SEIKAGAKU CORPORATION

Real Progress in Sight

Annual Report 2013

For the year ended March 31, 2013

Exploring the Innovative Promise of Glycoscience

PROFILE

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, the linkage of sugar chains and proteins/lipids. Recent advances in glycoscience have shown that sugar chains are deeply involved in exchange of information and substances between cells, and are essential to various life processes from the creation of life to aging.

Their functions also have relevance in the study of many diseases. New therapies or diagnostics are expected as a result of progress in glycoscience research.

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.

Specialized Field

High-level technologies to produce high-quality products

Seikagaku is the world’s first company to succeed in industrial production of chondroitin sulfate, which has led to the establishment of proprietary extraction and purification technologies. Using these technologies, we led the world in the launch of the joint function improving product ARTZ, whose main ingredient is hyaluronic acid. After more than 25 years, ARTZ has been used in over 300 million injections with no major side effects. Seikagaku will continue to use its own technologies and know-how to develop and manufacture innovative drugs, and to supply high-quality products to the global market.

High Quality

OUR STRENGTHS

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.

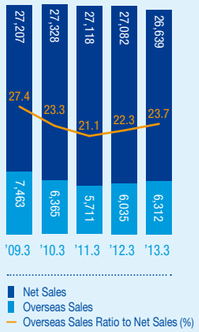
CONTENTS

5-year Financial Summary

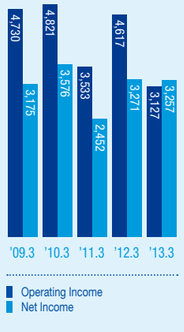
	Millions of Yen					Thousands of U.S. Dollars (Note 2)
	2009.3	2010.3 (Note 1)	2011.3	2012.3	2013.3	2013.3
Net Sales	¥ 27,207	¥ 27,328	¥ 27,118	¥ 27,082	¥ 26,639	$ 283,394
Overseas Sales	7,463	6,365	5,711	6,035	6,312	67,149
Overseas Sales Ratio (to Net Sales)	27.4%	23.3%	21.1%	22.3%	23.7%	23.7%
Gross Profit	17,223	16,834	16,637	17,334	16,772	178,426
R&D Expenses	5,965	5,518	6,724	5,971	6,838	72,745
Operating Income	4,730	4,821	3,533	4,617	3,127	33,266
Operating Income Ratio (to Net Sales)	17.4%	17.6%	13.0%	17.0%	11.7%	11.7%
Net Income	3,175	3,576	2,452	3,271	3,257	34,649
Net Income Ratio (to Net Sales)	11.7%	12.9%	9.0%	12.1%	12.2%	12.2%
Total Equity	52,309	55,426	56,107	58,014	61,316	652,298
Return on Shareholders' Equity (ROE)	6.0%	6.6%	4.4%	5.7%	5.5%	5.5%
Total Assets	58,215	62,734	62,684	68,731	70,471	749,691
Return on Total Assets (ROA)	5.3%	5.9%	3.9%	5.0%	4.7%	4.7%
Consolidated Dividend Payout Ratio	44.9%	39.7%	57.9%	43.4%	43.6%	43.6%
			(Yen)			(Dollars)
Net Income per Share of Common Stock (Note 3)	55.68	62.94	43.16	57.58	57.33	0.61
Cash Dividends per Share of Common Stock (Note 3)	25.00	25.00	25.00	25.00	25.00	0.27
Number of Employees	609	637	649	644	641	

Notes: 1 The Company changed the accounting category for milestone royalties from "Net Sales" to "Other Income" in March 2011. Accordingly, retrospectively we reclassified only the figures for March 2010.
2 U.S. dollar amounts are converted, for convenience only, at the rate of ¥94=US$1, the approximate rate at March 31, 2013.
3 As for Per Share Information, please refer to Note 2. "Summary of Significant Accounting Policies", Section p (p. 21).

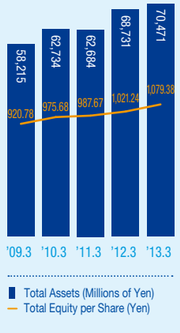
Net Sales and Overseas Sales
(Millions of Yen)



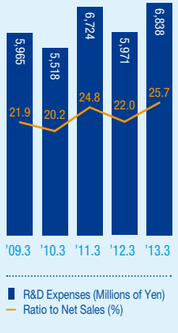
Operating Income and Net Income
(Millions of Yen)



Total Assets and Total Equity per Share



R&D Expenses and Ratio to Net Sales



By Continuing to Research, We Cultivate the New Leads for Our Future Growth

Our plan for focused research with a global business perspective is starting to pay off. Gel-One sales in the U.S. are building to plan. China sales continue to rise. Clinical development of SI-6603 is progressing. And, we have SI-613, a promising candidate, in the pipeline. These things are happening now because of earlier investments in research and production to make them happen.

President
Ken Mizutani

Cultivating the new leads for future growth —the second step of the Ten-Year Vision

Net sales in the fiscal year ended March 31, 2013 (fiscal 2012) remained at the prior-year level, with higher sales volumes of joint function improving products for osteoarthritis pain in Japan and overseas compensating for the impact of National Health Insurance drug price reductions in Japan and discontinuation of the research reagents business. Although operating income fell as a result of higher R&D expenses and depreciation of new facilities, we maintained net income at roughly the prior-year level thanks to an increase in royalty income and other factors.

In April 2012, we launched a four-year Mid-term Management Plan as the second step toward realization of our Ten-Year Vision, announced in 2009. We have positioned the four years of the Plan as a period for making proactive investments in key strategic projects. In fiscal 2012, the first year of the Plan, we took the first steps for full-scale sales of Gel-One, a single-injection product for osteoarthritis pain of the knee in the U.S., and steadily implemented a plan to construct production facilities in Japan. In addition, we advanced projects such as SI-6603, indicated for treatment of lumbar disc herniation, to the next stages in the development pipeline.

Aiming for sustained medium- to long-term growth

For many years, Seikagaku has been focusing on research and development on glycoscience to establish competitiveness and standing as a “Global Category Pharma”. This remains our unchanging vision for the future.

As expressed by the slogan “Act for the Future”, the focus of the current Mid-term Management Plan is to cultivate new leads that will bear fruit. This means that the high level of depreciation accompanying proactive capital investment in major projects and higher R&D expenses for SI-6603 and other projects nearing the final stages in the pipeline are putting downward pressure on earnings until fiscal 2015, the final year of the Plan. However, since depreciation will peak and new products are expected to be introduced from fiscal 2016 onward, the new leads that will have born fruit by then are to put the business on a growth phase.

