Annual Report 2012

For the year ended March 31, 2012

A Foundation Leading to Action

SEIKAGAKU CORPORATION

PROGRESSING STEADILY TOWARD OUR VISION

Pharmaceuticals originated from hyaluronic acid by Seikagaku are today enriching health and everyday life for the people of the world. In a 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.

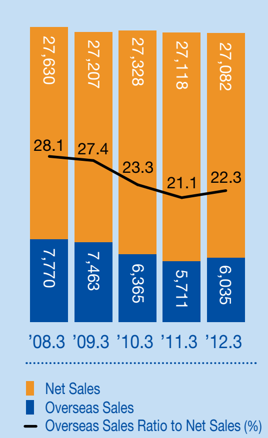
CONTENTS

5-year Financial Summary

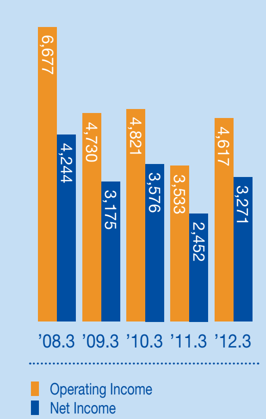
	Millions of Yen					Thousands of U.S. Dollars (Note 2)
	2008.3	2009.3	2010.3 (Note 1)	2011.3	**2012.3**	**2012.3**
Net Sales	¥ 27,630	¥ 27,207	¥ 27,328	¥ 27,118	**¥ 27,082**	**$ 330,268**
Overseas Sales	7,770	7,463	6,365	5,711	**6,035**	**73,598**
Overseas Sales Ratio (to Net Sales)	28.1%	27.4%	23.3%	21.1%	**22.3%**	**22.3%**
Gross Profit	18,682	17,223	16,834	16,637	**17,334**	**211,390**
R&D Expenses	5,654	5,965	5,518	6,724	**5,971**	**72,817**
Operating Income	6,677	4,730	4,821	3,533	**4,617**	**56,305**
Operating Income Ratio (to Net Sales)	24.2%	17.4%	17.6%	13.0%	**17.0%**	**17.0%**
Net Income	4,244	3,175	3,576	2,452	**3,271**	**39,890**
Net Income Ratio (to Net Sales)	15.4%	11.7%	12.9%	9.0%	**12.1%**	**12.1%**
Total Equity	53,646	52,309	55,426	56,107	**58,014**	**707,488**
Return on Shareholders’ Equity (ROE)	8.0%	6.0%	6.6%	4.4%	**5.7%**	**5.7%**
Total Assets	60,620	58,215	62,734	62,684	**68,731**	**838,183**
Return on Total Assets (ROA)	7.1%	5.3%	5.9%	3.9%	**5.0%**	**5.0%**
Consolidated Dividend Payout Ratio	40.7%	44.9%	39.7%	57.9%	**43.4%**	**43.4%**
			(Yen)			(Dollars)
Net Income per Share of Common Stock (Note 3)	73.67	55.68	62.94	43.16	**57.58**	**0.70**
Cash Dividends per Share of Common Stock (Note 3)	30.00	25.00	25.00	25.00	**25.00**	**0.30**
Number of Employees	594	609	637	649	**644**	

Notes: 1 The Company changed the accounting category for milestone royalties from “Net Sales” to “Other Income” in March 2011. Accordingly, retrospectively we reclassified only the figures for March 2010.
2 U.S. dollar amounts are converted, for convenience only, at the rate of ¥82=US$1, the approximate rate at March 31, 2012.
3 As for Per Share Information, please refer to Note 2. “Summary of Significant Accounting Policies”, Section p (p. 20).

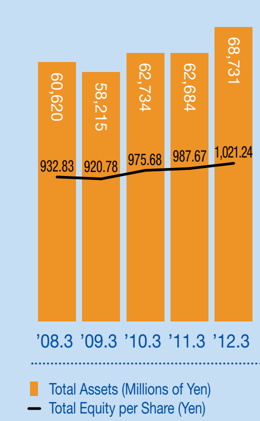
Net Sales and Overseas Sales
(Millions of Yen)



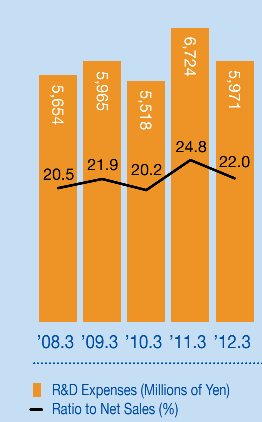
Operating Income and Net Income
(Millions of Yen)



Total Assets and Total Equity per Share



R&D Expenses and Ratio to Net Sales



ACTION:
STEP TWO OF OUR TEN-YEAR VISION

The first step of our Ten-Year Vision, launched in 2009, has brought important gains. This year, we begin the second step to transform the way we apply our resources, talent and market position. The goal is to build up our ability to consistently release new products and develop new mainstay businesses in sustained profitability, as a “Global Category Pharma”.

President
Ken Mizutani

Pharmaceutical sales rise in Japan and overseas

The business environment for pharmaceuticals in the fiscal year ended March 31, 2012 (fiscal 2011) remained severe. In Japan, aftereffects from the Great East Japan Earthquake in March 2011 depressed growth in deliveries of injectable treatments for osteoarthritis pain to medical institutions, but strong marketing efforts for our flagship product ARTZ®, brought growth in deliveries above the market expansion rate, raising market share by nearly a whole percentage point.

Seikagaku’s domestic sales of ARTZ® rose slightly as a result of a high level of shipments to the sales partner in fiscal 2010 due to the introduction of a new plastic syringe product.

In overseas markets, pharmaceutical sales rose as volume growth exceeded the impact of yen appreciation. In the U.S., local sales of SUPARTZ® turned upward as sales partner's efforts to switch customers to our product from competitors' products proved successful. Furthermore, local sales in China continued to grow.

However, these gains were not reflected in net sales on a consolidated basis, which were largely even with the previous year, due to sales decline of fine chemicals because of the yen appreciation and our decision to discontinue sales of research reagents.

Income rises overall

Although net sales were flat year on year, gross profit and operating income rose due to factors including lower depreciation and SG&A expenses. Despite clinical trial expenses incurred for SI-6603, an indication for treatment of lumbar disc herniation, in the U.S., research and development (R&D) expenses were not as high as in fiscal 2010, when SI-6603 clinical trial expenses in Japan were recorded in full.

As a result of the above and a decrease in extraordinary losses associated with the earthquake, net income rose 33.4% to ¥3,271 million.

Concluding three years of foundation building

In March 2009, we established the Seikagaku Corporation Ten-Year Vision for focusing R&D on glycoscience with the aim of developing as a “Global Category Pharma” capable of competing globally. The initial Mid-term Management Plan, running through March 2012, was the first step, designed to build up our fundamental corporate strengths and core systems in preparation for succeeding steps of the Ten-Year Vision.

Building a strong brand, higher production

In Japan, the ARTZ® brand reputation as an original product grew stronger as a result of disease awareness campaigns for knee osteoarthritis and by better serving medical provider’s needs by introducing a pre-filled plastic syringe product. ARTZ® domestic market share rose, as well.

In China as well, where ARTZ® is respected for its high quality and status as a world-first original drug, we further increased the ARTZ® brand reputation. As a result, local China sales are growing at more than 20% per year.

Because of the rising demand for ARTZ®, we also made corresponding investments in production.

Seeking more products, and cultivating competitiveness

It is a given fact that pharmaceuticals companies thrive on a steady stream of new and competitive products. A strong R&D capability is one of the key goals of our Ten-Year Vision, and we are closely monitoring our progress under the Mid-term Management Plan.

For example, in March 2011 we obtained approval in the U.S. for Gel-One®, a single-injection product for the treatment of knee osteoarthritis pain. SI-6603 is a non-surgical treatment indicated for lumbar disc herniation and the next major product with high potential to boost growth. We initiated a Phase III clinical trial of SI-6603 in Japan and a Phase II clinical trial in the U.S. is going well. In January 2012, SI-614, a ophthalmic drug for dry eye, entered into a Phase II clinical trial in the U.S.

Ready to move ahead

Although we fell short of the initial Mid-term Management Plan’s numerical targets for net sales and operating income, due to the earthquake, yen appreciation and other factors, we made healthy strides overall in our targeted strategic areas as described above. Based on the structures and reinforcement realized in the initial Plan, the Company is prepared for a period of intense activity, to take a big step forward in step two.

