SEIKAGAKU CORPORATION

Aiming Beyond the Next Stage

Annual Report 2016

For the year ended March 31, 2016

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 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

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

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, purification and fermentation technologies. With these technologies, we became the first to launch the joint function improving product ARTZ, whose active pharmaceutical ingredient is hyaluronic acid. ARTZ has now been used for more than 25 years and in over 380 million injections.

Our Strength

R&D and Production

R&D/production-oriented business model

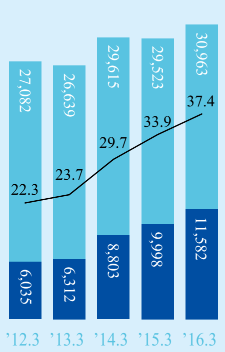
Seikagaku does not have its own sales force. Instead, we offer our products through sales partners that have strengths in their respective product fields. By maintaining a slim organizational structure, we are able to focus our management resources on R&D and production. This is evidenced by the fact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

5-year Financial Summary

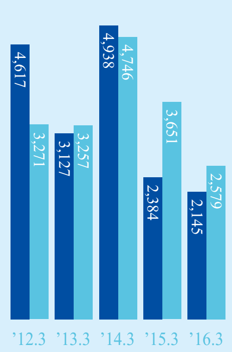
	2012.3	2013.3	2014.3	2015.3	2016.3	2016.3
	Millions of Yen					Thousands of U.S. Dollars (Note 1)
Net Sales	¥ 27,082	¥ 26,639	¥ 29,615	¥ 29,523	¥ 30,963	$ 274,009
Overseas Sales	6,035	6,312	8,803	9,998	11,582	102,496
Overseas Sales Ratio (to Net Sales)	22.3%	23.7%	29.7%	33.9%	37.4%	37.4%
Gross Profit	17,334	16,772	18,391	17,392	18,091	160,097
R&D Expenses	5,971	6,838	6,588	8,147	8,649	76,540
Operating Income	4,617	3,127	4,938	2,384	2,145	18,982
Operating Income Ratio (to Net Sales)	17.0%	11.7%	16.7%	8.1%	6.9%	6.9%
Net Income Attributable to Owners of Parent	3,271	3,257	4,746	3,651	2,579	22,823
Net Income Attributable to Owners of Parent Ratio (to Net Sales)	12.1%	12.2%	16.0%	12.4%	8.3%	8.3%
Total Equity	58,014	61,316	64,786	70,410	69,816	617,841
Return on Shareholders' Equity (ROE)	5.7%	5.5%	7.5%	5.4%	3.7%	3.7%
Total Assets	68,731	70,471	73,826	80,890	80,219	709,903
Return on Total Assets (ROA)	5.0%	4.7%	6.6%	4.7%	3.2%	3.2%
Consolidated Dividend Payout Ratio	43.4%	43.6%	31.1%	40.5%	57.3%	57.3%
	(Yen)					(Dollars)
Net Income per Share of Common Stock (Note 2)	57.58	57.33	83.55	64.27	45.39	0.40
Cash Dividends per Share of Common Stock (Note 2)	25.00	25.00	26.00	26.00	26.00	0.23
Number of Employees	644	641	639	649	663	

Notes: 1 U.S. dollar amounts are converted, for convenience only, at the rate of ¥113=US$1, the approximate rate at March 31, 2016.
2 As for Per Share Information, please refer to Note 2. "Summary of Significant Accounting Policies", Section q (p. 18).

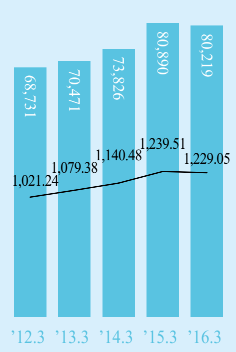
Net Sales and Overseas Sales
(Millions of Yen)



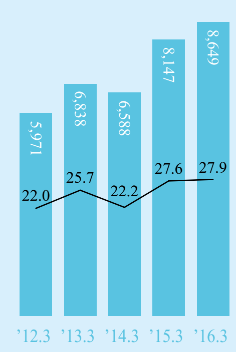
Operating Income and Net Income Attributable to Owners of Parent
(Millions of Yen)



