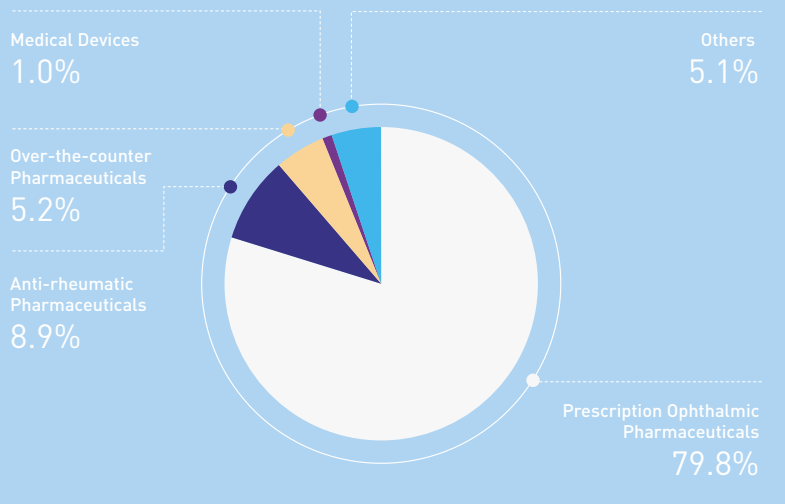


REVIEW OF OPERATIONS

SALES BY BUSINESS (Year ended March 31, 2004)

Net Sales: ¥89,858 Million



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| Business Area | Description of Business | Market Share ; Market Position |
|--|---|---------------------------------------|
| Prescription Pharmaceuticals | | |
| Ophthalmic Pharmaceuticals | <ul style="list-style-type: none"> Santen enjoys its position as the leader of the Japanese prescription ophthalmics market. We deploy some 400 medical representatives (MRs), the largest number in the industry, and our product lineup covers a broad array of ophthalmic disorders. Overseas, Santen markets levofloxacin ophthalmic solution (brand names: <i>Quixin</i>, <i>Oftaquin</i> and <i>Cravit</i>) and other products through a sales network in the United States, Europe and Asia. | 39.0% ; Number One ¹ |
| Anti-rheumatic Pharmaceuticals | <ul style="list-style-type: none"> In Japan, we offer <i>Rimatil</i> and <i>Azulfidine EN</i>, physicians' disease modifying anti-rheumatic drugs (DMARDs) of choice for treating rheumatoid arthritis. | 42.5% ; Number One ¹ |
| Over-The-Counter (OTC) Pharmaceuticals | <ul style="list-style-type: none"> Our OTC pharmaceuticals business consists of market-leading eye drop brands in Japan such as <i>Sante FX Neo</i>, the <i>Sante 40</i> series and the <i>Sante de U</i> series. | Approx. 20% ; Number Two ² |
| Medical Devices | <ul style="list-style-type: none"> In Japan, Santen handles medical devices used in cataract surgery, including intraocular lenses, phacoemulsification machines and surgical instruments. | — |

Notes: 1. Market share and market position in Japan for the year ended March 31, 2004. The share and position for anti-rheumatic pharmaceuticals represent those in the disease modifying anti-rheumatic drugs (DMARDs) segment. Source: Santen analysis based on IMS data. Copyright IMS Japan KK, 2004. Unauthorized Copy Prohibited.

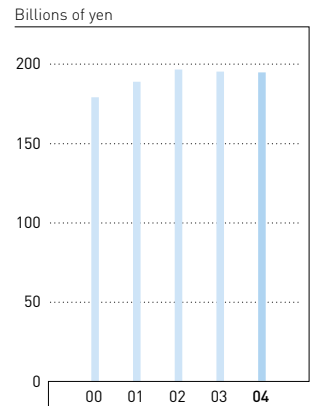
2. Market share and market position in the Japanese OTC eye drop market for the year ended March 31, 2004. Source: Santen Pharmaceutical Co., Ltd.

➔ Prescription Pharmaceuticals

Prescription Ophthalmic Pharmaceuticals



Prescription Ophthalmics Market in Japan



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 Source: Santen based on IMS data
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JAPAN

While the corneal disorder treatments segment showed stable growth during the year ended March 31, 2004, with an 11.6% increase over the previous year, the overall Japanese prescription ophthalmics market remained unchanged from the previous year. This market condition was influenced by such factors as fewer doctor visits due to increases in patient co-payments during 2002 and 2003, and a mild allergy season.

Santen continued to concentrate management resources on its key growth fields – corneal and conjunctival disorders, glaucoma and allergies – with a view to maintaining and improving our

domestic earnings base. We launched the Santen Activity Improved Navigator (SAIN) sales force automation system for medical representatives (MRs) and reorganized our sales locations nationwide in order to further improve the quality, as well as efficiency and agility, of our MRs' activities.