New leads offer promise for a bright future

Gel-One, is a key growth driver that will boost the business results as we advance toward realization of the Ten-Year Vision. In April 2011, Genzyme Corporation filed a lawsuit claiming that Gel-One infringed their U.S. patents. However, in August 2012, the United States District Court for the District of Massachusetts, based on the jury verdict, entered a ruling denying patent infringement. This ruling has enabled us to begin ramping up full-scale marketing.

Specifically, sales partner Zimmer, Inc. will establish sales channels with major pharmaceutical distributors and seek to increase prescriptions for Gel-One by promoting product characteristics such as the effectiveness at lower volumes and safety demonstrated in clinical trials. In addition, new dedicated production facilities for Gel-One are scheduled to start operation in the near future, which will increase production capacity and make possible greater stability of supply.

Demand for products to relieve osteoarthritis pain of the knee with a small number of injections is increasing in the U.S. We aim to capture a 25% share of the U.S. hyaluronic acid market within five years through combined sales of Gel-One and SUPARTZ, the U.S. product name of our multiple-injection product, ARTZ.

We forecast further expansion in Japan and abroad for ARTZ. Sales growth in Japan has exceeded market growth for three consecutive years, thanks in part to continued efforts that take advantage of brand reputation as the original product. ARTZ is the market driver in Japan, and we maintain top market share of more than 55%. Although we are always mindful of the impact of periodical drug price revisions, we will continue to engage in disease awareness campaigns, etc.

Furthermore, sales of ARTZ in China continued to develop favorably, mainly in major cities, and our export sales rose sharply. Medical system reform is progressing in China as a result of government policies addressing the aging of society and economic growth, and a high rate of growth is expected to continue in the future.

In the area of new drug development, two promising new leads are steadily progressing. We obtained favorable results from a Phase III clinical trial in Japan for SI-6603, indicated for lumbar disc herniation. We aim for a new drug application in Japan in fiscal 2013 based on the results. Also, in the U.S., where the market is expected to become bigger than Japan, we will also focus on progressing a Phase III clinical trial currently underway. In addition, in March 2013 we initiated a Phase II clinical trial in Japan for SI-613, a joint function improving product. SI-613 is a new product for knee osteoarthritis treatment in which hyaluronic acid and a non-steroidal anti-inflammatory drug (NSAID) are chemically bound, and we aim to develop it as a mainstay product. (For details on R&D, please refer to page 06.) We aim for early launch of these new drugs. In the parallel area of marketing, we will continue efforts to increase sales in overseas growth markets and to exploit emerging markets.

For fiscal 2013, we forecast net sales of ¥29,900 million, up 12.2% year on year, on higher sales of ARTZ in Japan and abroad and sales expansion of Gel-One as well as the anticipated impact of yen depreciation*1. On the earnings front, despite increases in sales expenses in connection with sale promotion of Gel-One and other products and R&D expenses due to progress with development themes, we forecast operating income of ¥4,550 million, up 45.5%, and net income of ¥4,050 million, up 24.4%, taking into account factors including the anticipated sales increase and a change in the depreciation method*2.

*1 The exchange rate assumption used in the forecast of consolidated business results for fiscal 2013 is ¥95 to the U.S. dollar (actual exchange rate of ¥83.11 in fiscal 2012).

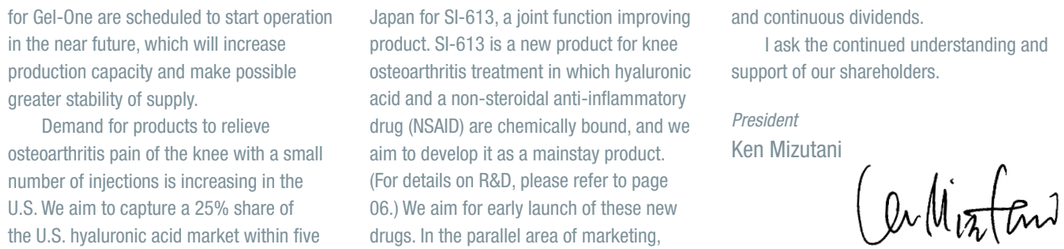
*2 Beginning with the fiscal year ending March 31, 2014, the Company has changed the method of depreciation of property, plant, and equipment from the previous declining-balance method to the straight-line method to more appropriately reflect the actual characteristics of the business associated with the recent active capital investment.

Maximizing shareholder value

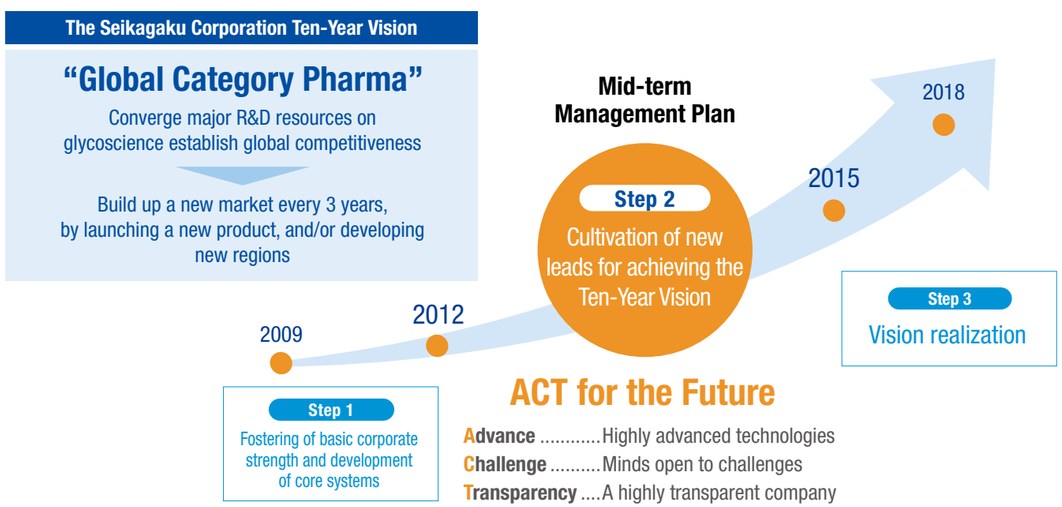
Seikagaku considers it among our most important management priorities to increase shareholder value through sustained growth from a long-term perspective and return profit to shareholders. We have changed the basic amount in the dividend policy from ¥25 to ¥26 per share and aim to pay stable and continuous dividends.

I ask the continued understanding and support of our shareholders.

