



Santen Pharmaceutical Co., Ltd.
Financial Performance and Outlook
Year Ended March 31, 2003

May 12, 2003
Investor Meeting

(A Caution Concerning Forward-Looking Statements)

Forecasts of future business results are based on the judgment of the management of Santen using information currently available. Actual results may differ materially from forecasts due to a number of factors, including but not limited to changes in the business environment, launch of new products, fluctuations in exchange rates and changes in related laws and regulations.

Financial Performance and Outlook

Year Ended March 31, 2003

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Note: All amounts have been rounded down to the nearest hundred million yen (hundred thousand yen on pages 9, 11, 28 and 30). For year-on-year comparison rates, amounts before rounding down have been used for calculation, and results are then rounded to one decimal.

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Summary of the Year Ended March 31, 2003



Summary of Year Ended March 31, 2003 (1)

- Market environment of prescription pharmaceuticals, which accounts for 80% of Santen's total sales
 - ◆ Reimbursement prices reduced (April 2002)
 - Drug price of Santen products: -6.0%
 - ◆ Revision of prescription fee (April 2002)
 - +2 points for every prescription of generic drugs
 - ◆ Increased contribution for seniors (October 2002)
 - Fixed amount system abolished. Fixed rate system of 10% contribution (20% for nationals of higher income) introduced

- Santen's Basic Concept
 - ◆ Improve new drug development capabilities and cost competitiveness in addition to Santen's existing strength in sales and marketing
 - ◆ Shift focus from sales size to profitability



Summary of the Year Ended March 31, 2003 (2)

● Major Policies

◆ Japanese Prescription pharmaceuticals business

- Concentrate resources on growth areas
- Further reinforce value-added information provision and marketing capabilities

◆ U.S. prescription pharmaceuticals business

- Increase sales through market penetration of *Quixin* brand
- Reinforce management structure (April 2002)

◆ Research & development

- Accelerate new drug development (especially for 3 glaucoma treatments)
- Enhance pipeline of new drug candidates by concentrated resource allocation

● Profits

- 1.4% growth in net sales
- Decrease cost of sales, control increase of selling, general and administrative expenses → up 7.7% in operating income



Consolidated Performance Summary



Consolidated Performance Summary

(100 million yen)

	Year ended March 31, 2002 Actual	Year ended March 31, 2003		
		Actual	Change from previous year	% change from previous year
Net sales	889	902	13	1.4 %
Cost of sales	326	322	-4	-1.3 %
Selling, general and administrative expenses	444	452	8	1.8 %
Operating income	117	126	9	7.7 %
Non-operating income	3	2	-1	-
Ordinary income	121	128	7	6.5 %
Extraordinary gain/loss	5	-29	-34	-
Income taxes	73	14	-59	-80.4 %
Net income	53	85	32	60.3 %



Sales by Division

(100 million yen)

	Year ended March 31, 2003					
	Japan		Overseas		Total	
	Net sales	Change from previous year	Net sales	Change from previous year	Net sales	Change from previous year
Prescription pharmaceuticals	720.1	-0.4 %	73.3	24.8 %	793.4	1.5 %
Ophthalmic	640.0	-0.6 %	71.1	26.6 %	711.2	1.5 %
Anti-rheumatic	75.3	5.3 %	0.9	-	76.3	4.7 %
Others	4.6	-32.7 %	1.2	-	5.9	-27.4 %
OTC pharmaceuticals	56.2	-14.2 %	0.3	-	56.5	-14.2 %
Medical devices	8.5	1.7 %	0.6	-	9.1	0.3 %
Others	12.4	26.8 %	30.8	32.7 %	43.3	30.9 %
Total	797.3	-1.1 %	105.1	26.5 %	902.5	1.4 %



Sales of Major Prescription Ophthalmic Products in Japan

(100 million yen)

