SEIKAGAKU CORPORATION

Annual Report 2017

For the year ended March 31, 2017

Envisioning the Next Stage

Exploring the Innovative Promise of Glycoscience

Pharmaceuticals originated from hyaluronic acid by Seikagaku are today enriching health and everyday life for the people of the world. In our Ten-Year Vision for becoming a “Global Category Pharma”, Seikagaku is building a stable corporate future based on creation of useful and original products from the field of glycoscience.

What is Glycoscience?

Glycoscience is a field of research into sugar chains and glycoconjugates. Recent advances in glycoscience have shown that sugar chains are deeply involved in communication between molecules or cells, and are essential to various physiological processes from the creation of life to aging.

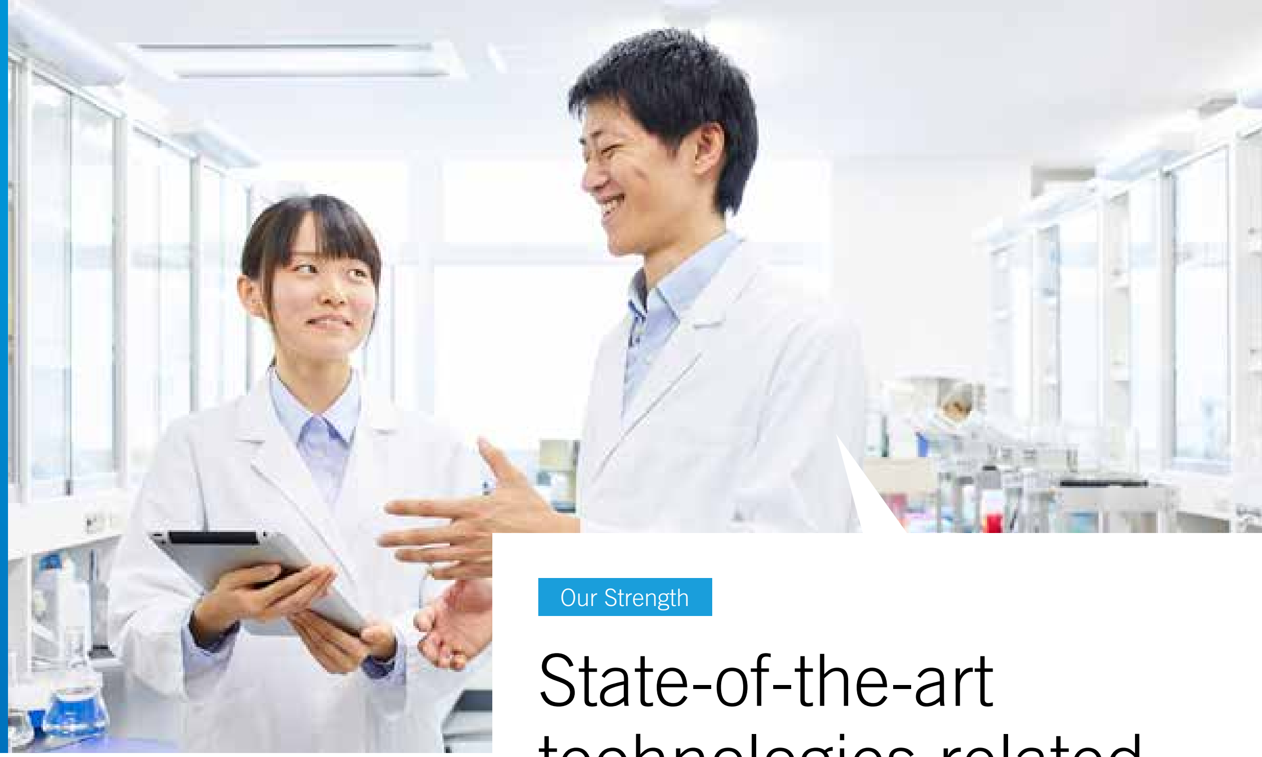
Their functions also have relevance in the study of many diseases. Progress in glycoscience research is expected to develop novel diagnostics and innovative therapies.

Our Strength

Specialization in glycoscience

A pharmaceutical company focusing on glycoscience

Since its foundation more than 70 years ago, Seikagaku has focused its attention on the importance of glycoscience and has been working on applied research for new drug development. Building on many research achievements, Seikagaku contributes to medical care in Japan and the world as a pioneer with expertise in the niche field of glycoscience research.



Our Strength

Unique business model

R&D/production-oriented business model

Seikagaku does not have its own sales force. Instead, we offer our products through sales partners that have strengths in their respective product fields. By maintaining a slim organizational structure, we are able to focus our management resources on R&D and production. This is evidenced by the fact that our R&D expenses account for approximately 25% to 30% of net sales, and that about one-third of our employees are involved in R&D.

Our Strength

State-of-the-art technologies related to GAG

Product supply and drug discovery through our leading GAG technologies

Seikagaku utilizes its GAG* related proprietary technologies in the pursuit of product supply and drug discovery. Through many years of overcoming the difficult challenges of handling GAG, Seikagaku has built up significant experience with technologies, such as extraction, purification, and fermentation, which allow us to deliver a stable supply of GAG related products to the global market. In terms of new drug development, not only do we have the technologies to modify GAG or bond it with other active pharmaceutical ingredients, but we also possess technologies that other companies do not, such as the ability to break apart GAG using certain enzymes, and with this we are aiming to create new drugs.

*GAG: Glycosaminoglycans (One of the constituents of complex carbohydrates)

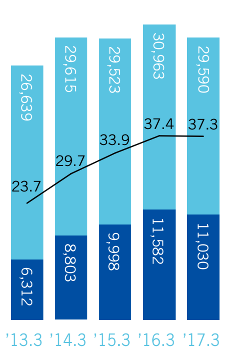
Contents

5-year Financial Summary

	Millions of Yen					Thousands of U.S. Dollars (Note 1)
	2013.3	2014.3	2015.3	2016.3	2017.3	2017.3
Net Sales	¥ 26,639	¥ 29,615	¥ 29,523	¥30,963	¥29,590	$264,196
Overseas Sales	6,312	8,803	9,998	11,582	11,030	98,482
Overseas Sales Ratio (to Net Sales)	23.7%	29.7%	33.9%	37.4%	37.3%	37.3%
Gross Profit	16,772	18,391	17,392	18,091	16,342	145,911
R&D Expenses	6,838	6,588	8,147	8,649	7,835	69,955
Operating Income	3,127	4,938	2,384	2,145	1,282	11,446
Operating Income Ratio (to Net Sales)	11.7%	16.7%	8.1%	6.9%	4.3%	4.3%
Net Income Attributable to Owners of the Parent	3,257	4,746	3,651	2,579	1,788	15,964
Net Income Attributable to Owners of the Parent Ratio (to Net Sales)	12.2%	16.0%	12.4%	8.3%	6.0%	6.0%
Total Equity	61,316	64,786	70,410	69,816	70,647	630,777
Return on Shareholders' Equity (ROE)	5.5%	7.5%	5.4%	3.7%	2.5%	2.5%
Total Assets	70,471	73,826	80,890	80,219	80,048	714,714
Return on Total Assets (ROA)	4.7%	6.6%	4.7%	3.2%	2.2%	2.2%
Consolidated Dividend Payout Ratio	43.6%	31.1%	40.5%	57.3%	98.3%	98.3%
	(Yen)					(Dollars)
Net Income per Share of Common Stock (Note 2)	57.33	83.55	64.27	45.39	31.55	0.28
Cash Dividends per Share of Common Stock (Note 2)	25.00	26.00	26.00	26.00	31.00	0.28
Number of Employees	641	639	649	663	687	

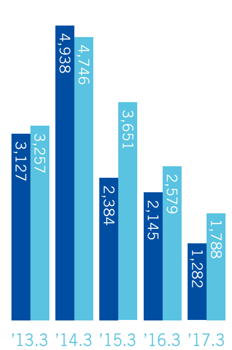
Notes: 1 U.S. dollar amounts are converted, for convenience only, at the rate of ¥112=US$1, the approximate rate at March 31, 2017.
2 As for Per Share Information, please refer to Note 2. "Summary of Significant Accounting Policies", Section q (p. 20).

Net Sales and Overseas Sales
(Millions of Yen)



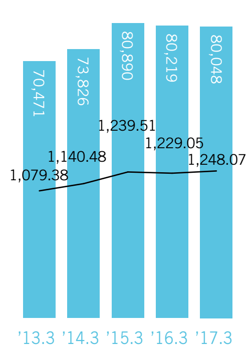
Net Sales
Overseas Sales
Overseas Sales Ratio to Net Sales (%)

Operating Income and Net Income Attributable to Owners of the Parent
(Millions of Yen)



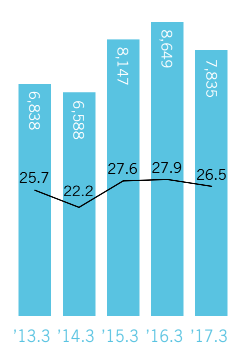
Operating Income
Net Income Attributable to Owners of the Parent