Strategic Accomplishments in Fiscal 2009–2011

- Sustainable growth of ARTZ® in Japan (increasing brand reputation and expanding sales)
- Sales expansion in China
- Approval of Gel-One®
- Stable profits at Associates of Cape Cod, Inc.
- Construction of new production facilities to meet growing demand

"ACT for the Future" the fiscal 2012–2015 Mid-term Management Plan

Based on these results, Seikagaku has established a new Mid-term Management Plan for a four-year period beginning in April 2012 as the next step. With its focus on action, this new Mid-term Management Plan is essential to achievement of the Ten-Year Vision, which aims to converge major R&D resources on glycoscience and establish our global competitiveness. This is a key period for investing proactively in production and R&D we will need for our future. Under the new Mid-term Management Plan we will seek to develop new buds that will grow into future results, making bold investments of time and resources in four key areas:

→ Acceleration of research theme creation

While broadening the scope of glycoscience research, we are building a structure to accelerate the creation of new themes and incorporating knowledge from outside academic and research organizations.

→ Enhancement of development capability

We are strengthening development functions for conducting clinical trials to cope well with parallel development of multiple themes and solidly advance development stages of new products in the research pipeline, such as SI-6603.

→ Expanding production capacity

Steady expansion and optimization of our production system continues. We will also focus acutely on cost reduction and mitigating inventory shortages through production efficiency and a disaster-hardened logistics system.

→ Realizing marketing potential

There are two goals: expand the market through disease awareness campaigns for knee osteoarthritis, and increase sales by utilizing competitive advantages of products already on the market. We will also promote sales growth in China and other growth markets, closely monitoring emerging markets.

Setting the goals of the second step

Current forecasts anticipate net sales rising from ¥26.7 billion in fiscal 2012 to ¥31.5 billion in fiscal 2015 and operating income to grow from ¥2.6 billion to ¥3.0 billion. The reason these numbers are not far from today's levels is that from fiscal 2012 to 2015, Seikagaku will invest proactively in key strategies, for instance, efforts to optimize the production system such as constructing the No.5 production Building at the Takahagi Plant, to produce ARTZ Dispo®, and new active pharmaceutical ingredient facilities.

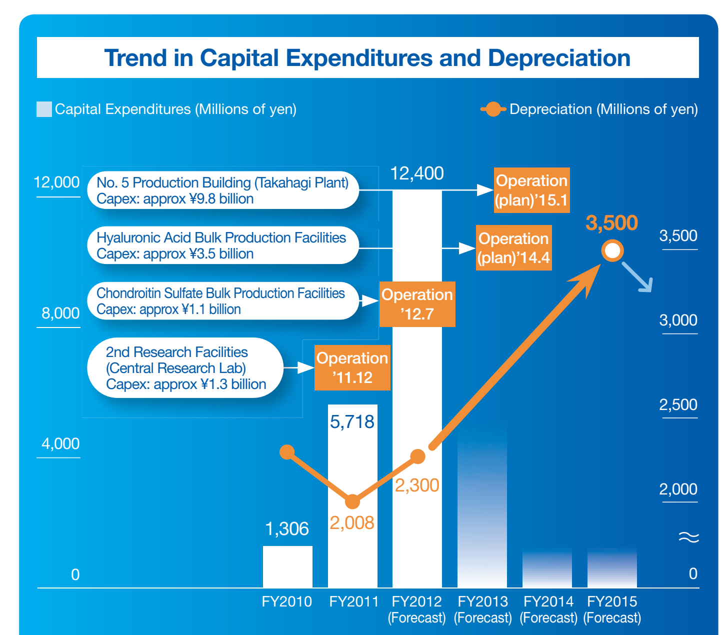
Depreciation will peak in fiscal 2015 at ¥3.5 billion, 1.5-times higher than in fiscal 2011. Also, R&D expenses will increase by 20%–30%, depressing earning performance. However, from fiscal 2016, we can look forward to the possible approval and launch of SI-6603 in Japan and thereafter, the U.S. as well. In addition, we expect continued growth in deliveries of ARTZ® to medical institutions.

We conclude that the elevated capital investment and high R&D expenses during this period are necessary to take the Company to a higher performance level, the goal of the Ten-Year Vision.

Investing in growth in fiscal 2012

In May 2012, we forecast a decrease of ¥382 million in consolidated net sales to ¥26,700 million for fiscal 2012, ending March 31, 2013, in the aftermath of discontinuing the research reagents business as part of our long-term streamlining efforts.

Pharmaceutical sales are expected to decline by ¥121 million. Sales in Japan will decline slightly following the impact of National Health Insurance reimbursement price reduction in April 2012, however, on a volume basis, deliveries of ARTZ® to institutions will increase along with its market share. Also increasing is overseas sales, primarily in China.


Trend in Capital Expenditures and Depreciation

Operating income is forecast to fall 43.7% to ¥2,600 million. In addition to a decrease in gross profit due to factors that include a reduction in drug prices and higher depreciation costs with the start up of the new chondroitin sulfate production facilities at the Kurihama Plant, we anticipate large increment in SG&A expenses mainly attendant on progress with respective development themes and selling expenses associated with sales volume increases.

On August 7, 2012, we received good news about Gel-One® that U.S. district court in Massachusetts entered a ruling that Seikagaku did not infringe the patent and that the asserted patent claims were invalid. The lawsuit was brought by Genzyme Corporation against Seikagaku and Zimmer, Inc. in April 2011, claiming that Gel-One® (approved by the FDA in March 2011) infringed on Genzyme's patent.

Based on these ruling, Seikagaku and its sales partner Zimmer, Inc. are working for the full-scale release of Gel-One® in the U.S. market.

As Gel-One® operations were not included in the May 2012 forecast, if any event occurs in the future that causes any significant impact to Seikagaku's business, we will promptly disclose such facts to the public.

Returning value to shareholders

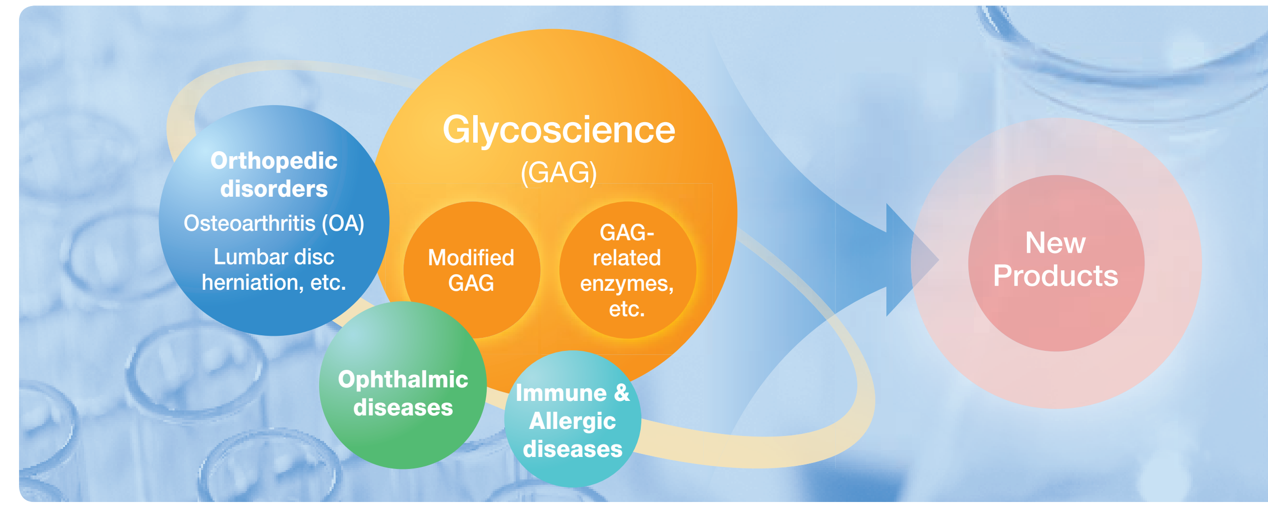
Seikagaku considers the return of profit to shareholders to be an important management priority. In the year ended March 31, 2012, we paid a total dividend for the year of ¥25 per share. Since fiscal 2005, the dividends have been performance-linked, emphasizing the dividend payout ratio. In a changed business environment, beginning in fiscal 2012, we will instead aim for stable and continuous dividends with ¥25 per share as the basis of consideration.

As we move deeper into the execution of the next step of the Company's Ten-Year Vision, we hope you will assist us with your whole-hearted support and encouragement as a shareholder and/or interested stakeholder. Throughout it all, we will contribute to improving human well-being through the creation of safe and useful products based on glycoscience research and offer them to patients around the world.

Within our core field of Glycoscience, Seikagaku focuses on glycosaminoglycans (GAG), comprising a large family of long-chain polysaccharide (sugar) molecules. This focus is consistent with our strength built up over a long time in this field.

