

## Members of the Board (as of June 19, 2020)



President & CEO \*  
**Ken Mizutani**

Term of office as Director:  
30 years  
Number of the Company's shares owned:  
452,809 shares



Executive Vice President  
Business Development & Marketing  
**Toshiyuki Okada**

Term of office as Director:  
3 years  
Number of the Company's shares owned:  
7,490 shares



Executive Vice President  
Research & Development  
**Yosuke Funakoshi**

Term of office as Director:  
2 years  
Number of the Company's shares owned:  
8,090 shares



Executive Vice President  
Corporate Strategy, HR, F&A and Corporate Staff  
**Takayuki Akita**

Term of office as Director:  
2 years  
Number of the Company's shares owned:  
4,690 shares



Outside Member of the Board  
**Eiji Katayama**

Term of office as Director:  
16 years  
Number of the Company's shares owned:  
37,100 shares



Outside Member of the Board  
**Mio Minaki**

Term of office as Director:  
1 year  
Number of the Company's shares owned:  
—



Audit & Supervisory Board Member  
**Toru Takeda**

Term of office as Audit & Supervisory Board Member:  
4 years  
Number of the Company's shares owned:  
2,200 shares



Audit & Supervisory Board Member  
**Shigeru Kawahara**

Term of office as Audit & Supervisory Board Member:  
3 years  
Number of the Company's shares owned:  
5,300 shares



Outside Audit & Supervisory Board Member  
**Mie Fujimoto**

Term of office as Audit & Supervisory Board Member:  
5 years  
Number of the Company's shares owned:  
1,400 shares



Outside Audit & Supervisory Board Member  
**Shinkichi Matsuo**

Term of office as Audit & Supervisory Board Member:  
1 year  
Number of the Company's shares owned:  
—



Outside Audit & Supervisory Board Member  
**Takayuki Maruyama**  
(New election)

Term of office as Audit & Supervisory Board Member:  
—  
Number of the Company's shares owned:  
—

Quality Compliance & Medical Affairs  
Executive Vice President

**Yuji Shimojima**

Head of Corporate Staff  
Executive Vice President

**Mikako Torii**

Head of Takahagi Plant  
Head of Production  
Executive Vice President

**Masayuki Ito**

\*Ken Mizutani concurrently serves as an executive officer.  
Notes: 1. Terms of office are as of June 19, 2020.  
2. Number of the Company's shares owned is as of March 31, 2020.

## Basic policy of corporate governance

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

## Overview of the corporate governance system and reasons for adopting the system

The Company has adopted a Company with an Audit & Supervisory Board governance system and established a General Shareholders' Meeting, Board of Directors, and Audit & Supervisory Board as company institutions. In light of the Company's size and highly specialized business operations as a pharmaceutical company, it has determined that the most effective and appropriate form of corporate governance for the Company is for the Board of Directors, which includes outside directors, to oversee the performance of

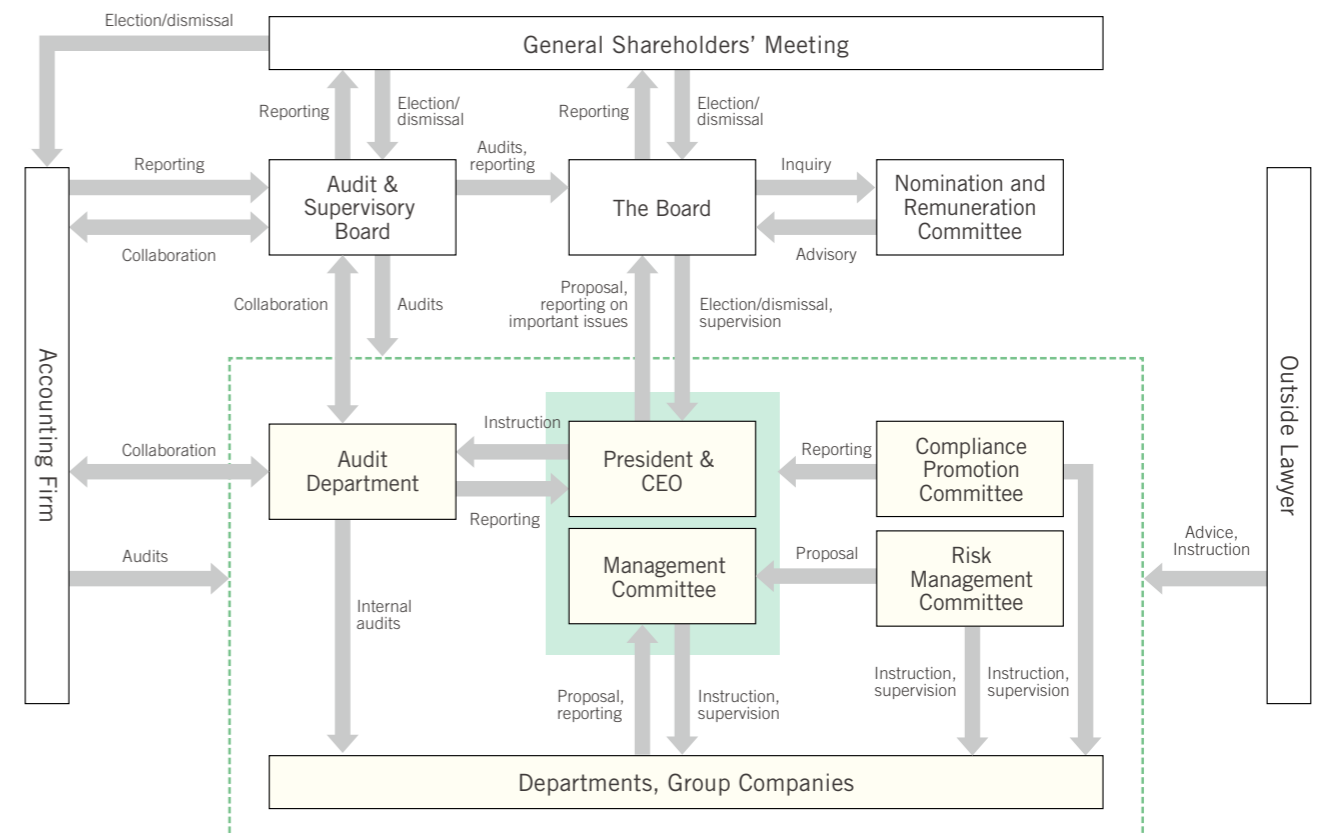
duties of corporate officers engaged in business execution and for the Audit & Supervisory Board to perform auditing and oversight in cooperation with the accounting auditor. An overview of the Company's corporate governance system follows.

## Concrete approach and measures for corporate governance

### The Board

- The Board holds regular monthly meetings to make decisions on tasks stipulated in laws, the Articles of Incorporation and rules for the Board, such as basic management policy, mid-term management plan, annual management plan, and election of executive vice presidents. The Board decides on important business, and supervises the performance of business operations. If necessary, additional meetings of the Board are convened.
- The term of office for members of the Board is one year with the aim of creating a management structure that would be able to adapt quickly and flexibly to changes in the business environment.
- The Board comprises four full-time and two outside members. We enhance management oversight from an independent standpoint by appointing outside members of the Board to one-third of the Board seats.
- The outside members of the Board are responsible for oversight from an objective standpoint, a perspective that

## Corporate Governance Structure



incorporates the common interests of shareholders, and is based on expert knowledge and insights into corporate management. The outside members of the Board also attend meetings held among the president & CEO, Audit & Supervisory Board members, and heads of each department to share views of the Company's business issues and the external environment.

- All two outside members of the Board are reported to the Tokyo Stock Exchange, Inc. as independent officers.
- To enable sufficient deliberation at Board meetings, as a rule materials on agenda items and reporting matters are distributed to the Board members at least three days before meetings to provide time to review the materials.
- The Board consults with the Nomination and Remuneration Committee, which consists of the president & CEO and all outside members of the Board, in determining matters concerning compensation and candidates for members of the Board, and makes decisions based on the advice received. By a resolution of the Board of Directors, the amount of compensation for directors (excluding restricted stock compensation) is determined at the discretion of the Nomination and Remuneration Committee.