President
Ken Mizutani



Ten-Year Vision and Mid-term Management Plan



Our R&D Approach

A history and future built on glycoscience

Seikagaku is a pioneering company in glycoscience research. Long experience and know-how in glycoscience provide a key competitive edge for bringing new products onto the market.

Our high-priority target diseases are orthopedic disorders (such as osteoarthritis and lumbar disc herniation), ophthalmic diseases, and immune and allergic diseases. This is due to the specialized technology infrastructure we have evolved over many years through the development, production and marketing of GAG-related products.

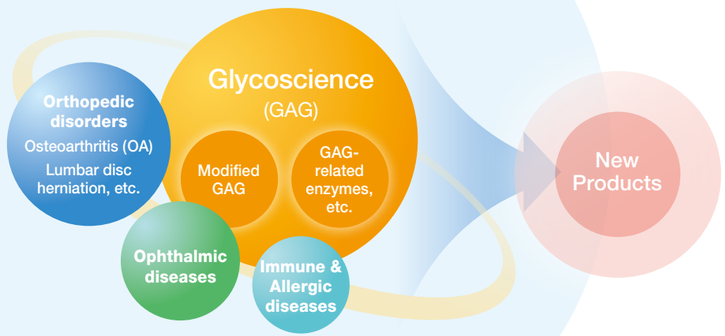
To maximize the success rate of new drug launches, we are making every phase of the R&D process more effective and efficient. To accelerate creation of research themes, Seikagaku has broadened the scope of glycoscience research to substances that include modified GAG with properties produced using a cross-linked technology, and GAG-related enzymes.

And to speed up new drug development and make possible the smooth transfer of technology to manufacturing organizations in preparation for commercial production, the CMC* Laboratories were established within the R&D Division in April 2013. The Labs have consolidated CMC-related operations previously carried out by research and manufacturing organizations. With clearly defined responsibility and authority, its role is to ensure efficiency and high quality in the development process by accurately conducting the design and manufacture of active pharmaceutical ingredients and investigational drugs.

* Chemistry, Manufacturing and Control

Products Drive Growth

Basic Policy of R&D



Within our core field of glycoscience, Seikagaku focuses on developing new products based on glycosaminoglycans (GAG), comprising a large family of long-chain polysaccharide molecules. This focus is consistent with our strengths built up over a long time in this field.

Our Pipeline

SI-6603

Condoliase for lumbar disc herniation

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

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 reduced medical costs from surgery and hospital care.

In Japan, Seikagaku has obtained favorable results from a Phase III clinical trial in August 2013. Based on the results of the trial, Seikagaku will aim for a New Drug Application in Japan in fiscal 2013. Kaken Pharmaceutical Co., Ltd. has exclusive marketing rights for SI-6603 in Japan.

Seikagaku will also focus on the progress of a Phase III trial in the U.S.

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. A late Phase II clinical trial was completed in October 2012, and a Phase III clinical trial started in May 2013.

SI-613

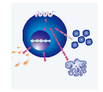
Treatment for knee osteoarthritis

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. Following completion of a Phase I clinical trial in September 2012, a Phase II clinical trial is now ongoing in Japan, the case registration being completed in August 2013.

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. In September 2012, we completed a Phase II clinical trial in the U.S. Since a clinically useful effect was confirmed, the next clinical trial is under consideration.



SI-615

Adenosine A3 receptor agonist for rheumatoid arthritis

Licensed in from Can-Fite BioPharma, SI-615 is an adenosine A3 receptor agonist thought to suppress the production of inflammatory cytokines.

Seikagaku has completed a Phase I clinical trial in Japan of a single-drug oral dose, indicated for rheumatoid arthritis. A decision on future development awaits assessment of a Can-Fite BioPharma late Phase II monotherapy trial.

Development code / Product name, etc.	Lead indication	Target market	Phase I	Phase II	Phase III	In-house/In-license
SI-6603 Condoliase	Lumbar disc herniation	Japan U.S.				In-house
SI-657 Hyaluronic acid	Enthesopathy, additional indication of ARTZ	Japan				In-house
SI-613 Hyaluronic Acid-NSAID conjugates	Knee osteoarthritis	Japan				In-house
SI-614 Modified hyaluronate	Dry eye	U.S.				In-house
SI-615 Adenosine A3 receptor agonist	Rheumatoid arthritis	Japan				In-license (Can-Fite BioPharma)

Pharmaceuticals Business

Sales by Segment
86.8%

Worldwide sales of pharmaceuticals and medical devices for the year ended March 31, 2013 (fiscal 2012) declined by 0.4% year on year to ¥23,125 million.

Increasing domestic sales of ARTZ and overseas sales growth in fiscal 2012, essentially negated the impact of National Health Insurance (NHI) drug price reductions.

Domestic Pharmaceuticals: ¥17,767 million (-1.3% compared with fiscal 2011)

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

Intra-articular injections for improving joint functions

A multiple injection hyaluronic acid formulation, launched in 1987 and approved in 18 countries. Highly evaluated and used widely as a formulation for the treatment of knee osteoarthritis* with over 300 million injections performed worldwide to date.

In Japan, the increasing aged population and our ongoing disease awareness campaigns with regard to knee osteoarthritis, conducted with sales partner Kaken Pharmaceutical Co., Ltd., helped to expand the market for injectable treatments for osteoarthritis pain of the knee by 3.8% in fiscal 2012. Due to market leadership based on a reputation as the original drug in this category, ARTZ outpaced this growth rate, as deliveries to medical institutions rose by 6.7%, raising market share by 1.4 percentage points to 55.7%. The Company's sales increased as well, overcoming the impact of NHI drug price reductions.

* In Japan, ARTZ is also approved 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.

Overseas Pharmaceuticals: ¥3,940 million (+12.4% compared with fiscal 2011)

In the U.S., sales of SUPARTZ, the trade name of ARTZ in North America, despite sales activities focused on differentiation from the competitors, both local sales and the Company's export sales fell due to an increase in the number of insurance companies restricting reimbursement for products with multiple-injection formulations.

Sales in China rose by over 20%, as ARTZ maintains an excellent reputation there for its "high quality" and status as "the world-first original hyaluronic acid drug for the treatment of osteoarthritis", mainly among medical institutions in major cities.

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 3ml for safe, effective and complete treatment. Approved for use in the U.S. and sold by sales partner Zimmer, Inc., a global leader in the field of orthopedics.

Measures to establish sales channels among major pharmaceutical distributors in the U.S., initiated following the Company's winning of the patent infringement lawsuit are proceeding steadily, and sales are increasing. The Company will continue efforts to accelerate market penetration together with sales partner Zimmer, Inc.

