Cultivating Our Leads

Annual Report 2015 | For the year ended March 31, 2015

SEIKAGAKU CORPORATION

Profile

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.

Contents

Our Strength

High Quality

Leading-edge technologies to produce high-quality products

Seikagaku is using its own technologies and know-how to develop and manufacture innovative drugs and supply high-quality products to the global market. Seikagaku’s pioneering leadership in industrial production of chondroitin sulfate has led to the establishment of proprietary extraction and purification technologies. With these technologies, we became the first to launch the joint function improving product ARTZ, whose main ingredient is hyaluronic acid. ARTZ has now been used for more than 25 years and in over 360 million injections with no major side effects.

Our Strength

Specialized Field

A pharmaceutical company focusing on glycoscience

Since its foundation more than 60 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

R&D

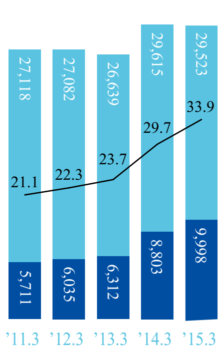
R&D-oriented business model

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 more than 20% of net sales, and that about one-third of our employees are involved in R&D.

	Millions of Yen					Thousands of U.S. Dollars (Note 1)
	2011.3	2012.3	2013.3	2014.3	2015.3	2015.3
Net Sales	¥ 27,118	¥ 27,082	¥ 26,639	¥ 29,615	¥ 29,523	$ 246,025
Overseas Sales	5,711	6,035	6,312	8,803	9,998	83,317
Overseas Sales Ratio (to Net Sales)	21.1%	22.3%	23.7%	29.7%	33.9%	33.9%
Gross Profit	16,637	17,334	16,772	18,391	17,392	144,933
R&D Expenses	6,724	5,971	6,838	6,588	8,147	67,892
Operating Income	3,533	4,617	3,127	4,938	2,384	19,867
Operating Income Ratio (to Net Sales)	13.0%	17.0%	11.7%	16.7%	8.1%	8.1%
Net Income	2,452	3,271	3,257	4,746	3,651	30,425
Net Income Ratio (to Net Sales)	9.0%	12.1%	12.2%	16.0%	12.4%	12.4%
Total Equity	56,107	58,014	61,316	64,786	70,410	586,750
Return on Shareholders' Equity (ROE)	4.4%	5.7%	5.5%	7.5%	5.4%	5.4%
Total Assets	62,684	68,731	70,471	73,826	80,890	674,083
Return on Total Assets (ROA)	3.9%	5.0%	4.7%	6.6%	4.7%	4.7%
Consolidated Dividend Payout Ratio	57.9%	43.4%	43.6%	31.1%	40.5%	40.5%
	(Yen)					(Dollars)
Net Income per Share of Common Stock (Note 2)	43.16	57.58	57.33	83.55	64.27	0.54
Cash Dividends per Share of Common Stock (Note 2)	25.00	25.00	25.00	26.00	26.00	0.22
Number of Employees	649	644	641	639	649	

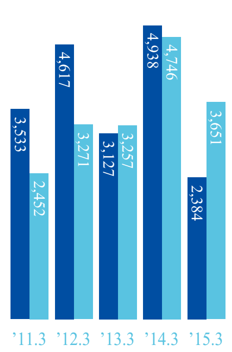
Notes: 1 U.S. dollar amounts are converted, for convenience only, at the rate of ¥120=US$1, the approximate rate at March 31, 2014.
2 As for Per Share Information, please refer to Note 2. "Summary of Significant Accounting Policies", Section q (p. 18).

Net Sales and Overseas Sales
(Millions of Yen)



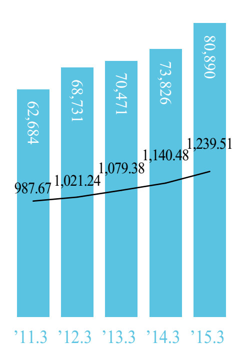
Net Sales
Overseas Sales
Overseas Sales Ratio to Net Sales (%)

Operating Income and Net Income
(Millions of Yen)



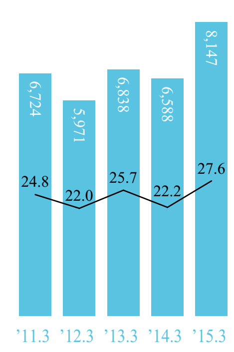
Operating Income
Net Income

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

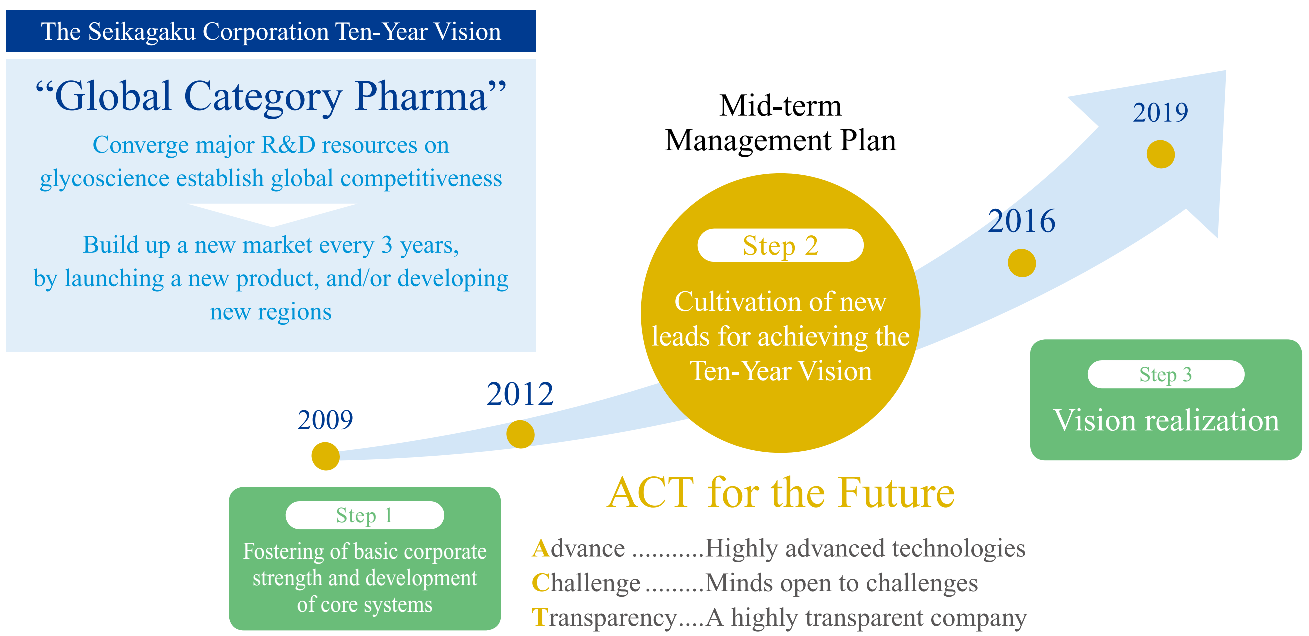


R&D Expenses (Millions of Yen)
Ratio to Net Sales (%)

We are Clearly Moving Ahead

Our formula for growth is based on adopting a wider, global perspective and applying our strengths in high-quality production, competitive specialization and targeted R&D to bring about new revenue streams. There is a new air of expectation throughout the company as we reflect on what lies soon ahead.