#### Analysis and evaluation of the effectiveness of the Board of Directors

- A meeting of outside officers, comprising the outside directors and outside Audit & Supervisory Board members, analyzes and evaluates the effectiveness of the Board of Directors on the basis of the content of a questionnaire survey conducted prior to the evaluation and reports to the Board the results of evaluation and areas for improvement.
- The evaluation for fiscal 2019 found that the Board of Directors functions properly in deciding important matters and overseeing business execution and that its effectiveness is sufficiently ensured. It also found that improvements have been made in areas such as making reports on business execution easier to understand and creating opportunities for sharing important management matters with the outside officers and seeking their opinions.
- Proposals included continued improvement of Board meeting materials and clarification of criteria for agenda items and proposals, and the Board will undertake improvement in these areas.

#### Audit framework

- The Audit & Supervisory Board comprises five members, two full-time and three outside members, and each member audits the Board members' execution of duties.
- Out of the five members, each full-time and outside member has enough knowledge of finance and accounting.
- The outside members suitably perform supervision of the Board members' execution of duties from an objective standpoint, a perspective that incorporates the common interests of shareholders, based on expert knowledge and insights into corporate management.

- All three outside Audit & Supervisory Board members are reported to the Tokyo Stock Exchange, Inc. as independent officers.
- The main matters for consideration by the Audit & Supervisory Board include formulation of the audit policy and audit plan, development of the internal control system and confirmation of its status of operation, preparation of audit reports, and the reasonableness of the accounting auditor's methods and results.
- Audit & Supervisory Board members attend meetings of the Board of Directors, interview directors in charge and corporate officers of subsidiaries in accordance with an annual plan, and exchange views with the president & CEO. They also have periodic meetings with the accounting auditor and Audit Department and receive audit reports, audit results, and other reports.

#### Accounting audit and Internal audit frame work

- Seikagaku has selected Deloitte Touche Tohmatsu LLC as the accounting auditor following comprehensive evaluation of its auditing accomplishments, independence, quality control system, and other factors.
- The Corporate Audit Department, consisting of two employees, conducts audits for the purpose of assessing and verifying the legality and appropriateness of the Seikagaku Group's operations.

#### Coordination between Audit & Supervisory Board members, accounting auditors, and internal audits

- The Audit & Supervisory Board members and the Corporate Audit Department met 17 times during fiscal 2019 to review audit results related to internal controls at each internal division, and share information and views on the audit plan and the status of audits conducted by the Corporate Audit Department. They also aim to reach a mutual understanding through spontaneous communications.
- Regarding the state of coordination between the Audit & Supervisory Board members and the accounting auditors, information exchange was provided for on 10 occasions during fiscal 2019, and the year's plan for the auditing firm and the results of the financial audit were received at a hearing where views on these matters were also exchanged.
- The Corporate Audit Department cooperates with the accounting auditors to share information and exchange views on audit plans concerning internal controls, audit implementation status and audit results for ensuring the reliability of the Company's financial reports.

#### Business operations

- Seikagaku operates an executive vice president system for enhancing the corporate governance. Under this system, executive functions are separated from the Board, the functions of which are limited to decision-making and the supervision of business operations. Seikagaku endeavors to build up an internal system, which is quickly able to respond to changes in

the management environment, by improving the flexibility and efficiency of executive functions, expanding the executive vice president system, and promoting the transfer of authority.

- Seikagaku holds weekly Management Committee meetings. The Committee, composed of full-time members of the Board and executive vice presidents, confers and decides agendas of executive functions they have been tasked for implementation by the Board, based on the basic policy of the Board.

#### Compliance/risk management

- In addition to the social ethics code, in order to comply with strict laws and regulations of the pharmaceutical industry, Seikagaku has established a compliance program (including the SKK Group Compliance Code of Conduct) based on the Creed and the Guidelines for Our Activities as defined in our Core Values. The Seikagaku Compliance Program Handbook is compiled and distributed to increase the awareness and understanding of employees.
- The Compliance Committee is chaired by the president & CEO and shares the same members as the Management Committee. There are also various programs to promote compliance on a company-wide basis. And Seikagaku has implemented various measures to enhance effectiveness.
- To appropriately manage business risks and take risk prevention measures, Seikagaku has established a Risk Management Committee, chaired by a Board member in charge of administration and comprising the executive vice presidents in charge of various departments.
- Seikagaku controls subsidiaries adequately by stipulating the rules for regularly reporting important events, such as compliance and risk status, in addition to financial condition.
- Seikagaku ensures that management decision and daily business execution are in compliance with laws and regulations by receiving advice and instructions from outside lawyers.

#### Outside members of the Board and outside Audit & Supervisory Board members

##### Interests including those having a personal relationship, capital relationship, or transactional or other business relationship with the Company

- Concerning relationships between our company and another company in which the same person serves, or has served, as an outside member of the Board or an outside Audit & Supervisory Board member, there are no interests that would be affected by a personal relationship, a capital relationship, a business relationship, or performance of other work duties.

##### Functions and roles carried out in corporate governance

- The outside members of the Board oversee management and contribute to strengthening of the Company's corporate governance system by providing advice and recommendations from an objective standpoint, which is based on expert knowledge and insights into corporate management and incorporates the common interests of shareholders.
- The outside Audit & Supervisory Board members appropriately fulfill their role of overseeing the execution of duties by Board members by striving to gather information and expressing their views from an objective standpoint, which is based on expert knowledge and insights into corporate management and incorporates the common interests of shareholders.

#### Main activities of the outside members of the Board and the outside Audit & Supervisory Board members (fiscal year ended March 31, 2020)

Officer category	Last/First name	Independent officer	Board meetings	Audit & Supervisory Board meetings
Outside member of the Board	Eiji Katayama	○	Attended 13 of 13 meetings	—
	Mio Minaki	○	Attended 10 of 10 meetings	—
Outside Audit & Supervisory Board members	Yoshihito Shibata	○	Attended 12 of 13 meetings	Attended 14 of 14 meetings
	Mie Fujimoto	○	Attended 13 of 13 meetings	Attended 14 of 14 meetings
	Shinkichi Matsuo	○	Attended 10 of 10 meetings	Attended 10 of 10 meetings

Notes: 1. The attendance figure for Ms. Mio Minaki indicates her attendance at meetings held after her appointment in June 2019.  
 2. Mr. Yoshihito Shibata retired at the conclusion of the 74th Ordinary General Shareholder's Meeting, held on June 19, 2020.  
 3. The attendance figure for Mr. Shinkichi Matsuo indicates his attendance at meetings held after his appointment in June 2019.

## Compensation for corporate officers

### Basic policy

The Company's basic policy on compensation for directors (excluding outside directors) is to contribute to sustained earnings improvement by increasing incentives for directors to meet the expectations of shareholders. Compensation consists of basic compensation that reflects consideration of the balance between the going rate, management performance, and employee salaries and, for directors other than outside directors, earnings-linked compensation and performance-linked compensation, which serve as short-term incentives, and restricted stock compensation, which serves as a long-term incentive.

### Short-term incentives

#### <Earnings-linked compensation>

Earnings-linked compensation is determined through assessment in accordance with the level of profits in the previous fiscal year using SKK EBITDA, a numerical target in the mid-term management plan (fiscal 2019 to fiscal 2021), as the profit indicator. SKK EBITDA is Seikagaku's own profit indicator consisting of operating income plus depreciation expense and royalty income. The Company has selected SKK EBITDA because it considers it appropriate as an indicator that creates a short-term incentive for achievement of rapid solidification of the profit foundation, an objective set forth in the mid-term management plan.

#### <Performance-linked compensation>

Performance-linked compensation is determined through qualitative assessment based on achievement by each director of objectives for the previous fiscal year pertaining to important measures in the mid-term management plan.

### Long-term incentive

#### <Restricted stock compensation>

Restricted stock compensation, which involves the granting each year of common shares of the Company for which

transfer is restricted until retirement, is determined by multiplying the basic compensation of each director (excluding outside directors) by a fixed rate for each position. The purpose is to provide an incentive to pursue sustained enhancement of the Company's corporate value and promote further sharing of value with the shareholders by promoting long-term, stable shareholding. (Restricted stock compensation was introduced by a resolution of the 73rd Ordinary General Shareholders' Meeting held on June 19, 2019.)