Indication	Brand name	Year ended March 31, 2002		Year ended March 31, 2003	
		Actual	Change from previous year	Actual	Change from previous year
Anti-infective ophthalmics	Cravit	123	44.4 %	126	2.9 %
	Tarivid	71	-38.3 %	55	-22.5 %
	Total (2 products)	194	-3.3 %	181	-6.5 %
Glaucoma treatments	Timoptol	57	-9.7 %	52	-7.9 %
	Timoptol-XE	21	31.3 %	24	15.4 %
	Detantol	5	—	14	152.6 %
	Pivalephrine	8	-25.3 %	6	-25.9 %
	Total (4 products)	93	2.2 %	98	6.0 %
Corneal disorder treatments	Hyalein	121	12.8 %	131	8.5 %
Anti-allergy ophthalmics	Livostin	22	84.8 %	30	36.1 %
	Alegysal	8	-14.9 %	8	-2.0 %
	Zaditen	1	-96.5 %	0	—
	Total (3 products)	31	-53.1 %	38	19.0 %



Overseas Sales/Sales of Prescription Ophthalmic Products in the U.S

【Overseas sales】

(100 million yen)

	Year ended March 31, 2002 Actual	Year ended March 31, 2003		
		Actual	Change from previous year	% change from previous year
Europe	30.0	35.0	5.0	16.5 %
North America	34.9	46.4	11.5	32.9 %
Others	18.0	23.6	5.6	30.7 %
Total	83.1	105.1	22.0	26.5 %

【U.S. ophthalmic sales by product】

(100 million yen)

Brand name	Indication	Year ended March 31, 2002 Actual	Year ended March 31, 2003		
			Actual	Change from previous year	% change from previous year
Quixin	Infection	5.4	13.9	8.5	156.7 %
Alamast	Allergy	2.0	1.9	-0.1	-3.9 %
Betimol	Glaucoma	8.9	8.5	-0.4	-4.0 %
Total (3 products)		16.4	24.5	8.1	49.3 %



Performance by Geographic Region

【 Sales 】

(100 million yen)

	Year ended March 31, 2002 Actual	Year ended March 31, 2003		
		Actual	Change from previous year	% change from previous year
Japan	826	818	-8.0	-0.9 %
Europe * ¹	48	66	18.0	37.1 %
Others * ²	14	17	3.0	17.0 %
Total	889	902	13.0	1.4 %

【 Operating income 】

(100 million yen)

	Year ended March 31, 2002 Actual	Year ended March 31, 2003		
		Actual	Change from previous year	% change from previous year
Japan	188	206	18	9.4 %
Europe * ¹	-33	-38	-5	-
Others * ²	-4	-10	-6	-
Elimination	(32)	(30)	2	-
Total	117	126	9	7.7 %

*1 Europe includes sales and expenses of the U.S. ophthalmic business.

*2 Sales of other regions include contract manufacturing of anti-infective otic pharmaceuticals. Expenses of other regions include R&D expenses of medical devices. 12



Summary of Changes in Income Statements (1)

(100 million yen)

	Year ended March 31, 2002 Actual	Year ended March 31, 2003		Major factor for change
		Actual	Change from previous year	
Cost of sales (% of net sales)	326 36.8%	322 35.7%	-4 -1.1 ppt	<ul style="list-style-type: none"> • Decreased lease expenses • Cost reduction
Selling, general and administrative expenses (% of net sales)	444 50.0%	452 50.2%	8 0.2 ppt	
Research & Development (% of net sales)	121 13.7%	127 14.1%	6 0.4 ppt	<ul style="list-style-type: none"> • Enhanced R&D of glaucoma • Increased R&D expenses for medical devices
Others (% of net sales)	323 36.3%	325 36.1%	2 -0.2 ppt	<ul style="list-style-type: none"> • Increased sales expenses in Europe and U.S. • Decreased sales expenses in Japan



Summary of Changes in Income Statements (2)

(100 million yen)

	Year ended March 31, 2002	Year ended March 31, 2003		Major factor
		Actual	Change from previous year	
Non-operating income/expenses	3	2	-1	
Extra-ordinary gain/loss	5	-29	-34	<ul style="list-style-type: none">• Special premium payment upon secession from pension fund (2.2 billion yen)• Revaluation loss of investment securities (0.6 billion yen)
Income taxes	73	14	-59	<ul style="list-style-type: none">• Decrease in income taxes (5 billion yen) due to revaluation loss of a subsidiary's shares

Note: Revaluation loss (11.6 billion yen) of shares of the European holding company due to the company's liquidation was appropriated in the non-consolidated extraordinary loss. The loss is offset and eliminated in consolidated income statements.