Total Assets and Total Equity per Share



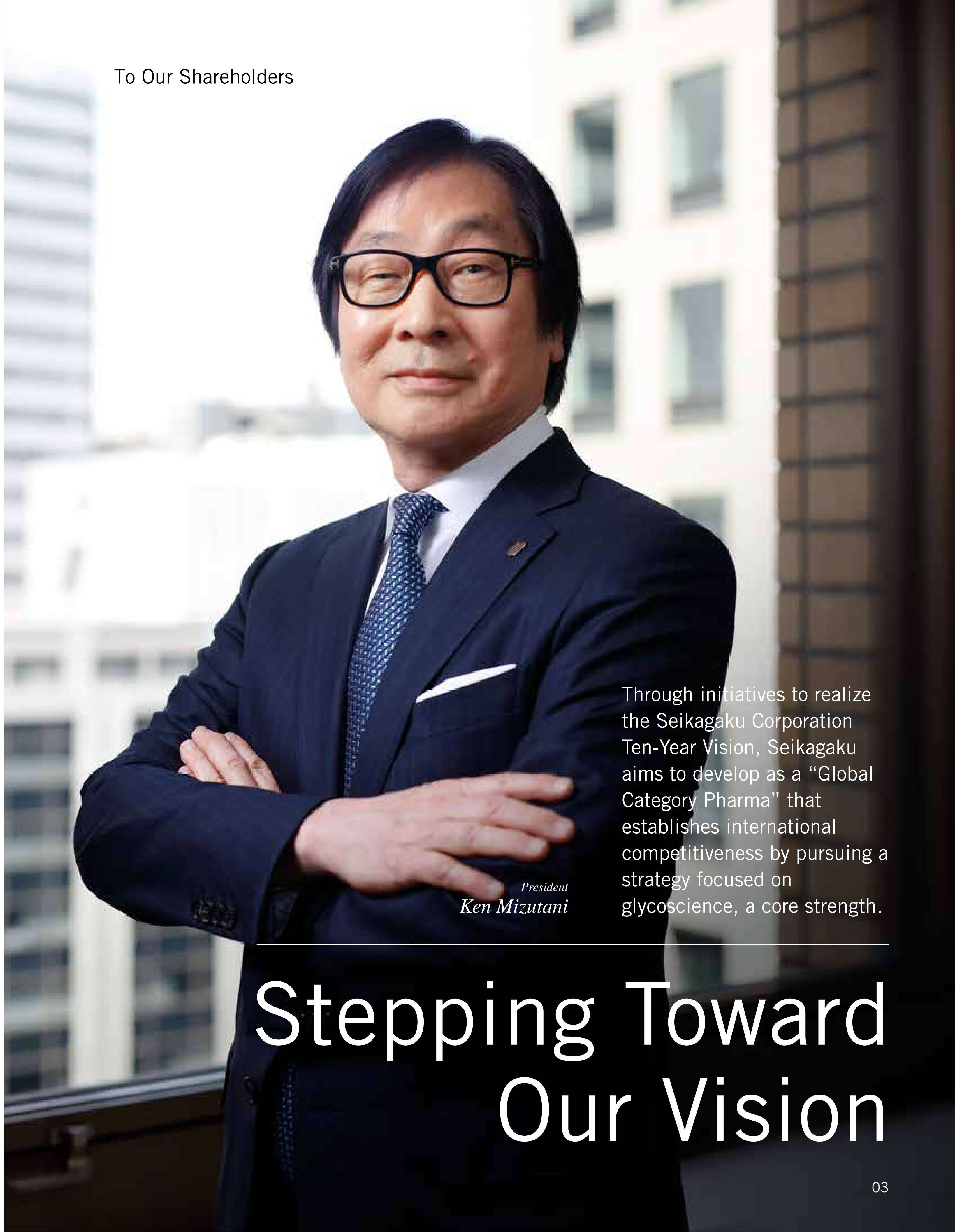
Total Assets (Millions of Yen)
Total Equity per Share (Yen)

R&D Expenses and Ratio to Net Sales



R&D Expenses (Millions of Yen)
Ratio to Net Sales (%)

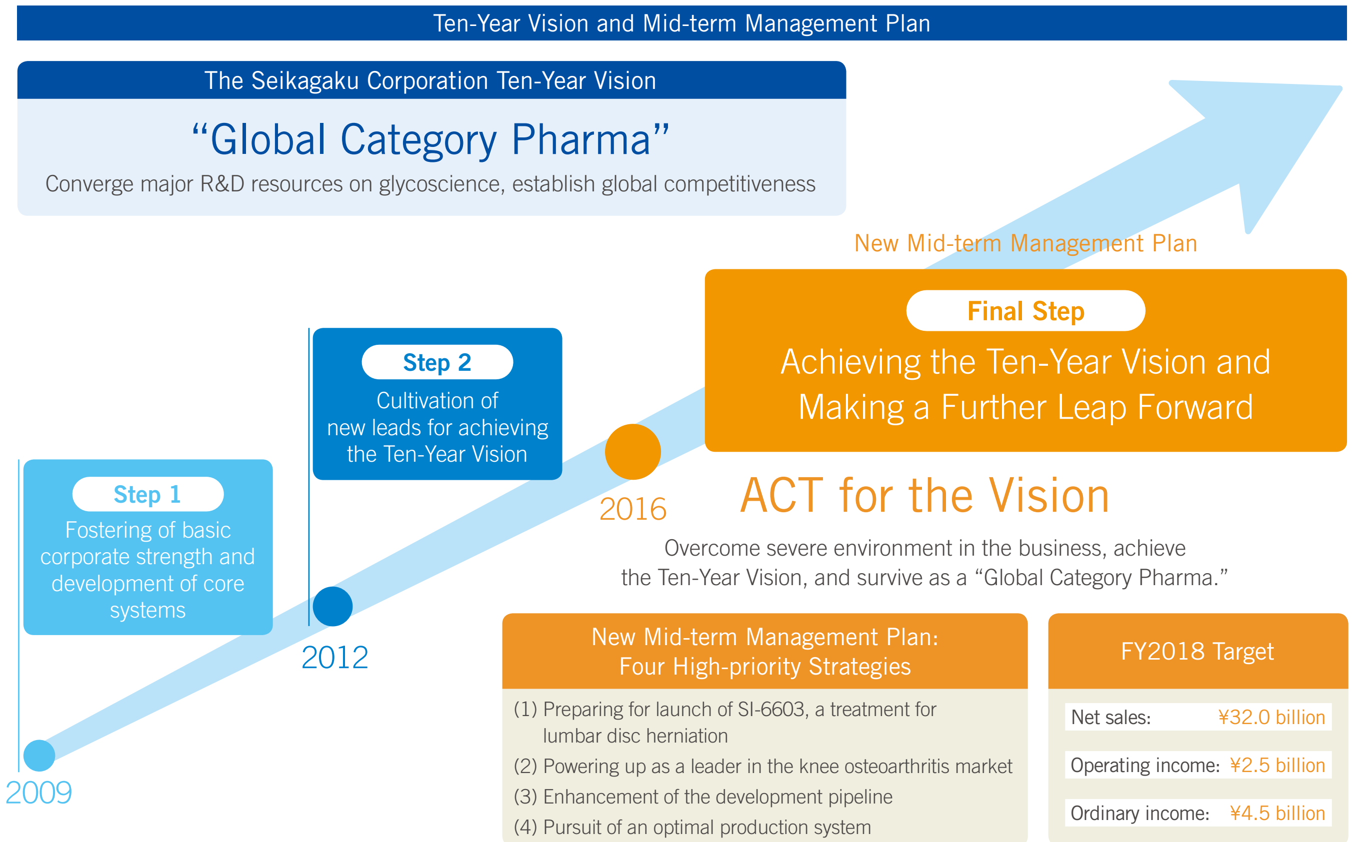
To Our Shareholders



Through initiatives to realize the Seikagaku Corporation Ten-Year Vision, Seikagaku aims to develop as a "Global Category Pharma" that establishes international competitiveness by pursuing a strategy focused on glycoscience, a core strength.

President
Ken Mizutani

Stepping Toward Our Vision



Business performance in fiscal 2016

Net sales in the fiscal year ended March 31, 2017 (fiscal 2016) decreased as a result of the impact of yen appreciation and National Health Insurance (NHI) drug price reductions in Japan, despite higher sales volumes of pharmaceuticals in Japan, Gel-One, a single-injection joint function improving agent, in the U.S., and in the LAL business overseas. With regard to earnings, operating income declined, reflecting the sales decrease and a higher cost of sales ratio for reasons including NHI drug price reductions and one-time factors associated with the introduction of new syringes for ARTZ, a joint function improving agent, despite a reduction in selling, general and administrative expenses, mainly R&D expenses. Also, a decrease in gain on sale of investment securities contributed to a fall in income attributable to owners of the parent, although royalty income increased.

Focus on achieving the Ten-Year Vision and making a further leap forward

The pharmaceutical industry is in a period of great transformation due to increasing pricing pressures on medical services, major industry realignment on a global scale, and technological innovation in drug discovery research with accompanying intensification of competition in new drug development. In this business environment, in March 2009 Seikagaku established the Seikagaku Corporation Ten-Year Vision with the aim of developing as a "Global Category Pharma" that focuses on glycoscience, our area of specialization, and establishing international competitiveness in order to achieve sustained growth.

Since April 2016, Seikagaku has been implementing a three-year mid-term management plan with the key concept "ACT for the Vision—Achieving the Ten-Year Vision and Making a Further Leap Forward" as the final step in accomplishing the Ten-Year Vision. Under this plan, Seikagaku is undertaking further sales expansion in the U.S., a key market. We aim to launch SI-6603, a treatment for lumbar disc herniation, in Japan and obtain its approval in the U.S., as we pursue the entry of existing products into new markets. To support these actions, Seikagaku is also strengthening production and quality control systems in compliance with global standards. Furthermore, we are establishing core technologies to enhance the drug discovery and drug cultivation pipeline that will lead to next-generation advances and building a powerful research and development organization in preparation for further growth.

Progress toward sustained growth

With regard to progress in fiscal 2016, the local sales volume of Gel-One, a single-injection product positioned as a growth driver in the U.S., is steadily increasing. We will continue to strengthen the presence of Gel-One in the U.S., a key region in the growth strategy. In the sales results in Japan for ARTZ, a joint function improving agent, deliveries to medical institutions increased slightly due to factors including the impact of the introduction of new syringes in April 2016. Market share of the OPEGAN series, ophthalmic surgical aids, increased substantially as market penetration of SHELLGAN, launched in July 2016 to strengthen the OPEGAN series, steadily progressed. Although Seikagaku's business in Japan is affected by periodically implemented NHI drug price reductions, we will take vigorous measures to increase sales volumes.

In the LAL business, sales of U.S. subsidiary Associates of Cape Cod (ACC) developed favorably. ACC will aim to successfully implement the Seventy Million Plan to achieve sales of US$70 million in the fiscal year ending March 31, 2021 by strengthening its existing business, expanding and enhancing direct sales channels, and opening up new business sectors to accelerate sales expansion.