### Compensation for outside directors and Audit & Supervisory Board members

Compensation for outside directors and Audit & Supervisory Board members consists of basic compensation only, in view of their role of management oversight independent from business execution.

### Method of determining compensation for corporate officers

By a resolution of the Board of Directors, compensation for each director (the amount of basic compensation as well as the amount of earnings-linked compensation and the amount of performance-linked compensation for each director [excluding outside directors]), within the maximum amount approved by the General Shareholders' Meeting, is determined at the discretion of the Nomination and Remuneration Committee, comprising the president & CEO and all of the outside directors. The amount of remuneration rights pertaining to the restricted stock compensation system is determined by a resolution of the Board of Directors following deliberation of the time of payment, allocation policy, and other matters by the Nomination and Remuneration Committee.

The balance between the going rate, management performance, and employee salaries is taken into consideration in determining compensation for directors. Compensation for Audit & Supervisory Board members is determined following discussion among them, within the maximum amount of compensation approved by the General Shareholders' Meeting.

## Messages from an outside member of the Board and outside Audit & Supervisory Board member



**Eiji Katayama**  
Outside Member of the Board

### Enhancement of the governance system that supports continuous new drug development

It is my assessment that Seikagaku's corporate governance has been appropriately reformed in conjunction with the enactment and revision of the Corporate Governance Code in recent years. In practical terms, the Company distributes materials and provides explanations of important matters in advance of the Board, and I feel that the quality of the materials has improved greatly. Also, the Company has instituted a discretionary Nomination and Remuneration Committee, and the design and decision process of Board members' remuneration have notably increased in transparency. Furthermore, the Audit & Supervisory Board and the outside directors hold

gatherings for discussion with the Board members from time to time, which provide a useful opportunity for learning about the current situation at divisions and departments and the views and personalities of the Board members and executives. I feel that the ability to engage in comparatively frank exchanges of opinion at such forums is extremely beneficial for outside directors. I consider further deepening of discussion within the Board a priority and think that it will become an important element of decision-making when the Company comes to a critical juncture.

Since Seikagaku is a pharmaceutical company, its very existence depends on rapidly and outside directors to be performance of management oversight mainly from two perspectives. The first is to confirm that a structure has been set up to ensure that new drug development is not delayed due to misconduct or error. The second is to confirm that an environment and structure have been improved to enable motivated employees to actively play a part in creating new drugs. I want to make possible sustained growth and contribute to making Seikagaku a better company through these activities.



**Mie Fujimoto**  
Outside Audit & Supervisory Board Member

### Further fostering a corporate culture of honesty and integrity

Outside Audit & Supervisory Board members are expected to have a high degree of independence and apply perspectives and experience unavailable within the company in the conduct of audits. Seikagaku's outside Audit & Supervisory Board members attend the Board and inquire about accounting audit plans and results. Our activities include deepening our understanding of management policies and issues through conversations with the president & CEO, conducting interviews about business execution with division and department managers, receiving reports on internal audits from the Audit Department, and ascertaining manufacturing plant issues by attending management reviews. I myself point out risks and matters for concern in business

execution based on my experience as an attorney specialized in labor and business law and as an outside officer of other companies.

Although compliance is important for a company in any business field, for Seikagaku in particular, as a pharmaceutical company, the occurrence of a regulatory compliance violation could turn into a problem that rocks the foundation of the business. I believe that the most important thing for ensuring compliance is a corporate culture of honesty and integrity. I feel that Seikagaku has such a corporate culture, starting from the attitude of top management. However, this culture must be fostered through daily effort. In my role as an outside Audit & Supervisory Board member, I will strive to further promote compliance at Seikagaku and, by extension, contribute to enhancement of corporate value, in close cooperation with the full-time Audit & Supervisory Board members.

## Total amount of compensation for each category of officer, total amount by type of compensation, and the number of relevant officers (fiscal year ended March 31, 2020)

Officer category	Total compensation (Millions of yen)	Total by type of compensation (Millions of yen)			Number of officers
		Basic compensation	Earnings-linked and performance-linked compensation	Stock compensation	
Members of the Board*	208	184	14	8	4
Outside officers	25	25	—	—	3
Audit & Supervisory Board members*	45	45	—	—	2
Outside Audit & Supervisory Board members	22	22	—	—	4
Total	300	276	14	8	13

\*Excluding outside officers and outside Audit & Supervisory Board members

Notes: 1. Based on the status at the time of adjournment of the 73rd Ordinary General Shareholders' Meeting held on June 19, 2019, one retired outside member of the Board and one retired outside Audit & Supervisory Board member are included in the table above.

2. The amount of pay for a member of the Board does not include the employee portion of salary of someone who is concurrently an employee and a member of the Board.

3. The total amount of compensation paid to all members of the Board was resolved at the 61st Ordinary General Shareholders' Meeting held on June 22, 2007, to be no more than ¥400 million per year (of which the outside Board member proportion shall be no more than ¥50 million per year). Also, the amount of compensation for separately granting restricted stock to directors (excluding outside directors) was resolved at the 73rd Ordinary General Shareholders' Meeting held on June 19, 2019 to be no more than ¥50 million per year.

4. The total amount of compensation paid to all Audit & Supervisory Board members was resolved at the 61st Ordinary General Shareholders' Meeting held on June 22, 2007, to be no more than ¥80 million per year.

## Risk Management System

Seikagaku has established business risk management regulations and developed a system to ascertain and manage risks pertaining to business execution.

We have established the Risk Management Committee, chaired by the chief risk management officer (the member of the Board in charge of Corporate Strategy, Human Resources, Finance and Accounting, and Corporate Staff) and comprising the executive vice presidents in charge of various departments. The Committee deliberates risk prevention measures and, when a material business risk event occurs, establishes a response headquarters and takes measures to minimize damage.

## Business Risks

The following are the principle risks we recognize that could have a material effect on the operating results and the financial situation of the Seikagaku Group.

### Legal restrictions, healthcare system, and administrative trends

Many Seikagaku Group products affect lives and health and, consequently, are subject to legal restrictions for ensuring the quality, efficacy, and safety of pharmaceuticals and other products imposed by regulatory authorities in Japan and other countries. Amendments to these related laws and regulations or healthcare system and administrative policies, including revisions to the National Health Insurance Drug Price Standard, could affect our business results.

The Company's policy is to promptly ascertain the details of revisions and appropriately respond to risks arising from revisions to statutory regulations, etc. by constantly monitoring regulatory trends. Nevertheless, the Seikagaku Group cannot determine the details or timing of those revisions or of drug prices or prescription changes, and we recognize that it is difficult to assess their impact in advance.

### New product development

In pharmaceutical product development, the core of Seikagaku's business, various clinical studies to confirm efficacy and safety are required from the time of basic research to new drug approval. Even if the Company bears enormous R&D expenses over long periods of time, there is risk that products under development will not progress to launch. R&D expenses vary according to R&D progress, and this could affect our business results. In such an event, it may not be possible to earn profits commensurate with R&D expenses recorded in prior periods. The Company is striving to diversify risk by strengthening the research and develop-

ment system and maintaining multiple development pipelines in order to satisfy unmet medical needs. Nevertheless, this does not enable us to avoid all risks, and any such uncertainty in new product development could affect our business results.

### Reliance on specific distributors

We have entered into exclusive distributorship agreements with sales partners for the pharmaceuticals and medical devices that are our mainstay products, which limits the number of distributors. Changes to the business relationships with these companies due to changes in circumstances, depending on the nature of the changes, could affect our business results. Also, we recognize that it is difficult to assess the impact of materialization of this risk.

### Risks related to side effects

Prescription drugs and medical devices entail the risk of emergence of unanticipated side effects from the clinical trial stage to the post-marketing stage. Materialization of this risk could lead to delays in clinical trials or discontinuation of development of a product in development. Also, an unanticipated side effect in an approved product could develop into a situation such as suspension of sale or a product recall, which could affect our business results.

### Reliance on specific suppliers

Various restrictions apply to the manufacture of pharmaceuticals and medical devices, and some raw materials require the approval of regulatory authorities. Therefore, the number of raw materials suppliers is limited, and we perform on-site audits and strive to maintain quality and establish a stable supply system. We rely on a single supply sources for some raw materials. Consequently, any change in circumstances that makes it difficult to procure raw materials would pose the risk of disruption to the manufacture of products. Although we have taken measures to minimize any impact on business results by appropriately holding raw materials and product inventory, materialization of such a risk could affect our business results. The impact of materialization of such a risk will vary substantially depending on the product in question, the availability of replacement materials, the time required for procurement, and other factors, and we recognize that it is difficult to assess the impact in advance.