ORIGINAL RESEARCH LEADS THE WAY

BASIC POLICY OF R&D



Glycoscience is our focus and passion

Glycoscience has been an area of specialization at Seikagaku for more than sixty years. For example, Seikagaku is the first company in the world to succeed in industrial production of chondroitin sulfate, and it possesses its own proprietary extraction and purification technologies. We utilized our advanced technologies in this field to develop ARTZ®, the world's first injectable treatment for knee osteoarthritis whose main ingredient is hyaluronic acid.

These technologies are a key competitive edge for bringing new products onto the market. Our high-priority target diseases are orthopedic disorders (such as osteoarthritis and lumbar disk herniation), ophthalmic diseases, and immune and allergic diseases, because of the specialized technology infrastructure we have evolved over many years through the development, production and marketing of GAG-related products.

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

Drug discovery and global development

In the new Mid-term Management Plan, Seikagaku has developed several key strategies for R&D. First, we will broaden the scope of glycoscience research by our proven technologies and extensively explore drug targets having high unmet medical needs. In addition, we will incorporate knowledge and expertise from outside academic organizations such as universities and research institutes, and accelerate collaboration for drug target discovery. The Central Research Laboratories will play a leading role in drug discovery.

In the area of development, during the period covered by the new Mid-term Management Plan, multiple development themes are set to enter the late stage of clinical development. Accordingly, we will seek to advance the stages of the projects in the current pipeline, such as SI-6603, not only by appropriate allocation of internal human resources, but also by utilization of external resources including contract research organizations (CRO). In addition, we will strengthen organizational capability to enable smooth and parallel development both in Japan and overseas, which will become increasingly important in the coming years.

A focused R&D program with clear priorities on market and unmet medical needs is key to successful, long-term value generation.

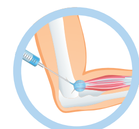
SI-6603
Condoliase for lumbar disc herniation

SI-6603 is the enzyme chondroitinase ABC, its generic name being condoliase. When directly injected into the intervertebral disc, SI-6603 is expected to relieve pressure on the nerves that cause hernia pain.

A single dose of SI-6603 is assumed to be as effective as surgery in alleviating symptoms, so, patients could expect lower physical burdens and cost from surgery and hospital care.

Case registration in a Phase III trial in Japan for SI-6603 began in March 2012 to gather data in addition to the results of the earlier Phase II/III trial. The trial will examine safety and improvement of symptoms. In the U.S., Seikagaku is making steady progress with a Phase II clinical trial and is preparing for a Phase III trial.

The target patients for SI-6603 are people suffering from lumbar disc herniation with severe pain that requires a nerve block injection or surgery. Although the number of patients diagnosed with lumbar disc herniation is estimated at 1.1 million in Japan, since there are comparatively many cases in which symptoms improve through non-surgical treatment, such as complete rest or administration of analgesics, we estimate that 10–20% of the patients diagnosed would be treated with SI-6603. In May 2012, we concluded a basic agreement concerning exclusive marketing rights for SI-6603 in Japan with Kaken Pharmaceutical Co., Ltd.



SI-657
Additional indication of ARTZ®, for enthesopathy

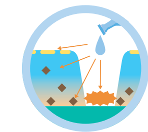
SI-657 is being developed jointly with our ARTZ® sales partner, Kaken Pharmaceutical, for an additional indication of ARTZ® for enthesopathy, an inflammatory condition caused by undue burden at the sites where tendons and ligaments bond to the bone in the knees and other joints. In Japan, around 570,000 patients per year suffer from common enthesopathy-associated conditions: lateral epicondylitis, patellar tendinitis, Achilles tendinitis and plantar fasciitis.

Because of hyaluronic acid's high viscoelasticity covers inflamed areas long-term and penetrates tendons and ligaments, SI-657 is expected to provide pain relief. An early Phase II clinical trial for safety was completed in 2011. Case registration of a late Phase II clinical trial started in January 2012.

Development code / Product name, etc.	Lead indication	Target market	Pre-clinical	Phase I	Phase II	Phase III	Application	In-house/In-license
SI-6603 Condoliase*	Lumbar disc herniation	Japan				■		In-house
		U.S.			■			
SI-657 Hyaluronic Acid	Enthesopathy Additional indication of ARTZ®	Japan			■			In-house
SI-614 Modified Hyaluronate	Dry eye	U.S.			■			In-house
SI-615 Adenosine A3 receptor agonist	Rheumatoid arthritis	Japan		■				In-license (Can-Fite BioPharma)
SI-613	Arthritic disorders			■				In-house

Condoliase*: generic name for chondroitinase ABC

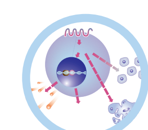
*SI-636: Termination of license agreement in April 2012 ⇒ Development discontinued



SI-614
Modified hyaluronate for dry eye

SI-614 has entered into a Phase II clinical trial in the U.S. for treatment of dry eye. Dry eye is thought to be caused by loss of stability of the tear film covering the cornea and drying out of the ocular surface resulting from insufficient tear volume or change in tear film quality, due to factors such as overuse of the eyes and aging.

SI-614, a modified hyaluronate produced by Seikagaku's proprietary technology, is expected to improve the tear film instability of the lipid, aqueous and mucin layers and accompanied symptoms found in dry eye patients. In January 2012, we received permission for a Phase II clinical trial in the U.S., and case registration began in March. In the U.S., the number of patients with moderate to severe dry eye is approximately 4.9 million.



SI-615
Adenosine A3 receptor agonist for rheumatoid arthritis

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

Seikagaku has completed a Phase I clinical trial in Japan of a single-drug oral dose, indicated for rheumatoid arthritis. Seikagaku will decide future development policy following the outcome of a Can-Fite BioPharma single-drug late Phase II trial.

SI-613
Treatment for arthritic disorders

SI-613 is an in-house development theme targeting arthritic disorders for which a Phase I trial is under way. SI-613 is currently in the initial development stage, and we plan to disclose details when it reaches the Phase II stage.

A NEW PERSPECTIVE ON LIFE PROCESSES

Glycoconjugates perform vital functions in biological processes

When we think about life processes, there is tendency to focus solely on genes and proteins. Yet, as we learn more about DNA, the "blueprint" of life, our attention is increasingly drawn to sugar chains, which were previously seen just as supporting actors in the life drama.

Proteins are synthesized according to information encoded in our DNA blueprints. Sugar chains, which are added to about one-half of the proteins synthesized in animal cells, help to enhance and diversify the functions of those proteins. Sugar chains are also linked to lipids to form glycolipids. These are widely distributed over the surface of cells and are thought to play roles in the exchange of information between cells.

Recent advances in glycoscience have shown that glycoconjugates perform specific functions at all stages of biological development, including the creation of life, fetal development and the generation and restoration of internal organ functions. It is generally accepted that many of the glycoconjugates produced throughout the body help to organize life processes through the exchange of information and substances.

There is definite interest in the role of glycoconjugates in diseases. It is thought that these sugar chains are directly involved in many conditions, including viral and bacterial infections, immunological diseases, and lifestyle-related diseases, as well as the onset and metastasis of cancer. For example, some pathogens such as influenza virus and a pathogenic strain of E. coli, O157, invade the body by binding to specific sugar chains on the cell surface. Furthermore, sugar-chain structures change when cells become cancerous, facilitating the growth and metastasis of cancers.

Because sugar chains determine the blood group of every human being, they are also profoundly involved in compatibility issues relating to blood transfusion and organ transplantation.

By studying the structures and functions of sugar chains involved in diseases, we can increase our understanding of their roles and effects. Such work is expected to lead to the development of revolutionary therapies and diagnostic methods based on applications of sugar chains and their genetics.

From birth to aging, glycoconjugates are profoundly involved in primary biological processes, including both normal conditions and abnormal disease conditions. A fundamental understanding of glycoconjugates is vital to the future development of the health industry.

As a pioneer in glycoscience research, Seikagaku continues to contribute to improvement in the quality of life by developing new drugs in this field. The outcome of these efforts will provide the key to our future growth and success.

PHARMACEUTICALS

Sales by Segment
79.4%

Worldwide sales of pharmaceuticals and medical devices for the year ended March 31, 2012 (fiscal 2011) rose by 1.5% year on year to ¥21,498 million.

Domestic sales rose 0.1% for fiscal 2011, reflecting a high level of deliveries to the sales partner in fiscal 2010 due to the introduction of a new plastic syringe product of ARTZ®. The market in Japan for injectable treatments for osteoarthritis pain of the knee expanded yet again, as a result of an increase in the aged population and the impact of continuing disease awareness campaigns for knee osteoarthritis, conducted with sales partner Kaken Pharmaceutical Co., Ltd.

However, the growth rate of the overall market slowed to 2.6% in fiscal 2011 for reasons that the market had been expanding at high growth rates for the past several years and there was a trend of holding off on medical consultation due to the impact of the Great East Japan Earthquake.