Bulk Products: ¥1,417 million (-17.8%)

OPEGAN®, OPEGAN Hi®

Ophthalmic surgical aids

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

Deliveries of the ophthalmic surgery aid OPEGAN in Japan increased by 2.6% as the market rebounded by 5.8% from a decline in cataract surgeries in fiscal 2011 following the Great East Japan Earthquake. OPEGAN's market share slipped by 1.1 percentage points due to intensified competition, even though the Company continued sales promotion activities focused on target medical institutions, conducted with sales partner Santen Pharmaceutical Co., Ltd.

MucoUp®

Surgical aids for endoscopic mucosal resection

By injecting MucoUp as a surgical aid 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.

Sales in Japan of MucoUp rose due to factors including user appreciation of activities to increase penetration of endoscopic surgical techniques, conducted with sales partner Johnson & Johnson K.K.

Bulk Products

Hyaluronic acid and chondroitin sulfate

Hyaluronic acid is sold mainly to the manufacturers of pharmaceuticals as a raw material. Chondroitin sulfate is widely used as a raw material in pharmaceuticals, ophthalmic products and drinks for nutritional fortification.

Bulk hyaluronic acid fell, reflecting a high level of shipments in fiscal 2011. In addition, shipments of bulk chondroitin sulfate were low.

LAL Business

Sales by Segment
13.2%

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 control of dialysis fluid.

LAL Business: ¥3,513 million (-9.0%)

Endotoxin-detecting Reagents

Despite robust sales in Japan of endotoxin-detecting reagents for use in quality control, etc., net sales of the LAL business fell as a result of discontinuation of the research reagents business in March 2012.

Changes in Reporting Segments

The Company changed its reporting segments from fiscal 2012, accompanying the discontinuation of the research reagents business and the absorption-type merger of Seikagaku Biobusiness Corporation (formerly a consolidated subsidiary). The previous fine chemicals segment, which consisted of "reagents and diagnostics" (endotoxin-detecting reagents and research reagents) and "bulk products", has been eliminated. Bulk products have been included in the pharmaceuticals segment, and endotoxin-detecting reagents, etc. are reported as the LAL business. For fiscal 2012 year-on-year results for the affected segments have been recalculated retroactively.

Corporate Governance

Seikagaku pursues corporate governance as one of its most important management priorities. As a pharmaceutical company, with profound responsibilities under its social mission, Seikagaku has a management environment that rewards the trust of stakeholders, including shareholders, through compliance and risk management controls.

The Board of Directors meets at least once per month to oversee business execution and decide important business issues and other matters. To encourage flexible and timely management, the term of office for directors is one year.

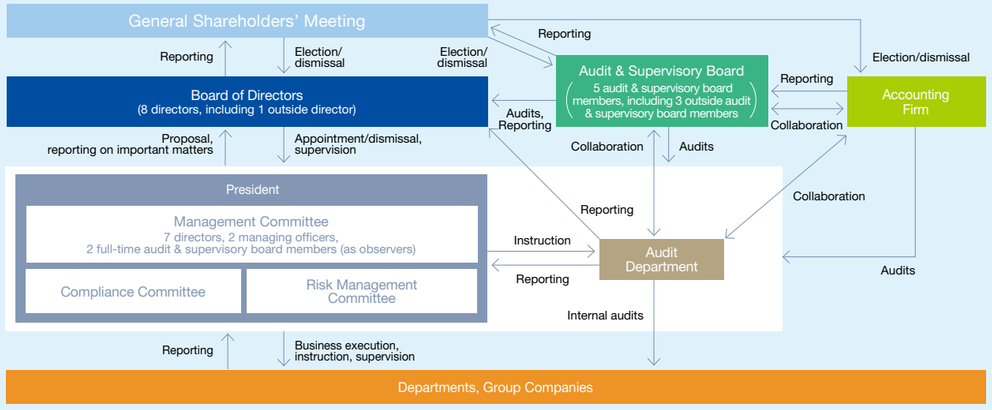
The outside director, qualifying as an "independent director" under the regulations of the Tokyo Stock Exchange (TSE), brings an alternative point of view to the Board of Directors and strengthens management oversight with a fair and specialized perspective as an attorney-at-law with diverse expertise.

Seikagaku operates under a managing officer system that limits the role of 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 to ensure timely identification of management issues and their solutions.

Seikagaku has appointed five Audit & Supervisory Board members, including three outside members qualifying as "independent auditors" under TSE regulations. To strengthen the audit function, the two full-time members observe meetings of three executive committees.

Furthermore, the Company has in place a policy to prevent inappropriate large-scale purchases of company shares, which could harm corporate value and the common interests of shareholders.

CORPORATE GOVERNANCE STRUCTURE



(As of June 25, 2013)

For full details, see
http://www.seikagaku.co.jp/english/ir/governance.html

Contributing to Society Through Glycoscience

Glycoforum—an online source of information on glycoscience research

Since 1997, Seikagaku has operated Glycoforum, an academic website that contributes to the development of glycoscience, Seikagaku's area of specialization. Glycoforum features papers and commentary from the world's leading researchers, conference announcements and other topics on the field. The site enjoys strong support from researchers all over the world and has been selected as a recommended site by Nature Review since July 2000.

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

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. In November 2012, on its 20th anniversary, the Foundation held an international symposium titled "Glycoscience: diversity and integration". Seikagaku endorses the purpose of the foundation and has continuously supported its activities.

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

Board of Directors, Audit & Supervisory Board Members, and Officers


Ken Mizutani


Toshinori Yagura


Masaomi Miyamoto


Eiji Katayama


Hideki Kawamura


Kazuaki Onishi


Yasushi Fukumoto


Shinichi Ishikawa


Tokushi Mitomi


Osamu Serizawa


Nobuhiro Takeuchi


Junya Sato


Akifumi Yamada

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Ken Mizutani

SENIOR MANAGING DIRECTOR
Toshinori Yagura

EXECUTIVE MANAGING DIRECTOR
Masaomi Miyamoto

OUTSIDE DIRECTOR
Eiji Katayama

DIRECTORS EXECUTIVE MANAGING OFFICERS
Hideki Kawamura
Kazuaki Onishi

DIRECTORS
Yasushi Fukumoto
Shinichi Ishikawa

AUDIT & SUPERVISORY BOARD MEMBER
Tokushi Mitomi
Osamu Serizawa

OUTSIDE AUDIT & SUPERVISORY BOARD MEMBER
Nobuhiro Takeuchi
Junya Sato
Akifumi Yamada

