

The original disclosure in Japanese was released on November 12, 2019 at 16:00 (GMT+9)

Consolidated Financial Statements for the Second Quarter Ended September 30, 2019 FY2020 (April 1, 2019 - March 31, 2020) [UNAUDITED]

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 Stock exchange listings: Tokyo Stock Exchange (1st section)
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 Quarterly statement filing date (as planned): November 13, 2019

- Notes: 1. The accompanying financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan.
 2. Amounts are rounded down to the nearest million yen.

1. Results for the six months ended September 30, 2019 (April 1, 2019 - September 30, 2019)

(1) Consolidated Operating results

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

	Six months ended September 30, 2019		Six months ended September 30, 2018	
	(Millions of yen)	(%)	(Millions of yen)	(%)
Net sales	137,502	2.6	133,987	4.0
Operating income (loss)	7,623	(6.6)	8,159	33.1
Ordinary income (loss)	7,871	(4.5)	8,243	32.9
Net income (loss) attributable to owners of the parent	4,374	(4.5)	4,578	32.8
Net income (loss) per share (Yen)	21.91		22.94	
Fully diluted net income per share (Yen)	-		-	
Note: Comprehensive income (loss)	2,773	(5.1)	2,924	(36.0)

(2) Consolidated Financial position

	As of September 30, 2019	As of March 31, 2019
	(Millions of yen)	(Millions of yen)
Total assets	277,375	287,106
Net assets	178,754	179,795
Equity ratio (%)	53.0	51.6
(Reference) Equity	147,067	148,197

2. Dividends

	Dividend per share (Yen)		
	Year ended March 31, 2019	Year ending March 31, 2020	Year ending March 31, 2020 (Forecast)
First quarter end	-	-	-
Second quarter end	-	-	-
Third quarter end	-	-	-
Year end	18.00	-	20.00
Annual	18.00	-	20.00

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

3. Forecast for the year ending March 31, 2020 (April 1, 2019 - March 31, 2020)

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

	Year ending March 31, 2020	
	(Millions of yen)	(%)
Net sales	284,000	2.4
Operating income (loss)	17,500	(1.7)
Ordinary income (loss)	18,000	(2.0)
Net income (loss) attributable to owners of the parent	10,400	(0.1)
Net income per share (Yen)	52.10	

Note: Correction of financial forecast from the most recent financial forecast : Yes

4. Others

- (1) Material changes in subsidiaries during this period
(Changes in specified subsidiaries that caused a change in the scope of consolidation): No
- (2) Accounting procedures specific to quarterly consolidated financial statements: No
- (3) Changes in accounting policies, accounting estimates and retrospective restatement
 - 1) Changes based on revisions of accounting standard: Yes
 - 2) Changes other than ones based on revisions of accounting standard: No
 - 3) Changes in accounting estimates: No
 - 4) Restatement: No
- (4) Number of outstanding shares (common stock)
 - 1) Number of outstanding shares at the end of each period (Treasury stocks are included):

As of September 30, 2019	201,699,743 shares
As of March 31, 2019	201,699,743 shares
 - 2) Number of treasury stocks at the end of each period:

As of September 30, 2019	2,069,758 shares
As of March 31, 2019	2,069,706 shares
 - 3) Average number of outstanding shares in each period:

Six months ended September 30, 2019	199,630,017 shares
Six months ended September 30, 2018	199,630,369 shares

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○Supplement for the Consolidated Financial Statements

1. Qualitative Information for the Six Months Ended September 30, 2019

(1) Consolidated Financial Results

In the six months ended September 30, 2019, although some weakness persisted, primarily for exports, the Japanese economy maintained a moderate recovery backed by continued improvements in the employment and income environment. While the moderate recovery overall is expected to continue overseas, the global economic outlook remains uncertain, mainly due to such factors as growing tension around trade issues and the slowdown in the Chinese economy.