In the area of drug development, the new drug application (NDA) submitted in Japan for SI-6603 is still under examination concerning quality control in the manufacturing process, and Seikagaku will endeavor to obtain marketing approval at an early date as the highest development priority. With a view to overseas business development for SI-6603, in August 2016 we entered into a license agreement for the exclusive development and commercialization rights worldwide, excluding Japan, with Ferring Pharmaceuticals.

With regard to SI-613, a new treatment for osteoarthritis, we have initiated a Phase III clinical trial in Japan, and reached a definitive agreement related to co-development and marketing collaboration on SI-613 with Ono Pharmaceutical Co. Ltd. on September 1, 2017. And, as a step toward global development, we initiated a Phase II clinical trial for SI-613 in the U.S. in June 2017.

Reaching the 70th anniversary milestone and linking it to the next leap forward

Seikagaku marked the 70th anniversary of its founding on June 2, 2017. Since 1947, Seikagaku has pursued glycoscience research while engaging in the reagents and bulk pharmaceuticals businesses. In 1987, we launched ARTZ, the world's first joint function improving agent whose main ingredient is hyaluronic acid. Seikagaku has subsequently striven for overseas expansion and steadily grown as a pharmaceutical company. I would like to express my gratitude to our shareholders and other stakeholders for your support, which has enabled us to reach our anniversary milestone.

Although we are experiencing a delay in obtaining approval for SI-6603 in Japan, a high-priority strategy in the mid-term management plan, we are making progress with a number of measures, including overseas sales expansion of Gel-One and the LAL business, progress of research and development —the key to future growth—and the conclusion of contracts with sales partners.

By implementing the high-priority strategies in the mid-term management plan, Seikagaku will continue to overcome an adverse business environment to achieve the Ten-Year Vision, prevail in competition as a "Global Category Pharma," and link this success to the next leap forward.

Improving shareholder returns and shareholder value

Seikagaku considers increasing shareholder value an important management priority, and we endeavor to enhance shareholder returns while at the same time making well-balanced business investments in R&D and production system development to achieve sustained growth.

Our policy on shareholder returns is to aim for stable and continuous dividends from a medium- to long-term perspective and continue to pay an annual dividend of ¥26 per share. In fiscal 2016, to express our gratitude to our shareholders on the occasion of Seikagaku's 70th anniversary, we added a commemorative dividend of ¥5 to an ordinary dividend of ¥13 for a year-end dividend of ¥18 per share, resulting in an annual dividend of ¥31 per share. In addition, in July 2016, we introduced a performance-linked compensation system for inside directors, further increasing linkage between remuneration for directors and shareholder interests, clarifying management responsibility for business results, and promoting enhancement of shareholder value.

Seikagaku will continue to increase shareholder value through sustained growth based on our core values of "creativity," "fairness," and "dreams and passion." In doing so, we will strive always to engage in conscientious, compliance-minded corporate activities and improve corporate governance by maintaining high ethical standards and a strong sense of responsibility as a pharmaceutical company. We look forward to the continuing support and understanding of our shareholders.

President
Ken Mizutani

Original and Essential

Based on Specialization in the Field of Glycoscience

Seikagaku is a leading pioneer in glycoscience research with long experience and know-how. A well thought out and coordinated R&D policy focuses our competitive advantages on bringing commercially rewarding products to market.

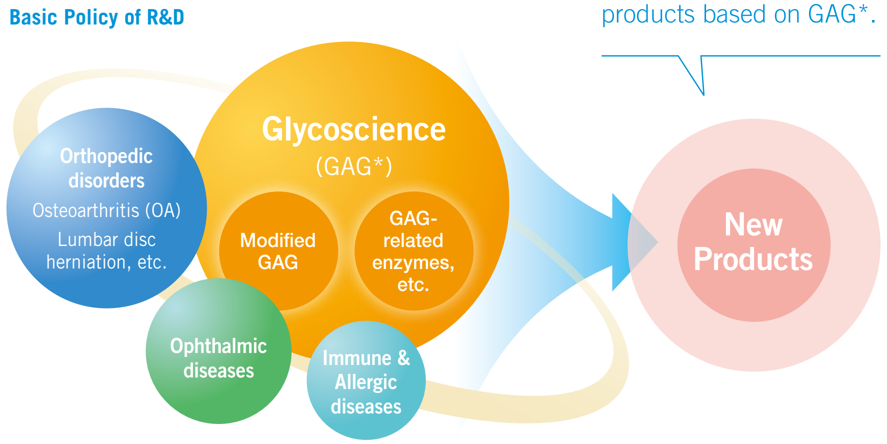
Highest priority research focuses on orthopedic disorders (such as osteoarthritis and lumbar disc herniation), ophthalmic diseases, and immune and allergic diseases. These targets have high potential for significant results, based on the specialized technology infrastructure we have evolved over many years through the development, production, and marketing of GAG-related products. In addition, Seikagaku has broadened the research scope to substances such as modified GAG with properties produced by cross-linking, and GAG-related enzymes. Seikagaku has established a consistent system throughout all related departments, mainly under the Research and Development Division, to strengthen its capabilities in new drug development and intensive timeline management. Under the system, by maintaining basic technologies superior to those of competitors in the field of glycoscience, we are accelerating exploratory research.

As a consequence, we are continuously originating and creating development themes. We also seek steadily to advance the stage of projects in the pipeline by enhancing our clinical development capabilities.

Under this coordinated R&D policy, aimed at driving our evolution as a “Global Category Pharma”, Seikagaku intends to continuously provide new products, strengthen timeline management, and accelerate development, while working to expand the glycoscience research network in Japan and overseas.

Seikagaku pursues efficient R&D activities, involving well-targeted compounds and disease areas. Within our core field of glycoscience, and consistent with our established strengths, we focus on developing new products based on GAG*.

Basic Policy of R&D



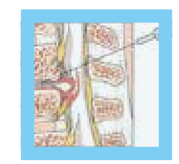
*GAG: Glycosaminoglycans (One of the constituents of complex carbohydrates)

Our Pipeline

Development code / Product name, etc.	Lead indication	Target market	Phase I	Phase II	Phase III	Application	In-house/In-license
SI-6603 Condoliase	Lumbar disc herniation	Japan				■	In-house
		U.S.			■		
SI-613 Hyaluronic acid-NSAID conjugates	Osteoarthritis	Japan			■		In-house
	Knee osteoarthritis	U.S.		■			
SI-614 Modified hyaluronate	Dry eye	U.S.		■	Phase II/III		In-house

SI-6603

Condoliase for lumbar disc herniation



SI-6603 (generic name: condoliase) is an enzyme that, when directly injected into the intervertebral disc under X-ray observation, is expected to reduce pressure on the nerves that causes hernia pain.

Lumbar disc herniation is the partial protrusion of the nucleus pulposus at the core of each intervertebral disc or the annulus fibrosus, the disc’s outer layer. The resulting pressure on the spinal nerve root causes pain and numbness.

Because treatment by condoliase would be much less invasive than surgical treatment, it imposes lower physical burdens and has the potential to enhance earlier return of patients to work and normal life. Currently, there is no fundamental pharmacological therapy for lumbar disc herniation. A single dose of SI-6603 is expected to be as effective as surgery in alleviating symptoms, so, patients could expect improved quality of life (QOL).The Company submitted a new drug application (NDA) to Japan’s MHLW in January 2014. The NDA examination concerning quality control in the manufacturing process is ongoing, and the Company will endeavor to obtain marketing approval at an early date. In the U.S., case registration for a Phase III clinical trial was completed in July 2015 and entered the 2-year observation period. Final observation in the open-label trial in Europe and the U.S., mainly for the purpose of safety evaluation, was completed in March 2017 and the Company is now compiling trial results. The Company entered into a license agreement for the exclusive development and commercialization rights to SI-6603 worldwide, excluding Japan, with Ferring Pharmaceuticals, which has its headquarters in Switzerland, in August 2016.

SI-613

Treatment for osteoarthritis

SI-613 is a new formulation in which hyaluronic acid and a non-steroidal anti-inflammatory drug (NSAID) are chemically bound using a proprietary technology. Having the knee pain relief and anti-inflammatory effect of a sustained release by NSAID in addition to the joint function improving effect by hyaluronic acid, SI-613 is expected to provide prompt and sustained relief of the severe pain and inflammation associated with osteoarthritis. Clinically effective results were confirmed in a Phase II clinical trial for knee osteoarthritis. Subsequently, in February 2017, the Company began developing a Phase III clinical pivotal study targeting knee joints. Further, clinical studies for hip, ankle, elbow and shoulder joints and a long-term safety evaluation will be conducted. In September 2017, the Company reached a definitive agreement on co-development and marketing collaboration in Japan with Ono Pharmaceutical Co., Ltd.

SI-614

Modified hyaluronate for dry eye

SI-614 is a modified hyaluronate that is produced using Seikagaku’s proprietary technology. Ocular instillation of SI-614 in patients with dry eye is expected to protect the ocular surface and promote corneal wound healing. A Phase II/III clinical trial was completed in January 2015, and the Company is currently considering a next-phase clinical trial based on the data obtained while continuing the selection of a business partner.

Pharmaceuticals Business

Sales by Segment

81.6%

Worldwide sales of pharmaceuticals and medical devices for the year ended March 31, 2017 (fiscal 2016) fell by 5.4% to ¥24,152 million. The decrease in sales is attributable to the impact of yen appreciation and NHI drug price reductions in Japan, despite a higher sales volume of pharmaceuticals in Japan, Gel-One in the U.S., and the LAL business overseas.

Domestic Pharmaceuticals: ¥16,268 million (-3.9% compared with fiscal 2015)

ARTZ® 25mg, ARTZ Dispo® 25mg, SUPARTZ FX®, ARTZAL® etc.

Intra-articular injections for improving joint functions

The world's first multiple-injection hyaluronic acid formulation, launched in 1987. Highly evaluated and used widely as a formulation for the treatment of knee osteoarthritis* with over 410 million injections performed worldwide to date.