EXECUTIVE MANAGING OFFICER
Yoshiyuki Sakura

MANAGING OFFICER
Noriaki Inamura

Financial Statements

Consolidated Balance Sheet

Seikagaku Corporation and Consolidated Subsidiaries
March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 12)	¥ 6,410	¥ 11,044	$ 68,191
Short-term investments (Notes 4 and 12)	4,754	5,371	50,574
Notes and accounts receivable—trade (Note 12)	9,075	8,903	96,543
Allowance for doubtful accounts	(2)	(1)	(21)
Inventories (Note 5)	5,039	4,274	53,606
Deferred tax assets (Note 11)	681	610	7,245
Other current assets	661	612	7,032
Total current assets	26,618	30,813	283,170
PROPERTY, PLANT, AND EQUIPMENT:			
Land	965	791	10,266
Buildings and structures	16,240	14,776	172,766
Machinery and equipment	15,112	13,371	160,766
Lease assets (Note 6)	1,228	1,237	13,064
Construction in progress	10,344	4,367	110,042
Total	43,889	34,542	466,904
Accumulated depreciation	(22,422)	(20,460)	(238,532)
Net property, plant, and equipment	21,467	14,082	228,372
INVESTMENTS AND OTHER ASSETS:			
Investment in an unconsolidated subsidiary	25	25	266
Investment securities (Notes 4 and 12)	20,105	22,136	213,883
Goodwill	17	27	181
Deferred tax assets (Note 11)	30	60	319
Other assets (Notes 7 and 9)	2,381	1,813	25,330
Allowance for doubtful accounts	(172)	(225)	(1,830)
Total investments and other assets	22,386	23,836	238,149
TOTAL	¥ 70,471	¥ 68,731	$ 749,691
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Notes and accounts payable—trade (Note 12)	¥ 1,521	¥ 1,251	$ 16,181
Notes and accounts payable—other (Note 12)	3,624	5,622	38,553
Current portion of long-term debt (Notes 8 and 12)	700		7,447
Current portion of long-term lease obligations (Notes 6 and 12)	194	191	2,064
Accrued expenses	787	770	8,372
Accrued income taxes (Note 12)	671	941	7,138
Other current liabilities	127	200	1,351
Total current liabilities	7,624	8,975	81,106
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 12)		700	
Long-term lease obligations (Notes 6 and 12)	233	407	2,479
Asset retirement obligations	41	101	436
Deferred tax liabilities (Note 11)	1,162	437	12,362
Other long-term liabilities	95	97	1,010
Total long-term liabilities	1,531	1,742	16,287
EQUITY (Notes 10 and 18):			
Common stock—authorized, 234,000,000 shares; issued, 58,584,093 shares in 2013 and 2012	3,840	3,840	40,851
Capital surplus	5,302	5,302	56,404
Retained earnings	52,842	51,005	562,149
Treasury stock—at cost, 1,777,474 shares in 2013 and 1,776,833 shares in 2012	(2,078)	(2,077)	(22,106)
Accumulated other comprehensive income: Unrealized gain on available for sale securities	1,984	852	21,106
Foreign currency translation adjustments	(574)	(908)	(6,106)
Total equity	61,316	58,014	652,298
TOTAL	¥ 70,471	¥ 68,731	$ 749,691

See notes to consolidated financial statements.

Consolidated Statement of Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
NET SALES (Notes 13 and 17)	¥ 26,639	¥ 27,082	$ 283,394
COST OF SALES	9,867	9,748	104,968
Gross profit	16,772	17,334	178,426
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 14)	13,645	12,717	145,160
Operating income	3,127	4,617	33,266
OTHER INCOME (EXPENSES):			
Interest and dividend income	359	388	3,819
Interest expense	(33)	(41)	(351)
Foreign exchange gain (loss)	153	(159)	1,628
Royalty income	628	18	6,681
Loss on disaster (Note 15)		(83)	
Other—net	68	(52)	723
Other income—net	1,175	71	12,500
INCOME BEFORE INCOME TAXES	4,302	4,688	45,766
INCOME TAXES (Note 11):			
Current	1,029	1,236	10,947
Deferred	16	181	170
Total income taxes	1,045	1,417	11,117
NET INCOME	¥ 3,257	¥ 3,271	$ 34,649

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Net income	¥ 57.33	¥ 57.58	$ 0.61
Cash dividends applicable to the year	25.00	25.00	0.27

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
NET INCOME	¥ 3,257	¥ 3,271	$ 34,649
OTHER COMPREHENSIVE INCOME (Note 16):			
Unrealized gain on available for sale securities	1,132	182	12,043
Foreign currency translation adjustments	334	(126)	3,553
Total other comprehensive income	1,466	56	15,596
COMPREHENSIVE INCOME	¥ 4,723	¥ 3,327	$ 50,245
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—Owners of the parent	¥ 4,723	¥ 3,327	$ 50,245

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2013

	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	Total Equity
BALANCE, APRIL 1, 2011	58,584,093	¥ 3,840	¥ 5,302	¥ 49,154	¥ (2,077)	¥ 670	¥ (782)	¥ 56,107
Net income				3,271				3,271
Cash dividends, ¥25 per share				(1,420)				(1,420)
Unrealized gain on available for sale securities						182		182
Net change in foreign currency translation adjustments							(126)	(126)
BALANCE, MARCH 31, 2012	58,584,093	3,840	5,302	51,005	(2,077)	852	(908)	58,014
Net income				3,257				3,257
Cash dividends, ¥25 per share				(1,420)				(1,420)
Unrealized gain on available for sale securities						1,132		1,132
Net change in foreign currency translation adjustments							334	334
Purchase of treasury stock					(1)			(1)
BALANCE, MARCH 31, 2013	58,584,093	¥ 3,840	¥ 5,302	¥ 52,842	¥ (2,078)	¥ 1,984	¥ (574)	¥ 61,316

	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	Total Equity
BALANCE, MARCH 31, 2012	$ 40,851	$ 56,404	$ 542,606	$ (22,096)	$ 9,063	$ (9,659)	$ 617,169
Net income			34,649				34,649
Cash dividends, $0.27 per share			(15,106)				(15,106)
Unrealized gain on available for sale securities					12,043		12,043
Net change in foreign currency translation adjustments						3,553	3,553
Purchase of treasury stock				(10)			(10)
BALANCE, MARCH 31, 2013	$ 40,851	$ 56,404	$ 562,149	$ (22,106)	$ 21,106	$ (6,106)	$ 652,298