### Use of animal-derived ingredients as raw materials

Many of the Seikagaku's products are made using ingredients derived from animals, namely chickens, sharks, and

horseshoe crabs, as raw materials. Consequently, any restrictions on the use of animal-derived ingredients as raw materials or difficulty in procuring these ingredients could affect our business results.

The Seikagaku Group diversifies suppliers to the extent possible and takes measures to minimize any impact on business results by appropriately holding raw materials and product inventory. We are also developing products that use fermented raw materials and developing clinical trial methods that use genetically modified organisms and are striving to minimize risk. Nevertheless, these measures do not enable us to avoid all risks, and we recognize that materialization of a risk would unavoidably affect our business results to a certain degree.

### Exchange rate fluctuations

The overseas sales ratio in fiscal 2019 was 45.1%, and many overseas sales transactions are denominated in U.S. dollars and other foreign currencies. Consequently, any sudden exchange rate fluctuations could affect our business results. For this reason, the Company strives to mitigate the risk of exchange rate fluctuations by allocating foreign currency sales proceeds to payment of R&D expenses, such as expenses for clinical trials conducted overseas, and entering into foreign exchange contracts. Nevertheless, we recognize that it is difficult to completely avoid risk in this way. Also, when preparing the consolidated financial statements, we convert financial statements of overseas consolidated subsidiaries denominated in local currencies to yen. Consequently, exchange rate trends could affect our business results.

### Price fluctuations of holdings of marketable securities

We invest cash reserves in marketable securities for the purpose of applying them to future R&D and capital expenditures. Although we endeavor to reduce risks through diversification of investments and other means, price fluctuations of marketable securities and other investments could affect our business results. It is difficult to mitigate or eliminate external risks arising from trends in financial markets and monetary policy using risk mitigation measures specific to Seikagaku. For this reason, we believe that the Group would be affected if such risks materialize, depending on the timeframe and scale, and recognize that it is difficult to quantitatively assess the impact of materialization.

### Intellectual property rights

Although we have filed various applications to secure patent rights and other intellectual property rights in order to secure competitive advantage for products and businesses, any inability to obtain patent or other rights, denial of the

validity or exclusivity of patent or other rights that have been obtained, or expiration of the term of patent or other rights could affect our business results. Also, although we conduct research to avoid infringement of third-party intellectual property rights and minimize the possibility of infringement, it is difficult to completely avoid intellectual property right infringement problems, and the occurrence of a dispute with a third party concerning intellectual property rights could affect our business results. Also, we recognize that it is difficult to quantitatively assess the impact of future materialization at this time.

### Occurrence of large-scale disasters

Any stagnation of business activities or disruption of product supply as a result of extensive damage to the Seikagaku Group's business sites due to an earthquake, a typhoon or other natural disaster, fire or other accident, or an epidemic of a new influenza virus or other infectious disease could affect our business results. Also, any major expenses for the repair of facilities damaged in a disaster could affect our business results. Although the Seikagaku Group has taken advance measures, including preparation of manuals for responding to various natural disaster risks, these risks cannot be avoided solely by the Group's risk management measures, the Group could be affected if risks materialize, according to the scale, timeframe, or other factors, and we recognize that it is difficult to quantitatively assess the impact of materialization.

### Novel coronavirus (COVID-19) pandemic

Many Seikagaku Group's products affect people's health, and for this reason, we ordinarily secure appropriate inventory quantities, so even if manufacturing or distribution is temporarily disrupted, there is no problem with product supply. On the other hand, any prolongation of the decline in prescription demand for joint function improving agents in Japan and the U.S., our main markets, due to people staying at home or other factors could affect our business results. Also, our clinical trials are being affected by factors such as subject enrollment delays and suspension of acceptance of patients at some clinical trial sites as part as the response to COVID-19 at medical institutions in Japan and abroad, and any prolongation of these factors could also affect the launch timing of new drugs in development and affect our business results. This risk cannot be eliminated solely by the Group's risk management measures, and we believe that our clinical trials will be substantially affected by the further spread of COVID-19 and the time required until it subsides, the countermeasure policies of national governments, and other factors. For this reason, we recognize that it is difficult to quantitatively assess the impact of materialization.

# SOCIAL CONTRIBUTION ACTIVITIES

Seikagaku engages in initiatives to address social and environmental problems in pursuit of harmony and continuous growth together with local communities.

## Ibaraki-no-Kusuriten (Ibaraki Medicine Exhibition) disseminates correct knowledge of medicine

Seikagaku exhibited at Ibaraki-no-Kusuriten in October 2019, a medicine exhibition hosted by Ibaraki Prefecture each year to coincide with Medicine and Health Week. The purpose of Ibaraki-no-Kusuriten (Ibaraki Medicine Exhibition) is to inform the general public of the importance of correctly using medicines through an exhibition that introduces pharmaceuticals, medical devices, quasi-drugs, and other products produced at plants in Ibaraki Prefecture and events, such as a quiz rally to deepen understanding of medicine and a participatory simulation of prescription filling.

Since Seikagaku has a pharmaceutical manufacturing plant in Takahagi City, Ibaraki Prefecture, we have a display area at the exhibition each year where Takahagi Plant and Business Development & Marketing Division employees introduce visitors to Seikagaku's business activities and the characteristics of hyaluronic acid and promote awareness of diseases addressed by Seikagaku products with the aim of promoting understanding of the role Seikagaku products play in everyday life. The exhibition serves as an opportunity for employees to experience a sense of responsibility for our products while at the same time spreading proper understanding of pharmaceuticals.



Explaining the characteristics of hyaluronic acid and Seikagaku products



The Seikagaku display area

## Horseshoe crab conservation activities of Associates of Cape Cod, Inc.

Since Seikagaku's U.S. subsidiary Associates of Cape Cod, Inc. (ACC) manufactures and sells reagents\* using a substance extracted from horseshoe crab blood cells as a raw material, it continuously engages in horseshoe crab conservation activities to protect this precious natural resource. In addition to supporting the American horseshoe crab, in 2019, ACC began providing assistance for activities to maintain the population of Asian horseshoe crabs in the form of customized aquaculture equipment and training. Maintaining the population involves growing survivable juveniles produced by in vitro fertilization of sperm and eggs and releasing them into the natural environment. ACC has long engaged in this activity and accumulated related technology and expertise.

This assistance will be made available to academic institutions and private sector researchers around the world, and already had started with organizations in China and Malaysia. Organizations receiving assistance will be granted a license to use ACC proprietary technology and expertise free of charge, and they are provided customized tools, instruction in in vitro fertilization methods and training in the operation of highly efficient aquaculture equipment.

The number of American horseshoe crabs that ACC has

released in the Commonwealth of Massachusetts exceeded 800,000 in 2020. The Seikagaku Group will continue to promote activities to conserve and sustain horseshoe crab populations worldwide, and strive to use this precious resource in a sustainable, responsible manner.

\* Endotoxin-detecting reagents used in quality control for manufacturing processes of pharmaceuticals and medical devices



Released American horseshoe crabs

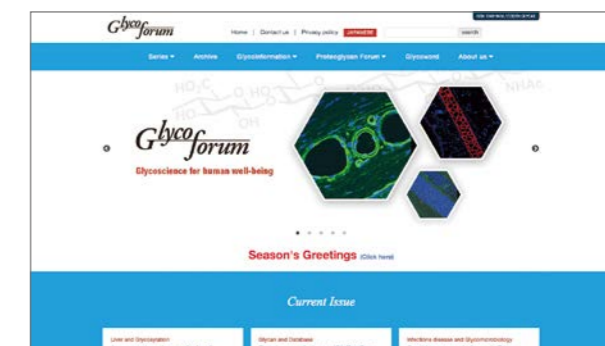
Seikagaku pursues respect for learning by engaging in global research assistance and sponsoring activities that support the development of glycoscience.