Summary of Balance Sheets (1)

(100 million yen)

	March 31, 2002		March 31, 2003		
	Actual	% of total assets	Actual	% of total assets	Change
Current assets	860	56.6 %	834	56.7 %	-26
Fixed assets	660	43.4 %	637	43.3 %	-23
Total assets	1,521	100.0 %	1,471	100.0 %	-50

【Major changes】

- Current assets: trade receivables (decreased 6.9 billion yen)
 Financial institutions were closed on March 31, 2002, which resulted in an increase in accounts receivable, while March 31, 2003 was a working day.
Marketable securities (increased 3.6 billion yen)
 Increased commercial paper (2.5 billion yen)
- Fixed assets: building and structures (increased 1.7 billion yen)
 Transferred from the construction in progress into buildings and structures upon the completion of the Nara Research & Development Center expansion
Construction in progress (decreased 3.2 billion yen)
 Lease contract of Noto Plant manufacturing facilities (1.6 billion yen)
 Transfer of expenses for Nara Research & Development Center expansion (1.1 billion yen)



Summary of Balance Sheets (2)

(100 million yen)

	March 31, 2002		March 31, 2003		
	Actual	% of total	Actual	% of total	Change
Current liabilities	263	17.3 %	396	26.9 %	133
Noncurrent liabilities	306	20.2 %	103	7.1 %	-203
Total liabilities	570	37.5 %	500	34.0 %	-70
Common stock	62	4.1 %	62	4.2 %	0
Capital surplus reserves	69	4.5 %	69	4.7 %	0
Retained earnings	838	55.2 %	905	61.5 %	67
Total shareholders' equity	951	62.5 %	971	66.0 %	20
Total liabilities and shareholders' equity	1,521	100.0 %	1,471	100.0 %	-50

【Major changes】

- Current liabilities: current portion of convertible bonds (increased 19.9 billion yen)
- Non-current liabilities: convertible bonds (decreased 19.9 billion yen)
Transferred from non-current liabilities to current liabilities because the bonds are to be redeemed on September 30, 2003.



Capital Expenditures / Depreciation and Amortization / Lease Expenses

(100 million yen)

	Year ended March 31, 2002 Actual	Year ended March 31, 2003	
		Actual	Change
Capital expenditures	85	41	-44
Depreciation and amortization	38	36	-2
Lease expenses	18	6	-12

● Major changes in capital expenditures

- (Decrease)
 - Expansion of of Noto Plant and Shiga Plant manufacturing facilities (4.6 billion yen)
 - Subsidiaries (700 million yen)
- (Increase)
 - Expansion of Nara Research & Development Center (1.4 billion yen)

● Major items of capital expenditures for the year ended March 31, 2003

- New prescription pharmaceuticals bottles that are easier to use and recognize, and enables improved production efficiency
→ Renewal of Noto Plant and Shiga Plant manufacturing lines
- Expansion of Nara Research & Development Center (completed November 2002)



Changes in Clinical Development Status from November 2002



【Progress】

- ① Levofloxacin 1.5% (high concentration anti-infective)
NDA Filed in the U.S. in April 2003
 - Bacterial corneal ulcer

- ② DE-092 [glaucoma and ocular hypertension]
Started Phase II clinical trials in Japan
 - Angiotensin II receptor antagonist

- ③ DE-089 [dry eye]
Started Phase II clinical trials in Japan
 - Dry eye treatment which facilitates secretion of lacrimal components and water from epithelial cells of conjunctiva and cornea



【Changed test method】

① Hyalein (U.S.) [dry eye]

Phase III → Preparing for Phase II clinical trials

【Discontinued】

① Hyalein (U.K.) [dry eye]

② ADL2-1294 [corneal pain]



【Glaucoma treatments in pipeline】

- ① DE-085 Phase II in Japan; Phase II in the U.S.
 - Prostaglandin-based glaucoma treatment (reduces intra-ocular pressure)