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

As a result, in the six months ended September 30, 2019, net sales were up 2.6% year on year to ¥137,502 million. Gross profit rose 0.7% year on year to ¥53,033 million. Operating income decreased by 6.6% year on year to ¥7,623 million. Ordinary income decreased by 4.5% year on year to ¥7,871 million. Net income attributable to owners of the parent decreased by 4.5% to ¥4,374 million.

Results by business segment were as follows.

[Takara Shuzo]

For alcoholic beverages, in the six months ended September 30, 2019, while sales of shochu and sake fell, sales of light-alcohol refreshers remained robust, and sales of alcoholic beverages overall increased.

In the Seasonings Business, sales increased as sales of mirin and other products grew. Sales of raw alcohol and other products were up as sales of industrial alcohol and raw alcohol for alcoholic beverages remained robust.

As a result, net sales for the Takara Shuzo Group rose 2.6% year on year to ¥75,135 million. Cost of sales increased by 3.3% year on year to ¥45,586 million. As a result, gross profit rose 1.5% year on year to ¥29,549 million. SG&A expenses were up by 2.3% year on year, to ¥27,467 million, due to increases in transportation and promotion expenses and other expenses. Accordingly, the Takara Shuzo Group recorded operating income down 8.5% year on year to ¥2,082 million.

[Takara Shuzo International Group]

In the six months ended September 30, 2019, sales for the Japanese Food Wholesale Business in overseas markets remained robust for Mutual Trading Co., Inc. (U.S.) and other companies. Sales of products such as whiskey and sake also increased in the Overseas Alcoholic Beverage Business. As a result, net sales for the Takara Shuzo International Group increased by 7.9% year on year to ¥40,477 million. Cost of sales increased by 10.1% year on year to ¥28,994 million. As a result, gross profit rose by 2.6% year on year to ¥11,483 million. SG&A expenses were up by 13.2% year on year to ¥9,918 million due mainly to increases in personnel expenses. Accordingly, the Takara Shuzo International Group recorded operating income down 35.7% year on year to ¥1,565 million.

[Takara Bio Group]

Net sales for the six months ended September 30, 2019 were down by 5.3% year on year to ¥16,450 million due to a decrease in sales of scientific instruments and the impact from the transfer of both the functional food and the mushroom businesses during the previous fiscal year although sales of mainstay research reagents and contract research services increased. Cost of sales fell by 13.2% year on year to ¥6,121 million, due to a lower cost rate with changes in the structure of sales for each product, and gross profit increased by 0.1% year on year to ¥10,329 million. SG&A expenses decreased by 5.2% year on year to ¥7,293 million due to a decline in research and development expenses and other factors. Accordingly, operating income increased 15.7% year on year to ¥3,035 million.

[Other]

Net sales of the Other segment for the six months ended September 30, 2019 declined 1.9% year on year to ¥15,770 million as Takara Healthcare Inc. was excluded from the scope of consolidation during the previous fiscal year accompanying the sale of shares in that company although sales in the logistics business and other businesses increased.

Cost of sales increased by 0.7% year on year, to ¥13,668 million. Consequently, gross profit decreased by 16.1% year on year to ¥2,101 million. SG&A expenses fell by 34.2% year on year to ¥1,019 million with decreases in personnel expenses, advertising expenses, and other expenses. As a result, operating income increased by 13.3% year on year to ¥1,081 million.

Breakdown of sales results by product category

Segment	Equivalent Period of Previous Fiscal Year (From April 1, 2018, to September 30, 2018)	Period under Review (from April 1, 2019, to September 30, 2019)	YoY Comparison
Product category	Amount (Millions of yen)	Amount (Millions of yen)	(%)
Takara Shuzo			
Shochu	26,779	24,976	93.3
Sake	8,400	8,302	98.8
Light-alcohol refreshers	19,686	21,744	110.5
Other alcoholic beverages	3,185	3,259	102.3
Alcoholic beverages total	58,050	58,283	100.4
<i>Hon Mirin</i>	6,469	7,197	111.2
Other seasonings	4,659	5,140	110.3
Seasonings total	11,129	12,337	110.8
Raw alcohol, etc.	4,079	4,514	110.7
Total	73,259	75,135	102.6
Takara Shuzo International Group			
Overseas Alcoholic Beverages Business	5,044	5,433	107.7
Japanese Food Wholesales Business in overseas markets	33,459	36,097	107.9
Other	36	179	496.9
Elimination of intra-Group transaction on consolidation	(1,013)	(1,233)	—
Total	37,527	40,477	107.9
Takara Bio Group	17,370	16,450	94.7
Reported segment total	128,157	132,063	103.0
Other	16,071	15,770	98.1
Segment total	144,228	147,833	102.5
Sales not allocated to business segments and intersegment transactions	(10,241)	(10,331)	—
Total	133,987	137,502	102.6