President
Ken Mizutani



Business performance in fiscal 2014

Net sales in the fiscal year ended March 31, 2015 (fiscal 2014) remained roughly the same level as the previous fiscal year. The result is attributable to the impact of yen depreciation and an increase in overseas sales, despite National Health Insurance (NHI) drug price reductions in Japan. Operating income decreased due to higher depreciation accompanying the start of operation of new production facilities and a substantial increase in R&D expenses resulting from progress on development themes. Net income declined at a smaller rate than operating income because of a gain on sales of investment securities and a decrease in the income tax rate accompanying a capital reduction with compensation at a U.S. subsidiary.

Aspiring to be a "Global Category Pharma" with global competitiveness

The past few years have been a time of major transformation in the business environment for the pharmaceutical industry, bringing changes including financial stringency in public healthcare, industry realignment on a global scale, and technological innovation in drug discovery research leading to fiercer competition in new drug development. In these circumstances, in order to realize sustainable growth, we drew up the Seikagaku Corporation Ten-Year Vision. It describes how we intend to focus on our key strength, which is glycoscience, to develop as a "Global Category Pharma" that exercises global competitiveness. We are currently implementing a four-year Mid-term Management Plan as the second step toward realization of our Ten-Year Vision, under which we are proactively making investments in research, development, production, and marketing to cultivate new leads that will bear fruit.

New leads toward realization of the Ten-Year Vision starting to ripen

In fiscal 2014, the third year of the Mid-term Management Plan, we made solid progress with measures in a number of areas.

In overseas sales, we are steadily increasing sales volumes of Gel-One, a single-injection product positioned as a growth driver in the U.S. market, by supporting measures to expand sales channels. In domestic sales, we are facing the difficulty of shrinking overall market sales due primarily to the periodic NHI drug price reductions, as well as a decline in market volume. In these circumstances, we are increasing sales volumes of ARTZ, a joint function improving agent, by focusing on measures that leverage brand power to capture share from competitors.

Production is another area that affects our ability to grow. The No. 5 Production Building at the Takahagi Plant, constructed to ensure a stable supply of products over to long term and increase production efficiency, started operation as scheduled in January 2015. This brought to a conclusion a series of major capital investments and resulted in an optimal production structure necessary for business expansion for some time to come.

In research and development activities, in January 2014 we submitted a new drug application (NDA) in Japan for SI-6603, a treatment for lumbar disc herniation, and aim to obtain new drug approval. We are conducting a Phase III clinical trial for SI-6603 in the U.S., and in April of this year we initiated an open-label trial in Europe mainly as a safety evaluation that will be required at the time of an NDA in the U.S. The enrollment for the open-label study was also started in the U.S. in August.

Three other projects at various stages of development are SI-657, an additional indication for ARTZ for the treatment of enthesopathy, SI-614, a therapeutic drug for dry eye being developed for the U.S. market, and SI-613, which is expected to be a novel joint function improving agent.

Measures to expand the business in the U.S., a key market in the growth strategy

Since the aged population in the U.S. is increasing, and fewer than 10% of the estimated 15 million osteoarthritis patients are using hyaluronic acid products, there remains substantial room for growth of this treatment.

In this market environment, to promote further business expansion in the U.S., we established the North American Business Unit as its managing organization in May 2015. We also set up a Representative Office in October 2014 in Jersey City. Both focus solely on North America and are staffed by people with business experience in the U.S. market. These organizations will further reinforce sales partner support, and we aim to increase the combined market share of Gel-One and SUPARTZ by enhancing our monitoring of local marketing activities in the U.S. Specifically, we will focus on further increasing sales of Gel-One, a single-injection product whose sales volumes are steadily increasing, by leveraging the expanded salesforce that resulted from sales partner Zimmer's acquisition of Biomet. We will use the larger salesforce to support sales activities and establish broad knowledge of Gel-One's product advantages.

In the U.S., some insurance companies show preference for three-injection products, and those types are increasing their share of this market, while SUPARTZ is a five-injection product. As a countermeasure for this, in July 2015 we submitted to the FDA an application for approval to launch a three-injection SUPARTZ on the market.

In the LAL business, a non-pharmaceuticals business involved in quality control testing and diagnostics, we aim to capture share from competitors by working together with our U.S. subsidiary Associates of Cape Cod, Inc. to develop new products and reinforce sales activities.

Through the business structure enhancements and measures described above, we will further accelerate business development in the U.S., a key market for Seikagaku's growth strategy.

Creating corporate value over the medium to long term

During the term of the Mid-term Management Plan, Seikagaku is making proactive investments in key strategic projects to achieve the Ten-Year Vision. Inevitably, high levels of depreciation on capital investment and R&D expenses will put downward pressure on earnings. However, we are making steady progress in our key strategies and cultivating new leads in preparation for the next step toward realization of the Ten-Year Vision.

In fiscal 2015, the final year of the Mid-term Management Plan, we will finish up the tasks set forth in the plan. In the next step, we will aim to realize the Ten-Year Vision by harvesting the fruits of our efforts to date and working to put business performance on a growth trajectory.

Improving shareholder value

Seikagaku considers creating additional shareholder value to be an important management priority. Our policy for the return of profits to shareholders is to sustain annual dividends of ¥26 per share.

Seikagaku will continue to focus on creating shareholder value through sustainable growth and constantly strive to maintain high ethical standards and a strong sense of responsibility as a pharmaceuticals company, rigorously ensuring integrity and compliance awareness in business activities, and enhancing corporate governance. We request the continued understanding and support of Seikagaku's shareholders.

President
Ken Mizutani

Increasing Range and Purpose

Concentrating on glycoscience, coordinating our pursuits

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.