Nevertheless, emphasis on sales expansion activities that capitalized on the brand reputation of ARTZ® as the original drug in its category and a plastic syringe product contributed to a 4.3% increase in deliveries to medical institutions, resulting in a 0.9% market share increase for ARTZ®.

Sales of the ophthalmic surgery aid OPEGAN® decreased due to a decline in the number of cataract surgeries performed following the earthquake and intensified competition, even though the Company continued sales promotion activities focused on target medical institutions, conducted with sales partner Santen Pharmaceutical Co., Ltd.

Sales of MucoUp®, a surgical aid for use in endoscopic mucosal resection, rose thanks to awareness activities to increase penetration of endoscopic surgical techniques, conducted with sales partner Johnson & Johnson K.K., which overcame sluggish growth in endoscopic surgery following the earthquake.

Overseas sales (ARTZ® series exports) grew by 9.3% to ¥3,505 million, primarily due to rising U.S. sales of SUPARTZ®, the product name of ARTZ® in the U.S., with the success of active sales measures focused on differentiation from competitors. The Company's export sales to the U.S. rose as an increase on a volume basis compensated for the impact of yen appreciation.

In addition, as announced in a press release in January 2012, the Company changed its U.S. sales partner for SUPARTZ® from Smith & Nephew, Inc. to Bioventus LLC, a company newly established in May 2012. Headquartered in Durham, North Carolina, Bioventus emerged from the Smith & Nephew Biologics and Clinical Therapies Division and includes nearly 500 former Smith & Nephew U.S. employees and is focused on orthopedic healing and relief of osteoarthritis pain. The Company anticipates targeted and meticulous sales activities on the part of the new partner to further vitalize sales activities.

Export sales to China continued to rise. Particularly among medical institutions in major cities, ARTZ® enjoys an excellent reputation for high quality based on its world's-first status and proven performance around the world.

< MAIN PRODUCTS >

Intra-articular Injections for Improving Joint Functions

ARTZ® 25mg, ARTZ Dispo® 25mg, SUPARTZ®*1, ARTZAL®, etc.

A multiple injection hyaluronic acid formulation, first launched in 1987 and currently approved in 18 countries. Used widely by many physicians and patients throughout the world as the formulation for the treatment of knee osteoarthritis*2. Now highly evaluated and used worldwide with over 280 million injections performed internationally to date.

*1 SUPARTZ® is a trade name used in North America.
*2 In Japan, ARTZ® is also approved for indications of periarthritis of the shoulder and relief of knee pain from chronic rheumatoid arthritis. The indication for periarthritis of the shoulder is approved in several other countries as well.

Cross-linked Hyaluronate Hydrogel for Knee Osteoarthritis

Gel-One®

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

Ophthalmic Surgical Aids

OPEGAN®, OPEGAN Hi®

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

Surgical Aids for Endoscopic Mucosal Resection

MucoUp®

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

FINE CHEMICALS

Sales by Segment
20.6%

Although sales in overseas markets of products including endotoxin-detecting reagents for use in quality control developed favorably and bulk products also increased thanks to higher sales of hyaluronic acid, overall sales of fine chemicals fell by 5.9% to ¥5,584 million due to yen appreciation and the impact of terminating sales of research reagents at the end of September 2011 following discontinuation of this business.

< MAIN PRODUCTS >

Endotoxin-detecting Reagents and Diagnostics

Endotoxin-detecting reagents

Used mainly for quality control in the manufacture of pharmaceuticals and medical devices, and quality control of dialysis fluid.

Bulk Products

Hyaluronic acid

Sold mainly to the manufacturers of pharmaceuticals as a raw material.

Sodium chondroitin sulfate

Widely used as a raw material in pharmaceuticals, ophthalmic products and drinks for nutritional fortification.

Changes in Reporting Segments

With the start of fiscal 2012, the year ending March 31, 2013, the Company has changed its segments, accompanying the discontinuation of the research reagents business and the absorption-type merger of Seikagaku Biobusiness Corporation (formerly a consolidated subsidiary). Bulk products move to the pharmaceuticals segment, and endotoxin-detecting reagents comprise a newly named LAL segment.

Basic Policy on Corporate Governance

Seikagaku pursues corporate governance as one of its most important management priorities, striving to gather information accurately, make faster and appropriate decisions and strengthen business execution oversight. As a pharmaceutical company, with profound responsibilities under its social mission, Seikagaku is creating a management environment that rewards the trust of stakeholders, including shareholders, through compliance and risk management controls enhanced by mutual collaboration among company departments.

Management structure

The Board of Directors meets monthly, with extraordinary meetings as necessary, to decide important business issues and matters provided by law, regulations, and the Articles of Incorporation as well as to oversee business execution. To encourage flexible and timely management, Seikagaku has set the term of office for directors at one year.

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

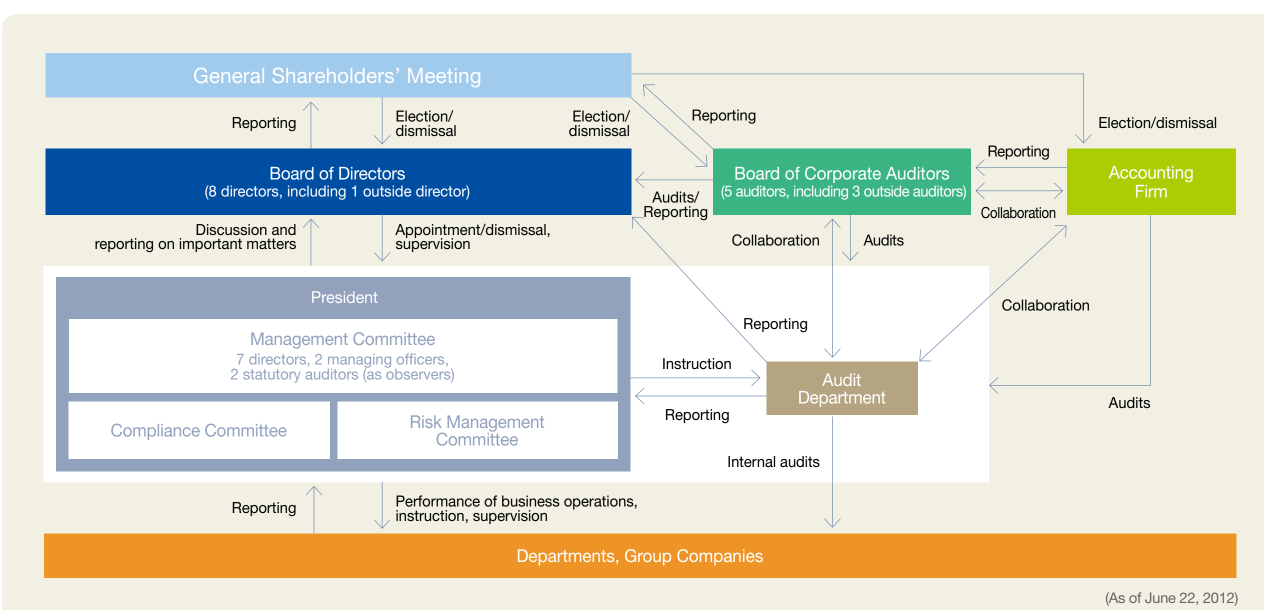
Seikagaku operates under a managing officer system that limits the role of the Board of Directors to decision-making and business execution oversight and segregates the business execution function. Management Committee meetings, attended by full-time directors and managing officers, are, in principle, held weekly to ensure timely identification of management issues and their solutions.

Audit system

Seikagaku has appointed five corporate auditors, including three outside auditors qualifying as "independent auditors" under TSE regulations. To strengthen the audit function, the full-time corporate auditors observe meetings of the Management Committee, the Risk Management Committee, the Compliance Committee.

The supervisory function is strengthened through information sharing between the Board of Corporate Auditors and the Audit Department, with the full-time corporate auditors facilitating the exchange of information as necessary. Internal audits are also carried out to assess the quality control and Good Clinical Practice. These audits verify the appropriateness of the business operations at audited departments.

Corporate Governance Structure



Compliance system

Seikagaku operates a compliance program under the creed outlined in the core values in order to be socially ethical and comply with the stringent regulations that surround the pharmaceutical industry. The Compliance Committee is chaired by the President and shares the same members as the Management Committee.

Seikagaku widely distributes a compliance program handbook to promote compliance among officers and employees and conduct training programs to assure compliance groupwide.

Policy toward large-scale Purchases of company shares

To prevent inappropriate purchases that could harm corporate value and the common interests of shareholders, with the approval of the General Shareholders' Meeting, Seikagaku has introduced a policy regarding large-scale share purchases. The policy provides for the establishment of a committee of persons independent of the management, in order to ensure objective and reasonable judgments of the Board of Directors.

Viewpoint of Outside Director

I believe corporate governance is a most important topic for a company aiming for sustained growth and good relations with its stakeholders.