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

(2) Consolidated Financial Position

As of September 30, 2019, current assets were ¥161,139 million, a decrease of ¥13,872 million compared with that at the end of the previous fiscal year. This was primarily due to decreases in cash and deposits of ¥6,533 million and securities of ¥8,953 million.

Noncurrent assets were ¥116,236 million, an increase of ¥4,141 million compared with that at the end of the previous fiscal year. This was primarily due to an increase in property, plant and equipment of ¥6,174 million with increases in buildings and structures and other tangible fixed assets while there were decreases of ¥1,284 million in intangible assets and ¥748 million in investments and other assets.

As a result, total assets were ¥277,375 million, a decrease of ¥9,730 million compared with that at the end of the previous fiscal year.

As of September 30, 2019, current liabilities were ¥53,245 million, a decrease of ¥4,576 million compared with that at the end of the previous fiscal year. This was primarily due to decreases of ¥5,269 million in short-term loans payable and ¥2,805 million in accrued alcohol tax and an increase of ¥5,000 million in current portion of bonds due to transfer from noncurrent liabilities.

Noncurrent liabilities were ¥45,375 million, a decrease of ¥4,113 million compared with that at the end of the previous

fiscal year. This was primarily due to a decrease in bonds of ¥5,000 million.

As a result, total liabilities were ¥98,620 million, a decrease of ¥8,690 million compared with that at the end of the previous fiscal year.

As of September 30, 2019, total net assets were ¥178,754 million, a decrease of ¥1,040 million compared with that at the end of the previous fiscal year. This was primarily due to a decrease of ¥2,037 million in foreign currency translation adjustments and an increase of ¥855 million in retained earnings.

As a result, the equity ratio totaled 53.0%, compared with 51.6% at the end of the previous fiscal year.

Net cash used in operating activities in the six months ended September 30, 2019 was ¥345 million compared with net cash provided by operating activities of ¥4,140 million in the six months ended September 30, 2018. Major factors included income before income taxes of ¥7,620 million, depreciation and amortization of ¥3,364 million, an increase of ¥1,662 million in inventories, a decrease of ¥831 million in notes and accounts payable – trade, a decrease of ¥2,805 million in accrued alcohol tax, a decrease of ¥1,397 million in accrued consumption taxes, a decrease of ¥1,992 million in other current liabilities, and income taxes paid of ¥2,918 million.

Net cash used in investing activities in the six months ended September 30, 2019 amounted to ¥1,922 million, a decrease of ¥2,730 million in net cash used in investing activities compared with that in the six months ended September 30, 2018. Inflows mainly came in the form of ¥7,249 million in proceeds from sales and redemption of securities while outflows mainly came in the form of purchase of securities of ¥4,253 million and payment of ¥4,830 million for the purchase of property, plant and equipment and intangible assets.

Net cash used in financing activities in the six months ended September 30, 2019 amounted to ¥9,214 million, an increase of ¥5,362 million in net cash used in financing activities compared with that in the six months ended September 30, 2018. Major factors included payments of long-term loans payable of ¥5,134 million and cash dividends paid of ¥3,586 million.

As a result, cash and cash equivalents as of September 30, 2019, including effect of exchange rate change on cash and cash equivalents, stood at ¥36,324 million, down ¥12,256 million from the previous fiscal year-end.