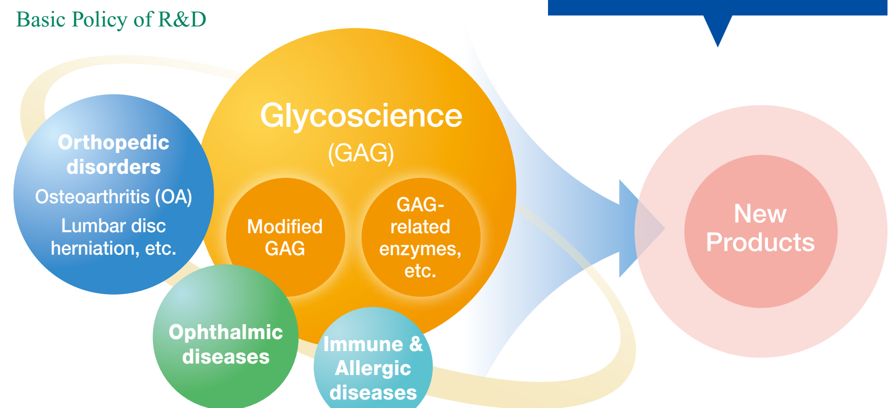
Highest priority research focuses on orthopedic disorders (such as osteoarthritis and lumbar disc herniation), ophthalmic diseases, and immune and allergic diseases. These targets have high potential for significant results, based on the specialized technology infrastructure we have evolved over many 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. The Research and Development Division works closely to strengthen new drug R&D capabilities and ensure rigorous timeline management. By coordinating the activities of organizations involved in new drug discovery—the R&D Project Management Department, Central Research Laboratories, CMC* Laboratories, Clinical Development Department, Regulatory Affairs Department, and Intellectual Property Department—the Research and Development Division promotes efficient R&D by realizing cross-organizational collaboration, faster decision-making, and other benefits. Furthermore, it strives to maintain and secure rights to Seikagaku products through appropriate protection and efficient utilization of intellectual property.

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.

* Chemistry, Manufacturing and Control

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 glycosaminoglycans* (GAG).

Basic Policy of R&D



* A family of large polysaccharide components of complex carbohydrates, which play diverse biological roles

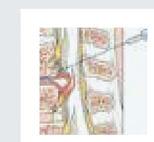
Our Pipeline

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./EU			■		
SI-657 Hyaluronic acid	Enthesopathy, additional indication of ARTZ	Japan			■		In-house
SI-614 Modified hyaluronate	Dry eye	U.S./EU		■	■ Phase II/III		In-house
SI-613 Hyaluronic acid-NSAID conjugates	Knee osteoarthritis	Japan		■			In-house

Note: The license agreement for SI-615, a treatment for rheumatoid arthritis, was terminated in August 2015.

SI-6603

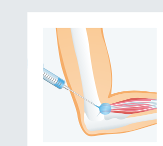
Condoliase for lumbar disc herniation



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 cause hernia pain. A single dose of SI- 6603 is assumed to be as effective as surgery in alleviating symptoms, so, patients could expect lower physical burdens and improved quality of life (QOL). A new drug application examination is ongoing for an NDA submitted to Japan's MHLW in January 2014. In the U.S., case registration for a Phase III clinical trial started in October 2013 was completed in July 2015. An open-label trial started in Europe in April and in the U.S. in August 2015 (mainly as a safety evaluation required for a U.S. NDA) is proceeding well. We plan to use the data to speed up the NDA process.

SI-657

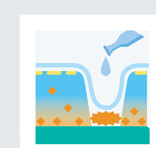
Additional indication of ARTZ for enthesopathy



SI-657 is an additional indication of ARTZ being developed jointly with sales partner Kaken Pharmaceutical Co., Ltd. Enthesopathy is inflammation caused by undue burden at the sites where tendons and ligaments bond to the bone in the elbow and other joints. SI-657 is expected to provide pain relief, because hyaluronic acid's high viscoelasticity covers inflamed areas long term and penetrates tendons and ligaments. Follow-up observation in the Phase III clinical trial was completed in January 2015, and data is being analyzed.

SI-614

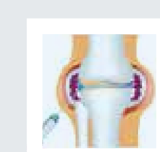
Modified hyaluronate for dry eye



SI-614 is a modified hyaluronate produced by Seikagaku's proprietary technology. SI-614 is expected to improve symptoms of dry eye by protecting the ocular surface and promoting corneal epithelial wound healing in dry eye patients. A Phase II/III clinical trial was completed in January 2015, and we are currently considering a next phase clinical trial.

SI-613

Treatment for knee 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 NSAID in addition to the joint function improving effect of hyaluronic acid, SI-613 is expected to provide prompt and long-term relief of intense pain and inflammation associated with knee osteoarthritis. Case registration for a Phase II multiple-dose study was completed in July 2015.

Pharmaceuticals Business

Sales by Segment

83.5%

Worldwide sales of pharmaceuticals and medical devices for the year ended March 31, 2015 (fiscal 2014) declined by 2.7% to ¥24,646 million.

The decline in sales is attributable primarily to the effects of NHI drug price reductions in Japan and lower shipments of SUPARTZ to the U.S. following a high level of shipments in the previous year.

Domestic Pharmaceuticals: ¥16,898 million (-6.1% compared with fiscal 2013)

Overseas Pharmaceuticals: ¥6,340 million (+10.9% compared with fiscal 2013)

ARTZ® 25mg, ARTZ Dispo® 25mg, SUPARTZ®, 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 360 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 Japan, amid market contraction in terms of volume vigorous marketing activities supporting ARTZ helped to increase deliveries to medical institutions, but sales in Japan declined from the impact of a NHI drug price reduction.

Sales of the 5-injection product, SUPARTZ, the brand name of ARTZ in the U.S., fell only slightly because of effective sales promotion activities by the sales partner in the U.S. to counter a growing preference for 3-injection products sold by competitors. Seikagaku's export sales of SUPARTZ to the U.S. fell, reflecting a high level of shipments in fiscal 2013.

In China, ARTZ has earned a strong reputation for high quality among large hospitals in major cities due to the sales partner's continuing effort to expand local sales. As a result, export sales to China increased.

Gel-One®

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.

U.S. sales of Gel-One increased. Seikagaku's sales also increased as a result of the growth in U.S. sales and the impact of yen depreciation. To further accelerate business expansion of Gel-One, in May 2015 Seikagaku established the North American Business Unit as a new headquarters organization, following the October 2014 opening of the SEIKAGAKU U.S.A. Representative Office.

Bulk Products: ¥1,408 million (-13.6%)

OPEGAN®, OPEGAN Hi®

Ophthalmic surgical aids

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 of OPEGAN to medical institutions increased in a highly competitive market. However the NHI drug price reductions had the effect of reducing sales.

MucoUp®

Surgical aids for endoscopic mucosal resection

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 of MucoUp to medical institutions remained steady at roughly the fiscal 2013 level. However, inventory adjustments by the sales partner reduced Seikagaku's sales in fiscal 2014.

Bulk Products

Sodium hyaluronate and Sodium chondroitin sulfate

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

Sales of bulk products declined as sales of hyaluronic acid fell, amid an increasingly fierce market environment.

LAL Business

Sales by Segment

16.5%

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: ¥4,876 million (+14.2%)

Endotoxin-detecting Reagents

Net sales from the LAL business rose 14.2% compared with fiscal 2013 to ¥4,876 million as a result of an increase in overseas sales of endotoxin-detecting reagents and the impact of yen depreciation.

Basic Policy on Corporate Governance

Good corporate governance is the primary management objective, leading to accurate information gathering, fast decisions, and optimum business supervision. Profoundly aware of our role as a pharmaceutical company, we seek the confidence of all stakeholders. By establishing internal controls, including compliance and risk management, we aim to build a management environment that engenders the trust of society.