Total Assets and Total Equity per Share



R&D Expenses and Ratio to Net Sales



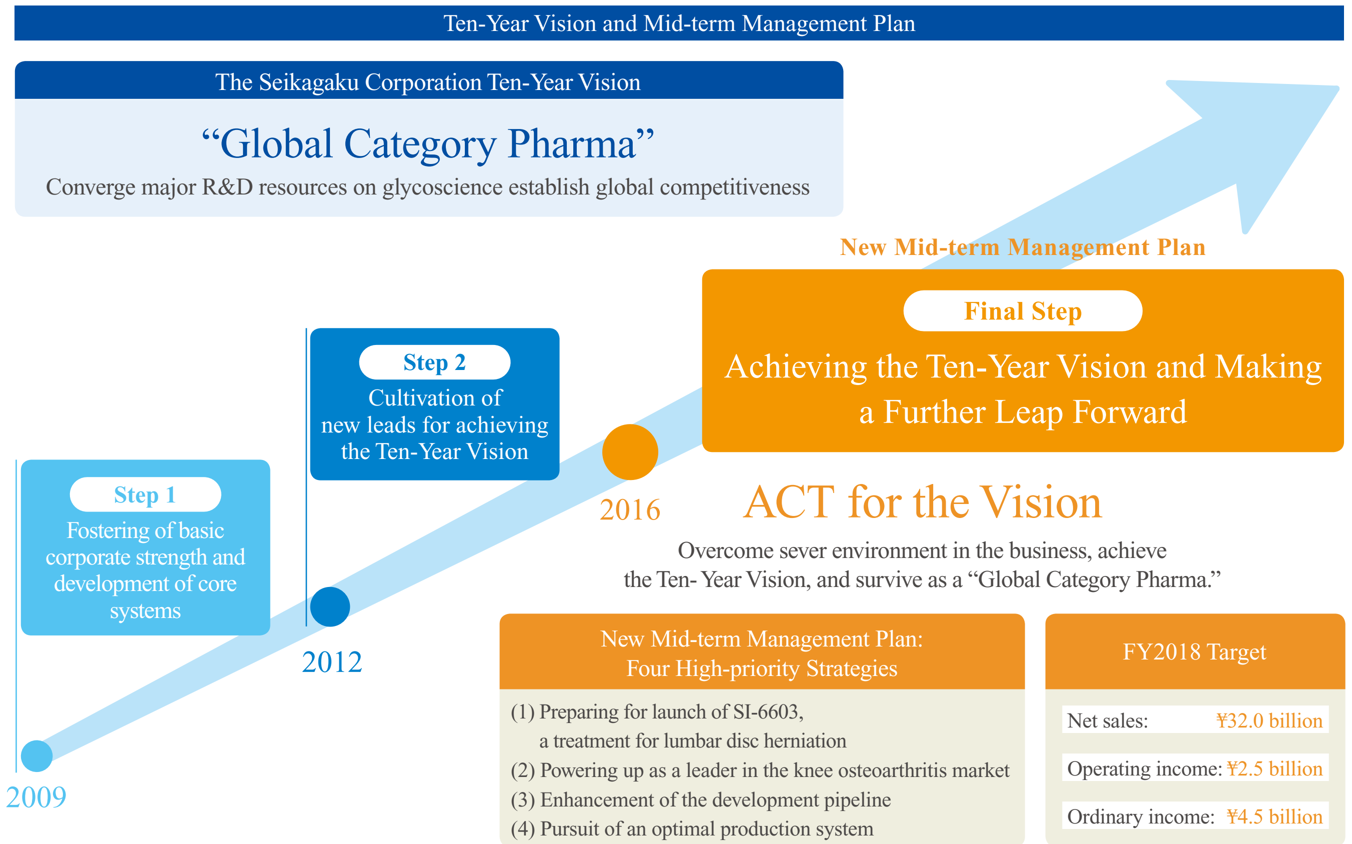
To Our Shareholders

Assembling Our Vision

President

Ken Mizutani

Our Ten-Year Vision for sustained growth is based on deepening our global presence—through strategic specialization with targeted R&D to open up new revenue streams—and applying our strengths in high-quality production. Now, two-thirds of the way toward these goals, we take stock of our achievements and plan for the concluding effort.



Business performance in fiscal 2015

Net sales in the fiscal year ended March 31, 2016 (fiscal 2015) increased as a result of the impact of yen depreciation and higher pharmaceuticals sales volume overseas, mainly U.S. sales of Gel-One, a single-injection joint function improving agent. Income decreased, reflecting mainly higher depreciation accompanying the start of operation of new production facilities, an increase in R&D expenses resulting from progress on development projects, and a tax rate increase accompanying the expiration of certain tax rate reducing factors applied in fiscal 2014.

Summary of the previous mid-term management plan

Fiscal 2015 was the final year of the previous mid-term management plan launched in April 2012 as the second step toward the Seikagaku Corporation Ten-Year Vision. During the four-year period of the management plan, Seikagaku made proactive investment in key strategic projects to "cultivate new leads for achieving the Ten-Year Vision."

U.S. sales of Gel-One, a strategically important product, are increasing as a result of restructuring in marketing activities like setting up a specialized division for the North American business. The LAL business, involving the manufacture and sale of endotoxin-detecting reagents, is also growing into a mainstay business thanks to sales expansion at the U.S. subsidiary. In the area of production, the completion of the Takahagi No. 5 Production Building brought to a conclusion a round of major capital investments to ensure a production structure that ensures a stable supply of products over the medium-to-long term.
In new drug development, projects such as SI-6603 for treatment of lumbar disc herniation, and SI-613, a new joint function improving agent, have advanced to late-stage development.

Meanwhile, measures to control medical costs by the National Health Insurance (NHI) are accelerating, and the market for joint function improving agents is becoming increasingly difficult. Although we have increased the market share of ARTZ, sales have decreased. The new drug application (NDA) for SI-6603, which was submitted in January 2014 in Japan, is under review, and it is taking longer than expected to obtain approval.

Accordingly, while our overall results under the previous management plan support the objective of cultivating new leads for achieving the Ten-Year Vision, some issues remain to be addressed.

Establishment of a new three-year mid-term management plan as the final step in achieving the Ten-Year Vision

In light of the accomplishments and the issues that remain under the previous management plan, Seikagaku has formulated a new three-year mid-term management plan with the key concept "ACT for the Vision—Achieving the Ten-Year Vision and Making a Further Leap Forward" as the final step in the Ten-Year Vision. Under the new plan, we will aim to overcome a severe environment in the business, achieve the Ten-Year Vision, and survive as a "Global Category Pharma" by implementing the following four high-priority strategies.

(1) Preparing for launch of SI-6603, a treatment for lumbar disc herniation

Approval of SI-6603 in Japan in fiscal 2016 is the highest priority. After launch in Japan, we will work together with our sales partner Kaken Pharmaceutical to seek rapid market penetration ensuring appropriate use of the drug.

For worldwide markets excluding Japan, in August of this year we have entered into an exclusive license agreement with Ferring Pharmaceuticals for development and commercialization of SI-6603. Initially, we will steadily advance on-going clinical trials in the U.S. Then, upon receiving new drug approval from the Food and Drug Administration, we will focus with Ferring on commercializing the product in the U.S., a large potential growth market.

(2) Powering up as a leader in the knee osteoarthritis market

Promote sales expansion in the U.S. and new market development for growth driver Gel-One. Keep sales volumes of ARTZ in Japan through product improvements and accelerate development of SI-613, a joint function improving agent positioned as a next-generation product.

(3) Enhancement of the development pipeline

Based on the technological superiority to those of competitors in the field of glycoscience, accelerate drug discovery research, and continuously originate and foster new drug development. Steadily advance the stages of projects in the pipeline by enhancing clinical development capabilities.

(4) Pursuit of optimal production and quality control systems

Ensure a stable supply of products and realize cost reductions by implementing further production efficiency improvements. Strengthen production and quality control systems compliant with global standards and capable of rapidly responding to regulatory trends.

Numerical targets and path to the next growth stage

We have set targets for the fiscal year ending March 31, 2019 (fiscal 2018), the final year of the new mid-term management plan, of net sales of ¥32.0 billion, operating income of ¥2.5 billion, and ordinary income* of ¥4.5 billion. The underlying assumptions are that the overseas sales ratio will increase to approximately 45% and that sales outside of Japan will compensate for a decrease in domestic sales to result from NHI drug price reductions. We expect R&D expenses to remain at high levels. On the other hand, we have included royalty income in projected non-operating income.