## Glycoforum, a website for comprehensive information on glycoscience research

<https://www.glycoforum.gr.jp/index.html>

Since 1997, Seikagaku has operated "Glycoforum," an academic website that shares information about research findings to contribute to the development of glycoscience, which is one of Seikagaku's areas of specialization.

As a portal site for glycoscience information, the website promptly disseminates science paper information, including commentary from global leading researchers and academic conference information. The site enjoys strong support from researchers in Japan and overseas.



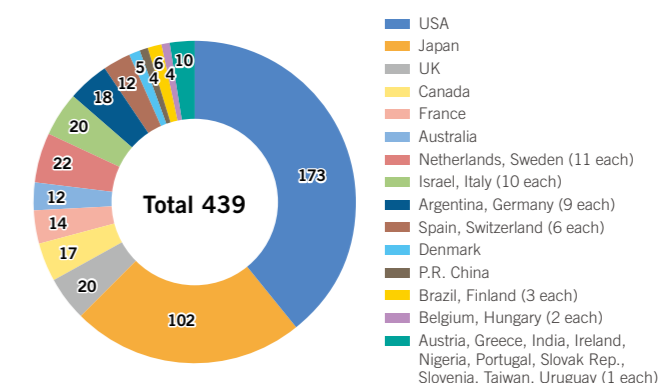
## Support for the Mizutani Foundation for Glycoscience

<https://www.mizutanifdn.or.jp/index.html>

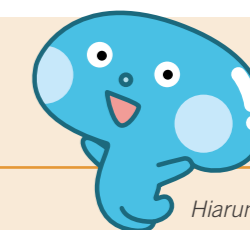
The Mizutani Foundation for Glycoscience was established in 1992 with an endowment from the late Masakane Mizutani, former president of Seikagaku Corporation, for the purpose of contributing to the welfare of humanity through the advancement and development of glycoscience. The Foundation provides research grants to glycoscience researchers in Japan and overseas and supports conferences. In fiscal 2019, the Foundation provided research grants totaling approximately ¥66.8 million to 16 grant recipients.

Seikagaku endorses the purpose of the Foundation and has continuously supported its activities since its founding.

Number of Grant Recipients by the Mizutani Foundation for Glycoscience (By country and area: 1993–2020)



## Promoting early treatment of knee osteoarthritis Hiza Ikiiki (Sprightly Knees), a website for provision of information concerning knee osteoarthritis to the general public



Hiarun-Kun

<https://www.ehiza.jp>

Some 30 million patients\* in Japan are said to suffer from knee osteoarthritis, a disorder marked by knee joint strain due to aging, excessive exercise, or weight increase causing the cartilage to gradually wear away. The *Hiza Ikiiki* website explains basic knowledge concerning knee osteoarthritis, diagnosis, and treatment methods in an easy to understand way and gives information on nearby medical institutions that operate outpatient clinics and provide treatment for knee pain. Visitors can also download a pamphlet "Exercise therapy of knee osteoarthritis."

We will provide correct knowledge to people with knee pain and further enhance website content to enable greater numbers to promptly obtain appropriate treatment.

\* "Locomotive Disorder Countermeasures to Promote Preventive Care," a report from the Ministry of Health, Labour and Welfare issued in 2008



# CONSOLIDATED 10-YEAR SUMMARY

(Millions of yen / %)

	2011/3	2012/3	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3
Net Sales*1	27,117	27,082	26,639	29,614	29,522	30,962	29,589	30,175	28,384	28,642
Overseas Sales	5,710	6,035	6,311	8,802	9,997	11,581	11,029	12,051	11,966	12,913
Cost of Sales	10,480	9,748	9,867	11,223	12,130	12,871	13,247	13,008	13,114	12,513
Selling, General and Administrative Expenses	13,103	12,716	13,645	13,452	15,008	15,946	15,059	15,745	14,292	14,169
R&D Expenses	6,723	5,970	6,838	6,588	8,146	8,649	7,834	8,408	7,148	6,877
Operating Income	3,533	4,617	3,126	4,937	2,383	2,144	1,282	1,421	977	1,960
Ordinary Income	4,159	4,770	4,302	5,878	4,008	3,500	2,477	5,327	2,859	3,981
Net Income	2,451	3,270	3,256	4,745	3,650	2,578	1,787	3,922	2,244	(10,839)
Total Equity	56,106	58,013	61,316	64,785	70,410	69,815	70,646	73,945	73,036	59,767
Total Assets	62,684	68,730	70,471	73,826	80,889	80,218	80,048	84,098	80,238	68,501
Overseas Sales Ratio	21.1	22.3	23.7	29.7	33.9	37.4	37.3	39.9	42.2	45.1
Cost of Sales Ratio	38.6	36.0	37.0	37.9	41.1	41.6	44.8	43.1	46.2	43.7
Selling, General and Administrative Expenses Ratio	48.3	47.0	51.2	45.4	50.8	51.5	50.9	52.2	50.4	49.5
R&D Expenses Ratio	24.8	22.0	25.7	22.2	27.6	27.9	26.5	27.9	25.2	24.0
Operating Income Ratio	13.0	17.0	11.7	16.7	8.1	6.9	4.3	4.7	3.4	6.8
Ordinary Income Ratio	15.3	17.6	16.1	19.8	13.6	11.3	8.4	17.7	10.1	13.9
Net Income Ratio	9.0	12.1	12.2	16.0	12.4	8.3	6.0	13.0	7.9	—
Return on Equity (ROE)*2	4.4	5.7	5.5	7.5	5.4	3.7	2.5	5.4	3.1	(16.3)
Return on Assets (ROA)*2	6.6	7.3	6.2	8.1	5.2	4.3	3.1	6.5	3.5	5.4
Turnover of Total Assets*2	0.43	0.41	0.38	0.41	0.38	0.38	0.37	0.37	0.35	0.39
Shareholders' Equity Ratio	89.5	84.4	87.0	87.8	87.0	87.0	88.3	87.3	91.0	87.2
Number of R&D Personnel	224	221	224	215	216	221	222	233	233	242
R&D Personnel Ratio	34.5	34.3	34.9	33.6	33.3	33.3	32.3	32.5	31.3	27.9
Number of Employees	649	644	641	639	649	663	687	718	744	868
Amount of Capital Expenditure	1,306	5,718	9,164	7,222	2,095	1,975	1,173	1,591	1,310	2,109
Depreciation and Amortization	2,336	2,008	2,175	1,767	2,610	3,191	2,920	2,925	2,902	1,778
Net Income per Share	43.16	57.58	57.33	83.55	64.27	45.39	31.55	69.30	39.76	(192.15)
Total Equity per Share	987.67	1,021.24	1,079.38	1,140.48	1,239.51	1,229.05	1,248.07	1,306.37	1,294.88	1,059.40
Dividends per Share	25.00	25.00	25.00	26.00	26.00	26.00	31.00*3	26.00	26.00	26.00
Dividend Payout Ratio	57.9	43.4	43.6	31.1	40.5	57.3	98.3	37.5	65.4	—
Dividends as a Percentage of Total Equity (DOE)	2.5	2.5	2.4	2.3	2.2	2.1	2.5	2.0	2.0	2.2

\*1 Until the prior fiscal year, ended March 31, 2011, the Company recorded milestone-type royalty income as sales. Effective April 1, 2010, the company has changed it to other income.

\*2 Total Equity and Total Assets are average amounts of the numbers for the end of previous FY and the end of current FY, respectively.

\*3 Including a 70th anniversary commemorative dividend of ¥5 per share.

# REVIEW OF OPERATIONS (April 1, 2019–March 31, 2020)

## Overall net sales and income

In the fiscal year ended March 31, 2020 (fiscal 2019), net sales were ¥28,642 million, up 0.9% year on year. The result is attributable to growth in sales in the overseas pharmaceuticals segment, which compensated for a decline in sales in the domestic pharmaceuticals segment due to the impact of National Health Insurance (NHI) drug price reductions. The overseas sales ratio was 45.1%, an increase of 2.9 points from the previous fiscal year.