Management structure

Board of Directors—The Board of Directors, comprising six full-time and two outside members meets monthly and as necessary, to make decisions on tasks stipulated in the Articles of Incorporation, decide on important business, and oversee execution. To encourage flexibility and timeliness, the term of office for directors is one year. The outside directors strengthen management oversight with an alternative, fair, and specialized perspective.

Business operations—Seikagaku's managing officer system limits the Board of Directors to decision-making and business execution oversight and segregates the business execution function. Management Committee meetings, attended by full-time directors and managing officers, are, in principle, held weekly for timely issue identification and resolution. To further strengthen internal control, we set up the Risk Management Committee. It is chaired by the director in charge of administration and comprises primarily directors and managing officers of various divisions.

Audit framework

The Audit & Supervisory Board comprises two full-time and three outside members, who share information with full-time members for impartial and professional supervision and audits of the execution of duties. They communicate as necessary with the Audit Department to enhance the supervisory functions.

Compliance system

Seikagaku has a compliance program to ensure socially ethical action and compliance with the stringent regulations of the pharmaceutical industry. Furthermore, there is a Compliance Committee comprising the President and members of the Management Committee.

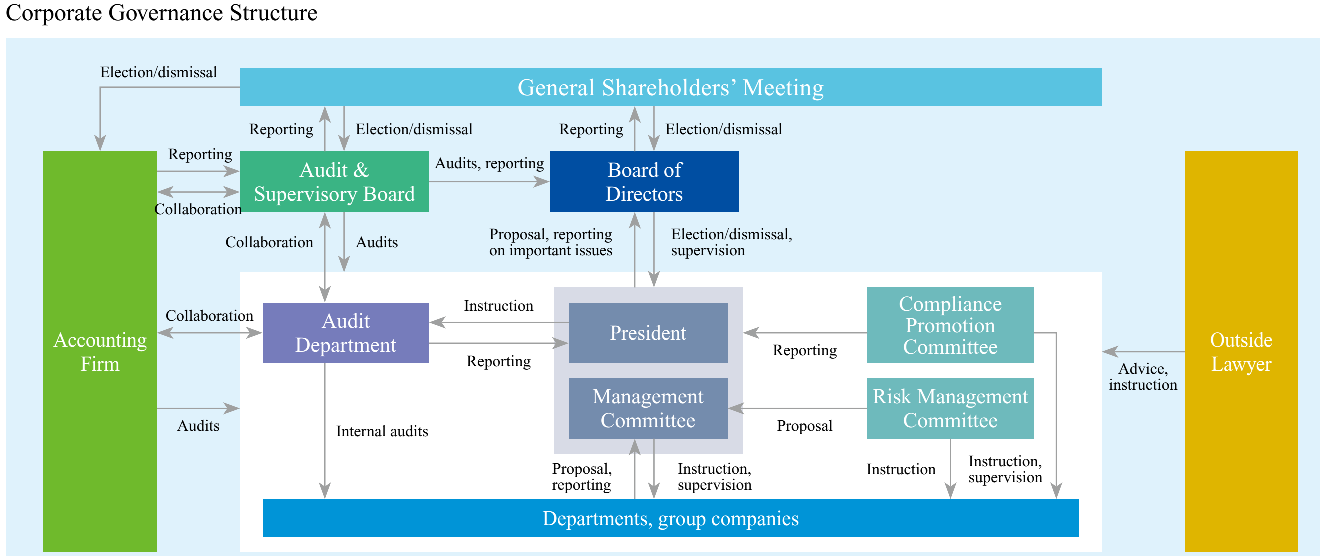
Seikagaku widely distributes a compliance handbook among officers and employees and conducts training to assure compliance groupwide. Advice and instructions from outside lawyers ensure that management and daily business are in compliance with laws and regulations.

Policy toward large-scale share purchases

Seikagaku has a policy to prevent inappropriate large-scale purchases of its shares that could harm corporate value and the common interests of shareholders. The aim of this policy is to ensure that, in the event of a large-scale share purchase, clear rules and procedures are in place, not to protect the Seikagaku itself, but to ensure that the Seikagaku responds appropriately.

The distinct features of this policy are that whether the Seikagaku keeps the policy or not is subject to the continued approval by shareholders at the General Shareholders' Meeting and that it establishes a committee, independent of management, as the evaluation organization.

Corporate Governance Structure



For full details, see http://ir.seikagaku.co.jp/en/management/governance.html


Ken Mizutani
PRESIDENT


Toshinori Yagura
SENIOR MANAGING DIRECTOR


Masaomi Miyamoto
EXECUTIVE MANAGING DIRECTOR


Kazuaki Ohnishi
EXECUTIVE MANAGING DIRECTOR


Eiji Katayama
OUTSIDE DIRECTOR


Izumi Hayashi
OUTSIDE DIRECTOR


Shinichi Ishikawa
DIRECTOR


Osamu Serizawa
DIRECTOR


Yasushi Fukumoto
AUDIT & SUPERVISORY BOARD MEMBER


Yoshiyuki Sakura
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

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/

Consolidated Balance Sheet

Seikagaku Corporation and Consolidated Subsidiaries
March 31, 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 11)	¥ 9,346	¥ 8,782	$ 77,883
Short-term investments (Notes 3 and 11)	3,936	4,279	32,800
Notes and accounts receivable—trade (Note 11)	8,357	7,776	69,642
Allowance for doubtful accounts	(3)	(3)	(25)
Inventories (Note 4)	6,226	5,669	51,883
Deferred tax assets (Note 10)	1,099	1,113	9,158
Other current assets	884	1,042	7,367
Total current assets	29,845	28,658	248,708
PROPERTY, PLANT, AND EQUIPMENT:			
Land	1,000	972	8,333
Buildings and structures	22,416	18,507	186,800
Machinery and equipment	26,953	20,631	224,608
Lease assets (Note 5)	153	1,163	1,275
Construction in progress	592	9,196	4,934
Total	51,114	50,469	425,950
Accumulated depreciation	(25,186)	(23,551)	(209,883)
Net property, plant, and equipment	25,928	26,918	216,067
INVESTMENTS AND OTHER ASSETS:			
Investment in an unconsolidated subsidiary	25	25	208
Investment securities (Notes 3 and 11)	23,081	17,219	192,342
Goodwill	9	11	75
Asset for retirement benefits (Note 8)	390		3,250
Other assets (Note 6)	1,699	1,123	14,158
Allowance for doubtful accounts	(87)	(128)	(725)
Total investments and other assets	25,117	18,250	209,308
TOTAL	¥ 80,890	¥ 73,826	$ 674,083
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Notes and accounts payable—trade (Note 11)	¥ 1,349	¥ 1,320	$ 11,242
Notes and accounts payable—other (Note 11)	3,656	3,142	30,467
Current portion of long-term debt (Notes 7 and 11)	286		2,383
Current portion of long-term lease obligations (Notes 5 and 11)	35	256	292
Accrued expenses	834	826	6,950
Accrued income taxes (Note 11)	90	940	750
Other current liabilities	112	181	933
Total current liabilities	6,362	6,665	53,017
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 11)	714	1,000	5,950
Long-term lease obligations (Notes 5 and 11)	58	47	483
Liability for retirement benefits (Note 8)		258	
Asset retirement obligations	37	36	308
Deferred tax liabilities (Note 10)	2,092	918	17,433
Other long-term liabilities	1,217	116	10,142
Total long-term liabilities	4,118	2,375	34,316
EQUITY (Notes 9 and 17):			
Common stock—authorized, 234,000,000 shares; issued, 58,584,093 shares in 2015 and 2014	3,840	3,840	32,000
Capital surplus	5,302	5,302	44,183
Retained earnings	58,277	56,139	485,642
Treasury stock—at cost, 1,778,994 shares in 2015 and 1,778,266 shares in 2014	(2,080)	(2,079)	(17,333)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	4,480	1,864	37,333
Foreign currency translation adjustments	624	153	5,200
Defined retirement benefit plan	(33)	(433)	(275)
Total equity	70,410	64,786	586,750
TOTAL	¥ 80,890	¥ 73,826	$ 674,083