Some delays and unexpected changes in market conditions have prompted us to set the figures at this level. We will enthusiastically work to achieve results that exceed the targets by steadily implementing the four high-priority strategies in the mid-term management plan. Through these strategies, we aim to leap forward into the next stage of growth by expanding the share of Gel-One, and Japan and U.S. sales of SI-6603, which we expect to become a new pillar of earnings.

*Ordinary income: A commonly used profit indicator in Japan that includes financial income and expenses and royalty income.

Creating shareholder value

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

Our policy on shareholder returns is to aim for stable and continuous dividends from a medium- to long-term perspective, and in fiscal 2015, we paid an annual dividend of ¥26 per share. Under our policy of considering share buybacks, taking into account future business development and the total return ratio, the Board of Directors resolved at a meeting in June of this year to acquire up to ¥400 million of treasury stock, and we completed the purchase in July.

Seikagaku will continue to increase shareholder value through sustained growth. In doing so, we strive always to engage in conscientious, compliance-minded corporate activities and enhance corporate governance by maintaining high ethical standards and a strong sense of responsibility as a pharmaceutical company.

President
Ken Mizutani

Focused and Efficient

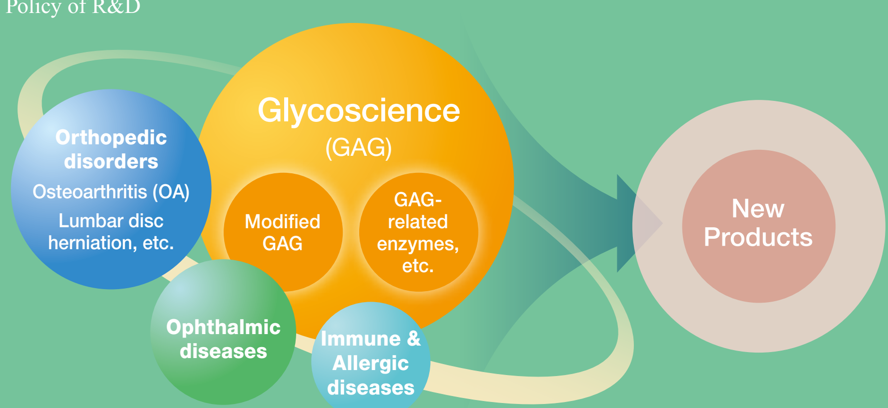
Leveraging Specialization in the Field of Glycoscience

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

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

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

Basic Policy of R&D



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).

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

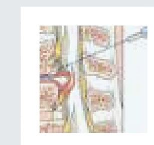
Our Pipeline

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 U.S./EU					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: Development of SI-657, an additional indication for ARTZ, was discontinued in February 2016.

SI-6603

Condoliase for lumbar disc herniation



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

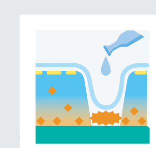
Lumbar disc herniation is the partial protrusion of the nucleus pulposus at the core of each intervertebral disc or the annulus fibrosus, the disc’s outer layer. The resulting pressure on the spinal nerve root causes pain and numbness.

Because treatment by condoliase would be much less invasive than surgical treatment, it imposes lower physical burdens and has the potential to enhance earlier return of patients to work and normal life. Currently, there is no fundamental pharmacological therapy for lumbar disc herniation. A single dose of SI-6603 is expected to be as effective as surgery in alleviating symptoms, so, patients could expect improved quality of life (QOL). A new drug application examination for an NDA submitted to Japan’s MHLW in January 2014 is ongoing, and the Company aims to obtain marketing approval during fiscal 2016. In the U.S., case registration for a Phase III clinical trial was completed in July 2015 and entered the observation period. An open-label trial started in Europe in April 2015 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.

In August of this year, we concluded an exclusive worldwide license agreement under which Ferring Pharmaceuticals acquires exclusive rights to develop, register, and commercialize SI-6603 worldwide, excluding Japan.

SI-614

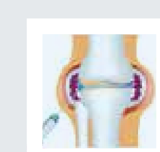
Modified hyaluronate for dry eye



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

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 by 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. Minimal side effects are expected compared with oral or topical NSAIDs, because administration is by joint injection. A Phase II clinical trial multiple-dose study, completed in January 2016, is now under the preparation of next clinical studies.

Pharmaceuticals Business

Sales by Segment

82.4%

Worldwide sales of pharmaceuticals and medical devices for the year ended March 31, 2016 (fiscal 2015) rose by 3.5% to ¥25,518 million. The domestic market remained at the prior-year level but higher deliveries of Gel-One to medical institutions in the U.S. and the effect of yen depreciation resulted in increased sales.

Domestic Pharmaceuticals: ¥16,928 million (+0.2% compared with fiscal 2014)

ARTZ® 25mg, ARTZ Dispo® 25mg, SUPARTZ FX™, ARTZAL® etc. (Multiple Injection)

Intra-articular injections for improving joint functions

The world's first multiple-injection hyaluronic acid formulation, launched in Japan in 1987. Highly evaluated and used widely as a formulation for the treatment of knee osteoarthritis* with over 380 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, despite the impact of generics-use promotion by the government, both deliveries to medical institutions and the Company's sales of ARTZ increased slightly, partly as a result of sales promotion activities by the sales partner.

OPEGAN®, OPEGAN Hi®, SHELLGAN®

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 to medical institutions and the Company's sales of OPEGAN fell slightly amid continued fierce competition. To reverse this situation, we released the new SHELLGAN in July 2016 and, while maintaining sales promotion efforts with the sales partner, we aim to expand the overall market share of the OPEGAN series.

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.

Both deliveries to medical institutions and the Company's sales of MucoUp increased, partly because of an increase in shipments accompanying a change in sales partner in April 2016.

Bulk Products: ¥1,289 million (-8.4% compared with 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 decreased as a result of intensification of competition in the market for sodium hyaluronate.

Overseas Pharmaceuticals: ¥7,300 million (+15.1% compared with fiscal 2014)

In the U.S., SUPARTZ FX* is the brand name of ARTZ. Sales of the 5-injection product maintained the prior-year level because of sales promotion activities by the sales partner amid continued fierce competition. The Company's sales to the U.S. also benefited from yen depreciation.

Sales of ARTZ in China (P.R.C.) decreased, reflecting a price curb policy by the government. The Company's sales increased as a result of an inventory build-up following logistics policy revisions by the sales partner and the impact of yen depreciation.

*The SUPARTZ® brand name was changed to SUPARTZ FX™ in October 2015.