These days, public attention has focused on the nature of corporate governance at companies, many of which are incorporating outside perspectives into their management organizations. It is essential for Seikagaku to continue to further increase management transparency so as to earn the full confidence and trust of all the stakeholders including shareholders.

My role as an outside director is to enhance corporate value, the same as the internal directors, while also monitoring from a standpoint independent of them whether or not the Company is being properly managed in the interest of the stakeholders.

From an objective and outside perspective, I check the legality of management and the appropriateness of decision-making in business execution on the Board of Directors.

On the effectiveness of corporate governance at Seikagaku, I believe the decision-making process is timely and appropriate. As an outside director, I am provided information required for corporate decisions as needed and given ample opportunities to exchange opinions with management.

My impression of Seikagaku is that it is a company with admirable values. Seikagaku practices honest and sound management that reflects clear awareness of the importance of serving society on the basis of its creed, "We create safe and useful products for human well-being with basic research based on glycoscience".

To ensure that the management system remains highly transparent, I will continue to offer suggestions and advice from a fair and objective standpoint in my capacity as an outside director. I ask Seikagaku's investors to support the future growth of the Company.

Mr. Eiji Katayama
Partner, ABE, IKUBO&KATAYAMA

Mr. Katayama is an attorney-at-law admitted in Japan and New York. As a partner at his law firm, he is active in the fields of international and corporate legal affairs, principally intellectual property law and bankruptcy law. His patent litigation experience spans the chemical, electrical and mechanical patent fields, and he has been involved in many cases pertaining to advanced technologies, such as biotechnology and semiconductor technology, as well as international cases in countries around the world. He also has experience with trademark, copyright and unfair competition litigation.

Contributing to Society Through Glycoscience

Glycoforum—an online source of information on glycoscience research

Since 1997, Seikagaku has operated Glycoforum, an academic website that provides research findings and other information to contribute to the development of glycoscience, Seikagaku's area of specialization. As a portal site for glycoscience research, Glycoforum distributes papers and commentary from the world's leading researchers, conference announcements and other topics on the field in a timely manner. The site enjoys strong support from researchers all over the world and has been selected as a recommended site by *Nature Review* since July 2000.

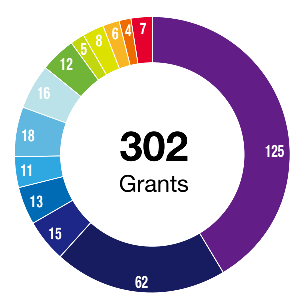
http://www.glycoforum.gr.jp/index.html

The Mizutani Foundation for Glycoscience—supporting research in glycoscience

The Mizutani Foundation for Glycoscience was established in 1992 with an endowment from the late Masakane Mizutani, founder of Seikagaku Corporation, for the purpose of contributing to the welfare of the human race through the advancement and development of glycoscience. The foundation's activities include subsidizing creative research by glycoscience researchers in Japan and overseas, support for international exchanges between them and sponsorship of glycoscience-related academic conferences. Seikagaku endorses the purpose of the foundation and has continuously supported its activities since its founding.

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

Grants for glycoscience research by country and region (1993–2012)



- U.S. (125)
- Japan (62)
- U.K. (15)
- Canada (13)
- Sweden (11)
- Germany, Netherlands (9 by each)
- Australia, France (8 by each)
- Argentina, Israel (6 by each)
- Italy (5)
- Denmark, Switzerland (4 by each)
- Brazil, Spain (3 by each)
- Finland, China (2 by each)
- Belgium, Hungary, India, Nigeria, Slovakia, Uruguay, Portugal (1 by each)

Efforts to Reduce Environmental Load

Seikagaku, keenly aware of the importance of preserving the global environment, observes environmental laws and voluntarily engages in low-environmental-impact business activities.

At plants, we have installed electroregenerative water deionization facilities that use neither hydrochloric acid nor sodium hydroxide for preparation of water to be used in manufacturing.

A wastewater treatment system is also used, which employs the activated sludge method. Further, as fuel for boilers, we have been sequentially switching from heavy oil to low environmental burden gas.

In addition, Seikagaku continues activities to conserve energy, makes efficient use of heat and preserves green spaces.

Board of Directors, Auditors, and Officers

(As of June 19, 2012)

Ken Mizutani Toshinori Yagura

Masaomi Miyamoto Eiji Katayama Hideki Kawamura

Kazuaki Onishi Yasushi Fukumoto Shinichi Ishikawa

Kenji Kaneko Tokushi Mitomi

Nobuhiro Takeuchi Junya Sato Akifumi Yamada

PRESIDENT
Ken Mizutani

SENIOR MANAGING DIRECTOR
Toshinori Yagura

EXECUTIVE MANAGING DIRECTOR
Masaomi Miyamoto

OUTSIDE DIRECTOR
Eiji Katayama

DIRECTORS EXECUTIVE MANAGING OFFICERS
Hideki Kawamura
Kazuaki Onishi

DIRECTORS
Yasushi Fukumoto
Shinichi Ishikawa

AUDITORS
Kenji Kaneko
Tokushi Mitomi

OUTSIDE AUDITORS
Nobuhiro Takeuchi
Junya Sato
Akifumi Yamada

MANAGING OFFICERS
Yoshiyuki Sakura
Noriaki Inamura

Consolidated Balance Sheet

Seikagaku Corporation and Consolidated Subsidiaries
March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 11)	¥ 11,044	¥ 7,692	$ 134,683
Short-term investments (Notes 3 and 11)	5,371	5,295	65,500
Notes and accounts receivable—trade (Note 11)	8,903	7,458	108,573
Allowance for doubtful accounts	(1)	(1)	(12)
Inventories (Note 4)	4,274	4,129	52,122
Deferred tax assets (Note 10)	610	680	7,439
Other current assets	612	1,462	7,463
Total current assets	30,813	26,715	375,768
PROPERTY, PLANT, AND EQUIPMENT:			
Land	791	802	9,646
Buildings and structures	14,776	13,857	180,195
Machinery and equipment	13,371	13,019	163,061
Lease assets (Note 5)	1,237	1,437	15,086
Construction in progress	4,367	577	53,256
Total	34,542	29,692	421,244
Accumulated depreciation	(20,460)	(19,399)	(249,512)
Net property, plant, and equipment	14,082	10,293	171,732
INVESTMENTS AND OTHER ASSETS:			
Investment in an unconsolidated subsidiary	25	25	305
Investment securities (Notes 3 and 11)	22,136	23,366	269,951
Goodwill	27	39	329
Deferred tax assets (Note 10)	60	131	732
Other assets (Notes 6 and 8)	1,813	2,380	22,110
Allowance for doubtful accounts	(225)	(265)	(2,744)
Total investments and other assets	23,836	25,676	290,683
TOTAL	¥ 68,731	¥ 62,684	$ 838,183
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Notes and accounts payable—trade (Note 11)	¥ 1,251	¥ 978	$ 15,256
Notes and accounts payable—other (Note 11)	5,622	1,891	68,561
Current portion of long-term lease obligations (Notes 5 and 11)	191	210	2,329
Accrued expenses	770	793	9,390
Accrued income taxes (Note 11)	941	449	11,476
Other current liabilities	200	452	2,439
Total current liabilities	8,975	4,773	109,451
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 11)	700	700	8,537
Long-term lease obligations (Notes 5 and 11)	407	573	4,963
Asset retirement obligations	101	84	1,232
Deferred tax liabilities (Note 10)	437	350	5,329
Other long-term liabilities	97	97	1,183
Total long-term liabilities	1,742	1,804	21,244
EQUITY (Notes 9 and 17):			
Common stock—authorized, 234,000,000 shares; issued, 58,584,093 shares in 2012 and 2011	3,840	3,840	46,829
Capital surplus	5,302	5,302	64,659
Retained earnings	51,005	49,154	622,012
Treasury stock—at cost, 1,776,833 shares in 2012 and 1,776,565 shares in 2011	(2,077)	(2,077)	(25,329)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	852	670	10,390
Foreign currency translation adjustments	(908)	(782)	(11,073)
Total equity	58,014	56,107	707,488
TOTAL	¥ 68,731	¥ 62,684	$ 838,183

See notes to consolidated financial statements.