See notes to consolidated financial statements.

Consolidated Statement of Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
NET SALES (Notes 12 and 16)	¥ 29,523	¥ 29,615	$ 246,025
COST OF SALES	12,131	11,224	101,092
Gross profit	17,392	18,391	144,933
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 13)	15,008	13,453	125,066
Operating income	2,384	4,938	19,867
OTHER INCOME (EXPENSES):			
Interest and dividend income	313	342	2,608
Interest expense	(18)	(21)	(150)
Foreign exchange gain	546	389	4,550
Royalty income	241	106	2,008
Gain on sales of investment securities	389	596	3,242
Business structure improvement expenses (Note 14)		(525)	
Other—net	153	125	1,275
Other income—net	1,624	1,012	13,533
INCOME BEFORE INCOME TAXES	4,008	5,950	33,400
INCOME TAXES (Note 10):			
Current	502	1,522	4,183
Deferred	(145)	(318)	(1,208)
Total income taxes	357	1,204	2,975
NET INCOME	¥ 3,651	¥ 4,746	$ 30,425

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Net income	¥ 64.27	¥ 83.55	$ 0.54
Cash dividends applicable to the year	26.00	26.00	0.22

	Thousands of Shares	
Weighted-average shares	56,805	56,806

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
NET INCOME	¥ 3,651	¥ 4,746	$ 30,425
OTHER COMPREHENSIVE INCOME (Note 15):			
Unrealized gain (loss) on available-for-sale securities	2,616	(120)	21,800
Foreign currency translation adjustments	471	727	3,925
Defined retirement benefit plan	400		3,333
Total other comprehensive income	3,487	607	29,058
COMPREHENSIVE INCOME	¥ 7,138	¥ 5,353	$ 59,483
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—Owners of the parent	¥ 7,138	¥ 5,353	$ 59,483

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2015

	Millions of Yen								
						Accumulated Other Comprehensive Income			
	Issued Number of Shares of Common Stock	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, APRIL 1, 2013	58,584,093	¥ 3,840	¥ 5,302	¥ 52,842	¥ (2,078)	¥ 1,984	¥ (574)		¥ 61,316
Net income				4,746					4,746
Cash dividends, ¥26 per share				(1,449)					(1,449)
Unrealized loss on available-for-sale securities						(120)			(120)
Net change in foreign currency translation adjustments							727		727
Net change in defined retirement benefit plan								¥ (433)	(433)
Purchase of treasury stock					(1)				(1)
BALANCE, MARCH 31, 2014 (APRIL 1, 2014, as previously reported)	58,584,093	3,840	5,302	56,139	(2,079)	1,864	153	(433)	64,786
Cumulative effect of accounting change				(36)					(36)
BALANCE, APRIL 1, 2014 (as restated)	58,584,093	3,840	5,302	56,103	(2,079)	1,864	153	(433)	64,750
Net income				3,651					3,651
Cash dividends, ¥26 per share				(1,477)					(1,477)
Unrealized gain on available-for-sale securities						2,616			2,616
Net change in foreign currency translation adjustments							471		471
Net change in defined retirement benefit plan								400	400
Purchase of treasury stock					(1)				(1)
BALANCE, MARCH 31, 2015	58,584,093	¥ 3,840	¥ 5,302	¥ 58,277	¥ (2,080)	¥ 4,480	¥ 624	¥ (33)	¥ 70,410

	Thousands of U.S. Dollars (Note 1)							
					Accumulated Other Comprehensive Income			
	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, 2014 (APRIL 1, 2014, as previously reported)	$ 32,000	$ 44,183	$ 467,825	$ (17,325)	$ 15,533	$ 1,275	$ (3,608)	$ 539,883
Cumulative effect of accounting change			(300)					(300)
BALANCE, APRIL 1, 2014 (as restated)	32,000	44,183	467,525	(17,325)	15,533	1,275	(3,608)	539,583
Net income			30,425					30,425
Cash dividends, $0.22 per share			(12,308)					(12,308)
Unrealized gain on available-for-sale securities					21,800			21,800
Net change in foreign currency translation adjustments						3,925		3,925
Net change in defined retirement benefit plan							3,333	3,333
Purchase of treasury stock				(8)				(8)
BALANCE, MARCH 31, 2015	$ 32,000	$ 44,183	$ 485,642	$ (17,333)	$ 37,333	$ 5,200	$ (275)	$ 586,750

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
OPERATING ACTIVITIES:			
Income before income taxes	¥ 4,008	¥ 5,950	$ 33,400
Adjustments for:			
Income taxes—paid	(1,426)	(1,275)	(11,883)
Depreciation and amortization	2,613	1,777	21,775
Business structure improvement expenses		525	
Foreign exchange gain	(282)	(386)	(2,350)
Gain on sales of investment securities	(389)	(596)	(3,242)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable—trade	(532)	1,372	(4,433)
Increase in inventories	(401)	(459)	(3,342)
Increase in advance payments for research and development*	218	30	1,817
Increase (decrease) in notes and accounts payable—trade	19	(214)	158
Decrease (Increase) in consumption tax payable/receivable	401	(264)	3,342
Increase in accounts payable—other	259	357	2,158
Decrease in liability for retirement benefits	(83)	(133)	(692)
Other—net	(272)	(277)	(2,266)
Net cash provided by operating activities	4,133	6,407	34,442
INVESTING ACTIVITIES:			
Purchases of time deposits	(500)		(4,167)
Proceeds from maturities of time deposits		1,000	
Proceeds from redemption of short-term investments	4,294	4,743	35,783
Purchases of short-term investments	(833)	(335)	(6,942)
Purchases of fixed assets	(1,483)	(7,952)	(12,358)
Proceeds from sales of investment securities	1,581	2,234	13,175
Purchases of investment securities	(6,319)	(2,875)	(52,658)
Other—net	(45)	23	(375)
Net cash used in investing activities	(3,305)	(3,162)	(27,542)
FINANCING ACTIVITIES:			
Proceeds from long-term debt		1,000	
Repayment of long-term debt		(700)	
Repayments of lease obligations	(263)	(161)	(2,192)
Dividends paid	(1,477)	(1,449)	(12,308)
Proceeds from sales and installment back transactions	1,249		10,408
Repayments of sales and installment back transactions	(26)		(217)
Other—net	(2)	(1)	(16)
Net cash used in financing activities	(519)	(1,311)	(4,325)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	255	438	2,125
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 564	¥ 2,372	$ 4,700
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,782	6,410	73,183
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 9,346	¥ 8,782	$ 77,883