Gel-One® (Single Injection)

Cross-linked hyaluronate hydrogel for knee osteoarthritis

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

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

U.S. sales of Gel-One increased due to the positive effects of an enhanced sales structure from the acquisition made by Zimmer Biomet in June 2015. 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, Seikagaku strives to support the marketing activities of the sales partner in the U.S. through the Seikagaku North American Business Unit (established in May 2015) and the SEIKAGAKU U.S.A. Representative Office, organizations focused solely on the U.S. market.

LAL Business

Sales by Segment

17.6%

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

LAL Business: ¥5,444 million (+11.7% compared with fiscal 2014)

Endotoxin-detecting Reagents

Net sales from the LAL business rose 11.7% compared with fiscal 2014 to ¥5,444 million as a result of higher overseas sales of endotoxin-detecting reagents and the impact of yen depreciation.

Board of Directors, Audit & Supervisory Board Members

Ken Mizutani
PRESIDENT

Toshinori Yagura
SENIOR MANAGING DIRECTOR

Masaomi Miyamoto
DIRECTOR
SENIOR MANAGING OFFICER

Eiji Katayama
OUTSIDE DIRECTOR

Izumi Hayashi
OUTSIDE DIRECTOR

Yoshiyuki Sakura
AUDIT & SUPERVISORY BOARD MEMBER

Toru Takeda
AUDIT & SUPERVISORY BOARD MEMBER

Nobuhiro Takeuchi
OUTSIDE AUDIT & SUPERVISORY BOARD MEMBER

Yoshihito Shibata
OUTSIDE AUDIT & SUPERVISORY BOARD MEMBER

Mie Fujimoto
OUTSIDE AUDIT & SUPERVISORY BOARD MEMBER

Corporate Governance

Basic Policy on Corporate Governance

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 three full-time and two outside members, holds regular meetings, in principle once a month, and extraordinary meetings as necessary and for the purpose of deciding important matters and overseeing the execution of business stipulated by laws and regulations, the Articles of Incorporation, and Board of Directors Regulations. We strive to enhance management oversight from an independent standpoint by appointing outside directors to at least one-third of Board seats.

The term of office for directors is one year with the aim of maintaining a management structure that can adapt quickly and flexibly to changes in the business environment.

The outside directors are responsible for oversight from an objective standpoint, a perspective that incorporates the common interests of shareholders.

In the procedure for determining compensation for directors and the procedure for nominating candidates for director and Audit & Supervisory Board members, Seikagaku provides prior explanations and exchanges views with the outside directors.

The Board of Outside Officers, comprising the outside directors and outside Audit & Supervisory Board members, evaluates the effectiveness of the Board of Directors and reports the evaluation results to the Board of Directors.

Business operations — Seikagaku has introduced a managing officer system to strengthen governance by separating management decision-making and oversight from business execution.

Management Committee meetings, attended by full-time directors and managing officers, are held weekly, in principle, to deliberate and decide matters related to business execution delegated by the Board of Directors. To strengthen internal control, we have instituted the Risk Management Committee, chaired by the director in charge of administration and comprising mainly directors and managing officers in charge of various divisions.

Audit framework

The Audit & Supervisory Board comprises two full-time and three outside members who audit directors' execution of duties. The outside Audit & Supervisory Board members perform an appropriate oversight function with respect to directors' execution of duties from an objective standpoint, a perspective that incorporates the common interests of shareholders.

To strengthen the oversight function, the five Audit & Supervisory Board members attend meetings of the Board of Directors, and the full-time members attend important meetings of the Management Committee, Compliance Promotion Committee, Risk Management Committee and receive reports concerning the status of management and business execution.

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.

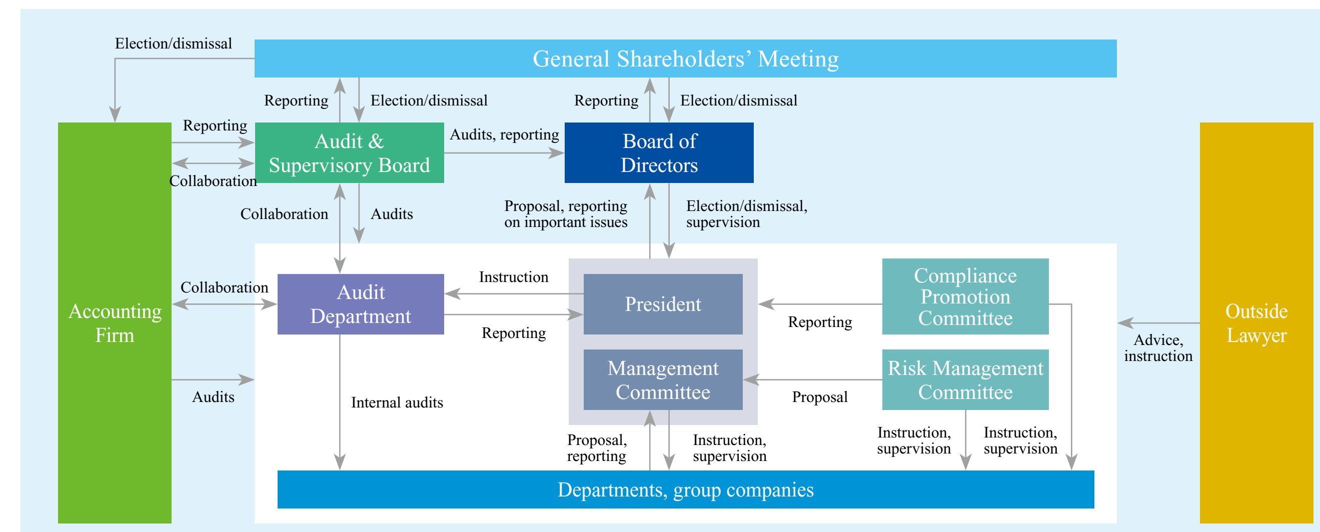
Seikagaku widely distributes a compliance handbook among officers and employees and conducts training to assure compliance groupwide. We have instituted a reporting system from subsidiaries to Seikagaku so that any occurrence of a serious compliance-related problem at a subsidiary is promptly reported to Seikagaku. 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 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

