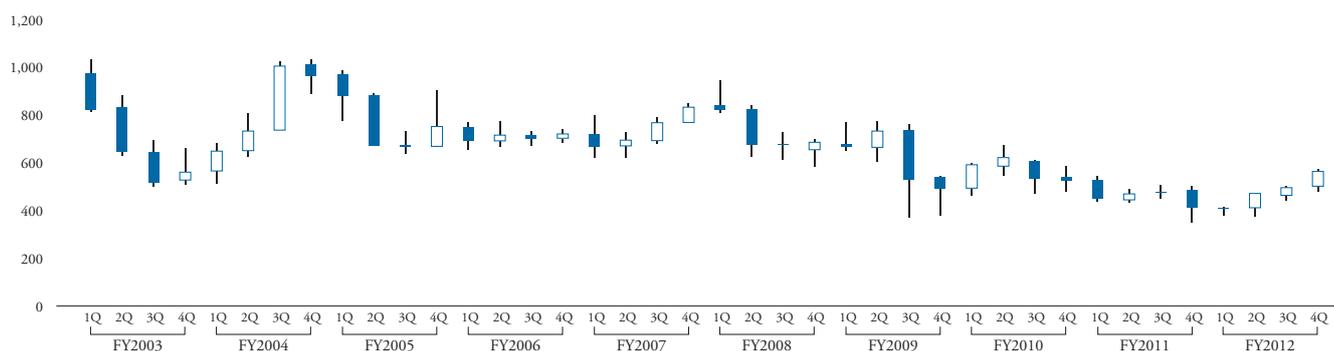
### Distribution of Ownership among Shareholders



### Bond Ratings

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

## Stock Price Range on the Tokyo Stock Exchange (¥en)



## TAKARA HOLDINGS INC.

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