*Prior to April 1, 2014, increase in advance payments for research and development was included in Other among operating activities of the consolidated statement of cash flows. Since during this fiscal year ended March 31, 2015, the amount increased significantly, such amount is disclosed separately in operating activities of the consolidated statement of cash flows as of March 31, 2015.
The amount included in Other as of March 31, 2014, was $291 thousand.

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2015

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 2014 consolidated financial statements to conform to the classifications used in 2015.

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 ¥120 to $1, the approximate rate of exchange at March 31, 2015. 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, 2015, include the accounts of the Company and its three significant subsidiaries (collectively, the "Group").

Investment in an unconsolidated subsidiary in 2015 and 2014 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 being 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—In May 2006, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that 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 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 directly recorded in equity; (c) expensing capitalized development costs of research and development; (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; and (e) exclusion of minority interests from net income, if contained in net income.

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

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

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

Cash equivalents include time deposits, certificate of deposits, 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. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet. In addition, the revised accounting standard permits leases that existed at the transition date and 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 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 projected benefit obligations and plan assets at the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period. Past service costs are amortized on a straight-line basis over 10 years within the average remaining service period.

The Company also has another pension plan, which is a defined contributory pension plan from 2006.

Certain foreign subsidiaries also 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.

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

Major changes are as follows:

(a) Treatment in the consolidated balance sheet

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

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

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period, are treated as reclassification adjustments (see Note 15).

(c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014, and for (c) above, effective April 1, 2014.

With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis, the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (c) above as of April 1, 2014, in retained earnings. The effects of applying (c) above are minor.

l. Asset Retirement Obligations—In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement

Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of 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.

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 available 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 2015 or 2014.

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.

r. Accounting Changes and Error Corrections—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those financial statements are restated.

3. Short-term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2015 and 2014, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Short-term investments:			
Debt securities	¥ 3,936	¥ 4,279	$ 32,800
Total	¥ 3,936	¥ 4,279	$ 32,800
Investment securities:			
Equity securities	¥ 10,075	¥ 7,364	$ 83,958
Debt securities	10,826	8,339	90,217
Other	2,180	1,516	18,167
Total	¥ 23,081	¥ 17,219	$ 192,342

Information regarding the marketable securities classified as available for sale at March 31, 2015 and 2014, was as follows:

	Millions of Yen			
March 31, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	¥ 4,119	¥ 5,956		¥ 10,075
Debt securities	14,405	371	¥ 14	14,762
Other	1,912	268		2,180
March 31, 2014				
Securities classified as available for sale:				
Equity securities	¥ 4,800	¥ 2,582	¥ 18	¥ 7,364
Debt securities	12,302	318	2	12,618
Other	1,538	9	31	1,516

	Thousands of U.S. Dollars			
March 31, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	$ 34,325	$ 49,633		$ 83,958
Debt securities	120,042	3,092	$ 117	123,017
Other	15,933	2,234		18,167

The information for available-for-sale securities that were sold during the years ended March 31, 2015 and 2014, was as follows:

	Millions of Yen		
March 31, 2015	Proceeds	Realized Gains	Realized Losses
Securities classified as available for sale:			
Equity securities	¥ 1,095	¥ 416	¥ 2
Other	486		25
Total	¥ 1,581	¥ 416	¥ 27
March 31, 2014			
Securities classified as available for sale:			
Equity securities	¥ 1,556	¥ 627	¥ 9
Debt securities	99		
Other	678	6	28
Total	¥ 2,333	¥ 633	¥ 37

	Thousands of U.S. Dollars		
March 31, 2015	Proceeds	Realized Gains	Realized Losses
Securities classified as available for sale:			
Equity securities	$ 9,125	$ 3,467	$ 17
Other	4,050		208
Total	$ 13,175	$ 3,467	$ 225

The impairment losses on available-for-sale securities were ¥27 million for the year ended March 31, 2014.

4. Inventories

Inventories at March 31, 2015 and 2014, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Merchandise and finished products	¥ 2,999	¥ 2,965	$ 24,991
Work in process	1,737	1,273	14,475
Raw materials and supplies	1,490	1,431	12,417
Total	¥ 6,226	¥ 5,669	$ 51,883

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, 2015, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2016	¥ 35	$ 292
2017	30	249
2018	20	167
2019	8	67
Total	¥ 93	$ 775

(2) Operating Leases

The minimum rental commitments under noncancelable operating leases at March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Due within one year	¥ 17	¥ 17	$ 142
Due after one year	18	9	150
Total	¥ 35	¥ 26	$ 292

6. Long-term Deposits

Long-term deposits in banks of ¥1,000 million ($8,333 thousand) were included in other assets of investments and other assets as of March 31, 2015, and ¥500 million as of March 31, 2014. Annual maturities of the deposits were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 500	$ 4,167
2020	500	4,166
Total	¥ 1,000	$ 8,333

There is a possibility that the Company would not receive full repayment of deposits if the Company withdraws before maturity. However, the Company has no intention of withdrawing the deposits before maturity.