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, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 11)	¥ 9,494	¥ 9,346	$ 84,018
Short-term investments (Notes 3 and 11)	4,256	3,936	37,664
Notes and accounts receivable—trade (Note 11)	8,014	8,357	70,919
Allowance for doubtful accounts	(6)	(3)	(53)
Inventories (Note 4)	7,261	6,226	64,257
Deferred tax assets (Note 10)	1,025	1,099	9,071
Other current assets	1,225	884	10,841
Total current assets	31,269	29,845	276,717
PROPERTY, PLANT, AND EQUIPMENT:			
Land	933	1,000	8,258
Buildings and structures	22,645	22,416	200,398
Machinery and equipment	27,770	26,953	245,752
Lease assets (Note 5)	185	153	1,637
Construction in progress	1,235	592	10,929
Total	52,768	51,114	466,974
Accumulated depreciation	(28,099)	(25,186)	(248,664)
Net property, plant, and equipment	24,669	25,928	218,310
INVESTMENTS AND OTHER ASSETS:			
Investment in an unconsolidated subsidiary	25	25	221
Investment securities (Notes 3 and 11)	23,160	23,081	204,956
Goodwill	6	9	53
Asset for retirement benefits (Note 8)		390	
Other assets (Note 6)	1,137	1,699	10,062
Allowance for doubtful accounts	(47)	(87)	(416)
Total investments and other assets	24,281	25,117	214,876
TOTAL	¥ 80,219	¥ 80,890	$ 709,903
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Notes and accounts payable—trade (Note 11)	¥ 1,809	¥ 1,349	$ 16,009
Notes and accounts payable—other (Note 11)	3,221	3,656	28,504
Current portion of long-term debt (Notes 7 and 11)	286	286	2,531
Current portion of long-term lease obligations (Notes 5 and 11)	35	35	310
Accrued expenses	852	834	7,540
Accrued income taxes (Note 11)	380	90	3,363
Other current liabilities	109	112	965
Total current liabilities	6,692	6,362	59,222
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 11)	429	714	3,796
Long-term lease obligations (Notes 5 and 11)	52	58	460
Long-term accounts payable*	934	1,080	8,265
Liability for retirement benefits (Note 8)	856		7,575
Asset retirement obligations	37	37	327
Deferred tax liabilities (Note 10)	1,268	2,092	11,222
Other long-term liabilities	135	137	1,195
Total long-term liabilities	3,711	4,118	32,840
COMMITMENTS (Note 5)			
EQUITY (Notes 9 and 16):			
Common stock—authorized, 234,000,000 shares; issued, 58,584,093 shares in 2016 and 2015	3,840	3,840	33,982
Capital surplus	5,302	5,302	46,921
Retained earnings	59,379	58,277	525,478
Treasury stock—at cost, 1,779,510 shares in 2016 and 1,778,994 shares in 2015	(2,081)	(2,080)	(18,416)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	3,682	4,480	32,584
Foreign currency translation adjustments	579	624	5,124
Defined retirement benefit plan	(885)	(33)	(7,832)
Total equity	69,816	70,410	617,841
TOTAL	¥ 80,219	¥ 80,890	$ 709,903

*Prior to April 1, 2015, long term accounts payable was included in other long term liabilities in the consolidated balance sheet.
During this fiscal year ended March 31, 2016, the amount is disclosed separately to ensure clarity in long term liabilities of the consolidated balance sheet as of March 31, 2016.
The amount included in other long term liabilities as of March 31, 2015, was $9,000 thousand.

See notes to consolidated financial statements.

Consolidated Statement of Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET SALES (Notes 12 and 15)	¥ 30,963	¥ 29,523	$ 274,009
COST OF SALES	12,872	12,131	113,912
Gross profit	18,091	17,392	160,097
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 13)	15,946	15,008	141,115
Operating income	2,145	2,384	18,982
OTHER INCOME (EXPENSES):			
Interest and dividend income	339	313	3,000
Interest expense	(37)	(18)	(328)
Foreign exchange (loss) gain	(26)	546	(230)
Royalty income	362	241	3,204
Gain on sales of investment securities	446	389	3,947
Other—net	272	153	2,407
Other income—net	1,356	1,624	12,000
INCOME BEFORE INCOME TAXES	3,501	4,008	30,982
INCOME TAXES (Note 10):			
Current	721	502	6,380
Deferred	201	(145)	1,779
Total income taxes	922	357	8,159
NET INCOME	2,579	3,651	22,823
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 2,579	¥ 3,651	$ 22,823

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Net income	¥ 45.39	¥ 64.27	$ 0.40
Cash dividends applicable to the year	26.00	26.00	0.23

	Thousands of Shares	
Weighted-average shares	56,804	56,805

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCOME	¥ 2,579	¥ 3,651	$ 22,823
OTHER COMPREHENSIVE INCOME (Note 14):			
Unrealized (loss) gain on available-for-sale securities	(798)	2,616	(7,062)
Foreign currency translation adjustments	(45)	471	(398)
Defined retirement benefit plan	(852)	400	(7,540)
Total other comprehensive (loss) income	(1,695)	3,487	(15,000)
COMPREHENSIVE INCOME	¥ 884	¥ 7,138	$ 7,823
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—Owners of the parent	¥ 884	¥ 7,138	$ 7,823

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

		Millions of Yen							
						Accumulated Other Comprehensive Income (Loss)			
	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, 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 (Note 2.k)				(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 attributable to owners of the parent				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
Net income attributable to owners of the parent				2,579					2,579
Cash dividends, ¥26 per share				(1,477)					(1,477)
Unrealized loss on available-for-sale securities						(798)			(798)
Net change in foreign currency translation adjustments							(45)		(45)
Net change in defined retirement benefit plan								(852)	(852)
Purchase of treasury stock					(1)				(1)
BALANCE, MARCH 31, 2016	58,584,093	¥ 3,840	¥ 5,302	¥ 59,379	¥ (2,081)	¥ 3,682	¥ 579	¥ (885)	¥ 69,816

	Thousands of U.S. Dollars (Note 1)							
					Accumulated Other Comprehensive Income (Loss)			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan	Total Equity
BALANCE, MARCH 31, 2015	$ 33,982	$ 46,921	$ 515,726	$ (18,407)	$ 39,646	$ 5,522	$ (292)	$ 623,098
Net income attributable to owners of the parent			22,823					22,823
Cash dividends, $0.23 per share			(13,071)					(13,071)
Unrealized loss on available-for-sale securities					(7,062)			(7,062)
Net change in foreign currency translation adjustments						(398)		(398)
Net change in defined retirement benefit plan							(7,540)	(7,540)
Purchase of treasury stock				(9)				(9)
BALANCE, MARCH 31, 2016	$ 33,982	$ 46,921	$ 525,478	$ (18,416)	$ 32,584	$ 5,124	$ (7,832)	$ 617,841