(3) Qualitative Information Regarding Consolidated Forecasts

The Company has revised the full-year consolidated business results forecasts published on May 14, 2019 in view of the consolidated business results in the six months ended September 30, 2019 and recent circumstances.

The Company has revised the full-year forecast for net sales down by ¥6,000 million from the initial forecast as sales of Takara Shuzo, the Takara Shuzo International Group, and the Takara Bio Group are all expected to fall short of the plan with the inclusion of the impact of the revised full-year exchange rate assumptions*.

In terms of profit, the Company has revised the initial forecasts for operating income and ordinary income down by ¥1,500 million as, despite efforts to cut SG&A expenses, gross profit will underperform the plan due to the failure of net sales to achieve the plan in addition to hikes in the price of raw materials and increases in procurement costs for raw materials overseas due to exchange rate fluctuations.

Net income attributable to owners of the parent has been revised down by ¥300 million from the initial forecast although the Company expects an improvement in extraordinary income and loss.

* Previous exchange rate forecasts: USD1 = JPY108.00, EUR1 = JPY125.00, GBP1 = JPY145.00

Current exchange rate forecasts: USD1 = JPY108.30, EUR1 = JPY121.30, GBP1 = JPY134.50

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Millions of Yen)

	As of Mar. 31, 2019	As of Sept. 30, 2019
Assets		
Current assets		
Cash and deposits	49,415	42,882
Notes and accounts receivable-trade	59,780	59,387
Securities	16,089	7,136
Merchandise and finished goods	40,600	40,682
Work in process	1,341	1,853
Raw materials and supplies	4,093	4,448
Other	4,006	5,077
Allowance for doubtful accounts	(315)	(329)
Total current assets	175,011	161,139
Noncurrent assets		
Property, plant and equipment	60,576	66,751
Intangible assets		
Goodwill	12,400	11,608
Other	7,514	7,021
Total intangible assets	19,914	18,630
Investments and other assets		
Investment securities	26,143	26,299
Other	5,520	4,616
Allowance for doubtful accounts	(60)	(62)
Total investments and other assets	31,603	30,854
Total noncurrent assets	112,094	116,236
Total assets	287,106	277,375

(Millions of Yen)

	As of Mar. 31, 2019	As of Sept. 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	16,374	15,348
Short-term loans payable	9,960	4,690
Current portion of bonds	-	5,000
Accrued alcohol tax	10,224	7,419
Accrued expenses	5,809	4,876
Income taxes payable	1,879	1,471
Provision for bonuses	2,579	2,684
Provision for sales promotion expenses	1,921	2,025
Other provision	180	85
Other	8,891	9,642
Total current liabilities	57,822	53,245
Noncurrent liabilities		
Bonds payable	25,000	20,000
Long-term loans payable	5,415	5,479
Net defined benefit liability	8,757	8,789
Long-term deposits received	5,337	5,325
Other	4,977	5,781
Total noncurrent liabilities	49,489	45,375
Total liabilities	107,311	98,620
Net assets		
Shareholders' equity		
Capital stock	13,226	13,226
Capital surplus	2,417	2,417
Retained earnings	124,788	125,644
Treasury stock	(1,368)	(1,368)
Total shareholders' equity	139,064	139,919
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,814	9,938
Deferred gains or losses on hedges	114	63
Foreign currency translation adjustment	(196)	(2,234)
Remeasurements of defined benefit plans	(599)	(619)
Total accumulated other comprehensive income	9,133	7,148
Noncontrolling interests	31,597	31,686
Total net assets	179,795	178,754
Total liabilities and net assets	287,106	277,375

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income**(Consolidated Statements of Income)****(For the Six Months Ended September 30, 2019 and 2018)**

(Millions of Yen)