7. Long-term Debt

Long-term debt at March 31, 2015 and 2014, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Loan from bank, 0.29%, due 2018 (unsecured)	¥ 1,000	¥ 1,000	$ 8,333

Annual maturity of long-term debt as of March 31, 2015, was as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2016	¥ 286	$ 2,383
2017	286	2,383
2018	286	2,383
2019	142	1,184

8. 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, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Balance at beginning of year (as previously reported)	¥ 5,569	¥ 5,467	$ 46,408
Cumulative effect of accounting change	55		459
Balance at beginning of year (as restated)	5,624	5,467	46,867
Current service cost	245	239	2,042
Interest cost	67	65	558
Actuarial (gains) losses	(142)	73	(1,183)
Benefits paid	(197)	(275)	(1,642)
Balance at end of year	¥ 5,597	¥ 5,569	$ 46,642

(2) The changes in plan assets for the years ended March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Balance at beginning of year	¥ 5,311	¥ 4,789	$ 44,258
Expected return on plan assets	158	124	1,317
Actuarial gains	456	349	3,800
Contributions from the employer	259	324	2,159
Benefits paid	(197)	(275)	(1,642)
Balance at end of year	¥ 5,987	¥ 5,311	$ 49,892

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

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Defined benefit obligation	¥ 5,597	¥ 5,569	$ 46,642
Plan assets	(5,987)	(5,311)	(49,892)
Net liability (asset) arising from defined benefit obligation	¥ (390)	¥ 258	$ (3,250)

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Liability for retirement benefits		¥ 258	
Asset for retirement benefits	¥ (390)		$ (3,250)
Net liability (asset) arising from defined benefit obligation	¥ (390)	¥ 258	$ (3,250)

(4) The components of net periodic retirement benefit costs for the years ended March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Service cost	¥ 245	¥ 240	$ 2,042
Interest cost	68	66	567
Expected return on plan assets	(158)	(124)	(1,317)
Amortization of prior service cost	(95)	(104)	(792)
Recognized actuarial losses	115	114	958
Net periodic benefit costs	¥ 175	¥ 192	$ 1,458

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Prior service cost	¥ 95		$ 792
Actuarial gains	(714)		(5,950)
Total	¥ (619)		$ (5,158)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Unrecognized prior service cost		¥ (95)	
Unrecognized actuarial losses	¥ 48	762	$ 400
Total	¥ 48	¥ 667	$ 400

(7) Plan assets

a Components of plan assets

Plan assets as of March 31, 2015 and 2014, consisted of the following:

	2015	2014
Debt investments	24%	23%
Equity investments	40	37
Assets in general account of insurance companies	34	38
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, 2015 and 2014, were set forth as follows:

	2015	2014
Discount rate	1.2%	1.2%
Expected rate of return on plan assets	3.0	2.6

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 ($458 thousand) for the year ended March 31, 2015.

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 ¥57 million ($475 thousand) for the year ended March 31, 2015.

9. Equity

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, 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 is prescribed as one year rather than two years of normal term by its articles of incorporation, the board of directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year, if the company has prescribed so in its articles of incorporation.

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

10. 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 35% and 38% for the years ended March 31, 2015 and 2014, 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, 2015 and 2014, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Deferred tax assets—current:			
Research and development costs	¥ 235	¥ 261	$ 1,958
Accrued bonuses	199	215	1,658
Tax credit carryforwards	161	32	1,342
Other	561	649	4,675
Total	1,156	1,157	9,633
Deferred tax liabilities—current:			
Other	57	44	475
Total	57	44	475
Net deferred tax assets—current	¥ 1,099	¥ 1,113	$ 9,158
Deferred tax assets—noncurrent:			
Tax credit carryforwards	¥ 629	¥ 192	$ 5,242
Other	241	345	2,008
Less valuation allowance	(526)	(112)	(4,383)
Total	344	425	2,867
Deferred tax liabilities—noncurrent:			
Unrealized gain on available-for-sale securities	2,045	950	17,042
Depreciation	189	157	1,575
Asset for retirement benefits	125		1,042
Other	77	236	641
Total	2,436	1,343	20,300
Net deferred tax liabilities—noncurrent	¥ (2,092)	¥ (918)	$ (17,433)

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, 2015, with the corresponding figures for 2014, is as follows:

	2015	2014
Normal effective statutory tax rate	35.0%	38.0%
Tax credit	(26.9)	(18.5)
Dividends received deduction for income tax purposes	(8.7)	(0.6)
Change in valuation allowance allocated to income tax expenses	10.3	(0.3)
Effect of reduction of income tax rates on deferred tax assets and liabilities	1.1	1.3
Other—net	(1.9)	0.3
Actual effective tax rate	8.9%	20.2%

New tax reform laws enacted in 2015 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2015, to approximately 33% and for the fiscal year beginning on or after April 1, 2016, to approximately 32%. The effect of these changes was to decrease deferred tax assets by ¥45 million ($372 thousand), decrease deferred tax liabilities by ¥182 million ($1,517 thousand) and increase accumulated other comprehensive income for unrealized gain on available-for-sale securities by ¥181 million ($1,508 thousand) in the consolidated balance sheet as of March 31, 2015, and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥44 million ($367 thousand).

11. 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, 2015, 66.9% 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

	Millions of Yen		
March 31, 2015	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 9,346	¥ 9,346	
Short-term investments	3,936	3,936	
Notes and accounts receivable—trade	8,357	8,357	
Investment securities	23,081	23,081	
Total	¥ 44,720	¥ 44,720	
Notes and accounts payable—trade	¥ 1,349	¥ 1,349	
Notes and accounts payable—other	3,656	3,656	
Current portion of long-term debt	286	286	
Accrued income taxes	90	90	
Long-term debt	714	701	¥ (13)
Lease obligations	93	90	(3)
Total	¥ 6,188	¥ 6,172	¥ (16)

	Millions of Yen		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 8,782	¥ 8,782	
Short-term investments	4,279	4,279	
Notes and accounts receivable—trade	7,776	7,776	
Investment securities	17,219	17,219	
Total	¥ 38,056	¥ 38,056	
Notes and accounts payable—trade	¥ 1,320	¥ 1,320	
Notes and accounts payable—other	3,142	3,142	
Accrued income taxes	940	940	
Long-term debt	1,000	980	¥ (20)
Lease obligations	303	292	(11)
Total	¥ 6,705	¥ 6,674	¥ (31)

	Thousands of U.S. Dollars		
March 31, 2015	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 77,883	$ 77,883	
Short-term investments	32,800	32,800	
Notes and accounts receivable—trade	69,642	69,642	
Investment securities	192,342	192,342	
Total	$ 372,667	$ 372,667	
Notes and accounts payable—trade	$ 11,242	$ 11,242	
Notes and accounts payable—other	30,467	30,467	
Current portion of long-term debt	2,383	2,383	
Accrued income taxes	750	750	
Long-term debt	5,950	5,842	$ (108)
Lease obligations	775	750	(25)
Total	$ 51,567	$ 51,434	$ (133)

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		Thousands of U.S. Dollars
	2015	2014	2015
Investment in an unconsolidated subsidiary that does not have a quoted market price in an active market	¥ 25	¥ 25	$ 208

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

	Millions of Yen		
March 31, 2015	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 9,346		
Short-term investments	3,918		
Notes and accounts receivable—trade	8,357		
Investment securities		¥ 10,439	¥ 300
Total	¥ 21,621	¥ 10,439	¥ 300

	Thousands of U.S. Dollars		
March 31, 2015	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	$ 77,883		
Short-term investments	32,650		
Notes and accounts receivable—trade	69,642		
Investment securities		$ 87,000	$ 2,500
Total	$ 180,175	$ 87,000	$ 2,500

Please see Note 7 for annual maturities of long-term debt and Note 5 for obligations under finance leases.

12. 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 ¥15,731 million for the year ended March 31, 2014.