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 3,501	¥ 4,008	$ 30,982
Adjustments for:			
Income taxes—paid	(457)	(1,426)	(4,044)
Income taxes—refund	86		761
Depreciation and amortization	3,195	2,613	28,275
Foreign exchange gain	(91)	(282)	(805)
Gain on sales of investment securities	(446)	(389)	(3,947)
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable—trade	343	(532)	3,035
Decrease (increase) in notes and accounts receivable—other*	242	(140)	2,141
Increase in inventories	(1,036)	(401)	(9,168)
(Increase) decrease in advance payments for research and development	(251)	218	(2,221)
Increase in notes and accounts payable—trade	459	19	4,062
Increase in consumption tax payable/receivable	235	401	2,079
(Decrease) increase in accounts payable—other	(226)	259	(2,000)
Increase (decrease) in liability for retirement benefits	28	(83)	248
Other—net	13	(132)	115
Net cash provided by operating activities	5,595	4,133	49,513
INVESTING ACTIVITIES:			
Purchases of time deposits		(500)	
Proceeds from maturities of time deposits	500		4,425
Proceeds from redemption of short-term investments	5,403	4,294	47,814
Purchases of short-term investments	(3,326)	(833)	(29,434)
Purchases of fixed assets	(2,249)	(1,483)	(19,903)
Proceeds from sales of investment securities	1,038	1,581	9,186
Purchases of investment securities	(4,784)	(6,319)	(42,336)
Other—net	2	(45)	18
Net cash used in investing activities	(3,416)	(3,305)	(30,230)
FINANCING ACTIVITIES:			
Repayment of long-term debt	(286)		(2,531)
Repayments of lease obligations	(41)	(263)	(363)
Dividends paid	(1,477)	(1,477)	(13,071)
Proceeds from sales and installment back transactions		1,249	
Repayments of sales and installment back transactions	(142)	(26)	(1,256)
Other—net	(1)	(2)	(9)
Net cash used in financing activities	(1,947)	(519)	(17,230)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(84)	255	(743)
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 148	¥ 564	$ 1,310
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,346	8,782	82,708
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 9,494	¥ 9,346	$ 84,018

* Prior to April 1, 2015, the change in notes and accounts receivable—other was included in other—net among operating activities in the consolidated statement of cash flows. Since during this fiscal year ended March 31, 2016, the change in the amount of notes and accounts receivable—other increased significantly, such amount is disclosed separately in operating activities in the consolidated statement of cash flows as of March 31, 2016.
The amount included in other—net as of March 31, 2015, was $1,167 thousand.

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

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 2015 consolidated financial statements to conform to the classifications used in 2016.

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 ¥113 to $1, the approximate rate of exchange at March 31, 2016. 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, 2016, include the accounts of the Company and its three significant subsidiaries (collectively, the "Group").

Investment in an unconsolidated subsidiary in 2016 and 2015 is stated at cost. If the equity method of accounting had been applied to the investment in this subsidiary, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period of 15 years.

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

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—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" which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. 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 (Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 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 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."

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. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) *Transactions with noncontrolling interest*—A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) *Presentation of the consolidated balance sheet*—In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(c) *Presentation of the consolidated statement of income*—In the consolidated statement of income, "income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) *Provisional accounting treatments for a business combination*—If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) *Acquisition-related costs*—Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015.

There was no impact from these accounting changes.

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

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

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

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

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

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

i. Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. 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 attributable to shareholders of common stock by the weighted-average number of shares of common stock outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because there were no dilutive securities in 2016 or 2015.

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, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Short-term investments:			
Debt securities	¥ 4,256	¥ 3,936	$ 37,664
Total	¥ 4,256	¥ 3,936	$ 37,664
Investment securities:			
Equity securities	¥ 10,121	¥ 10,075	$ 89,566
Debt securities	10,529	10,826	93,177
Other	2,510	2,180	22,213
Total	¥ 23,160	¥ 23,081	$ 204,956

Information regarding the marketable securities classified as available-for-sale at March 31, 2016 and 2015, is as follows:

	Millions of Yen			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 4,904	¥ 5,385	¥ 168	¥ 10,121
Debt securities	14,749	144	108	14,785
Other	2,528	96	114	2,510
March 31, 2015				
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

	Thousands of U.S. Dollars			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 43,398	$ 47,655	$ 1,487	$ 89,566
Debt securities	130,522	1,275	956	130,841
Other	22,372	850	1,009	22,213

The information for available-for-sale securities that were sold during the years ended March 31, 2016 and 2015, is as follows:

	Millions of Yen		
March 31, 2016	Proceeds	Realized Gains	Realized Losses
Securities classified as available-for-sale:			
Equity securities	¥ 935	¥ 447	
Debt securities	100		
Other	3		
Total	¥1,038	¥ 447	
March 31, 2015			
Securities classified as available-for-sale:			
Equity securities	¥ 1,095	¥ 416	¥ 2
Other	486		25
Total	¥ 1,581	¥ 416	¥ 27

	Thousands of U.S. Dollars		
March 31, 2016	Proceeds	Realized Gains	Realized Losses
Securities classified as available-for-sale:			
Equity securities	$ 8,274	$ 3,956	
Debt securities	885		
Other	27		
Total	$ 9,186	$ 3,956	

4. Inventories

Inventories at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Merchandise and finished products	¥ 3,931	¥ 2,999	$ 34,787
Work in process	1,998	1,737	17,682
Raw materials and supplies	1,332	1,490	11,788
Total	¥ 7,261	¥ 6,226	$ 64,257

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, 2016, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 35	$ 310
2018	30	266
2019	17	150
2020	5	44
Total	¥ 87	$ 770

(2) Operating Leases

The minimum rental commitments under noncancelable operating leases at March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	¥ 26	¥ 17	$ 230
Due after one year	43	18	381
Total	¥ 69	¥ 35	$ 611

6. Long-term Deposits

Long-term deposit in banks of ¥500 million ($4,425 thousand) was included in other assets of investments and other assets as of March 31, 2016. Annual maturity of the deposit was as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 500	$ 4,425
Total	¥ 500	$ 4,425

There is a possibility that the Company would not receive full repayment of the deposit 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, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Loan from bank, 0.29%, due 2018 (unsecured)	¥ 715	¥ 1,000	$ 6,327