* In Japan, ARTZ has also received approval for indications of periarthritis of the shoulder and relief of knee pain from chronic rheumatoid arthritis. The indication for periarthritis of the shoulder is approved in several other countries as well.

In a flat Japanese market, deliveries to medical institutions of ARTZ grew slightly due to strengthened sales promotions based on introduction of a new syringe in April 2016. Nevertheless, the Company's sales of ARTZ decreased as a result of impact of National Health Insurance (NHI) drug price reductions.

OPEGAN®, OPEGAN Hi®, SHELLGAN®

Ophthalmic surgery aid

The first domestically produced hyaluronic acid formulation used in ophthalmic surgery. Hyaluronic acid with high viscoelasticity is used in cataract surgery to facilitate the operation by protecting corneal endothelium and retaining the intraocular space.

Deliveries to medical institutions and the Company's sales of OPEGAN series increased as market penetration of SHELLGAN, launched in July 2016, steadily progressed. The Company's sales also rose, compensating for the impact of NHI drug price reductions.

MucoUp®

Submucosal injection agent for endoscopic surgery

A surgical aid injected into the sub-mucosal layer at the lesion of tumors in the gastrointestinal tract. The lesion rises to form a dome that can be more easily, safely, and completely removed by endoscopic mucosal resection.

Deliveries to medical institutions and the Company's sales of MucoUp remained steady because of a one-time increase in shipments in the prior year accompanying a change in sales partner in April 2016.

Bulk Products: ¥1,111 million (-13.7% compared with fiscal 2015)

Bulk Products

Sodium hyaluronate and Sodium chondroitin sulfate

Sodium hyaluronate: sold mainly to the manufacturers of pharmaceuticals as a raw material. Sodium chondroitin sulfate: widely used as a raw material in pharmaceuticals, ophthalmic products, and drinks for nutritional fortification.

Although sales of sodium chondroitin sulfate increased, overall sales declined as a result of fierce of competition in the market for sodium hyaluronate.

Overseas Pharmaceuticals: ¥6,771 million (-7.2% compared with fiscal 2015)

Sales of SUPARTZ-FX, the 5-injection product, fell only slightly amid increasing competition from newly introduced multiple-injection products. The Company's sales fell slightly due to the impact of yen appreciation.

Sales of ARTZ in China (P.R.C.) decreased due to a downtrend in sales in the market resulting from the government's price-curbing policy and the impact of yen appreciation.

Gel-One® (Single Injection)

Cross-linked hyaluronate hydrogel for knee osteoarthritis

Formulated for use as a single-injection medical device for the treatment of osteoarthritis pain of the knee, requiring only a significantly lower volume of 3ml for safe, effective, and complete treatment. Approved for use in the U.S. and sold by sales partner Zimmer Biomet Holdings, Inc.*, a global leader in the field of orthopedics.

* Zimmer, Inc. acquired Biomet, Inc. at the end of June 2015.

Sales of Gel-One increased. Shipment volume to the sales partner increased, but the Company's sales fell slightly due to the impact of yen appreciation and a decline in local selling prices. The North American Business Unit at Seikagaku headquarters, works with the SEIKAGAKU U.S.A. Representative Office, our specialized branch for the U.S. market, to support local marketing activities for Gel-One. Both organizations collaborate with the sales partner, Zimmer Biomet, to increase the presence of Gel-One in the U.S.

LAL Business

Sales by Segment

18.4%

The LAL business focuses on products related to endotoxin-detecting reagents used mainly for quality control in the manufacture of pharmaceuticals and medical devices, and quality management of fluids for hemodialysis.

LAL Business: ¥5,437 million (-0.1% compared with fiscal 2015)

Endotoxin-detecting Reagents

Net sales from the LAL business remained steady compared with fiscal 2015 at ¥5,437 million with higher overseas sales of endotoxin-detecting reagents despite the impact of yen appreciation.

Board of Directors, Audit & Supervisory Board Members

Ken Mizutani
PRESIDENT

Toshinori Yagura
SENIOR MANAGING DIRECTOR

Kazuaki Ohnishi
DIRECTOR
SENIOR MANAGING OFFICER

Toshiyuki Okada
DIRECTOR
SENIOR MANAGING OFFICER

Eiji Katayama
OUTSIDE DIRECTOR

Izumi Hayashi
OUTSIDE DIRECTOR

Toru Takeda
AUDIT & SUPERVISORY BOARD MEMBER

Shigeru Kawahara
AUDIT & SUPERVISORY BOARD MEMBER

Nobuhiro Takeuchi
OUTSIDE AUDIT & SUPERVISORY BOARD MEMBER

Yoshihito Shibata
OUTSIDE AUDIT & SUPERVISORY BOARD MEMBER

Mie Fujimoto
OUTSIDE AUDIT & SUPERVISORY BOARD MEMBER

Corporate Governance

Basic Policy on Corporate Governance

Seikagaku Corporation views corporate governance as a core area of management priority, and endeavors to gather information accurately and adequately, speed up decision-making, and strengthen the supervisory function of business execution. We are profoundly aware of our social mission and responsibilities as a pharmaceutical company, and are committed to always earning the confidence of stakeholders, including our shareholders. In addition to establishing internal control system, such as for compliance and risk management, we are enhancing our corporate governance through mutual collaboration among departments within the company in order to create a management environment that meets the expectations of society.

Concrete Approach and Measures for Corporate Governance

Our corporate governance framework is summarized as below.

Board of directors

- The Board of Directors holds regular monthly meetings to make decisions on tasks stipulated in laws, the Articles of Incorporation and rules for the Board of Directors, such as basic management policy, mid-term management plan, annual management plan, and executive functions. Directors decide on important business, and supervise the performance of business operations. If necessary, additional meetings of the Board of Directors are convened.
- The term of office for directors is one year with the aim of creating a management structure that would be able to adapt quickly and flexibly to changes in the business environment.
- There are two outside directors in the Board of Directors, in order to enhance the supervisory functions of the Board. The outside directors are responsible for oversight from an objective standpoint, a perspective that incorporates the common interests of shareholders, and is based on expert knowledge and insights into corporate management. The outside directors also attend meetings held among the president, Audit & Supervisory Board members, and division and department managers to share views of the Company's business issues and the external environment.
- The two outside directors in the Board of Directors act as "Independent Directors" under the TSE (Tokyo Stock Exchange) listing rules.
- The documents and supplemental materials on the agenda are generally distributed to the members three days before the date of Board of Directors meetings in order to ensure review time for ample discussion.
- The Board of Directors comprises four full-time and two outside directors. We enhance management oversight from an independent standpoint by appointing outside directors to one-third of Board seats.
- In the procedures for determining compensation for directors and nominating candidates for directors and Audit & Supervisory Board members, representative directors implement prior explanations and exchange of opinions with the outside directors.
- The Board of Outside Officers, comprising the outside directors and outside Audit & Supervisory Board members, evaluates the effectiveness of the Board of Directors and reports the evaluation results to the Board of Directors.

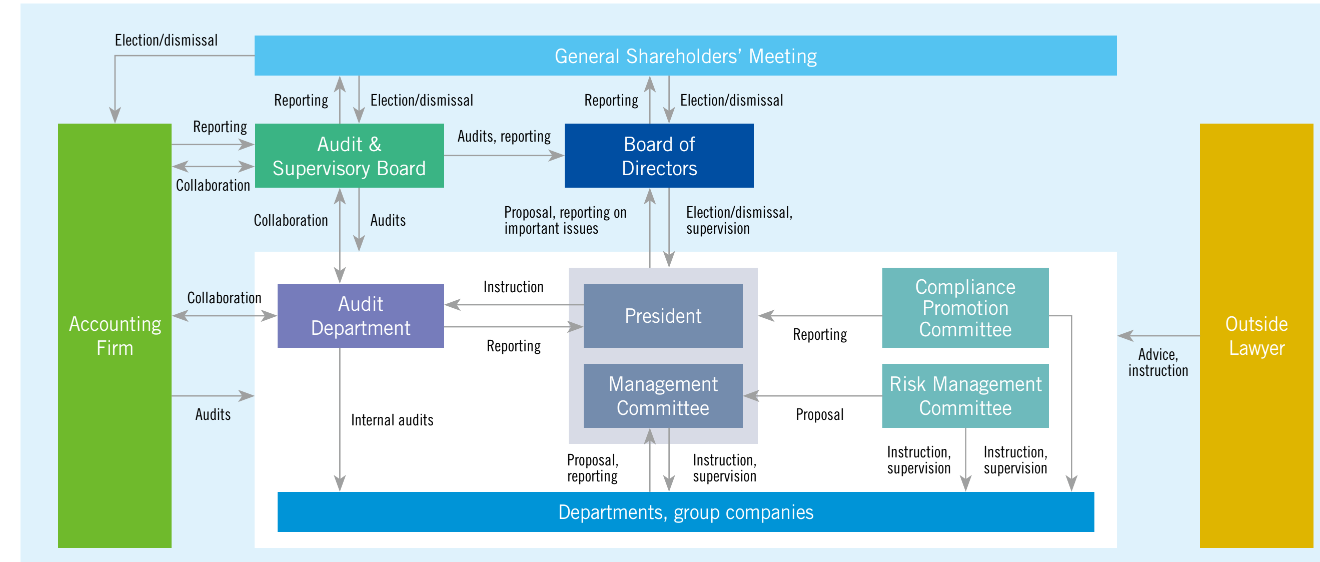
Business operations

- Seikagaku operates under an executive officer system for enhancing the corporate governance. Under this system, executive functions are separated from the Board of Directors, the functions of which are limited to decision-making and the supervision of business operations. Seikagaku endeavors to build up an internal system, which is quickly able to respond to changes in the management environment, by improving the flexibility and efficiency of executive functions, expanding the executive officer system, and promoting the transfer of authority.
- We hold weekly Management Committee meetings. At the meetings, full-time directors and managing officers confer and decide the agenda of executive functions they have been tasked with implementing by the Board of Directors, based on the basic policy of the Board of Directors.
- Seikagaku has established the Risk Management Committee with the aim of strengthening the internal control framework. The Committee, chaired by the director in charge of administration, comprises primarily directors and managing officers of various functions.

