

## SEGMENT REVIEW

### Recent News Affecting Product Sales

In the U.S., sales of SUPARTZ® rose by approximately 30%, and inventory accumulation by Smith & Nephew, our sales partner in the U.S., increased our export sales accordingly. In July 2006, the U.S. Medicare Part B program (which nominally covers SUPARTZ® treatment) was modified with the aim of reducing Medicare costs. At this early date, little can be said about the impact on sales of SUPARTZ®. We will continue to monitor the progress of this important reform.

Despite growth in China and Italy, overseas sales of ARTZ®-series products outside of the U.S. declined 19.5% due to the ongoing impact of growing competition in Taiwan and the exclusion of hyaluronic acid formulation for medical insurance reimbursement in Austria. Worldwide, ARTZ®-series products are now approved for sale in 22 countries. The latest are Australia and New Zealand, where sales began in February 2006. Total

overseas export sales of ARTZ®-series products was ¥3,772 million in the year ended March 2006.

In Japan, where a growing elderly population points to a steady expansion for ARTZ®-series products, total market unit deliveries grew by 6.7% in the year ended March 2006.

Our unit deliveries of ARTZ® and ARTZ Dispo® to medical institutions in this environment rose 4.0%.

For the year ending March 2007, with our sales partner, Kaken Pharmaceutical Co., Ltd., we will aggressively promote sales to offset the NHI reimbursement price reduction of approximately 9%.

For the first time, OPEGAN® and OPEGAN Hi®, our ophthalmic surgical aid for cataract surgery earned share leadership in Japan for 12 consecutive months (April 2005–March 2006), following strong and timely sales promotion with sales partner Santen Pharmaceutical Co., Ltd.

SHARE OF NET SALES	NET SALES	COMMENT
<b>Pharmaceuticals and Medical Devices</b>  <b>73.2%</b>	(Millions of Yen) '02/3 13,718 '03/3 14,816 '04/3 14,495 '05/3 16,094 '06/3 16,946	<p>Japanese deliveries to medical institutions during the year under review of Seikagaku's largest-selling products, the joint-function improves ARTZ® and ARTZ Dispo®, rose 4% to the 12.5-million unit level. However, actual sales for Seikagaku remained the same as the previous year partly due to obligatory discounts anticipating the NHI reimbursement price reduction in April 2006.</p> <p>As described above, total overseas exports of ARTZ®/SUPARTZ® products rose nearly 18% to ¥3,772 million, highlighted by 30% growth in the U.S. sales of SUPARTZ® and sales-partner inventory expansion.</p> <p>Strong efforts with Santen Pharmaceutical unit deliveries of OPEGAN® and OPEGAN Hi® to medical institutions increased by 13.9% and captured the top full-year market share.</p> <p>Consolidated net sales in the Pharmaceuticals and Medical Devices segment rose by 5.3% from the previous fiscal year to ¥16,946 million.</p>
<b>Research Biologics and Diagnostics</b>  <b>17.9%</b>	(Millions of Yen) '02/3 3,302 '03/3 3,830 '04/3 4,039 '05/3 4,232 '06/3 4,132	<p>Consolidated sales in this segment declined by 2.4% to ¥4,132 million. Sales of test kits for detection of food-allergy causing materials remained steady. Sales of insulin assay reagent continued to expand. Sales of Contract Testing Services (CTS) for endotoxin testing carried out by ACC, our subsidiary in the U.S., declined as customers changed to in-house testing.</p>
<b>Bulk Products</b>  <b>7.0%</b>	(Millions of Yen) '02/3 1,666 '03/3 1,529 '04/3 1,541 '05/3 1,597 '06/3 1,627	<p>Consolidated sales in this segment increased by 1.9% to ¥1,627 million. Bulk sales of hyaluronic acid for medical use have been increasing steadily. Sales of chondroitin sulfate for medical use (injections) decreased, but was covered by a boom in sales for use in health food supplements.</p>
<b>Others</b>  <b>1.9%</b>	(Millions of Yen) '02/3 437 '03/3 654 '04/3 669 '05/3 642 '06/3 439	<p>Consolidated sales for this segment, which includes skin creams, ingredients for dietary supplements and royalties, fell by ¥203 million, to ¥439 million, a decline of 31.6%.</p>