- ② DE-092 Phase II in Japan
 - See p.19

- ③ DE-090 (lomerizine hydrochloride) Phase II in Japan
 - Oral administration glaucoma tablets with calcium antagonizing activity
 - Currently sold by Nippon Organon as a migraine treatment



Business Outlook for the Year Ending March 31, 2004



Business Outlook for the Year Ending March 31, 2004 (1)

- Market environment of Santen's core prescription pharmaceuticals business
 - ◆ Increase in contribution for insured employees (20% → 30%) (April 2003)

- Medium-term Management Plan 2003-2005
Action plans for year ending March 31, 2004
 - ◆ Restoration of profitability
 - ① Early profitability of U.S. operation
 - Implementation of sales and marketing alliance [Status] Negotiations currently underway
 - ② Reduction of expenses
 - Raise manufacturing efficiency by the introduction of new eye drops bottles (Dimple Bottles)
 - Establish cross-divisional Cost Structure Reform Committee to control and reduce expenses
 - ③ Maintenance and improvement of domestic earnings base
 - Concentrate resources on growth and strong areas of prescription pharmaceuticals; establish and introduce sales force support system



Business Outlook for the Year Ending March 31, 2004 (2)

● Medium-term Management Plan 2003-2005

Action plans for the year ending March 31, 2004

◆ Strengthening of R&D

① Accelerating new product development

- Prioritize development projects
- Shift personnel from research sections to clinical development sections

② Focused resource allocation

- Concentrate resources on promising research themes, particularly for glaucoma treatments
- Share know-hows between the rheumatic/osteoarthritic research and a part of ophthalmic research
→ Organization changed from Rheumatoid Arthritis Group into Discovery and Pharmacology Group (implemented in May 2003)



Business Outlook for the Year Ending March 31, 2004 (3)

- Medium-term Management Plan 2003-2005
Action plans for the year ending March 31, 2004
 - ◆ Reinforcement of organizational strength
 - ① Strengthening of corporate governance
 - Appoint outside director; shorten directors' office terms from two years to one year
 - ② Employee education and enhancement of organizational management capabilities
 - Enhance employees' competency; reform operation processes
 - Introduce a career development support system
 - Continue the in-house business school, Santen Innovation Project (start activities of the 4th term this year)
- Forecasts for financial performance
 - Modest increase in net sales
 - Decrease in cost of sales; control of selling, general and administrative expenses
 - Increase in operating income



Forecasts for the Year Ending March 31, 2004



Consolidated Performance Forecast

(100 million yen)

	Year ended March 31, 2003 Actual	Year ending March 31, 2004		
		Forecast	Change from previous year	% change from previous year
Net sales	902	908	6	0.6 %
Cost of sales	322	316	-6	-2.1 %
Selling, general and administrative expenses	452	459	7	1.5 %
Operating income	126	133	7	4.7 %
Non-operating income/expenses	2	15	13	-
Ordinary income	128	148	20	15.0 %
Extraordinary gain/loss	-29	-11	18	-
Income taxes	14	69	55	377.8 %
Net income	85	68	-17	-20.0 %



Sales Forecast by Division

(100 million yen)

	Year ending March 31, 2004					
	Japan		Overseas		Total	
	Sales	Change from previous year	Sales	Change from previous year	Sales	Change from previous year
Prescription pharmaceuticals	718.9	-0.2 %	82.6	12.6 %	801.6	1.0 %
Ophthalmic	637.3	-0.4 %	80.6	13.4 %	718.0	1.0 %
Anti-rheumatic	78.5	4.2 %	1.1	-	79.7	4.4 %
Others	3.0	-34.2 %	0.8	-	3.9	-34.1 %
OTC pharmaceuticals	55.5	-1.3 %	0.1	-	55.7	-1.5 %
Medical devices	9.0	5.9 %	0.9	-	10.0	8.8 %
Others	12.9	3.5 %	27.8	-9.9 %	40.7	-6.0 %
Total	796.4	-0.1 %	111.5	6.1 %	908.0	0.6 %



Sales of Major Prescription Ophthalmic Products in Japan

(100 million yen)