Audit framework

- The Audit & Supervisory Board of Seikagaku comprises five members, two full-time and three outside members, and each member audits the directors' execution of duties.
- The outside members suitably perform supervision of the directors' execution of duties from a perspective that incorporates the common interests of shareholders, based

Corporate Governance Structure



on insight and expertise of company management, and professional knowledge etc.

- Out of five members, each one of full-time members and outside members have remarkable knowledge of finance and accounting.
- The three outside Audit & Supervisory Board members act as an "independent officers" under the TSE (Tokyo Stock Exchange) listing rules.
- To strengthen the oversight function, Audit & Supervisory Board members attend meetings of the Board of Directors, and the full-time members attend important meetings of the Management Committee, Compliance Promotion Committee, Risk Management Committee, and other management bodies and receive reports concerning the status of management and business execution.
- The Audit & Supervisory Board increases audit effectiveness and efficiency by holding regular meetings with the president, Accounting auditor and Audit Department and by interviewing directors and managing officers in charge of divisions and managers.

Internal audit and accounting framework

- Internal audits include audits performed by the Audit Department. The Department mainly verifies and ensures the reliability of financial reporting by all departments and subsidiaries. Quality audits and GCP audits are carried out by the Quality Assurance Department and the Regulatory Affairs Auditing Unit, respectively.
- Seikagaku employs Deloitte Touche Tohmatsu LLC as the accounting firm. The firm performs audits on the Company as the need arises, even during a fiscal year, not being limited to the fiscal year closing.
- The certified public accountants responsible for carrying out financial audit duties for Seikagaku are Ms. Keiko Hayashi and Mr. Masahiro Bando of Deloitte Touche Tohmatsu LLC. Four certified public accountants and nine others assist execution of the financial auditing duties.

Compliance

- Seikagaku institutes a compliance program, based on the management beliefs and code of conduct outlined in the corporate principles, in order to act as a socially ethical company and achieve compliance with the stringent regulations that surround the pharmaceutical industry. The Seikagaku Compliance Program Handbook is compiled and distributed to increase the awareness and understanding of managing officers and employees.
- The Compliance Committee is chaired by the President and shares the same members as the Management Committee. There are also various programs to promote compliance on a company-wide basis.
- Seikagaku controls subsidiaries adequately by stipulating the rules for regularly reporting important events, such as compliance and risk status, in addition to management status and financial condition, ensuring adequate and efficient operation of subsidiaries.
- Seikagaku ensures that management decisions and daily business execution are in compliance with laws and regulations by receiving advice and instructions from outside lawyers.

Contributing to Society Through Glycoscience

Glycoforum—gateway to glycoscience

The Glycoforum website shares glycoscience research information online with researchers around the world. As a pharmaceutical company, not only is our mission to improve the health and well-being of people through our activities, but we also proactively contribute to the advancement of glycoscience, a key research field for understanding life processes and diseases. Nature Review has recommended this site since 2000. We believe that Glycoforum can serve as a gateway to glycoscience and the other research areas.

http://www.glycoforum.gr.jp/

Mizutani Foundation for Glycoscience —supporting research in glycoscience

Established in 1992 with an endowment from our founder, the late Masakane Mizutani, the Foundation contributes to humankind by subsidizing glycoscience researchers in Japan and overseas, supporting international exchanges and sponsoring glycoscience-related conferences. Seikagaku endorses the purpose of the foundation and has continuously supported its activities.

http://www.mizutanifdn.or.jp/

Financial Statements & Corporate Information

Contents

Consolidated Balance Sheet

Seikagaku Corporation and Consolidated Subsidiaries
March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 10)	¥ 8,461	¥ 9,494	$ 75,545
Short-term investments (Notes 3 and 10)	3,291	4,256	29,384
Notes and accounts receivable—trade (Note 10)	7,955	8,014	71,027
Allowance for doubtful accounts	(6)	(6)	(54)
Inventories (Note 4)	6,807	7,261	60,777
Deferred tax assets (Note 9)	919	1,025	8,205
Other current assets	760	1,225	6,786
Total current assets	28,187	31,269	251,670
PROPERTY, PLANT, AND EQUIPMENT:			
Land	931	933	8,312
Buildings and structures	22,705	22,645	202,723
Machinery and equipment	28,342	27,770	253,054
Lease assets (Note 5)	149	185	1,330
Construction in progress	1,247	1,235	11,134
Total	53,374	52,768	476,553
Accumulated depreciation	(30,658)	(28,099)	(273,732)
Net property, plant, and equipment	22,716	24,669	202,821
INVESTMENTS AND OTHER ASSETS:			
Investment in an unconsolidated subsidiary	25	25	223
Investment securities (Notes 3 and 10)	25,770	23,160	230,089
Goodwill	2	6	18
Other assets	3,356	1,137	29,964
Allowance for doubtful accounts	(8)	(47)	(71)
Total investments and other assets	29,145	24,281	260,223
TOTAL	¥80,048	¥80,219	$714,714
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Notes and accounts payable—trade (Note 10)	¥ 1,846	¥ 1,809	$ 16,482
Notes and accounts payable—other (Note 10)	2,938	3,221	26,232
Current portion of long-term debt (Notes 6 and 10)	286	286	2,554
Current portion of long-term lease obligations (Notes 5 and 10)	35	35	313
Accrued expenses	899	852	8,027
Accrued income taxes (Note 10)	111	380	991
Other current liabilities	80	109	714
Total current liabilities	6,195	6,692	55,313
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 10)	143	429	1,277
Long-term lease obligations (Notes 5 and 10)	49	52	438
Long-term accounts payable	784	934	7,000
Liability for retirement benefits (Note 7)	350	856	3,125
Asset retirement obligations	38	37	338
Deferred tax liabilities (Note 9)	1,708	1,268	15,250
Other long-term liabilities	135	135	1,205
Total long-term liabilities	3,207	3,711	28,633
COMMITMENTS (Note 5)			
EQUITY (Notes 8 and 15):			
Common stock—authorized, 234,000,000 shares; issued, 56,814,093 shares in 2017 and 58,584,093 shares in 2016	3,840	3,840	34,286
Capital surplus	5,302	5,302	47,339
Retained earnings	57,623	59,379	514,491
Treasury stock—at cost, 209,561 shares in 2017 and 1,779,510 shares in 2016	(344)	(2,081)	(3,071)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	4,241	3,682	37,866
Foreign currency translation adjustments	395	579	3,527
Defined retirement benefit plan	(411)	(885)	(3,670)
Total equity	70,646	69,816	630,768
TOTAL	¥80,048	¥80,219	$714,714

See notes to consolidated financial statements.

Consolidated Statement of Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES (Notes 11 and 14)	¥29,590	¥30,963	$264,196
COST OF SALES	13,248	12,872	118,285
Gross profit	16,342	18,091	145,911
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 12)	15,059	15,946	134,456
Operating income	1,283	2,145	11,455
OTHER INCOME (EXPENSES):			
Interest and dividend income	362	339	3,232
Interest expense	(32)	(37)	(286)
Foreign exchange loss	(116)	(26)	(1,036)
Royalty income	678	362	6,055
Gain on sales of investment securities	106	446	946
Other—net	196	272	1,750
Other income—net	1,194	1,356	10,661
INCOME BEFORE INCOME TAXES	2,477	3,501	22,116
INCOME TAXES (Note 9):			
Current	608	721	5,429
Deferred	81	201	723
Total income taxes	689	922	6,152
NET INCOME	1,788	2,579	15,964
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 1,788	¥ 2,579	$ 15,964

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Net income	¥ 31.55	¥ 45.39	$ 0.28
Cash dividends applicable to the year	31.00	26.00	0.28

	Thousands of Shares	
Weighted-average shares	56,662	56,804

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME	¥1,788	¥2,579	$15,964
OTHER COMPREHENSIVE INCOME (Note 13):			
Unrealized gain (loss) on available-for-sale securities	559	(798)	4,991
Foreign currency translation adjustments	(184)	(45)	(1,643)
Defined retirement benefit plan	474	(852)	4,232
Total other comprehensive income (loss)	849	(1,695)	7,580
COMPREHENSIVE INCOME	¥2,637	¥884	$23,544
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—Owners of the parent	¥2,637	¥884	$23,544

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2017

	Shares / Millions of Yen									
					Treasury Stock		Accumulated Other Comprehensive Income (Loss)			
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Shares	Amount	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan	Total Equity
BALANCE, APRIL 1, 2015	58,584,093	¥3,840	¥5,302	¥58,277	1,778,994	¥(2,080)	¥4,480	¥ 624	¥ (33)	¥70,410
Net income attributable to owners of the parent				2,579						2,579
Cash dividends, ¥26 per share				(1,477)						(1,477)
Unrealized loss on available-for-sale securities							(798)			(798)
Net change in foreign currency translation adjustments								(45)		(45)
Net change in defined retirement benefit plan									(852)	(852)
Purchase of treasury stock					516	(1)				(1)
BALANCE, MARCH 31, 2016	58,584,093	3,840	5,302	59,379	1,779,510	(2,081)	3,682	579	(885)	69,816
Net income attributable to owners of the parent				1,788						1,788
Cash dividends, ¥26 per share				(1,474)						(1,474)
Unrealized gain on available-for-sale securities							559			559
Net change in foreign currency translation adjustments								(184)		(184)
Net change in defined retirement benefit plan									474	474
Purchase of treasury stock					200,101	(333)				(333)
Disposal of treasury stock					(50)					
Retirement of treasury stock	(1,770,000)		(2,070)		(1,770,000)	2,070				
Transfer to capital surplus from retained earnings			2,070	(2,070)						
BALANCE, MARCH 31, 2017	56,814,093	¥3,840	¥5,302	¥57,623	209,561	¥ (344)	¥4,241	¥ 395	¥(411)	¥70,646