	FY2019 (Apr. 1, 2018 – Sept. 30, 2018)	FY2020 (Apr. 1, 2019 – Sept. 30, 2019)
Net sales	133,987	137,502
Cost of sales	81,332	84,468
Gross profit	52,655	53,033
Selling, general and administrative expenses	44,495	45,410
Operating income	8,159	7,623
Non-operating income		
Dividends income	312	339
Other	293	519
Total non-operating income	605	859
Non-operating expenses		
Interest expenses	182	203
Foreign exchange losses	46	186
Other	292	221
Total non-operating expenses	521	612
Ordinary income	8,243	7,871
Extraordinary income		
Compensation income	-	38
Reversal of allowance for doubtful accounts	4	-
Other	3	2
Total extraordinary income	7	40
Extraordinary loss		
Loss on sales and retirement of non-current assets	99	181
Loss on valuation of investment securities	-	68
Loss on disaster	137	-
Compensation for damage	-	38
Other	41	3
Total extraordinary losses	278	291
Income before income taxes	7,972	7,620
Income taxes-current	2,659	2,288
Income taxes-deferred	(195)	46
Total income taxes	2,464	2,335
Net income	5,508	5,285
Net income attributable to the noncontrolling interest	930	911
Net income attributable to owners of the parent	4,578	4,374

(Consolidated Statements of Comprehensive Income)
(For the Six Months Ended September 30, 2019 and 2018)

(Millions of Yen)

	FY2019 (Apr. 1, 2018 – Sept. 30, 2018)	FY2020 (Apr. 1, 2019 – Sept. 30, 2019)
Net income	5,508	5,285
Other comprehensive income		
Valuation difference on available-for-sale securities	78	123
Deferred gains or losses on hedges	323	(51)
Foreign currency translation adjustment	(2,989)	(2,571)
Remeasurements of defined benefit plans	2	(13)
Total other comprehensive income	<u>(2,584)</u>	<u>(2,511)</u>
Comprehensive income	<u>2,924</u>	<u>2,773</u>
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	2,641	2,389
Comprehensive income attributable to noncontrolling interest	283	384

(3) Consolidated Statements of Cash Flows

(Millions of Yen)

	FY2019 (Apr. 1, 2018 – Sep. 30, 2018)	FY2020 (Apr. 1, 2019 – Sep. 30, 2019)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	7,972	7,620
Depreciation and amortization	3,183	3,364
Amortization of goodwill	429	424
Interest and dividends income	(402)	(472)
Interest expenses	182	203
Loss on disaster	137	-
Decrease (increase) in notes and accounts receivable-trade	(2,108)	(32)
Decrease (increase) in inventories	(2,566)	(1,662)
Increase (decrease) in notes and accounts payable-trade	5	(831)
Increase (decrease) in liquor taxes payable	1,747	(2,805)
Increase (decrease) in accrued consumption taxes	86	(1,397)
Decrease (increase) in other current assets	(292)	(1,992)
Other, net	101	(137)
Subtotal	8,477	2,282
Interest and dividends income received	399	489
Interest expenses paid	(193)	(197)
Income taxes paid	(4,543)	(2,918)
Net cash provided by (used in) operating activities	4,140	(345)
Net cash provided by (used in) investing activities		
Payments into time deposits	(4,632)	(2,454)
Proceeds from withdrawal of time deposits	3,917	2,505
Purchase of securities	(5,190)	(4,253)
Proceeds from sales and redemption of securities	5,711	7,249
Purchase of property, plant and equipment and intangible assets	(3,956)	(4,830)
Other, net	(502)	(139)
Net cash provided by (used in) investing activities	(4,653)	(1,922)
Net cash provided by (used in) financing activities		
Repayments of long-term borrowings	(247)	(5,134)
Cash dividends paid	(3,187)	(3,586)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(82)	-
Other, net	(334)	(494)
Net cash provided by (used in) financing activities	(3,851)	(9,214)
Effect of exchange rate change on cash and cash equivalents	(744)	(773)
Net increase (decrease) in cash and cash equivalent	(5,109)	(12,256)
Cash and cash equivalents at beginning of period	49,341	48,580
Cash and cash equivalents at end of period	44,231	36,324

(4) Notes on Consolidated Financial Statements

(Notes on Premise of Going Concern)

No items to report.

(Notes on Material Changes in Shareholders' Equity)

No items to report.