Consolidated Statement of Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
NET SALES (Notes 12 and 16)	¥ 27,082	¥ 27,118	$ 330,268
COST OF SALES	9,748	10,481	118,878
Gross profit	17,334	16,637	211,390
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 13)	12,717	13,104	155,085
Operating income	4,617	3,533	56,305
OTHER INCOME (EXPENSES):			
Interest and dividend income	388	389	4,732
Interest expense	(41)	(49)	(500)
Foreign exchange loss	(159)	(350)	(1,939)
Royalty income	18	567	219
Loss on disaster (Note 14)	(83)	(933)	(1,012)
Other—net	(52)	18	(634)
Other income (expenses)—net	71	(358)	866
INCOME BEFORE INCOME TAXES	4,688	3,175	57,171
INCOME TAXES (Note 10):			
Current	1,236	726	15,073
Deferred	181	(3)	2,208
Total income taxes	1,417	723	17,281
NET INCOME	¥ 3,271	¥ 2,452	$ 39,890

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.p):			
Net income	¥ 57.58	¥ 43.16	$ 0.70
Cash dividends applicable to the year	25.00	25.00	0.30

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
NET INCOME	¥ 3,271	¥ 2,452	$ 39,890
OTHER COMPREHENSIVE INCOME (Note 15):			
Unrealized gain (loss) on available-for-sale securities	182	(45)	2,220
Foreign currency translation adjustments	(126)	(305)	(1,537)
Total other comprehensive income	56	(350)	683
COMPREHENSIVE INCOME (Note 15)	¥ 3,327	¥ 2,102	$ 40,573
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 15)—Owners of the parent	¥ 3,327	¥ 2,102	$ 40,573

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2012

	Millions of Yen							
						Accumulated Other Comprehensive Income		
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Equity
BALANCE, APRIL 1, 2010	58,584,093	¥ 3,840	¥ 5,302	¥ 48,123	¥ (2,077)	¥ 715	¥ (477)	¥ 55,426
Net income				2,452				2,452
Cash dividends, ¥25 per share				(1,421)				(1,421)
Unrealized loss on available-for-sale securities						(45)		(45)
Net change in foreign currency translation adjustments							(305)	(305)
BALANCE, MARCH 31, 2011	58,584,093	3,840	5,302	49,154	(2,077)	670	(782)	56,107
Net income				3,271				3,271
Cash dividends, ¥25 per share				(1,420)				(1,420)
Unrealized gain on available-for-sale securities						182		182
Net change in foreign currency translation adjustments							(126)	(126)
BALANCE, MARCH 31, 2012	58,584,093	¥ 3,840	¥ 5,302	¥ 51,005	¥ (2,077)	¥ 852	¥ (908)	¥ 58,014

	Thousands of U.S. Dollars (Note 1)						
					Accumulated Other Comprehensive Income		
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Equity
BALANCE, MARCH 31, 2011	$ 46,829	$ 64,659	$ 599,439	$ (25,329)	$ 8,170	$ (9,536)	$ 684,232
Net income			39,890				39,890
Cash dividends, $0.30 per share			(17,317)				(17,317)
Unrealized gain on available-for-sale securities					2,220		2,220
Net change in foreign currency translation adjustments						(1,537)	(1,537)
BALANCE, MARCH 31, 2012	$ 46,829	$ 64,659	$ 622,012	$ (25,329)	$ 10,390	$ (11,073)	$ 707,488

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
OPERATING ACTIVITIES:			
Income before income taxes	¥ 4,688	¥ 3,175	$ 57,171
Adjustments for:			
Income taxes—paid	(759)	(1,170)	(9,256)
Income taxes—refund		58	
Depreciation and amortization	1,993	2,202	24,305
Loss on disaster	83	933	1,012
Foreign exchange loss	146	329	1,780
Changes in assets and liabilities:			
Increase in notes and accounts receivable—trade	(1,457)	(338)	(17,768)
Increase in inventories	(174)	(79)	(2,122)
Decrease in advance payments for research and development	299	812	3,646
Increase in notes and accounts payable—trade	276	9	3,366
Increase (decrease) in consumption tax payable/receivable	20	(331)	244
Increase (decrease) in accounts payable—other	81	(69)	988
Decrease in retirement benefits	(29)	(11)	(354)
Other—net	375	(701)	4,573
Net cash provided by operating activities	5,542	4,819	67,585
INVESTING ACTIVITIES:			
Purchases of time deposits	(1,000)		(12,195)
Proceeds from maturities of time deposits	1,500		18,293
Proceeds from redemption of short-term investments	9,244	4,280	112,732
Purchases of short-term investments	(6,496)	(2,498)	(79,220)
Purchases of fixed assets	(2,620)	(1,428)	(31,951)
Proceeds from sales of investment securities	1,804	1,401	22,000
Purchases of investment securities	(2,910)	(6,425)	(35,488)
Other—net	(11)	11	(134)
Net cash used in investing activities	(489)	(4,659)	(5,963)
FINANCING ACTIVITIES:			
Proceeds from long-term debt		700	
Repayment of long-term debt		(700)	
Repayments of lease obligations	(228)	(236)	(2,780)
Dividends paid	(1,420)	(1,420)	(17,317)
Other—net	1	3	12
Net cash used in financing activities	(1,647)	(1,653)	(20,085)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(54)	(182)	(659)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 3,352	¥ (1,675)	$ 40,878
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,692	9,367	93,805
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 11,044	¥ 7,692	$ 134,683

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Seikagaku Corporation and Consolidated Subsidiaries
Year Ended March 31, 2012

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2011 consolidated financial statements to conform to the classifications used in 2012.

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 ¥82 to $1, the approximate rate of exchange at March 31, 2012. 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, 2012 and 2011, include the accounts of the Company and its four significant subsidiaries (collectively, the "Group").

Investment in an unconsolidated subsidiary in 2012 and 2011 is stated at cost. If the equity method of accounting had been applied to the investment in this subsidiary, the effect on the accompanying consolidated financial statements would not be material.

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

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

b. **Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—In May 2006, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes (1) 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, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the accounting principles generally accepted in the United States of America tentatively may be used for the consolidation process, (3) however, the following items 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 R&D; and (d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting.

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

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

d. **Short-Term Investments and Investment Securities**—Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, for which there is the positive intent and ability to hold to maturity are reported at amortized cost and (2) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. **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.

f. **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.

g. **Property, Plant, and Equipment**—Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its consolidated domestic subsidiary is computed by the declining-balance method on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company and its consolidated domestic subsidiary acquired on and after April 1, 1998. Property, plant, and equipment of consolidated foreign subsidiaries are mainly depreciated by the straight-line method over the estimated useful lives of the assets. The range of useful lives is principally from 15 to 50 years for buildings and structures and from 3 to 15 years for machinery and equipment. Lease assets are depreciated by the straight-line method over the respective lease periods.

h. **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 issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations 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 obligations under finance leases, less interest expense at the transition date.

All other leases are accounted for as operating leases.

i. **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 would be 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.

j. **Retirement and Pension Plans**—The Company and its consolidated domestic subsidiary have 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 and its consolidated domestic subsidiary account for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

The Company and its consolidated domestic subsidiary also have 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.

k. **Asset Retirement Obligations**—In March 2008, the ASBJ published ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

l. **Research and Development Costs**—Research and development costs are charged to income as incurred.

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

n. **Foreign Currency Transactions**—All short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

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

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

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

Diluted net income per share is not disclosed because there are no dilutive securities in 2012 and 2011.

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

q. **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 with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentations—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 statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors, which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Short-term investments—Debt securities	¥ 5,371	¥ 5,295	$ 65,500
Total	¥ 5,371	¥ 5,295	$ 65,500
Investment securities:			
Equity securities	¥ 6,477	¥ 6,640	$ 78,988
Debt securities	13,450	14,504	164,024
Other	2,209	2,222	26,939
Total	¥ 22,136	¥ 23,366	$ 269,951

Information regarding the marketable securities classified as available-for-sale at March 31, 2012 and 2011, was as follows:

	Millions of Yen			
March 31, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 5,164	¥ 1,442	¥ 130	¥ 6,476
Debt securities	18,693	203	74	18,822
Other	2,316	5	112	2,209
March 31, 2011				
Securities classified as available-for-sale:				
Equity securities	¥ 5,525	¥ 1,419	¥ 304	¥ 6,640
Debt securities	19,701	203	105	19,799
Other	2,319	6	103	2,222

	Thousands of U.S. Dollars			
March 31, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 62,976	$ 17,585	$ 1,586	$ 78,975
Debt securities	227,964	2,476	903	229,537
Other	28,244	61	1,366	26,939

The information for available-for-sale securities that were sold during the years ended March 31, 2012 and 2011, was as follows:

	Millions of Yen		
March 31, 2012	Proceeds	Realized Gains	Realized Losses
Securities classified as available-for-sale:			
Equity securities	¥ 834	¥ 164	¥ 196
Debt securities	967	6	47
Other	3		
Total	¥ 1,804	¥ 170	¥ 243
March 31, 2011			
Securities classified as available-for-sale:			
Equity securities	¥ 831	¥ 355	¥ 117
Debt securities	168		43
Other	402		196
Total	¥ 1,401	¥ 355	¥ 356

	Thousands of U.S. Dollars		
March 31, 2012	Proceeds	Realized Gains	Realized Losses
Securities classified as available-for-sale:			
Equity securities	$ 10,171	$ 2,000	$ 2,390
Debt securities	11,792	73	573
Other	37		
Total	$ 22,000	$ 2,073	$ 2,963

The impairment losses on available-for-sale equity securities for the year ended March 31, 2012, were ¥42 million ($512 thousand).