	Thousands of U.S. Dollars (Note 1)							
					Accumulated Other Comprehensive Income (Loss)			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan	Total Equity
BALANCE, MARCH 31, 2016	$34,286	$47,339	$530,170	$(18,580)	$32,875	$ 5,170	$(7,902)	$623,358
Net income attributable to owners of the parent			15,964					15,964
Cash dividends, $0.23 per share			(13,161)					(13,161)
Unrealized gain on available-for-sale securities					4,991			4,991
Net change in foreign currency translation adjustments						(1,643)		(1,643)
Net change in defined retirement benefit plan							4,232	4,232
Purchase of treasury stock				(2,973)				(2,973)
Disposal of treasury stock								
Retirement of treasury stock		(18,482)		18,482				
Transfer to capital surplus from retained earnings		18,482	(18,482)					
BALANCE, MARCH 31, 2017	$34,286	$47,339	$514,491	$ (3,071)	$37,866	$ 3,527	$(3,670)	$630,768

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	**2017**
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 2,477**	¥ 3,501	**$ 22,116**
Adjustments for:			
Income taxes—paid	**(999)**	(457)	**(8,920)**
Income taxes—refund		86	
Depreciation and amortization	**2,923**	3,195	**26,098**
Foreign exchange loss (gain)	**105**	(91)	**937**
Gain on sales of investment securities	**(106)**	(446)	**(946)**
Changes in assets and liabilities:			
Decrease in notes and accounts receivable—trade	**51**	343	**455**
(Increase) decrease in notes and accounts receivable—other	**(11)**	242	**(98)**
Decrease (increase) in inventories	**410**	(1,036)	**3,661**
Decrease (increase) in advance payments for research and development	**69**	(251)	**616**
Increase in notes and accounts payable—trade	**42**	459	**375**
(Decrease) increase in consumption tax payable/receivable	**(249)**	235	**(2,223)**
Decrease in accounts payable—other	**(78)**	(226)	**(696)**
Increase in liability for retirement benefits	**173**	28	**1,545**
Other—net	**79**	13	**705**
Net cash provided by operating activities	**4,886**	5,595	**43,625**
INVESTING ACTIVITIES:			
Purchases of time deposits	**(2,600)**		**(23,214)**
Proceeds from maturities of time deposits	**500**	500	**4,464**
Proceeds from redemption of short-term investments	**4,685**	5,403	**41,830**
Purchases of short-term investments	**(510)**	(3,326)	**(4,553)**
Purchases of fixed assets	**(818)**	(2,249)	**(7,304)**
Proceeds from sales of investment securities	**563**	1,038	**5,027**
Purchases of investment securities	**(5,088)**	(4,784)	**(45,429)**
Other—net	**(234)**	2	**(2,089)**
Net cash used in investing activities	**(3,502)**	(3,416)	**(31,268)**
FINANCING ACTIVITIES:			
Repayment of long-term debt	**(286)**	(286)	**(2,553)**
Repayments of lease obligations	**(42)**	(41)	**(375)**
Purchase of treasury stock*	**(333)**	(1)	**(2,973)**
Dividends paid	**(1,474)**	(1,477)	**(13,161)**
Repayments of sales and installment back transactions	**(146)**	(142)	**(1,304)**
Other—net	**(1)**		**(9)**
Net cash used in financing activities	**(2,282)**	(1,947)	**(20,375)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(135)**	(84)	**(1,205)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	**¥(1,033)**	¥ 148	**$ (9,223)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**9,494**	9,346	**84,768**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 8,461**	¥ 9,494	**$75,545**

* Prior to April 1, 2016, the change in purchase of treasury stock was included in other—net among financing activities in the consolidated statement of cash flows.
Since during this fiscal year ended March 31, 2017, the change in the amount of purchase of treasury stock increased significantly, such amount is disclosed separately in financing activities in the consolidated statement of cash flows as of March 31, 2017.
The amount included in other—net as of March 31, 2016, was $9 thousand.

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2017

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 accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Seikagaku Corporation (the "Company") is incorporated and operates. 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 ¥112 to $1, the approximate rate of exchange at March 31, 2017. 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, 2017, include the accounts of the Company and its three significant subsidiaries (together, the "Group").

Investment in an unconsolidated subsidiary in 2017 and 2016 is stated at cost. If the equity method of accounting had been applied to the investment in this subsidiary, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period of 15 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**—Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or accounting principles generally accepted in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

c. **Business Combinations**—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

d. **Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper, and mutual funds mainly investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

e. **Short-Term Investments and Investment Securities**—Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable 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.

f. **Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses.

g. **Inventories**—Inventories are stated at the lower of cost, determined by the average method for finished products, raw materials, work in process and supplies and by the moving-average method for merchandise, or net selling value.

h. **Property, Plant, and Equipment**—Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Group is computed by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 15 to 50 years for buildings and structures and from 3 to 15 years for machinery and equipment. Lease assets are depreciated by the straight-line method over the respective lease periods.

i. **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.

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 permits leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee to be measured at the amount of obligation under finance leases, less interest expense at the transition date and recorded as acquisition cost of lease assets.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured at the amount of obligation under finance leases, less interest expense at the transition date.

All other leases are accounted for as operating leases.

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

k. **Retirement and Pension Plans**—The Company has noncontributory funded defined benefit pension plans covering substantially all of its employees. The amount of benefits is generally determined on the basis of the current basic rates of compensation and length of service at the time of termination.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 10 years no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

l. **Asset Retirement Obligations**—An asset retirement obligation is recorded for 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 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. **Research and Development Costs**—Research and development costs are charged to income as incurred.

n. **Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

o. **Foreign Currency Transactions**—All short-term receivables and payables denominated in foreign currencies are translated into

Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

p. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

q. Per Share Information—Basic net income per share is computed by dividing net income attributable to shareholders of common stock by the weighted-average number of shares of common stock outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because there were no dilutive securities in 2017 or 2016.

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

3. Short-term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Short-term investments:			
Debt securities	**¥ 3,291**	¥ 4,256	**$ 29,384**
Total	**¥ 3,291**	¥ 4,256	**$ 29,384**
Investment securities:			
Equity securities	**¥11,303**	¥10,121	**$100,919**
Debt securities	**11,008**	10,529	**98,286**
Other	**3,459**	2,510	**30,884**
Total	**¥25,770**	¥23,160	**$230,089**

Information regarding the marketable securities classified as available-for-sale at March 31, 2017 and 2016, is as follows:

	Millions of Yen			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥ 5,682**	**¥5,692**	**¥ 71**	**¥11,303**
Debt securities	**14,276**	**93**	**70**	**14,299**
Other	**3,087**	**372**		**3,459**
March 31, 2016				
Securities classified as available-for-sale:				
Equity securities	¥ 4,904	¥5,385	¥168	¥10,121
Debt securities	14,749	144	108	14,785
Other	2,528	96	114	2,510

	Thousands of U.S. Dollars			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**$ 50,732**	**$50,821**	**$634**	**$100,919**
Debt securities	**127,465**	**830**	**625**	**127,670**
Other	**27,563**	**3,321**		**30,884**

The information for available-for-sale securities that were sold during the years ended March 31, 2017 and 2016, is as follows:

	Millions of Yen		
March 31, 2017	Proceeds	Realized Gains	Realized Losses
Securities classified as available-for-sale:			
Equity securities	**¥ 356**	**¥138**	**¥36**
Debt securities	**200**		
Other	**7**	**4**	
Total	**¥ 563**	**¥142**	**¥36**
March 31, 2016			
Securities classified as available-for-sale:			
Equity securities	¥ 935	¥447	
Debt securities	100		
Other	3		
Total	¥1,038	¥447	

	Thousands of U.S. Dollars		
March 31, 2017	Proceeds	Realized Gains	Realized Losses
Securities classified as available-for-sale:			
Equity securities	**$3,179**	**$1,232**	**$321**
Debt securities	**1,786**		
Other	**62**	**36**	
Total	**$5,027**	**$1,268**	**$321**

4. Inventories

Inventories at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Merchandise and finished products	**¥3,384**	¥3,931	**$30,214**
Work in process	**2,107**	1,998	**18,813**
Raw materials and supplies	**1,316**	1,332	**11,750**
Total	**¥6,807**	¥7,261	**$60,777**

5. Leases

(1) Finance Leases

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

Annual maturities of obligations under finance leases as of March 31, 2017, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	**¥35**	**$313**
2019	**28**	**250**
2020	**16**	**143**
2021	**5**	**45**
Total	**¥84**	**$751**

(2) Operating Leases

The minimum rental commitments under noncancelable operating leases at March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Due within one year	**¥ 34**	¥26	**$ 304**
Due after one year	**80**	43	**714**
Total	**¥114**	¥69	**$1,018**

6. Long-term Debt

Long-term debt at March 31, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Loan from bank, 0.29%, due 2018 (unsecured)	**¥429**	**¥715**	**$3,831**

Annual maturities of long-term debt as of March 31, 2017, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	**¥286**	**$2,554**
2019	**143**	**1,277**

7. Retirement and Pension Plans

The Company has severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company and annuity payments from a trustee.