(Changes in Accounting Policies)

(Adoption of ASU No. 2014-09 Revenue from Contracts with Customers)

Overseas subsidiaries that apply U.S. GAAP adopted ASU No. 2014-09 Revenue from Contracts with Customers (“ASU No. 2014-09”) effective from the beginning of the first quarter of the fiscal year. The method of recognizing the cumulative impact due to the adoption of the standard on the commencement date of adoption, which is permitted as an interim measure, was employed for the adoption of ASU No. 2014-09.

Accompanying this, revenue is recognized at the time of transfer to the customer of the promised goods or services in an amount that reflects the consideration that the entity expects to be entitled to in exchange for those goods and services.

The impact on the Consolidated Quarterly Financial Statements from the adoption of this accounting standard is immaterial.

(Adoption of IFRS 16 Leases)

Overseas subsidiaries that apply International Financial Reporting Standards (IFRS) adopted IFRS 16 Leases (“IFRS 16”) effective from the beginning of the first quarter of the fiscal year. The method of recognizing the cumulative impact due to the adoption of the standard on the commencement date of adoption, which is permitted as an interim measure, was employed for the adoption of IFRS 16.

Accompanying this, as a rule, the lessee recognizes all leases as assets and liabilities on the commencement date of adoption.

The impact on the Consolidated Quarterly Financial Statements from the adoption of this accounting standard is immaterial.

(Segment Information)

I. Equivalent Period of Previous Fiscal Year (From April 1, 2018, to September 30, 2018)

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

(Millions of yen)

	Reported Segment				Other (Note: 1)	Total	Adjustment (Note: 2)	Amount recognized in consolidated quarterly statements of income (Note: 3)
	Takara Shuzo	Takara Shuzo Internatio nal Group	Takara Bio Group	Subtotal				
Net sales								
External customers	72,908	37,358	17,122	127,389	6,597	133,987	0	133,987
Intersegment	351	168	248	767	9,474	10,241	(10,241)	—
Total	73,259	37,527	17,370	128,157	16,071	144,228	(10,241)	133,987
Segment income (loss)	2,275	2,434	2,623	7,334	955	8,289	(129)	8,159

Notes: 1. Other includes business segments that are not part of reported segments, such as the Company’s real estate rental business and the transportation business of domestic Group companies among others.

2. Details of adjustment amounts are as follows.

(1) Net sales to external customers are income from business contracting recorded at the Company.

(2) Segment income (loss) comprises intersegment eliminations of ¥13 million and loss of the Company not allocated to business segments of ¥ 143 million.

3. Segment income (loss) has been adjusted to the operating income of consolidated quarterly statements of income.

2. Information on Impairment Loss on Noncurrent Assets, Goodwill, etc. by Reportable Segment

No items to report.

II. Period under Review (From April 1, 2019, to September 30, 2019)

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

(Millions of yen)

	Reported Segment				Other (Note: 1)	Total	Adjustment (Note: 2)	Amount recognized in consolidated quarterly statements of income (Note: 3)
	Takara Shuzo Group	Takara Shuzo Internation al Group	Takara Bio Group	Subtotal				
Net sales								
External customers	74,777	40,307	16,449	131,534	5,962	137,497	4	137,502
Intersegment	358	170	0	529	9,807	10,336	(10,336)	—
Total	75,135	40,477	16,450	132,063	15,770	147,833	(10,331)	137,502
Segment income	2,082	1,565	3,035	6,682	1,081	7,764	(140)	7,623

Notes: 1. Other includes business segments that are not part of reported segments, such as the Company's real estate rental business and the transportation business of domestic Group companies among others.

2. Details of adjustment amounts are as follows.

(1) Net sales to external customers are income from business contracting recorded at the Company.

(2) Segment income (loss) comprises intersegment eliminations of ¥13 million and loss of the Company not allocated to business segments of ¥154 million.

3. Segment income (loss) has been adjusted to the operating income of consolidated quarterly statements of income.

2. Information on Impairment Loss on Noncurrent Assets, Goodwill, etc. by Reportable Segment

No items to report.