4. INVENTORIES

Inventories at March 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Merchandise and finished products	¥ 2,562	¥ 2,487	$ 31,244
Work in process	776	782	9,463
Raw materials and supplies	936	860	11,415
Total	¥ 4,274	¥ 4,129	$ 52,122

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, 2012, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2013	¥ 191	$ 2,329
2014	175	2,134
2015	225	2,744
2016	6	73
2017	1	12
Total	¥ 598	$ 7,292

(2) Operating Leases

The minimum rental commitments under noncancelable operating leases at March 31, 2012 and 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Due within one year	¥ 8	¥ 11	$ 98
Due after one year	1	9	12
Total	¥ 9	¥ 20	$ 110

6. LONG-TERM DEPOSITS

Long-term deposits in banks of ¥1,000 million ($12,195 thousand) were included in other assets of investments and other assets as of March 31, 2012 and 2011. Annual maturities of the deposits were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 1,000	$ 12,195
Total	¥ 1,000	$ 12,195

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

7. LONG-TERM DEBT

Long-term debt at March 31, 2012 and 2011, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Loan from bank, 1.07%, due 2013 (unsecured)	¥ 700	¥ 700	$ 8,537

Annual maturity of long-term debt as of March 31, 2012, was as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 700	$ 8,537

8. RETIREMENT AND PENSION PLANS

The Company and its consolidated domestic subsidiary have severance payment plans for employees.

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

Employees' retirement benefits for the retirement and pension fund at March 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Projected benefit obligation	¥ 4,875	¥ 5,040	$ 59,451
Fair value of plan assets	(4,352)	(4,435)	(53,073)
Unrecognized prior service cost	302	406	3,683
Unrecognized actuarial gain	(932)	(1,089)	(11,366)
Net asset	¥ (107)	¥ (78)	$ (1,305)

Prepaid pension expense of ¥107 million ($1,305 thousand) was included in other assets of investments and other assets as of March 31, 2012, and ¥78 million as of March 31, 2011.

The components of net periodic benefit costs for the years ended March 31, 2012 and 2011, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Service cost	¥ 207	¥ 170	$ 2,524
Interest cost	101	93	1,232
Expected return on plan assets	(143)	(112)	(1,744)
Amortization of prior service cost	(104)	(125)	(1,268)
Recognized actuarial loss	149	110	1,817
Net periodic benefit costs	¥ 210	¥ 136	$ 2,561

Assumptions used for the years ended March 31, 2012 and 2011, are set forth as follows:

	2012	2011
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.2%	2.5%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years

The Company and its domestic subsidiary have another pension plan, which is a defined contributory pension plan. The amount contributed to the plan, which was charged to income, was ¥56 million ($683 thousand) and ¥56 million for the years ended March 31, 2012 and 2011, respectively.

Certain foreign subsidiaries have defined contributory retirement plans, which mainly consist of a 401(k) plan in the United States of America, covering substantially all of their employees. The amount contributed to the plans, which was charged to income, was ¥35 million ($427 thousand) and ¥36 million for the years ended March 31, 2012 and 2011, respectively.

9. EQUITY

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

a. **Dividends**

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria, such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year, if the Company has prescribed so in its articles of incorporation.

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

10. INCOME TAXES

The Company and its domestic subsidiary are subject to Japanese national and local taxes based on income that, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40% for the years ended March 31, 2012 and 2011. 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, 2012 and 2011, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deferred tax assets—current:			
Accrued bonuses	¥ 231	¥ 253	$ 2,817
Other	388	473	4,732
Less valuation allowance	(9)	(46)	(110)
Total	¥ 610	¥ 680	$ 7,439
Deferred tax assets—noncurrent:			
Foreign tax credit	¥ 114	¥ 230	$ 1,390
Other	402	613	4,903
Less valuation allowance	(206)	(366)	(2,512)
Total	310	477	3,781
Deferred tax liabilities—noncurrent:			
Unrealized gain on available-for-sale securities	489	469	5,963
Depreciation	137	183	1,671
Other	61	44	744
Total	687	696	8,378
Net deferred tax liabilities—noncurrent	¥ (377)	¥ (219)	$ (4,597)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2012 and 2011, is as follows:

	2012	2011
Normal effective statutory tax rate	40.0%	40.0%
Tax credit	(7.1)	(6.4)
Change in valuation allowance	(3.5)	(11.8)
Other—net	0.8	1.0
Actual effective tax rate	30.2%	22.8%

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 41% to 38% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35% afterwards. The effect of this change was to decrease deferred tax assets by ¥23 million ($280 thousand) and deferred tax liabilities by ¥48 million ($585 thousand) in the consolidated balance sheet as of March 31, 2012, and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥28 million ($341 thousand).

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

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

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

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

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

(3) Concentration of Credit Risk

As of March 31, 2012, 85.3% of total receivables is from two major customers of the Group.

(4) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

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

March 31, 2011			
Cash and cash equivalents	¥ 7,692	¥ 7,692	
Short-term investments	5,295	5,295	
Notes and accounts receivable—trade	7,458	7,458	
Investment securities	23,366	23,366	
Total	¥ 43,811	¥ 43,811	
Notes and accounts payable—trade	¥ 978	¥ 978	
Notes and accounts payable—other	1,891	1,891	
Accrued income taxes	449	449	
Long-term debt	700	694	¥ (6)
Lease obligations	783	799	16
Total	¥ 4,801	¥ 4,811	¥ 10

	Thousands of U.S. Dollars		
March 31, 2012	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 134,683	$ 134,683	
Short-term investments	65,500	65,500	
Notes and accounts receivable—trade	108,573	108,573	
Investment securities	269,951	269,951	
Total	$ 578,707	$ 578,707	
Notes and accounts payable—trade	$ 15,256	$ 15,256	
Notes and accounts payable—other	68,561	68,561	
Accrued income taxes	11,476	11,476	
Long-term debt	8,537	8,500	$ (37)
Lease obligations	7,292	7,671	379
Total	$ 111,122	$ 111,464	$ 342

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 assets 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 and Accrued Income Taxes

The carrying values of notes and accounts payable 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
	2012	2011	2012
Investment in an unconsolidated subsidiary that does not have a quoted market price in an active market	¥ 25	¥ 25	$ 305

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

	Millions of Yen		
March 31, 2012	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 11,044		
Short-term investments	5,358		
Notes and accounts receivable—trade	8,903		
Investment securities		¥ 12,765	¥ 1,500
Total	¥ 25,305	¥ 12,765	¥ 1,500

	Thousands of U.S. Dollars		
March 31, 2012	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	$ 134,683		
Short-term investments	65,341		
Notes and accounts receivable—trade	108,573		
Investment securities		$ 155,671	$ 18,293
Total	$ 308,597	$ 155,671	$ 18,293

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

12. TRANSACTIONS WITH A SIGNIFICANT CUSTOMER

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

Sales to the customer were ¥15,279 million for the year ended March 31, 2011.

The similar information for 2012 is disclosed in Note 16.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,971 million ($72,817 thousand) and ¥6,724 million for the years ended March 31, 2012 and 2011, respectively.

14. LOSS ON DISASTER

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

Loss on disaster consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Fixed cost during suspension of operations	¥ 64	¥ 141	$ 780
Loss on impairment of land	10	266	122
Repair expense of damaged fixed assets		344	
Loss on disposal of damaged inventories		121	
Other	9	61	110
Total	¥ 83	¥ 933	$ 1,012

15. COMPREHENSIVE INCOME

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

	Millions of Yen	Thousands of U.S. Dollars
Unrealized gain on available-for-sale securities:		
Gains arising during the year	¥ 103	$ 1,256
Reclassification adjustments to profit	114	1,390
Amount before income tax effect	217	2,646
Income tax effect	(35)	(426)
Total	¥ 182	$ 2,220
Foreign currency translation adjustments:		
Adjustments arising during the year	¥ (126)	$ (1,537)
Total	¥ (126)	$ (1,537)
Total other comprehensive income	¥ 56	$ 683

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

16. SEGMENT INFORMATION

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

(1) Description of Reportable Segments

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

(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				
	2012				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 21,498	¥ 5,584	¥ 27,082		¥ 27,082
Intersegment sales or transfers		77	77	¥ (77)	
Total	¥ 21,498	¥ 5,661	¥ 27,159	¥ (77)	¥ 27,082
Segment profit	¥ 2,870	¥ 1,747	¥ 4,617		¥ 4,617
Segment assets	59,696	9,035	68,731		68,731
Other:					
Depreciation	1,504	478	1,982		1,982
Amortization of goodwill		11	11		11
Increase in property, plant, and equipment and intangible assets	3,468	2,250	5,718		5,718

