

# SEGMENT REVIEW

## RECENT NEWS AFFECTING PRODUCT SALES

Smith & Nephew (S&N), our sales partner in the U.S., grew SUPARTZ® sales dramatically. To support strong sales growth, S&N is continuing to expand its Clinical Therapies Group, the sales organization that handles SUPARTZ®. In March 2005, it upgraded the Group, to an independent division. As the product's developer, Seikagaku closely supports these activities, including the provision of scientific information. S&N's timely response to SUPARTZ® potential assures more agile and thorough marketing activities that will add impetus to growth.

A shift to new sales partners brought sales growth in Italy and China. In Taiwan, however, although revenues increased, numerous competing products appeared and slowed the growth of our products. In Austria, a key European market, all hyaluronic acid preparations were excluded from eligibility for medical insurance reimbursements. This was reflected in a downward trend in sales, and the outlook there is discouraging.

In 2005, we received approval for a new indication for ARTZ® and ARTZ Dispo® in Japan for the relief of knee pain caused by chronic rheumatoid arthritis, giving us a new competitive advantage over other products. Also, the majority of patients for joint improver formulations are elderly, and because this segment of the population is growing in Japan, we anticipate a continued rise in sales. In cooperation with Kaken Pharmaceutical, Co., Ltd., our products here enjoy the longest sales and highest share in their class, and we offer excellent support, including extensive scientific information.

For our other major product in Japan, OPEGAN® and OPEGAN Hi®, the ophthalmic surgical aid for cataract surgery, we also expect sales volumes to grow in step with the expanding aged population. Strong and timely sales promotion in cooperation with Santen Pharmaceutical Co., Ltd. has brought OPEGAN® products market leadership in monthly sales from December 2004 to the most recent month surveyed.

SHARE OF NET SALES	NET SALES	COMMENT
<b>Pharmaceuticals and Medical Devices</b>  <b>71.3%</b>	(Millions of Yen) '01/3 14,143 '02/3 13,718 '03/3 14,816 '04/3 14,495 '05/3 16,094	Japanese deliveries during the year under review of Seikagaku's largest-selling products, the joint function improvers ARTZ® and ARTZ Dispo®, rose 6% to the 12-million unit range. Total overseas exports of ARTZ®/SUPARTZ® products rose by 55% to ¥3,209 million, driven mainly by growth of U.S. sales of SUPARTZ® and sales-partner inventory expansion. The overseas sales ratio in pharmaceuticals rose 5.6 percentage points to 19.9%. Taking advantage of sales changes by the market leader Seikagaku and Santen Pharmaceutical cooperated to raise combined unit deliveries of OPEGAN® and OPEGAN Hi® by 8.5%. Consolidated net sales in the Pharmaceuticals and Medical Devices sectors rose by 11.0% from the previous fiscal year to ¥16,094 million.
<b>Research Biologics and Diagnostics</b>  <b>18.8%</b>	(Millions of Yen) '01/3 2,900 '02/3 3,302 '03/3 3,830 '04/3 4,039 '05/3 4,232	Consolidated sales in this sector increased by 4.8% to ¥4,232 million. Sales of test kits for detection of food-allergy causing materials remained steady, while sales of insulin assay reagent continued to expand. Increasing sales of Contract Testing Services (CTS) for endotoxin testing carried out by ACC, our subsidiary in the U.S., and rising sales in Europe was a major contributor to this growth.
<b>Bulk Products</b>  <b>7.1%</b>	(Millions of Yen) '01/3 1,724 '02/3 1,666 '03/3 1,529 '04/3 1,541 '05/3 1,597	Bulk sales of hyaluronic acid for medical use have been increasing steadily. Demand for chondroitin sulfate from ophthalmology increased. However, sales for injections were constrained by a transition from bovine-based stocks to fish-based materials, to allay concern over BSE, reducing overall sales. Growth is now expected to resume. Consolidated sales in this segment increased by 3.6% to ¥1,597 million.
<b>Others</b>  <b>2.8%</b>	(Millions of Yen) '01/3 682 '02/3 437 '03/3 654 '04/3 669 '05/3 642	Consolidated sales for this segment, which includes skin creams, ingredients for dietary supplements and royalties fell by ¥27 million, to ¥642 million, a decline of 4.1%.