Indication	Brand name	Year ended March 31, 2003		Year ending March 31, 2004	
		Actual	Change from previous year	Forecast	Change from previous year
Anti-infective ophthalmics	Cravit	126	2.9 %	129	1.8 %
	Tarivid	55	-22.5 %	49	-10.5 %
	Total (2 products)	181	-6.5 %	179	-2.0 %
Glaucoma treatments	Timoptol	52	-7.9 %	48	-7.5 %
	Timoptol-XE	24	15.5 %	26	8.6 %
	Detantol	14	152.6 %	20	37.5 %
	Pivalephrine	6	-25.9 %	6	-4.5 %
	Total (4 products)	98	6.0 %	102	3.5 %
Corneal disorder treatments	Hyalein	131	8.5 %	133	1.7 %
Anti-allergy ophthalmics	Livostin	30	36.1 %	34	13.6 %
	Alegysal	8	-2.0 %	8	0.2 %
	Total (2 products)	38	25.4 %	42	10.7 %



Overseas Sales/Sales of Prescription Ophthalmic Products in the U.S.

【Overseas sales】

(100 million yen)

	Year ended March 31, 2003 Actual	Year ending March 31, 2004		
		Forecast	Change from previous year	% change from previous year
Europe	35.0	37.5	2.5	7.2 %
North America	46.4	49.2	2.8	6.0 %
Others	23.6	24.6	1.0	4.4 %
Total	105.1	111.5	6.4	6.1 %

【U.S. ophthalmic sales by product】

(100 million yen)

Brand name	Indication	Year ended March 31, 2003 Actual	Year ending March 31, 2004		
			Forecast	Change from previous year	% change from previous year
Quixin	Anti-infective	13.9	18.4	4.5	31.5 %
Alamast	Anti-allergy	1.9	2.5	0.6	25.6 %
Betimol	Glaucoma	8.5	10.4	1.9	21.5 %
Total (3 products)		24.5	31.3	6.8	27.5 %



Summary of Changes in Income Statements (1)

	Year ended March 31, 2003 Actual	Year ending March 31, 2004		Major factor for change
		Forecast	Change from previous year	
Cost of sales (% of net sales)	322 35.7%	316 34.8%	-6 -0.9 ppt	<ul style="list-style-type: none"> • Improved productivity by the start of new bottle operation • Change in product mix • Result of cost reduction measures
Selling, general & administrative expenses (% of net sales)	452 50.2%	459 50.6%	7 0.4 ppt	
R&D expenses (% of net sales)	127 14.1%	130 14.3%	3 0.2 ppt	<ul style="list-style-type: none"> • Increased depreciation for the Nara R&D Center facilities • Decreased R&D expenses for medical devices
Others (% of net sales)	325 36.1%	329 36.3%	4 0.2 ppt	<ul style="list-style-type: none"> • Increased expenses due to the introduction of sales force support system



Summary of Changes in Income Statements (2)

(100 million yen)

	Year ended March 31, 2003 Actual	Year ending March 31, 2004		Major item of year ending March 31, 2004
		Forecast	Change from previous year	
Non-operating income/expenses	2	15	13	
Non-operating income	12	24	12	• maturity reimbursement of postal life insurance (1.7 billion yen)
Non-operating expenses	10	9	-1	
Extraordinary gain/loss	-29	-11	18	
Extraordinary gain	0	2	2	
Extraordinary loss	29	13	-16	• Sale and impairment of land (0.9 billion yen)
Income taxes	14	69	55	• Increase in income taxes



Capital Expenditures / Depreciation and Amortization / Lease Expenses

(100 million yen)

	Year ended March 31, 2003 Actual	Year ending March 31, 2004	
		Forecast	Change from previous year
Capital expenditures	41	39	-2
Depreciation and amortization	36	41	5
Lease expenses	6	7	1

- Major items of capital expenditures for the year ending March 31, 2004
 - Prescription pharmaceuticals
New bottles that are easier to use and recognize, and enable improved production efficiency
→ Renew manufacturing lines for the Noto Plant and Shiga Plant
- Major factor for the increase in depreciation and amortization for the year ending March 31, 2004
 - Start depreciation of the Nara Research & Development Center facilities