	Millions of Yen				
	2011				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 21,184	¥ 5,934	¥ 27,118		¥ 27,118
Intersegment sales or transfers		63	63	¥ (63)	
Total	¥ 21,184	¥ 5,997	¥ 27,181	¥ (63)	¥ 27,118
Segment profit	¥ 1,981	¥ 1,552	¥ 3,533		¥ 3,533
Segment assets	55,562	7,122	62,684		62,684
Other:					
Depreciation	1,701	561	2,262		2,262
Amortization of goodwill		12	12		12
Increase in property, plant, and equipment and intangible assets	1,031	314	1,345		1,345

	Thousands of U.S. Dollars				
	2012				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$ 262,171	$ 68,097	$ 330,268		$ 330,268
Intersegment sales or transfers		939	939	$ (939)	
Total	$ 262,171	$ 69,036	$ 331,207	$ (939)	$ 330,268
Segment profit	$ 35,000	$ 21,305	$ 56,305		$ 56,305
Segment assets	728,000	110,183	838,183		838,183
Other:					
Depreciation	18,342	5,829	24,171		24,171
Amortization of goodwill		134	134		134
Increase in property, plant, and equipment and intangible assets	42,293	27,439	69,732		69,732

(4) Information about Geographical Areas

a. Sales

Millions of Yen			
2012			
Japan	North America	Other	Total
¥ 21,047	¥ 3,636	¥ 2,399	¥ 27,082

Thousands of U.S. Dollars			
2012			
Japan	North America	Other	Total
$ 256,671	$ 44,341	$ 29,256	$ 330,268

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

b. Property, plant and equipment

Millions of Yen			
2012			
Japan	North America	Other	Total
¥ 13,064	¥ 1,003	¥ 15	¥ 14,082

Thousands of U.S. Dollars			
2012			
Japan	North America	Other	Total
$ 159,317	$ 12,232	$ 183	$ 171,732

(5) Information about Major Customers

	Millions of Yen	
	2012	
Name of Customers	Sales	Related Segment Name
KAKEN PHARMACEUTICAL CO., LTD.	¥ 15,500	Pharmaceutical Fine Chemical

(6) Information about Impairment Losses of Assets

	Millions of Yen				
	2012				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Impairment losses of assets		¥ 10	¥ 10		¥ 10

	Thousands of U.S. Dollars				
	2012				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Impairment losses of assets		$ 122	$ 122		$ 122

(7) Information about Goodwill

	Millions of Yen				
	2012				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Amortization of goodwill		¥ 11	¥ 11		¥ 11
Goodwill at March 31, 2012		27	27		27

	Thousands of U.S. Dollars				
	2012				
	Reportable Segment				
	Pharmaceutical	Fine Chemical	Total	Reconciliations	Consolidated
Amortization of goodwill		$134	$134		$134
Goodwill at March 31, 2012		329	329		329

17. SUBSEQUENT EVENT

Appropriations of Retained Earnings

On June 19, 2012, the shareholders of the Company authorized the following appropriations of retained earnings at March 31, 2012:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Cash dividends, ¥12.5 ($0.15) per share	¥ 710	$ 8,659
Total	¥ 710	$ 8,659

Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Seikagaku Corporation:

We have audited the accompanying consolidated balance sheet of Seikagaku Corporation and consolidated subsidiaries as of March 31, 2012, 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 conformity 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 misstatements, 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 conformity 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 consolidated subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity 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 conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 19, 2012

Member of
Deloitte Touche Tohmatsu Limited

Corporate History

1947 Kosei Suisan K.K. established in Minato-ku, Tokyo. Kurihama Plant opens in Kanagawa.

1950 Industrial production of chondroitin sulfate as a pharmaceutical begins.

1952 Head Office relocated to Chuo-ku, Tokyo.

1953 Name of company changed to K.K. Seikagaku Kenkyusho.

1960 Tokyo Research Institute opens in Shinjuku-ku, Tokyo.

Development and marketing of research biochemicals begins.

1962 Name of company changed to Seikagaku Corporation.

1968 Tokyo Research Institute relocated to Higashiyamato-shi, Tokyo.

1975 Takahagi Plant opens in Ibaraki.

1981 World's first endotoxin colorimetry reagent developed and manufactured.

1987 Marketing begins for hyaluronic acid formulations ARTZ® and OPEGAN®.

1989 Company stock registered with the Japan Securities Dealers Association (Now Jasdaq Securities Exchange).

1992 Overseas marketing of ARTZ® begins (Sweden).

1993 New production line for ARTZ Dispo® completed, and marketing of the product begins.

1997 Acquisition of Associates of Cape Cod, Inc. (U.S.A.)

1998 Quality Management System certification ISO 9001/ EN 46001, ISO 13485 obtained (superseded by ISO 13485 certification since 2010).

2000 Name of Tokyo Research Institute changed to Central Research Laboratories.

2001 Marketing begins for hyaluronic acid formulation SUPARTZ® in U.S.A.

2004 Listing moved to the Tokyo Stock Exchange, Second Section.

2005 Listing moved to the Tokyo Stock Exchange, First Section.

Head Office relocated to Chiyoda-ku, Tokyo.

2007 Marketing begins for hyaluronic acid medical device MucoUp®.

Seikagaku Biobusiness Corporation established.

2011 Approval obtained for a single injection hyaluronic acid formulation Gel-One® in U.S.A.

2012 Marketing begins for Gel-One® in U.S.A.

Absorption-type merger of Seikagaku Biobusiness Corporation

Investor Information

(As of March 31, 2012)

Stock Exchange Listing	TOKYO, First Section
Stock Code	4548
Paid-in Capital	¥3,840 million
Authorized Shares	234,000,000
Issued Shares	58,584,093
Closing Date of Accounts	March 31
General Shareholders' Meeting	June

Dividends

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

September 30: Date for confirming the shareholders receiving interim dividends

Independent Auditors

Deloitte Touche Tohmatsu

Major Shareholders

	Number of Shares Held (Thousand)	Percentage of Outstanding Shares
Shingyo KK	7,843	13.8
KK Kaiseisha	7,293	12.8
State Street Bank and Trust Company	4,460	7.9
The Master Trust Bank of Japan, Ltd. (Mitsubishi Chemical Corporation retirement benefit account in trust)	3,105	5.5
Trust & Custody Services Bank, Ltd. (Mizuho Bank, Ltd. retirement benefit account in trust re-entrusted by Mizuho Trust & Banking Co., Ltd.)	1,973	3.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,536	2.7
Japan Trustee Services Bank, Ltd. (Trust account)	1,172	2.1
Kaken Pharmaceutical Co., Ltd.	807	1.4
Yugengaisha Touei Kousan	700	1.2
The Mizutani Foundation for Glycoscience	693	1.2

Note: The Company owns treasury stock of 1,776 thousand shares (3.0% of total issued shares), which is excluded from percentage calculations.

Corporate Data

(As of March 31, 2012)

Corporate Profile

Company Name	Seikagaku Corporation
Head Office	Marunouchi Center Building 6-1, Marunouchi 1-chome, Chiyoda-ku Tokyo 100-0005, Japan Tel: (81) 3-5220-8950 Fax: (81) 3-5220-8951 URL: http://www.seikagaku.co.jp/english/index.html
Establishment	June 2, 1947
Number of Employees	644 (consolidated basis)

Laboratories and Plants

Central Research Laboratories
(Tokyo)

The hub of drug discovery research for Seikagaku, operating in a way that encourages and promotes creativity among researchers and emphasizes a culture of self help based on a rich support environment.

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 7-chome, Yokosuka-shi
Kanagawa 239-0831, Japan
Tel: (81) 46-835-3311 Fax: (81) 46-834-1918

Takahagi Plant
(Ibaraki Prefecture)

Production facility for ARTZ®, OPEGAN® and other pharmaceuticals and medical devices. The No. 5 Production Building is under construction as a new facility to meet growing demand for ARTZ Dispo®.

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

Group Company

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

A leading global supplier of analyte detection products, including Limulus Amebocyte Lysate (LAL) used for the detection and quantification of gram-negative bacterial endotoxins and (1→3)-β-D-glucans.

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

Quality Management System

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

ISO 13485 certification and EC certification for medical device quality management were accredited by TÜV SÜD Product Service GmbH, a European Notified Body in Germany, as documented in the following certificates:

January 1998: EC Certificate (MDD Annex II.3)
— Updated in January 2008
February 1998: QMS Certificate (ISO 13485)
— Updated in February 2010

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

SEIKAGAKU CORPORATION

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