Annual maturities of long-term debt as of March 31, 2016, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 286	$ 2,531
2018	286	2,531
2019	143	1,265

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, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥5,597	¥5,569	$49,531
Cumulative effect of accounting change		55	
Balance at beginning of year (as restated)	5,597	5,624	49,531
Current service cost	243	245	2,150
Interest cost	67	67	593
Actuarial losses (gains)	981	(142)	8,681
Benefits paid	(211)	(197)	(1,867)
Balance at end of year	¥6,677	¥5,597	$59,088

(2) The changes in plan assets for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 5,987	¥ 5,311	$ 52,982
Expected return on plan assets	179	158	1,584
Actuarial losses (gains)	(324)	456	(2,867)
Contributions from the employer	190	259	1,681
Benefits paid	(211)	(197)	(1,867)
Balance at end of year	¥ 5,821	¥ 5,987	$ 51,513

(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
	2016	2015	2016
Defined benefit obligation	¥ 6,677	¥ 5,597	$ 59,088
Plan assets	(5,821)	(5,987)	(51,513)
Net liability (asset) arising from defined benefit obligation	¥ 856	¥ (390)	$ 7,575

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Liability for retirement benefits	¥ 856		$ 7,575
Asset for retirement benefits		¥ (390)	
Net liability (asset) arising from defined benefit obligation	¥ 856	¥ (390)	$ 7,575

(4) The components of net periodic retirement benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥ 243	¥ 245	$ 2,150
Interest cost	67	68	593
Expected return on plan assets	(179)	(158)	(1,584)
Amortization of prior service cost		(95)	
Recognized actuarial losses	88	115	779
Net periodic benefit costs	¥ 219	¥ 175	$ 1,938

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Prior service cost		¥ 95	
Actuarial losses (gains)	¥ 1,217	(714)	$ 10,770
Total	¥ 1,217	¥ (619)	$ 10,770

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized actuarial losses	¥ 1,265	¥ 48	$ 11,195
Total	¥ 1,265	¥ 48	$ 11,195

(7) Plan assets

a Components of plan assets

Plan assets as of March 31, 2016 and 2015, consisted of the following:

	2016	2015
Debt investments	26%	24%
Equity investments	36	40
Assets in general account of insurance companies	36	34
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, 2016 and 2015, were set forth as follows:

	2016	2015
Discount rate	0.2%	1.2%
Expected rate of return on plan assets	3.3	3.0

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 ($487 thousand) for the year ended March 31, 2016.

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 ¥69 million ($611 thousand) for the year ended March 31, 2016.

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. Additionally, for companies that meet certain criteria, including (1) having a board of directors, (2) having independent auditors, (3) having an audit and supervisory board, and (4) the term of service of the directors 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 33% and 35% for the years ended March 31, 2016 and 2015, 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, 2016 and 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deferred tax assets—current:			
Accrued bonuses	¥ 181	¥ 199	$ 1,602
Tax credit carryforwards	155	161	1,372
Research and development costs	143	235	1,265
Other	546	561	4,832
Total	1,025	1,156	9,071
Deferred tax liabilities—current:			
Other		57	
Total		57	
Net deferred tax assets—current	¥ 1,025	¥ 1,099	$ 9,071
Deferred tax assets—noncurrent:			
Tax credit carryforwards	¥ 547	¥ 629	$ 4,841
Liability for retirement benefits	257		2,274
Other	175	241	1,549
Less valuation allowance	(444)	(526)	(3,929)
Total	535	344	4,735
Deferred tax liabilities—noncurrent:			
Unrealized gain on available-for-sale securities	1,557	2,045	13,779
Depreciation	183	189	1,619
Asset for retirement benefits		125	
Other	63	77	559
Total	1,803	2,436	15,957
Net deferred tax liabilities—noncurrent	¥ (1,268)	¥ (2,092)	$ (11,222)

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, 2016, with the corresponding figures for 2015, is as follows:

	2016	2015
Normal effective statutory tax rate	33.0%	35.0%
Tax credit	(7.2)	(26.9)
Change in valuation allowance allocated to income tax expenses	(2.4)	10.3
Dividends received deduction for income tax purposes	(0.4)	(8.7)
Effect of reduction of income tax rates on deferred tax assets and liabilities	2.0	1.1
Other—net	1.3	(1.9)
Actual effective tax rate	26.3%	8.9%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, to approximately 30%. The effect of this change was to decrease deferred tax assets by ¥68 million ($602 thousand), decrease net of deferred tax liabilities by ¥76 million ($673 thousand), increase accumulated other comprehensive income for unrealized gain on available-for-sale securities by ¥103 million ($911 thousand) and defined retirement benefit plan (debit) by ¥25 million ($221 thousand) in the consolidated balance sheet as of March 31, 2016, and to increase income taxes—deferred by ¥70 million ($619 thousand) in the consolidated statement of income for the year then ended.

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, 2016, 70.3% of total receivables are from three major customers of the Group.

(4) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

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

March 31, 2015	Millions of Yen 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)

March 31, 2016	Thousands of U.S. Dollars Carrying Amount	 Fair Value	 Unrealized Gain/Loss
Cash and cash equivalents	$ 84,018	$ 84,018	
Short-term investments	37,664	37,664	
Notes and accounts receivable—trade	70,919	70,919	
Investment securities	204,956	204,956	
Total	$ 397,557	$ 397,557	
Notes and accounts payable—trade	$ 16,009	$ 16,009	
Notes and accounts payable—other	28,504	28,504	
Current portion of long-term debt	2,531	2,531	
Accrued income taxes	3,363	3,363	
Long-term debt	3,796	3,743	$ (53)
Lease obligations	770	743	(27)
Total	$ 54,973	$ 54,893	$ (80)

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
	2016	2015	2016
Investment in an unconsolidated subsidiary that does not have a quoted market price in an active market	¥ 25	¥ 25	$ 221

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

March 31, 2016	Millions of Yen Due in 1 Year or Less	 Due after 1 Year through 5 Years	 Due after 5 Years through 10 Years	 Due after 10 Years
Cash and cash equivalents	¥ 9,494			
Short-term investments	4,247			
Notes and accounts receivable—trade	8,014			
Investment securities		¥ 10,427		
Total	¥ 21,755	¥ 10,427		

March 31, 2016	Thousands of U.S. Dollars Due in 1 Year or Less	 Due after 1 Year through 5 Years	 Due after 5 Years through 10 Years	 Due after 10 Years
Cash and cash equivalents	$ 84,018			
Short-term investments	37,584			
Notes and accounts receivable—trade	70,919			
Investment securities		$ 92,274		
Total	$ 192,521	$ 92,274		

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 ¥14,768 million for the year ended March 31, 2015.