Operating income rose 100.6% year on year to ¥1,960 million as a result of the sales increase coupled with a decrease in depreciation in connection with an impairment loss\* and a year-on-year decrease in R&D expenses due to completion of clinical studies in Japan for SI-613, a treatment for osteoarthritis. Ordinary income rose 39.2% year on year to ¥3,981 million, reflecting a substantial increase in royalty income, while recorded loss on sale of investment securities. The Company recorded a net loss attributable to owners of parent of ¥10,839 million (compared to a net profit of ¥2,244 million during the same period in the previous fiscal year) due to the recording of an extraordinary loss (impairment loss)\*.

Total R&D expenses in fiscal 2019 decreased 3.8% year on year to ¥6,877 million, or 24.0% of net sales. R&D Expenses Ratio was 24.0%, a decrease of 1.2 points from the previous fiscal year.

\* The Company recognized an impairment loss on property, plant and equipment related to the Pharmaceuticals business, and recorded extraordinary losses of ¥13,524 million in the fiscal year.

	(Millions of yen)		
	2019/3	2020/3	Year on Year
Net Sales	28,384	28,642	+0.9%
Operating Income	977	1,960	+100.6%
Ordinary Income	2,859	3,981	+39.2%
Net Income	2,244	(10,839)	—
R&D Expenses	7,148	6,877	-3.8%

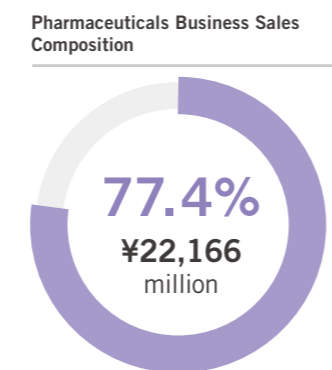
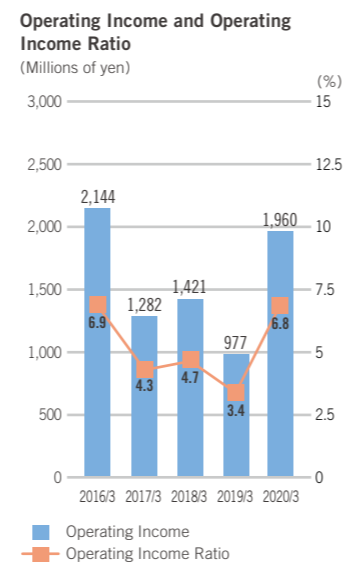
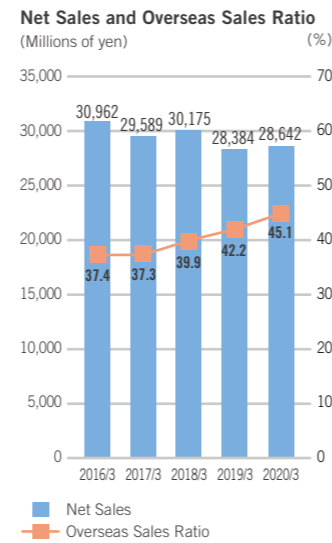
## Net sales by segment

### Pharmaceuticals business

The Pharmaceuticals business is the core business of our company, which manufactures and sells pharmaceuticals, medical devices, and bulk products based on glycoconjugates such as hyaluronic acid. In the Pharmaceuticals business, net sales increased 1.2% year on year to ¥22,166 million, accounting for 77.4% of total sales.

### ● Domestic Pharmaceuticals (¥13,679 million, down 3.4% year on year)

Deliveries to medical institutions of ARTZ, a joint function improving agent for knee osteoarthritis, decreased slightly due to contraction in the market overall, despite an increase in market share resulting from successful measures to acquire new user facilities. The Company's sales fell year on year, reflecting in part the impact of NHI drug price reductions. For the OPEGAN series of ophthalmic viscoelastic devices, deliveries to medical institutions and the Company's sales increased due to overall market expansion, progress in acquiring share from competing products, and a temporary increase in shipments attributable to suspension of shipments of a competing product. For MucoUp, a submucosal injection agent for endoscopic surgery, decreased in the Company's sales due to the impact of the introduction of competing products on the market.



For HERNICORE, a treatment for lumbar disc herniation, the Company's sales decreased as shipments declined from a high level the previous fiscal year due to secure distribution inventory, although deliveries to medical institutions were strong. To provide the opportunity for treatment to greater numbers of patients, the Company will continue to strive for steady market penetration while proceeding together with the sales partner with information provision activities directed at medical institutions to ensure appropriate use and safety and the collection of post-marketing safety information as the highest priority.

### ● Overseas Pharmaceuticals (¥7,466 million, up 14.7% year on year)

In the U.S. Gel-One, an intra-articular single-injection viscosupplement for the treatment of knee osteoarthritis, increased substantially both local sales volume and the Company's sales, as a result of qualification for preferential reimbursement status with multiple insurance companies beginning in 2019 and the impact of measures by the sales partner to promote switching from competing products. For SUPARTZ FX, an intra-articular 5-injection viscosupplement for the treatment of knee osteoarthritis, local sales volume and the Company's sales declined due to the impact of a continuing trend in the U.S. market toward preference for products that require a low number of injections. Regarding ARTZ in China (P.R.C.) local sales volume and the Company's sales decreased, reflecting factors including curtailment of outpatient services at medical institutions in response to the spread of the COVID-19 outbreak.

### ● Bulk Products (¥1,019 million, down 16.4% year on year)

The Company's sales decreased due to factors including intensification of competition for hyaluronic acid.

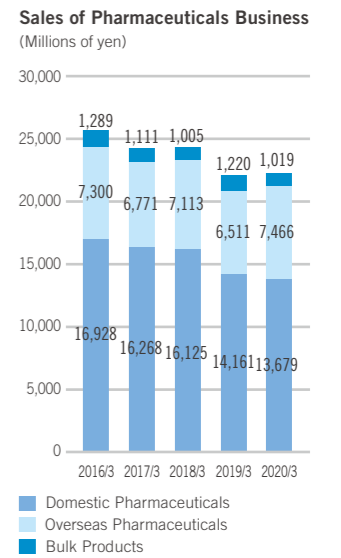
### LAL business

We manufacture and sell endotoxin-detecting reagents used in the quality control of pharmaceuticals and medical devices in Japan and overseas. Net sales of LAL business for the fiscal year under review were ¥6,476 million, down 0.2% from the previous fiscal year.

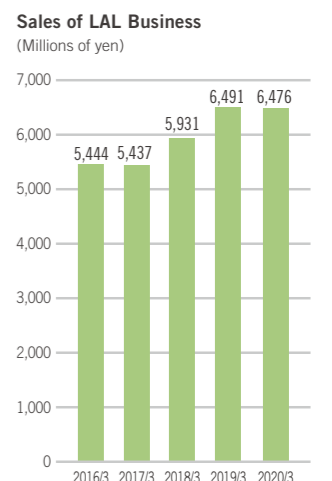
### ● LAL Business

Whereas sales of Bacterial Endotoxin Testing (BET) and Clinical Diagnostic (Fungitell) reagents increased thanks to reinforcement of sales activities at overseas subsidiary Associates of Cape Cod, Inc., sales in Japan declined. Consequently, sales of the LAL business were nearly unchanged from the previous fiscal year.

	(Millions of yen)		
Sales by Segment	2019/3	2020/3	Year on Year
Pharmaceuticals Business	21,893	22,166	+1.2%
Domestic Pharmaceuticals	14,161	13,679	-3.4%
Overseas Pharmaceuticals	6,511	7,466	+14.7%
Bulk Products	1,220	1,019	-16.4%
LAL Business	6,491	6,476	-0.2%
<b>Total</b>	<b>28,384</b>	<b>28,642</b>	<b>+0.9%</b>
(Overseas Sales)	11,966	12,913	+7.9%