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
OPERATING ACTIVITIES:			
Income before income taxes	¥ 4,302	¥ 4,688	$ 45,766
Adjustments for:			
Income taxes—paid	(1,303)	(759)	(13,862)
Depreciation and amortization	2,187	1,993	23,266
Loss on disaster		83	
Foreign exchange (gain) loss	(53)	146	(564)
Changes in assets and liabilities:			
Increase in notes and accounts receivable—trade	(138)	(1,457)	(1,468)
Increase in inventories	(688)	(174)	(7,319)
(Increase) decrease in advance payments for research and development	(70)	299	(745)
Increase in notes and accounts payable—trade	263	276	2,798
(Decrease) increase in consumption tax payable/receivable	(93)	20	(989)
Increase in accounts payable—other	98	81	1,043
Decrease in retirement benefits	(170)	(29)	(1,809)
Other—net	11	375	117
Net cash provided by operating activities	4,346	5,542	46,234
INVESTING ACTIVITIES:			
Purchases of time deposits	(500)	(1,000)	(5,319)
Proceeds from maturities of time deposits		1,500	
Proceeds from redemption of short-term investments	8,349	9,244	88,819
Purchases of short-term investments	(3,635)	(6,496)	(38,670)
Purchases of fixed assets	(10,862)	(2,620)	(115,553)
Proceeds from sales of investment securities	1,448	1,804	15,404
Purchases of investment securities	(2,333)	(2,910)	(24,819)
Other—net	(32)	(11)	(341)
Net cash used in investing activities	(7,565)	(489)	(80,479)
FINANCING ACTIVITIES:			
Repayments of lease obligations	(205)	(228)	(2,181)
Dividends paid	(1,420)	(1,420)	(15,107)
Other—net	(2)	1	(21)
Net cash used in financing activities	(1,627)	(1,647)	(17,309)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	212	(54)	2,255
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ (4,634)	¥ 3,352	$ (49,299)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,044	7,692	117,490
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 6,410	¥ 11,044	$ 68,191

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2013

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 in the 2012 consolidated financial statements to conform to the classifications used in 2013.

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 ¥94 to $1, the approximate rate of exchange at March 31, 2013. 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, 2013, include the accounts of the Company and its three (four in 2012) significant subsidiaries (collectively, the "Group").

Investment in an unconsolidated subsidiary in 2013 and 2012 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 the 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 accounting for property, plant, and equipment and investment properties and incorporation of the cost model 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: (1) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity are reported at amortized cost and (2) available for sale securities, which are not classified as held-to-maturity debt 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 Company is computed by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company acquired on and after April 1, 1998. Property, plant, and equipment of consolidated foreign subsidiaries are mainly depreciated by the straight-line method over 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 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 balance sheet date.

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.

l. Asset Retirement Obligations—In March 2008, the ASBJ published ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of 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 tax laws 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 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 rates. 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 are no dilutive securities in 2013 or 2012.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective 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.

s. New Accounting Pronouncements

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

Major changes are as follows:

(a) Treatment in the balance sheet

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

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

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

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

(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 and relating to the discount rate and expected future salary increase.

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013, with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard from the end of the annual period beginning on April 1, 2013, and is in the process of measuring the effects of applying the revised accounting standard for the year ending March 31, 2014.

3. BUSINESS COMBINATIONS

Seikagaku Corporation absorbed and merged with Seikagaku Biobusiness Corporation, a wholly owned subsidiary of the Company, on April 1, 2012.

(1) Summary of Business Combination

a. Company name and business concerned

(a) Surviving company
Company name: Seikagaku Corporation
Business: Manufacturing and sales of pharmaceutical products and medical devices, etc., specifically related to glycoconjugates

(b) Dissolved company
Company name: Seikagaku Biobusiness Corporation
Business: Sales of bulk products and manufacturing and sales of research reagents, endotoxin and β-glucan detecting reagents

b. Date of business combination

April 1, 2012

c. Legal form of business combination

Merger via absorption in which the Company is the surviving company and Seikagaku Biobusiness Corporation is the company absorbed via merger.

d. Other matters regarding the overview of transaction

The Company has judged that consolidating the Group's resources as well as integrating the operating structure is optimal for further developing the businesses related to bulk products, endotoxin and β-glucan detecting reagents that Seikagaku Biobusiness Corporation has engaged in to date.

(2) Summary of Accounting Treatment

This combination is treated as a transaction under common control pursuant to "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on December 26, 2008), and "Guidance on Accounting Standard for Business Combinations and Business Divestitures" (ASBJ Guidance No. 10, issued on December 26, 2008).

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Short-term investments: Debt securities	¥ 4,754	¥ 5,371	$ 50,574
Total	¥ 4,754	¥ 5,371	$ 50,574
Investment securities:			
Equity securities	¥ 7,723	¥ 6,477	$ 82,160
Debt securities	10,643	13,450	113,223
Other	1,739	2,209	18,500
Total	¥ 20,105	¥ 22,136	$ 213,883

Information regarding the marketable securities classified as available for sale at March 31, 2013 and 2012, was as follows:

	Millions of Yen			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	¥ 4,989	¥ 2,768	¥ 34	¥ 7,723
Debt securities	15,014	385	2	15,397
Other	1,745	12	18	1,739
March 31, 2012				
Securities classified as available for sale:				
Equity securities	¥ 5,164	¥ 1,442	¥ 130	¥ 6,476
Debt securities	18,693	203	74	18,822
Other	2,316	5	112	2,209

	Thousands of U.S. Dollars			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	$ 53,075	$ 29,447	$ 362	$ 82,160
Debt securities	159,723	4,095	21	163,797
Other	18,564	128	192	18,500

The information for available for sale securities that were sold during the years ended March 31, 2013 and 2012, was as follows:

	Millions of Yen		
March 31, 2013	Proceeds	Realized Gains	Realized Losses
Securities classified as available for sale:			
Equity securities	¥ 902	¥ 210	¥ 123
Debt securities	77		21
Other	470		35
Total	¥ 1,449	¥ 210	¥ 179
March 31, 2012			
Securities classified as available for sale:			
Equity securities	¥ 834	¥ 164	¥ 196
Debt securities	967	6	47
Other	3		
Total	¥ 1,804	¥ 170	¥ 243

	Thousands of U.S. Dollars		
March 31, 2013	Proceeds	Realized Gains	Realized Losses
Securities classified as available for sale:			
Equity securities	$ 9,596	$ 2,234	$ 1,309
Debt securities	819		223
Other	5,000		372
Total	$ 15,415	$ 2,234	$ 1,904

The impairment losses on available for sale equity securities were ¥65 million ($691 thousand) for the year ended March 31, 2013, and ¥42 million for the year ended March 31, 2012.