The similar information for 2015 is disclosed in Note 16.

13. Research and Development Costs

Research and development costs charged to income were ¥8,147 million ($67,892 thousand) and ¥6,588 million for the years ended March 31, 2015 and 2014, respectively.

14. Business Structure Improvement Expenses

The Company recorded an extraordinary loss on costs associated with the integration of the Kurihama Plant and Central Research Laboratories, etc.

Business structure improvement expenses consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Dismantlement cost		¥ 253	
Loss on retirement of fixed assets		139	
Soil investigation and improvement cost		131	
Other		2	
Total		¥ 525	

15. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 4,113	¥ 316	$ 34,275
Reclassification adjustments to profit	(389)	(570)	(3,242)
Amount before income tax effect	3,724	(254)	31,033
Income tax effect	(1,108)	134	(9,233)
Total	¥ 2,616	¥ (120)	$ 21,800
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 471	¥ 727	$ 3,925
Total	¥ 471	¥ 727	$ 3,925
Defined retirement benefit plan:			
Adjustments arising during the year	¥ 598		$ 4,983
Reclassification adjustments to profit	20		167
Amount before income tax effect	618		5,150
Income tax effect	(218)		(1,817)
Total	¥ 400		$ 3,333
Total other comprehensive income	¥ 3,487	¥ 607	$ 29,058

16. 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				
	2015				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 24,647	¥ 4,876	¥ 29,523		¥ 29,523
Intersegment sales or transfers					
Total	¥ 24,647	¥ 4,876	¥ 29,523		¥ 29,523
Segment profit	¥ 1,205	¥ 1,179	¥ 2,384		¥ 2,384
Segment assets	75,738	5,152	80,890		80,890
Other:					
Depreciation	2,486	124	2,610		2,610
Amortization of goodwill		3	3		3
Increase in property, plant, and equipment and intangible assets	1,939	156	2,095		2,095

	Millions of Yen				
	2014				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 25,343	¥ 4,272	¥ 29,615		¥ 29,615
Intersegment sales or transfers					
Total	¥ 25,343	¥ 4,272	¥ 29,615		¥ 29,615
Segment profit	¥ 3,963	¥ 975	¥ 4,938		¥ 4,938
Segment assets	68,473	5,353	73,826		73,826
Other:					
Depreciation	1,659	108	1,767		1,767
Amortization of goodwill		10	10		10
Increase in property, plant, and equipment and intangible assets	7,093	129	7,222		7,222

	Thousands of U.S. Dollars				
	2015				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$ 205,392	$ 40,633	$ 246,025		$ 246,025
Intersegment sales or transfers					
Total	$ 205,392	$ 40,633	$ 246,025		$ 246,025
Segment profit	$ 10,042	$ 9,825	$ 19,867		$ 19,867
Segment assets	631,150	42,933	674,083		674,083
Other:					
Depreciation	20,717	1,033	21,750		21,750
Amortization of goodwill		25	25		25
Increase in property, plant, and equipment and intangible assets	16,158	1,300	17,458		17,458

(4) Information about Geographical Areas

a. Sales

Millions of Yen			
2015			
Japan	North America	Other	Total
¥ 19,525	¥ 6,315	¥ 3,683	¥ 29,523

Millions of Yen			
2014			
Japan	North America	Other	Total
¥ 20,812	¥ 5,596	¥ 3,207	¥ 29,615

Thousands of U.S. Dollars			
2015			
Japan	North America	Other	Total
$ 162,708	$ 52,625	$ 30,692	$ 246,025

Note: Sales are classified in countries or regions based on the location of customers.

b. Property, plant, and equipment

Millions of Yen			
2015			
Japan	North America	Other	Total
¥ 24,470	¥ 1,438	¥ 20	¥ 25,928

Millions of Yen			
2014			
Japan	North America	Other	Total
¥ 25,672	¥ 1,221	¥ 25	¥ 26,918

Thousands of U.S. Dollars			
2015			
Japan	North America	Other	Total
$ 203,917	$ 11,983	$ 167	$ 216,067

(5) Information about Major Customers

	2015		
	Sales		
Name of Customer	Millions of Yen	Thousands of U.S. Dollars	Related Segment Name
KAKEN PHARMACEUTICAL CO., LTD.	¥ 14,768	$ 123,067	Pharmaceutical

	2014		
	Sales		
Name of Customer	Millions of Yen	Thousands of U.S. Dollars	Related Segment Name
KAKEN PHARMACEUTICAL CO., LTD.	¥ 15,731	$ 152,728	Pharmaceutical
BIOVENTUS LLC	3,010	29,223	Pharmaceutical

(6) Information about Goodwill

	Millions of Yen				
	2015				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Amortization of goodwill		¥ 3	¥ 3		¥ 3
Goodwill at March 31, 2015		9	9		9

	Millions of Yen				
	2014				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Amortization of goodwill		¥ 10	¥ 10		¥ 10
Goodwill at March 31, 2014		11	11		11

	Thousands of U.S. Dollars				
	2015				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Amortization of goodwill		$ 25	$ 25		$ 25
Goodwill at March 31, 2015		75	75		75

17. Subsequent Event

Appropriations of Retained Earnings

On June 19, 2015, the Company's shareholders authorized the following appropriations of retained earnings at March 31, 2015:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Cash dividends, ¥13 ($0.11) per share	¥ 738	$ 6,150
Total	¥ 738	$ 6,150

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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, 2015, 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, 2015, 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 19, 2015

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 March 31, 2015)

Stock Exchange Listing	TOKYO, First Section
Stock Code	4548
Paid-in Capital	¥3,840 million
Authorized Shares	234,000,000
Issued Shares	58,584,093
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

Major Shareholders	Number of Shares Held (Thousand)	Percentage of Outstanding Shares
Shingyo KK	7,843	13.8
KK Kaiseisha	7,293	12.8
The Master Trust Bank of Japan, Ltd. (Trust account)	2,944	5.2
Trust & Custody Services Bank, Ltd. (Mizuho Bank, Ltd. retirement benefit account in trust re-entrusted by Mizuho Trust & Banking Co., Ltd.)	1,973	3.5
Japan Trustee Services Bank, Ltd. (Trust account)	1,613	2.8
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,536	2.7
Kaken Pharmaceutical Co., Ltd.	1,207	2.1
Japan Trustee Services Bank, Ltd. (Trust account9)	810	1.4
BNYML-Non Treaty Account	755	1.3
Yugengaisha Toueikousan	700	1.2

Note: Treasury stock (1,778 thousand shares) is excluded from the calculations of percentage above.

Corporate Data

(As of March 31, 2015)

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	649 (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, OPEGAN, and other pharmaceuticals and medical devices. The No. 5 Production Building, where ARTZ Dispo production facilities began operation as planned.

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 products such as Limulus Amebocyte Lysate (LAL), developed to detect and quantify gram-negative bacterial endotoxins and (1→3)-β-D-glucans.

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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