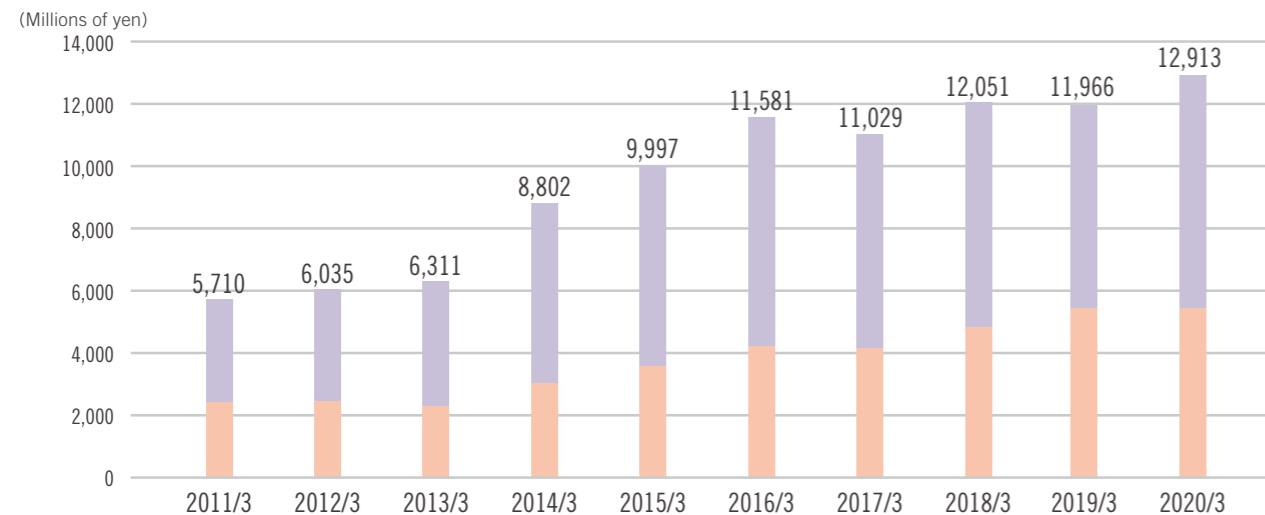


### LAL Business Sales Composition

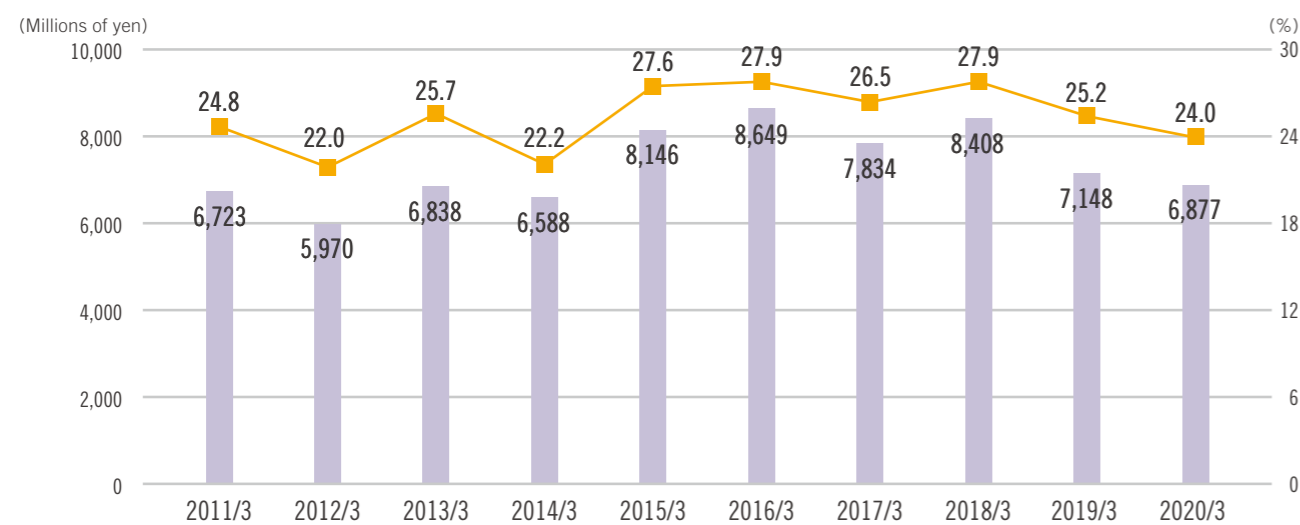


# FINANCIAL / NON-FINANCIAL HIGHLIGHTS

## Overseas Sales Trends

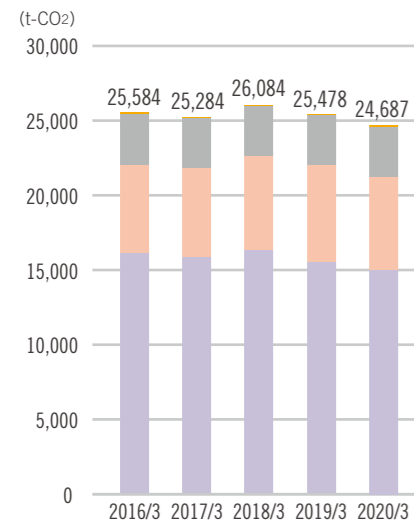


## R&D Expense Trends

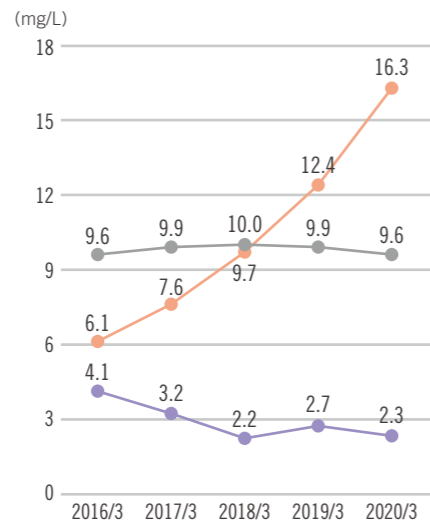


## Non-financial Highlights (Non-consolidated Basis)

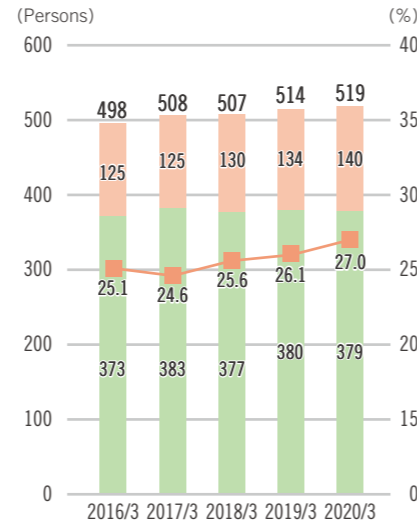
### CO<sub>2</sub> Emissions



### Water Pollution Load (COD)



### Composition of Work Force



■ Takahagi Plant  
■ Kurihama Plant  
■ Central Research / CMC Laboratories  
■ Head Office

● Takahagi Plant  
● Kurihama Plant  
● Central Research / CMC Laboratories

■ Males  
■ Females  
■ Percentage of Female Employees

# OVERSEAS SUBSIDIARIES

## Associates of Cape Cod, Inc. (Massachusetts, USA)

Associates of Cape Cod, Inc. (ACC), a wholly owned subsidiary of Seikagaku, was the first FDA-licensed LAL manufacturer. It was established in 1974, became a Seikagaku subsidiary in 1997, and currently plays a central role in the global Bacterial Endotoxin Testing (BET) and clinical glucan detection sectors. ACC employs approximately 230 employees and has operations in the U.K. and Germany.

ACC's reagent production facility, located at their campus in Falmouth Technology Park in Massachusetts, is vertically integrated with an end-to-end manufacturing operation that extends from harvesting horseshoe crab blood cells, a reagent raw material, to manufacturing, testing, packaging/labeling and distributing endotoxin and glucan in vitro diagnostic agents. From that location, ACC also offers customers in-house contract testing services for BET and clinical glucan product testing.

### Corporate Outline (As of March 31, 2020)

Paid-in Capital	\$2,080
Ownership Ratio	100%
Business	Manufacturing and sales of endotoxin-detecting reagents
URL	<a href="https://www.acciusa.com">https://www.acciusa.com</a>



## Dalton Chemical Laboratories, Inc. (Ontario, Canada)

Dalton Chemical Laboratories, Inc., which became a Seikagaku subsidiary in March 2020, is a company that provides services including contract development and manufacturing (CDMO<sup>\*1</sup>) services for pharmaceutical companies, such as manufacturing of chemical synthetics and pharmaceutical ingredients as well as manufacturing process development. Dalton was established in 1986 and has a U.S. and Canadian GMP<sup>\*2</sup>-compliant manufacturing site for pharmaceuticals and other products in Ontario, Canada. Dalton currently has approximately 120 employees.