(1) The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at beginning of year	**¥6,677**	¥5,597	**$59,616**
Current service cost	**305**	243	**2,723**
Interest cost	**13**	67	**116**
Actuarial (gains) losses	**(372)**	981	**(3,321)**
Benefits paid	**(325)**	(211)	**(2,902)**
Balance at end of year	**¥6,298**	¥6,677	**$56,232**

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at beginning of year	**¥5,821**	¥5,987	**$51,973**
Expected return on plan assets	**194**	179	**1,732**
Actuarial gains (losses)	**68**	(324)	**607**
Contributions from the employer	**190**	190	**1,697**
Benefits paid	**(325)**	(211)	**(2,902)**
Balance at end of year	**¥5,948**	¥5,821	**$53,107**

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Defined benefit obligation	**¥ 6,298**	¥ 6,677	**$ 56,232**
Plan assets	**(5,948)**	(5,821)	**(53,107)**
Net liability arising from defined benefit obligation	**¥ 350**	¥ 856	**$ 3,125**

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Liability for retirement benefits	**¥350**	¥856	**$3,125**
Net liability arising from defined benefit obligation	**¥350**	¥856	**$3,125**

(4) The components of net periodic retirement benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Service cost	**¥ 305**	¥ 243	**$ 2,723**
Interest cost	**13**	67	**116**
Expected return on plan assets	**(194)**	(179)	**(1,732)**
Recognized actuarial losses	**239**	88	**2,134**
Net periodic benefit costs	**¥ 363**	¥ 219	**$ 3,241**

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Actuarial (gains) losses	**¥(679)**	¥1,217	**$(6,063)**
Total	**¥(679)**	¥1,217	**$(6,063)**

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Unrecognized actuarial losses	**¥586**	¥1,265	**$5,232**
Total	**¥586**	¥1,265	**$5,232**

(7) Plan assets

a Components of plan assets

Plan assets as of March 31, 2017 and 2016, consisted of the following:

	2017	2016
Debt investments	**25%**	26%
Equity investments	**38**	36
Assets in general account of insurance companies	**35**	36
Others	**2**	2
Total	**100%**	100%

b Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	**0.2%**	0.2%
Expected rate of return on plan assets	**3.3**	3.3

The Company has another pension plan, which is a defined contributory pension plan. The amount contributed to the plan, which was charged to income, was ¥55 million ($491 thousand) for the year ended March 31, 2017.

Certain foreign subsidiaries have defined contributory retirement plans, which mainly consist of a 401(k) plan in the United States of America, covering substantially all of their employees. The amount contributed to the plans, which was charged to income, was ¥62 million ($554 thousand) for the year ended March 31, 2017.

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. Additionally, for companies that meet certain criteria, including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year, if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

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

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

9. Income Taxes

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30% and 33% for the years ended March 31, 2017 and 2016, respectively. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities, at March 31, 2017 and 2016, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Deferred tax assets—current:			
Accrued bonuses	**¥ 184**	¥ 181	**$ 1,643**
Research and development costs	**170**	143	**1,518**
Tax credit carryforwards	**115**	155	**1,027**
Other	**451**	546	**4,026**
Total	**920**	1,025	**8,214**
Deferred tax liabilities—current:			
Other	**1**		**9**
Total	**1**		**9**
Net deferred tax assets—current	**¥ 919**	¥ 1,025	**$ 8,205**
Deferred tax assets—noncurrent:			
Tax credit carryforwards	**¥ 547**	¥ 547	**$ 4,884**
Liability for retirement benefits	**105**	257	**938**
Other	**134**	175	**1,196**
Less valuation allowance	**(461)**	(444)	**(4,116)**
Total	**325**	535	**2,902**
Deferred tax liabilities —noncurrent:			
Unrealized gain on available-for-sale securities	**1,774**	1,557	**15,839**
Depreciation	**194**	183	**1,732**
Other	**65**	63	**581**
Total	**2,033**	1,803	**18,152**
Net deferred tax liabilities —noncurrent	**¥(1,708)**	¥(1,268)	**$(15,250)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2017, with the corresponding figures for 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	**30.0%**	33.0%
Tax credit	**(6.1)**	(7.2)
Dividends received deduction for income tax purposes	**(0.6)**	(0.4)
Change in valuation allowance allocated to income tax expenses	**0.7**	(2.4)
Effect of reduction of income tax rates on deferred tax assets and liabilities		2.0
International tax rate difference	**2.7**	1.6
Other—net	**1.1**	(0.3)
Actual effective tax rate	**27.8%**	26.3%

10. Financial Instruments and Related Disclosures

(1) Group Policy for Financial Instruments

The Group keeps cash reserves for future capital investment and for research and development. Cash reserves are invested in deposits, bonds, stocks, and funds with due consideration of preventing a loss of principal.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk, and the Group manages its credit risk in accordance with internal guidelines. Short-term investments and investment securities are diversified to stock or investment trust funds, mainly to fixed-income bonds with high credit ratings and liquidity. The committee that comprises the president and other members directs investment policy and monitors funds regularly.

Long-term debt and lease obligations are mainly used for capital investment. Derivatives are not used.

(3) Concentration of Credit Risk

As of March 31, 2017, 76.8% of total receivables are from three major customers of the Group.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

March 31, 2017	Millions of Yen Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**¥ 8,461**	**¥ 8,461**	
Short-term investments	**3,291**	**3,291**	
Notes and accounts receivable—trade	**7,955**	**7,955**	
Investment securities	**25,770**	**25,770**	
Total	**¥45,477**	**¥45,477**	
Notes and accounts payable—trade	**¥ 1,846**	**¥ 1,846**	
Notes and accounts payable—other	**2,938**	**2,938**	
Current portion of long-term debt	**286**	**286**	
Accrued income taxes	**111**	**111**	
Long-term debt	**143**	**141**	**¥(2)**
Lease obligations	**84**	**81**	**(3)**
Total	**¥ 5,408**	**¥ 5,403**	**¥(5)**

March 31, 2016	Millions of Yen Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 9,494	¥ 9,494	
Short-term investments	4,256	4,256	
Notes and accounts receivable—trade	8,014	8,014	
Investment securities	23,160	23,160	
Total	¥44,924	¥44,924	
Notes and accounts payable—trade	¥ 1,809	¥ 1,809	
Notes and accounts payable—other	3,221	3,221	
Current portion of long-term debt	286	286	
Accrued income taxes	380	380	
Long-term debt	429	423	¥(6)
Lease obligations	87	84	(3)
Total	¥ 6,212	¥ 6,203	¥(9)

March 31, 2017	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**$ 75,545**	**$ 75,545**	
Short-term investments	**29,384**	**29,384**	
Notes and accounts receivable—trade	**71,027**	**71,027**	
Investment securities	**230,089**	**230,089**	
Total	**$406,045**	**$406,045**	
Notes and accounts payable—trade	**$ 16,482**	**$ 16,482**	
Notes and accounts payable—other	**26,232**	**26,232**	
Current portion of long-term debt	**2,554**	**2,554**	
Accrued income taxes	**991**	**991**	
Long-term debt	**1,277**	**1,259**	**$(18)**
Lease obligations	**751**	**723**	**(28)**
Total	**$ 48,287**	**$ 48,241**	**$(46)**

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

Short-Term Investments and Investment Securities
The fair values of short-term investments and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, at the quoted price obtained from the financial institution for the debt instruments, and at the published net asset value or at the quoted price obtained from the financial institution for the investment trust funds. The information of the fair value for the short-term investments and investment securities by classification is included in Note 3.

Notes and Accounts Receivable—Trade
The carrying values of notes and accounts receivable—trade approximate fair value because of their short maturities.

Notes and Accounts Payable—Trade/Other, Current Portion of Long-Term Debt and Accrued Income Taxes
The carrying values of notes and accounts payable—trade/other, current portion of long-term debt and accrued income taxes approximate fair value because of their short maturities.

Long-Term Debt and Lease Obligations
The fair values of long-term debt and lease obligations are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

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

	Millions of Yen 2017	2016	Thousands of U.S. Dollars 2017
Investment in an unconsolidated subsidiary that does not have a quoted market price in an active market	**¥25**	¥25	**$223**

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

March 31, 2017	Millions of Yen Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	**¥ 8,461**			
Short-term investments	**3,278**			
Notes and accounts receivable—trade	**7,955**			
Investment securities		**¥10,946**		
Total	**¥19,694**	**¥10,946**		

March 31, 2017	Thousands of U.S. Dollars Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	**$ 75,545**			
Short-term investments	**29,267**			
Notes and accounts receivable—trade	**71,027**			
Investment securities		**$97,732**		
Total	**$175,839**	**$97,732**		

Please see Note 6 for annual maturities of long-term debt and Note 5 for obligations under finance leases.

11. Transactions with a Significant Customer

The Company sells a major portion of its main product, ARTZ, to a pharmaceutical company in Japan under a sales agent agreement.

Sales to the customer were ¥14,837 million for the year ended March 31, 2016.

The similar information for 2017 is disclosed in Note 14.

12. Research and Development Costs

Research and development costs charged to income were ¥7,835 million ($69,955 thousand) and ¥8,649 million for the years ended March 31, 2017 and 2016, respectively.

13. Other Comprehensive Income

The components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen 2017	2016	Thousands of U.S. Dollars 2017
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	**¥ 887**	¥ (901)	**$ 7,920**
Reclassification adjustments to profit	**(106)**	(446)	**(947)**
Amount before income tax effect	**781**	(1,347)	**6,973**
Income tax effect	**(222)**	549	**(1,982)**
Total	**¥ 559**	¥ (798)	**$ 4,991**
Foreign currency translation adjustments: Adjustments arising during the year	**¥(184)**	¥ (45)	**$(1,643)**
Total	**¥(184)**	¥ (45)	**$(1,643)**
Defined retirement benefit plan:			
Adjustments arising during the year	**¥ 440**	¥(1,305)	**$ 3,929**
Reclassification adjustments to profit	**239**	88	**2,134**
Amount before income tax effect	**679**	(1,217)	**6,063**
Income tax effect	**(205)**	365	**(1,831)**
Total	**¥ 474**	¥ (852)	**$ 4,232**
Total other comprehensive income (loss)	**¥ 849**	¥(1,695)	**$ 7,580**

14. Segment Information

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

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of the pharmaceutical business and LAL business. Pharmaceutical business consists of pharmaceuticals, medical devices and bulk products. LAL business consists of endotoxin-detecting reagents.

