

A Message from the President



President Shirow Enoki

Business Results

The results for the year ended March 31, 2001 show reductions in both sales and income compared with the previous year's figures.

Consolidated net sales fell by 11.7% to ¥19,450 million, while net income was 36.5% lower at ¥1,633 million.

A major reason for this trend was the impact on sales of pharmaceutical products by reduction in the Japanese Health Insurance System's reimbursement prices, in April 2000. Other factors were a decline in royalty income and the low value of the euro, which affected the sales of our U.S. consolidated subsidiary, Associates of Cape Cod, Inc. (ACC).

However, we were encouraged by the increase of overseas sales of pharmaceuticals and medical devices. We also found new customers for our pharmaceutical bulk products, which have been an important area of activity for Seikagaku Corporation ever since its establishment. Unfortunately, these positive factors were not sufficient to offset the overall decline in sales.

Profit came under pressure not only from the fall in sales, but also from a temporary rise in production costs, due in part to investment in increased manufacturing capacity for pharmaceutical products. There was also an extraordinary cost item resulting from a change in accounting standards with regard to retirement benefit reserves.

Outlook

We are predicting a continuation of the downward trend, with net sales of ¥18,600 million and net income of ¥1,700 million, in the year to March 31, 2002. These forecasts mirror intense competition in the market for sodium hyaluronate formulations, which is a core area for us. They also reflect the prospect of slower sales of research biologicals and pharmaceutical bulk for use in over-the-counter medications, due to the slowdown in the Japanese economy.

The issue of general reform is under consideration by the Diet against the background of rising national healthcare spending.

Reimbursement pricing systems are now being examined as part of the general reform discussions, with any revisions expected to be implemented by April 2002. Although the form of these revisions is as yet unclear, the trends hint at the harshness of the situation for the pharmaceutical industry. As market opening progresses, we face an escalation of keen competition with overseas manufacturers on a global basis.

Our strategy in this environment calls for emphasis on medium-term goals. This includes protecting the high market share of the joint function improvers (principally for knee joints), ARTZ® and ARTZ Dispo® in Japan, promoting the sales of the same products abroad, especially in the U.S. under the brand name SUPARTZ™ and improving ACC's performance.

The revision of the reimbursement price for prescription pharmaceuticals will be implemented in April 2002, which may cause a reduction in the prices of our products, then we will face a severe and increasingly competitive market. We will respond to this challenge by working closely with Kaken Pharmaceutical Co., Ltd., which is the sales company for ARTZ® and ARTZ Dispo®, to maintain the market share of these important products. ARTZ® and ARTZ Dispo® were pioneering products in their field, and over 100 million packs have been sold. Marketing efforts will emphasize the safety and effectiveness of ARTZ® and ARTZ Dispo® and the extensive scientific knowledge that led to their development.

We will also work with Santen Pharmaceutical Co., Ltd., the sales company for OPEGAN® and OPEGAN Hi®. Our ambitions for OPEGAN® and OPEGAN Hi® call for the use of technical data to promote OPEGAN's advantages as the best-suited ophthalmic surgical aid for cataract surgery. In this way we hope to maintain our market share and attract new users.

The Japanese domestic market has basically reached maturity, and overseas sales will therefore be an important focus for Seikagaku's efforts to achieve growth in the future. We see sales of SUPARTZ™ in the U.S. market as the key to that strategy, and we intend to channel our efforts into expansion of sales there.

Based on sodium hyaluronate, SUPARTZ™ is used to improve knee-joint functions. It went on sale in Europe and Canada under a sales licensing agreement signed with the U.S. company Smith & Nephew, Inc. (S&N) in January 1999. In April 2001, the product was also launched in the United States, which might become the world's largest market, following its approval by the FDA. SUPARTZ™ will benefit from S&N's global marketing expertise in the field of medical devices for the orthopedic field. S&N plans to expand the business and will promote SUPARTZ™ strongly. Two competitors have already entered into the U.S. market, where sales of sodium hyaluronate formulations for joint