5. INVENTORIES

Inventories at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Merchandise and finished products	¥ 2,809	¥ 2,562	$ 29,883
Work in process	1,178	776	12,532
Raw materials and supplies	1,052	936	11,191
Total	¥ 5,039	¥ 4,274	$ 53,606

6. 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, 2013, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 194	$ 2,064
2015	216	2,298
2016	12	128
2017	5	53
Total	¥ 427	$ 4,543

(2) Operating Leases

The minimum rental commitments under noncancelable operating leases at March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Due within one year	¥ 12	¥ 8	$ 128
Due after one year	16	1	170
Total	¥ 28	¥ 9	$ 298

7. LONG-TERM DEPOSITS

Long-term deposits in banks of ¥1,500 million ($15,957 thousand) were included in other assets of investments and other assets as of March 31, 2013, and ¥1,000 million as of March 31, 2012. Annual maturities of the deposits were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 1,000	$ 10,638
2018	500	5,319
Total	¥ 1,500	$ 15,957

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.

8. LONG-TERM DEBT

Long-term debt at March 31, 2013 and 2012, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Loan from bank, 1.07%, due 2013 (unsecured)	¥ 700	¥ 700	$ 7,447

Annual maturity of long-term debt as of March 31, 2013, was as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 700	$ 7,447

9. 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.

Employees' retirement benefits for the retirement and pension fund at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Projected benefit obligation	¥ 5,467	¥ 4,875	$ 58,160
Fair value of plan assets	(4,789)	(4,352)	(50,947)
Unrecognized prior service cost	199	302	2,117
Unrecognized actuarial loss	(1,153)	(932)	(12,266)
Net asset	¥ (276)	¥ (107)	$ (2,936)

Prepaid pension expense of ¥276 million ($2,936 thousand) was included in other assets of investments and other assets as of March 31, 2013, and ¥107 million as of March 31, 2012.

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Service cost	¥ 201	¥ 207	$ 2,138
Interest cost	98	101	1,043
Expected return on plan assets	(133)	(143)	(1,415)
Amortization of prior service cost	(104)	(104)	(1,106)
Recognized actuarial loss	96	149	1,021
Net periodic benefit costs	¥ 158	¥ 210	$ 1,681

Assumptions used for the years ended March 31, 2013 and 2012, are set forth as follows:

	2013	2012
Discount rate	1.2%	2.0%
Expected rate of return on plan assets	3.1%	3.2%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years

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 ($585 thousand) and ¥56 million for the years ended March 31, 2013 and 2012, respectively.

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 ¥36 million ($383 thousand) and ¥35 million for the years ended March 31, 2013 and 2012, respectively.

10. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (1) having a board of directors, (2) having independent auditors, (3) having 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 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.

11. INCOME TAXES

The Company is subject to Japanese national and local taxes based on income that, in the aggregate, resulted in normal effective statutory tax rates of approximately 38% for the year ended March 31, 2013, and 40% for the year ended March 31, 2012. 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, 2013 and 2012, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Deferred tax assets—current:			
Accrued bonuses	¥ 234	¥ 231	$ 2,490
Research and development costs	140		1,489
Other	351	388	3,734
Less valuation allowance		(9)	
Total	725	610	7,713
Deferred tax liabilities—current:			
Other	44		468
Total	44		468
Net deferred tax assets—current	¥ 681	¥ 610	$ 7,245
Deferred tax assets—noncurrent:			
Other	¥ 379	¥ 516	$ 4,031
Less valuation allowance	(129)	(206)	(1,372)
Total	250	310	2,659
Deferred tax liabilities—noncurrent:			
Unrealized gain on available for sale securities	1,082	489	11,511
Depreciation	127	137	1,351
Prepaid pension cost	105	41	1,117
Other	68	20	723
Total	1,382	687	14,702
Net deferred tax liabilities—noncurrent	¥ (1,132)	¥ (377)	$ (12,043)

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, 2013, with the corresponding figures for 2012, is as follows:

	2013	2012
Normal effective statutory tax rate	38.0%	40.0%
Tax credit	(12.6)	(7.1)
Other—net	(1.1)	(2.7)
Actual effective tax rate	24.3%	30.2%

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40% to 38% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35% afterwards.

12. 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 composed of the president and other members directs investment policy and monitors and manages 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, 2013, 82.6% of total receivables is from two 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, 2013	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 6,410	¥ 6,410	
Short-term investments	4,754	4,754	
Notes and accounts receivable—trade	9,075	9,075	
Investment securities	20,105	20,105	
Total	¥ 40,344	¥ 40,344	
Notes and accounts payable—trade	¥1,521	¥ 1,521	
Notes and accounts payable—other	3,624	3,624	
Current portion of long-term debt	700	700	
Accrued income taxes	671	671	
Lease obligations	427	441	¥ 14
Total	¥ 6,943	¥ 6,957	¥ 14

	Millions of Yen		
March 31, 2012	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 11,044	¥ 11,044	
Short-term investments	5,371	5,371	
Notes and accounts receivable—trade	8,903	8,903	
Investment securities	22,136	22,136	
Total	¥ 47,454	¥ 47,454	
Notes and accounts payable—trade	¥ 1,251	¥ 1,251	
Notes and accounts payable—other	5,622	5,622	
Accrued income taxes	941	941	
Long-term debt	700	697	¥ (3)
Lease obligations	598	629	31
Total	¥ 9,112	¥ 9,140	¥ 28

	Thousands of U.S. Dollars		
March 31, 2013	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 68,191	$ 68,191	
Short-term investments	50,574	50,574	
Notes and accounts receivable—trade	96,543	96,543	
Investment securities	213,883	213,883	
Total	$ 429,191	$ 429,191	
Notes and accounts payable—trade	$ 16,181	$ 16,181	
Notes and accounts payable—other	38,553	38,553	
Current portion of long-term debt	7,447	7,447	
Accrued income taxes	7,138	7,138	
Lease obligations	4,543	4,692	$ 149
Total	$ 73,862	$ 74,011	$ 149

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 4.

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, current portion of long-term debt and accrued income taxes approximate fair value because of their short maturities.