(2) Methods of Measurement for the Amounts of Sales, Profit, Loss, Assets, Liabilities, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit, Loss, Assets, Liabilities, and Other Items

	Millions of Yen				
	2017				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥24,153	¥5,437	¥29,590		¥29,590
Intersegment sales or transfers					
Total	¥24,153	¥5,437	¥29,590		¥29,590
Segment profit	¥ 236	¥1,047	¥ 1,283		¥ 1,283
Segment assets	73,883	6,165	80,048		80,048
Other:					
Depreciation	2,780	140	2,920		2,920
Amortization of goodwill		3	3		3
Increase in property, plant, and equipment and intangible assets	917	257	1,174		1,174

	Millions of Yen				
	2016				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥25,518	¥5,445	¥30,963		¥30,963
Intersegment sales or transfers					
Total	¥25,518	¥5,445	¥30,963		¥30,963
Segment profit	¥ 1,016	¥1,129	¥ 2,145		¥ 2,145
Segment assets	74,403	5,816	80,219		80,219
Other:					
Depreciation	3,046	146	3,192		3,192
Amortization of goodwill		3	3		3
Increase in property, plant, and equipment and intangible assets	1,632	344	1,976		1,976

	Thousands of U.S. Dollars				
	2017				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$215,652	$48,544	$264,196		$264,196
Intersegment sales or transfers					
Total	$215,652	$48,544	$264,196		$264,196
Segment profit	$ 2,107	$ 9,348	$ 11,455		$ 11,455
Segment assets	659,670	55,044	714,714		714,714
Other:					
Depreciation	24,821	1,250	26,071		26,071
Amortization of goodwill		27	27		27
Increase in property, plant, and equipment and intangible assets	8,187	2,295	10,482		10,482

(4) Information about Geographical Areas

a. Sales

Millions of Yen			
2017			
Japan	North America	Other	Total
¥18,560	¥6,962	¥4,068	¥29,590

Millions of Yen			
2016			
Japan	North America	Other	Total
¥19,382	¥7,382	¥4,199	¥30,963

Thousands of U.S. Dollars			
2017			
Japan	North America	Other	Total
$165,714	$62,161	$36,321	$264,196

Note: Sales are classified by country or region based on the location of customers.

b. Property, plant, and equipment

Millions of Yen			
2017			
Japan	North America	Other	Total
¥21,093	¥1,600	¥23	¥22,716

Millions of Yen			
2016			
Japan	North America	Other	Total
¥22,981	¥1,666	¥22	¥24,669

Thousands of U.S. Dollars			
2017			
Japan	North America	Other	Total
$188,330	$14,286	$205	$202,821

(5) Information about Major Customers

Name of Customer	2017 Sales Millions of Yen	2017 Sales Thousands of U.S. Dollars	Related Segment Name
KAKEN PHARMACEUTICAL CO., LTD.	**¥14,031**	**$125,277**	**Pharmaceutical**

Name of Customer	2016 Sales Millions of Yen	2016 Sales Thousands of U.S. Dollars	Related Segment Name
KAKEN PHARMACEUTICAL CO., LTD.	¥14,837	$131,301	Pharmaceutical

(6) Information about Goodwill

Millions of Yen — 2017	Reportable Segment: Pharmaceutical	Reportable Segment: LAL	Reportable Segment: Total	Reconciliations	Consolidated
Amortization of goodwill		**¥3**	**¥3**		**¥3**
Goodwill at March 31, 2017		**2**	**2**		**2**

Millions of Yen — 2016	Reportable Segment: Pharmaceutical	Reportable Segment: LAL	Reportable Segment: Total	Reconciliations	Consolidated
Amortization of goodwill		¥3	¥3		¥3
Goodwill at March 31, 2016		6	6		6

Thousands of U.S. Dollars — 2017	Reportable Segment: Pharmaceutical	Reportable Segment: LAL	Reportable Segment: Total	Reconciliations	Consolidated
Amortization of goodwill		**$27**	**$27**		**$27**
Goodwill at March 31, 2017		**18**	**18**		**18**

15. Subsequent Event

Appropriations of Retained Earnings

On June 20, 2017, the Company's shareholders authorized the following appropriations of retained earnings at March 31, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Cash dividends, ¥18 ($0.16) per share	**¥1,019**	**$9,098**
Total	**¥1,019**	**$9,098**

Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Seikagaku Corporation:

We have audited the accompanying consolidated balance sheet of Seikagaku Corporation and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seikagaku Corporation and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 20, 2017

Member of
Deloitte Touche Tohmatsu Limited

Corporate History

1947	Kosei Suisan K.K. established in Minato-ku, Tokyo. Kurihama Plant opens in Kanagawa.
1950	Industrial production of chondroitin sulfate as a pharmaceutical begins.
1952	Head Office relocated to Chuo-ku, Tokyo.
1953	Name of company changed to K.K. Seikagaku Kenkyusho.
1960	Tokyo Research Institute opens in Shinjuku-ku, Tokyo.
	Development and marketing of research biochemicals begins.
1962	Name of company changed to Seikagaku Corporation.
1968	Tokyo Research Institute relocated to Higashiyamato-shi, Tokyo.
1975	Takahagi Plant opens in Ibaraki.
1981	World's first endotoxin colorimetry reagent developed and manufactured.
1987	Marketing begins for hyaluronic acid formulations ARTZ and OPEGAN.
1989	Company stock registered with the Japan Securities Dealers Association (Now JASDAQ).
1992	Overseas marketing of ARTZ begins (Sweden).
1993	Marketing begins for ARTZ Dispo, a new formulation.
1997	Acquisition of Associates of Cape Cod, Inc. (U.S.A.)
1998	Quality Management System certification ISO 9001/EN 46001, ISO 13485 obtained (superseded by ISO 13485 certification since 2010).
2000	Name of Tokyo Research Institute changed to Central Research Laboratories.
2001	Marketing begins for hyaluronic acid formulation SUPARTZ in U.S.A.
2004	Listing moved to the Tokyo Stock Exchange, Second Section.
2005	Listing moved to the Tokyo Stock Exchange, First Section.
	Head Office relocated to Chiyoda-ku, Tokyo.
2007	Marketing begins for hyaluronic acid medical device MucoUp.
	Seikagaku Biobusiness Corporation established.
2012	Marketing begins for a single-injection hyaluronic acid formulation Gel-One in U.S.A.
	Absorption-type merger of Seikagaku Biobusiness Corporation.
2013	CMC Laboratories established.

Investor Information

(As of May 31, 2017)

Stock Exchange Listing	TOKYO, First Section
Stock Code	4548
Paid-in Capital	¥3,840 million
Authorized Shares	234,000,000
Issued Shares	56,814,093
Closing Date of Accounts	March 31
General Shareholders' Meeting	June

Dividends

March 31 : Date for confirming the shareholders receiving year-end dividends
September 30 : Date for confirming the shareholders receiving interim dividends

Independent Auditors	Deloitte Touche Tohmatsu

Major Shareholders

(As of March 31, 2017)

	Number of Shares Held (Thousand)	Percentage of Outstanding Shares
Shingyo KK	7,843	13.9
KK Kaiseisha	7,293	12.9
The Master Trust Bank of Japan, Ltd. (Trust account)	2,505	4.4
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	1,973	3.5
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,910	3.4
Japan Trustee Services Bank, Ltd. (Trust account)	1,694	3.0
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,536	2.7
The Bank of New York Mellon (International) Limited 131800	1,360	2.4
Kaken Pharmaceutical Co., Ltd.	1,207	2.1
State Street Bank and Trust Company 505001	1,062	1.9

Note: Treasury stock (209 thousand shares) is excluded from the calculations of the percentage above.

Corporate Data

(As of March 31, 2017)

Corporate Profile

Company Name	SEIKAGAKU CORPORATION
Head Office	Marunouchi Center Building 6-1, Marunouchi 1-chome, Chiyoda-ku Tokyo 100-0005, Japan Tel: (81) 3-5220-8950 Fax: (81) 3-5220-8951 URL: http://www.seikagaku.co.jp/english/
Establishment	June 2, 1947
Number of Employees	687 (consolidated basis)
SEIKAGAKU U.S.A. Representative Office	15 Exchange Place Jersey City, New Jersey 07302, U.S.A. Tel: (1) 201-434-8800 Fax: (1) 201-434-8808

Laboratories and Plants

Central Research Laboratories
CMC Laboratories (Tokyo)

Evaluation of efficacy, safety, and pharmacokinetics from the search of candidate substances at the Central Research Laboratories as the principal facilities for drug discovery. Production of investigational drugs, design of manufacturing processes, and investigation of commercial production at the CMC Laboratories.

Contacts
1253, Tateno 3-chome, Higashiyamato-shi
Tokyo 207-0021, Japan
Tel: (81) 42-563-5811 Fax: (81) 42-563-5848

Kurihama Plant (Kanagawa Prefecture)

Production facility for active pharmaceutical ingredients, such as hyaluronic acid and chondroitin sulfate.

Contacts
3-1, Kurihama 9-chome, Yokosuka-shi
Kanagawa 239-0831, Japan
Tel: (81) 46-835-3311 Fax: (81) 46-834-1918

Takahagi Plant (Ibaraki Prefecture)

Production facility for ARTZ, Gel-One, and other pharmaceuticals and medical devices. The No. 5 Production Building, where ARTZ Dispo production facilities began operation.

Contacts
258-5, Aza-Matsukubo, Oaza-Akahama
Takahagi-shi, Ibaraki 318-0001, Japan
Tel: (81) 293-23-1181 Fax: (81) 293-23-7542

Group Company

Associates of Cape Cod, Inc. (Falmouth, Massachusetts)

One of the world's largest manufacturers of bacterial endotoxin and glucan detection products such as Limulus Amebocyte Lysate (LAL).

Contacts
124 Bernard E. Saint Jean Drive, East Falmouth
MA 02536, U.S.A.
Tel: (1) 508-540-3444 Fax: (1) 508-540-8680
URL: http://www.acciusa.com/

Quality Management System

An effective quality management system, incorporating GxPs* such as good manufacturing practice (GMP) and required for the manufacture and supply of pharmaceuticals and medical devices, has been established in accordance with Japanese and foreign regulatory requirements.

ISO 13485 certification and EC certification for medical device quality management have been accredited by TÜV SÜD Product Service GmbH, a European Notified Body in Germany.

*GxP is a general term for Good Practice quality guidelines and regulations, with "x" representing the specific type of practice.

SEIKAGAKU CORPORATION

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