The similar information for 2016 is disclosed in Note 15.

13. Research and Development Costs

Research and development costs charged to income were ¥8,649 million ($76,540 thousand) and ¥8,147 million for the years ended March 31, 2016 and 2015, respectively.

14. Other Comprehensive Income

The components of other comprehensive (loss) income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (901)	¥ 4,113	$ (7,973)
Reclassification adjustments to profit	(446)	(389)	(3,947)
Amount before income tax effect	(1,347)	3,724	(11,920)
Income tax effect	549	(1,108)	4,858
Total	¥ (798)	¥ 2,616	$ (7,062)
Foreign currency translation adjustments: Adjustments arising during the year	¥ (45)	¥ 471	$ (398)
Total	¥ (45)	¥ 471	$ (398)
Defined retirement benefit plan:			
Adjustments arising during the year	¥ (1,305)	¥ 598	$ (11,549)
Reclassification adjustments to profit	88	20	779
Amount before income tax effect	(1,217)	618	(10,770)
Income tax effect	365	(218)	3,230
Total	¥ (852)	¥ 400	$ (7,540)
Total other comprehensive (loss) income	¥ (1,695)	¥ 3,487	$ (15,000)

15. 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				
	2016				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 25,518	¥ 5,445	¥ 30,963		¥ 30,963
Intersegment sales or transfers					
Total	¥ 25,518	¥ 5,445	¥ 30,963		¥ 30,963
Segment profit	¥ 1,016	¥ 1,129	¥ 2,145		¥ 2,145
Segment assets	74,403	5,816	80,219		80,219
Other:					
Depreciation	3,046	146	3,192		3,192
Amortization of goodwill		3	3		3
Increase in property, plant, and equipment and intangible assets	1,632	344	1,976		1,976

	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

	Thousands of U.S. Dollars				
	2016				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$ 225,823	$ 48,186	$ 274,009		$ 274,009
Intersegment sales or transfers					
Total	$ 225,823	$ 48,186	$ 274,009		$ 274,009
Segment profit	$ 8,991	$ 9,991	$ 18,982		$ 18,982
Segment assets	658,434	51,469	709,903		709,903
Other:					
Depreciation	26,956	1,292	28,248		28,248
Amortization of goodwill		27	27		27
Increase in property, plant, and equipment and intangible assets	14,443	3,044	17,487		17,487

(4) Information about Geographical Areas

a. Sales

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

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

Thousands of U.S. Dollars			
2016			
Japan	North America	Other	Total
$ 171,522	$ 65,328	$ 37,159	$ 274,009

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

b. Property, plant, and equipment

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

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

Thousands of U.S. Dollars			
2016			
Japan	North America	Other	Total
$ 203,372	$ 14,743	$ 195	$ 218,310

(5) Information about Major Customers

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

	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

(6) Information about Goodwill

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

	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

	Thousands of U.S. Dollars				
	2016				
	Reportable Segment				
	Pharmaceutical	LAL	Total	Reconciliations	Consolidated
Amortization of goodwill		$ 27	$ 27		$ 27
Goodwill at March 31, 2016		53	53		53

16. Subsequent Event

a. *Appropriations of Retained Earnings*
On June 21, 2016, the Company's shareholders authorized the following appropriations of retained earnings at March 31, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Cash dividends, ¥13 ($0.12) per share	¥ 738	$ 6,531
Total	¥ 738	$ 6,531

b. *Cancellation of Treasury Stock*
The following cancellation of treasury stock to plan for improvement of shareholder value under Article 178 of the Companies Act (the "Act") has been resolved at the Board of Directors' meeting held on May 12, 2016:

(1) Class of shares to be cancelled
Common stock
(2) Number of shares to be cancelled
1,770,000 shares (Represents 3.02% of all outstanding shares before cancellation)
(3) Date of cancellation
May 31, 2016
(4) Total number of shares issued and outstanding after the cancellation
56,814,093 shares

c. *Acquisition of Treasury Stock*
The following acquisition of treasury stock to plan for further improvement of the capital efficiency and stockholder return under Article 156 of the Act, as applied pursuant to Article 165(3) of the Act, has been resolved at the Board of Directors' meeting held on June 15, 2016:

(1) Class of shares to be acquired
Common stock
(2) Number of shares to be acquired
Up to 200,000 shares
(3) Total amount of shares to be acquired
Up to ¥400 million ($3,540 thousand)
(4) Schedule of acquisition
From July 1, 2016 to July 29, 2016
(5) Method of acquisition
Purchase on the Tokyo Stock Exchange

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3, Konan
Minato-ku, Tokyo 108-6221
Japan

Tel:+81 (3) 6720 8200
Fax:+81 (3) 6720 8205
www.deloitte.com/jp/en

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, 2016, 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, 2016, 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 21, 2016

Member of
Deloitte Touche Tohmatsu Limited

Corporate History

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

Investor Information

(As of May 31, 2016)

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

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

Independent Auditors	Deloitte Touche Tohmatsu

Major Shareholders

(As of March 31, 2016)

	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)	2,294	4.0
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)	1,844	3.2
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,834	3.2
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,536	2.7
BNYML-Non Treaty Account	1,220	2.1
Kaken Pharmaceutical Co., Ltd.	1,207	2.1
State Street Bank and Trust Company 505001	1,061	1.9

Note: Treasury stock (1,779 thousand shares) is excluded from the calculations of the percentage above.

Corporate Data

(As of March 31, 2016)

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	663 (consolidated basis)
SEIKAGAKU U.S.A. Representative Office	15 Exchange Place Jersey City, New Jersey 07302, U.S.A. Tel: (1) 201-434-8800 Fax: (1) 201-434-8808

Laboratories and Plants

Central Research Laboratories
CMC Laboratories (Tokyo)

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

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

Kurihama Plant (Kanagawa Prefecture)

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

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

Takahagi Plant (Ibaraki Prefecture)

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

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

Group Company

Associates of Cape Cod, Inc.

(Falmouth, Massachusetts)

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

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

Quality Management System

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

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

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

SEIKAGAKU CORPORATION