Lease Obligations

The fair values of 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
	2013	2012	2013
Investment in an unconsolidated subsidiary that does not have a quoted market price in an active market	¥ 25	¥ 25	$ 266

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

	Millions of Yen			
March 31, 2013	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	
Cash and cash equivalents	¥ 6,410			
Short-term investments	5,218			
Notes and accounts receivable—trade	9,075			
Investment securities		¥ 9,552	¥ 900	
Total	¥ 20,703	¥ 9,552	¥ 900	

	Thousands of U.S. Dollars		
March 31, 2013	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	$ 68,191		
Short-term investments	55,511		
Notes and accounts receivable—trade	96,543		
Investment securities		$ 101,617	$ 9,574
Total	$ 220,245	$ 101,617	$ 9,574

Please see Note 8 for annual maturities of long-term debt and Note 6 for obligations under finance leases.

13. 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 ¥15,500 million for the year ended March 31, 2012. The similar information for 2013 is disclosed in Note 17.

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥6,838 million ($72,745 thousand) and ¥5,971 million for the years ended March 31, 2013 and 2012, respectively.

15. LOSS ON DISASTER

The Group's assets were damaged and operations were affected by The Great East Japan Earthquake that occurred on March 11, 2011.

Loss on disaster consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Fixed cost during suspension of operations		¥ 64	
Loss on impairment of land		10	
Other		9	
Total		¥ 83	

16. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Unrealized gain on available for sale securities:			
Gains arising during the year	¥ 1,744	¥ 103	$ 18,553
Reclassification adjustments to profit	33	114	351
Amount before income tax effect	1,777	217	18,904
Income tax effect	(645)	(35)	(6,861)
Total	¥ 1,132	¥ 182	$ 12,043
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 334	¥ (126)	$ 3,553
Total	¥ 334	¥ (126)	$ 3,553
Total other comprehensive income	¥ 1,466	¥ 56	$ 15,596

17. 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.

Effective April 1, 2012, the Group changed its operating segments from pharmaceutical business and fine chemical business to pharmaceutical business and LAL business accompanying the discontinuation of the research reagents business and the absorption-type merger of Seikagaku Biobusiness Corporation (formerly a consolidated subsidiary).

The segment information for the year ended March 31, 2012, is also disclosed using the new operating segments.

(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				
	2013				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 23,125	¥ 3,514	¥ 26,639		¥ 26,639
Intersegment sales or transfers					
Total	¥ 23,125	¥ 3,514	¥ 26,639		¥ 26,639
Segment profit	¥ 2,404	¥ 723	¥ 3,127		¥ 3,127
Segment assets	66,461	4,010	70,471		70,471
Other:					
Depreciation	2,019	156	2,175		2,175
Amortization of goodwill		12	12		12
Increase in property, plant, and equipment and intangible assets	9,107	58	9,165		9,165

	Millions of Yen				
	2012				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 23,222	¥ 3,860	¥ 27,082		¥ 27,082
Intersegment sales or transfers		77	77	¥ (77)	
Total	¥ 23,222	¥ 3,937	¥ 27,159	¥ (77)	¥ 27,082
Segment profit	¥ 3,792	¥ 825	¥ 4,617		¥ 4,617
Segment assets	65,031	3,700	68,731		68,731
Other:					
Depreciation	1,757	225	1,982		1,982
Amortization of goodwill		11	11		11
Increase in property, plant, and equipment and intangible assets	5,675	43	5,718		5,718

	Thousands of U.S. Dollars				
	2013				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$ 246,011	$ 37,383	$ 283,394		$ 283,394
Intersegment sales or transfers					
Total	$ 246,011	$ 37,383	$ 283,394		$ 283,394
Segment profit	$ 25,575	$ 7,691	$ 33,266		$ 33,266
Segment assets	707,032	42,659	749,691		749,691
Other:					
Depreciation	21,479	1,659	23,138		23,138
Amortization of goodwill		128	128		128
Increase in property, plant, and equipment and intangible assets	96,883	617	97,500		97,500

(4) Information about Geographical Areas

a. Sales

Millions of Yen			
2013			
Japan	North America	Other	Total
¥ 20,327	¥ 3,749	¥ 2,563	¥ 26,639

Thousands of U.S. Dollars			
2013			
Japan	North America	Other	Total
$ 216,245	$ 39,883	$ 27,266	$ 283,394

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

b. Property, plant and equipment

Millions of Yen			
2013			
Japan	North America	Other	Total
¥ 20,422	¥ 1,025	¥ 20	¥ 21,467

Thousands of U.S. Dollars			
2013			
Japan	North America	Other	Total
$ 217,255	$ 10,904	$ 213	$ 228,372

(5) Information about Major Customers

	2013	
	Millions of Yen	
Name of Customers	Sales	Related Segment Name
KAKEN PHARMACEUTICAL CO., LTD.	¥ 15,610	Pharmaceutical

(6) Information about Goodwill

	Millions of Yen				
	2013				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Amortization of goodwill		¥ 12	¥ 12		¥ 12
Goodwill at March 31, 2013		17	17		17

	Thousands of U.S. Dollars				
	2013				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Amortization of goodwill		$ 128	$ 128		$ 128
Goodwill at March 31, 2013		181	181		181

18. SUBSEQUENT EVENT

Appropriations of Retained Earnings

On June 20, 2013, the Company's shareholders authorized the following appropriations of retained earnings at March 31, 2013:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Cash dividends, ¥12.5 ($0.13) per share	¥ 710	$ 7,553
Total	¥ 710	$ 7,553

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

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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, 2013, 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, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 20, 2013

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 Securities Exchange).
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.
2011	Approval obtained for a single injection hyaluronic acid formulation Gel-One in U.S.A.
2012	Marketing begins for Gel-One in U.S.A. Absorption-type merger of Seikagaku Biobusiness Corporation.
2013	CMC Laboratories established.

Investor Information

(As of March 31, 2013)

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

	Number of Shares Held (Thousand)	Percentage of Outstanding Shares
Shingyo KK	**7,843**	**13.8**
KK Kaiseisha	**7,293**	**12.8**
State Street Bank and Trust Company	**4,281**	**7.5**
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**
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	**1,536**	**2.7**
Kaken Pharmaceutical Co., Ltd.	**1,207**	**2.1**
The Master Trust Bank of Japan, Ltd. (Mitsubishi Chemical Corporation retirement benefit account in trust)	**1,205**	**2.1**
Japan Trustee Services Bank, Ltd. (Trust account)	**1,097**	**1.9**
Yugengaisha Toueikousan	**700**	**1.2**
Mizutani Foundation for Glycoscience (Public benefit account)	**693**	**1.2**

Note: Treasury stock (1,777 thousand shares) is excluded from the calculations of percentage above.

Corporate Data

(As of March 31, 2013)

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/index.html
Establishment	June 2, 1947
Number of Employees	641 (consolidated basis)

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 is under construction as a new facility to meet growing demand for ARTZ Dispo.

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.

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