Seikagaku will utilize Dalton's chemical synthesis technologies and expertise in manufacturing process development in its new drug development, switch from outsourced manufacturing of chemical synthetics used for research and other purposes to in-house production by Dalton, and transfer manufacturing of investigational drugs and some Seikagaku products to Dalton.

<sup>\*1</sup> CDMO: Contract Development and Manufacturing Organization  
A business that supplies comprehensive services in drug development and manufacturing to pharmaceutical companies, including contract drug manufacturing, pharmaceutical formulation planning at the development stage, manufacturing of investigational drugs, and optimization of manufacturing conditions.

<sup>\*2</sup> GMP: Good Manufacturing Practice Standards for manufacturing control and quality control in manufacturing.

### Corporate Outline (As of March 31, 2020)

Paid-in Capital	CAD 49,800 thousand
Ownership Ratio	100% <sup>*3</sup>
Business	CDMO
URL	<a href="https://www.dalton.com/">https://www.dalton.com/</a>



<sup>\*3</sup> Dalton is a wholly owned subsidiary of SKK CANADA ENTERPRISES CORPORATION, an intermediate holding company established in Canada by Seikagaku.

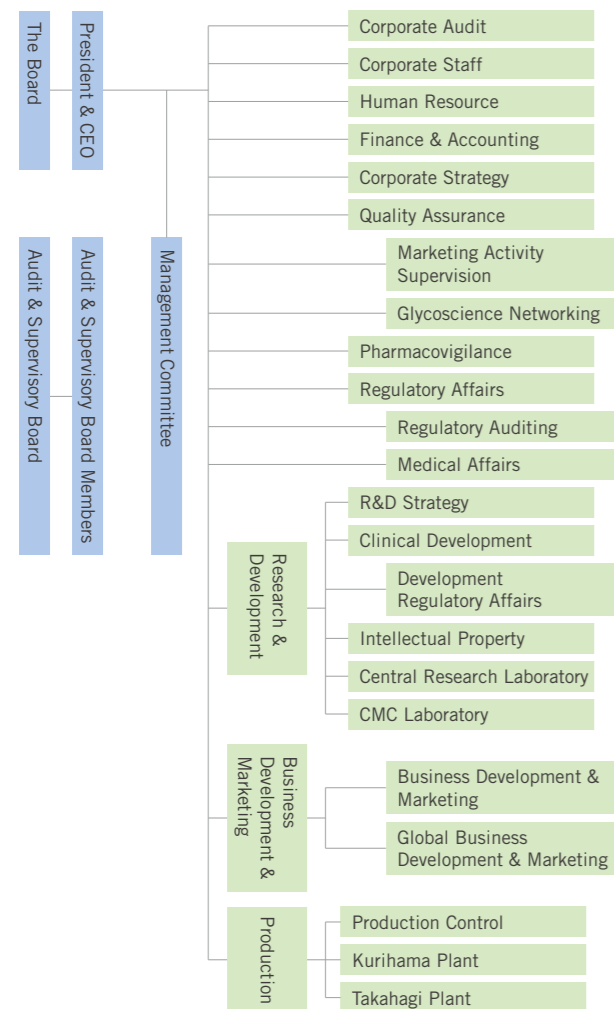


# CORPORATE DATA

## Overview (As of March 31, 2020)

Company Name	SEIKAGAKU CORPORATION
President	Ken Mizutani
Establishment	June 2, 1947
Business Activities	Manufacturing and sales of pharmaceuticals and medical devices specifically related to glycoconjugates
Fiscal Year	April 1 to March 31
Stock Exchange Listing	Tokyo Stock Exchange, First Section (Stock code: 4548)
URL	https://www.seikagaku.co.jp/en/
Number of Employees	868 (Consolidated)
Paid-in Capital	¥3,840 million
Net Sales	¥28,642 million (As of March 31, 2020)

## Organization Chart (As of October 1, 2020)



- General Marketing Compliance Manager
- Quality Assurance Manager
- Safety Management Manager

## Locations

**Head Office**  
Marunouchi Center Building  
6-1, Marunouchi 1-chome  
Chiyoda-ku  
Tokyo 100-0005, Japan  
Tel: (81) 3-5220-8950

**Central Research Laboratory/ CMC Laboratory**  
1253, Tateno 3-chome  
Higashiyamato-shi  
Tokyo 207-0021, Japan  
Tel: (81) 42-563-5811

**Kurihama Plant**  
3-1, Kurihama 9-chome  
Yokosuka-shi  
Kanagawa 239-0831, Japan  
Tel: (81) 46-835-3311

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

## Major Subsidiary

### ASSOCIATES OF CAPE COD, INC.

124 Bernard E. Saint Jean Drive, East Falmouth  
MA 02536-4445 U.S.A.  
Tel: (1) 508-540-3444

### DALTON CHEMICAL LABORATORIES, INC.

349 Wildcat Rd. Toronto, ON M3J 2S3  
CANADA  
Tel: (1) 416-661-2102 / (1) 800-567-5060

# STOCK INFORMATION

## Stock Information (As of March 31, 2020)

Shares per Unit	100
Authorized Shares	234,000,000
Authorized Outstanding Shares	56,814,093
Number of Shareholders	9,939
General Shareholders' Meeting	June
Date of Record for Shareholders Eligible to Receive Dividends	March 31

## Shareholder Registry Administrator

Mitsubishi UFJ Trust and Banking Corporation

<Contact>

Mitsubishi UFJ Trust and Banking Corporation  
Securities Agency Division  
PO Box 29, New Tokyo Post Office, Tokyo 137-8081  
Tel: 0120-232-711 (Domestic toll-free)

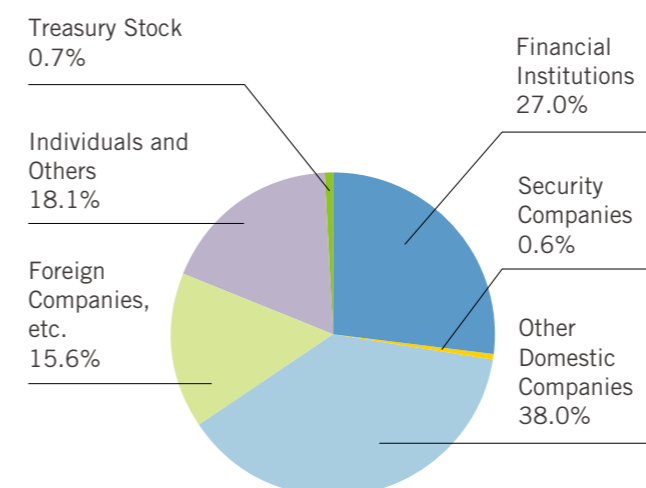
## Major Shareholders (As of March 31, 2020)

Name of Shareholders	Number of Shares Held (Thousands of Shares)	Percentage of Outstanding Shares (%)
1 Shingyo KK	7,843	13.9
2 KK Kaiseisha	7,293	12.9
3 The Master Trust Bank of Japan, Ltd. (Trust account)	3,679	6.5
4 Trust & Custody Services Bank, Ltd. as Trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co, Ltd.	1,973	3.5
5 Japan Trustee Services Bank, Ltd. (Trust account 9)	1,843	3.3
6 MUFG Bank, Ltd.	1,536	2.7
7 The Bank of New York Mellon (International) Limited 131800	1,491	2.6
8 Japan Trustee Services Bank, Ltd. (Trust account)	1,310	2.3
9 Kaken Pharmaceutical Co., Ltd.	1,207	2.1
10 Mizutani Foundation for Glycoscience	828	1.5

Note: Treasury stock (397 thousand shares) is excluded from the calculations of the percentages above.

## Breakdown of Shareholders by Type

(As of March 31, 2020)



## Corporate Logo



The main motif of Seikagaku's corporate logo is a chain, which symbolizes our decades-long commitment to sugar chain R&D. The closely interlocked links represents the strong bonds that exist between science and industry, between people and people, and between a rich natural environment and an enriching life. The links also symbolize Seikagaku's emphasis on partnership with society.

The overall shape of the logo as an oval stretched toward the upper right represents Seikagaku's corporate stance of aiming for infinite growth.

The blue brand color in the corporate logo symbolizes creativity and innovation, while the black projects an impression of strength.