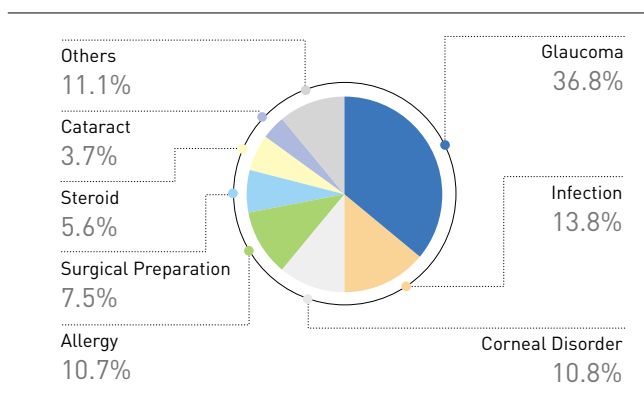
In our continuing efforts to plan and organize seminars and lectures tailored to healthcare professionals, we enjoyed a much higher attendance of medical personnel than had been targeted.

In the year ended March 31, 2004, the sales of corneal disorder treatment *Hyalein* continued to expand, showing a 6.4% increase from the previous fiscal year. However, the overall sales of prescription ophthalmic pharmaceuticals in Japan were ¥62,717 million, a decline of 2.0%, due to factors such as decreased sales of the anti-infectives *Cravit* and *Tarivid*, as well as the anti-allergy ophthalmic *Livostin*. Santen's share in the Japanese prescription ophthalmics market remained at 39.0%, a level unchanged from the previous year.

As we look to the future, competition in the Japanese ophthalmic pharmaceutical market is expected to intensify, with further market penetration of generic drugs along with increased competition from foreign pharmaceutical companies and the expected launch of competitive anti-infective and anti-allergy ophthalmic pharmaceutical products.

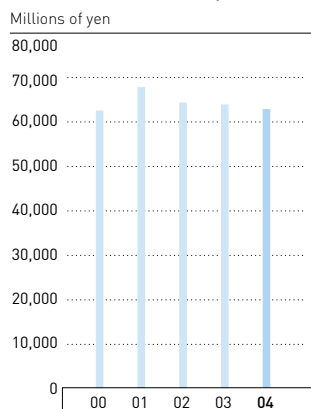
In keeping with current transitions in healthcare – such as the emphasis on evidence-based medicine (EBM) and the introduction of treatment guidelines for specific diseases – we are working to establish the "evidence" for our core products. At the same time, we are taking thorough countermeasures

Japanese Prescription Ophthalmics Market by Therapeutic Field
 Year ended March 31, 2004

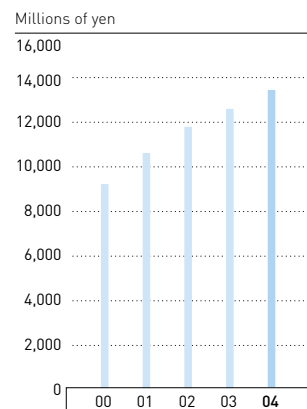


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Sales of Prescription Ophthalmic Pharmaceuticals in Japan



Sales of Hyalein



against competitors' key branded and generic products.

During the three years of the 2003-2005 Medium-term Management Plan, our domestic prescription pharmaceuticals sales team will work to strengthen our sales and marketing capabilities in preparation for new product launches scheduled for 2007 and forward. We will also strive to further enhance our relationships with healthcare professionals by providing them with our competitive products and services and develop-

ing an efficient, IT-based infrastructure to support such activities. Through these efforts, we are working to reinforce our current position as the "best partner of eye care professionals."



▲ The "Ninth Vision Times Seminar" sponsored by Santen at the 57th Congress of Clinical Ophthalmology of Japan in October 2003. This year's theme was "Regenerative Medicine."

CORNEAL DISORDER TREATMENTS

The market for corneal disorder treatments in Japan has been growing at an average annual rate of approximately 10% for the last few years. This growth is expected to continue in the future due to the increased use of personal computers, the increased number of contact lens wearers and an aging population. In addition, only two million of the estimated eight million dry eye patients in Japan currently receive treatment.

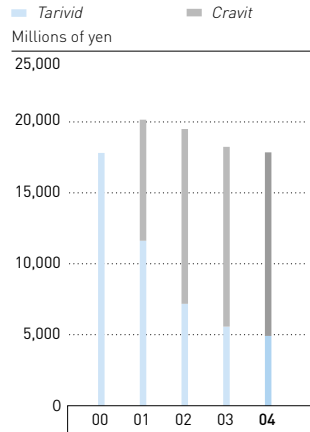
Santen's *Hyalein* is a highly water-retentive ophthalmic solution with viscoelasticity that works to increase the stability of the tear film, and has excellent effects for curing corneal and conjunctival epithelium disorders caused by dry eye and other factors. With a market share of over 80%, *Hyalein* is leading the growth of this market segment.

Sales of *Hyalein* for the year ended March 31, 2004 reached ¥13,409 million, up 6.4% from the previous year. This success is the result of our educational efforts targeting healthcare professionals and potential patients, as well as promotional activities emphasizing the ease of use of our new container *Dimple Bottle*.

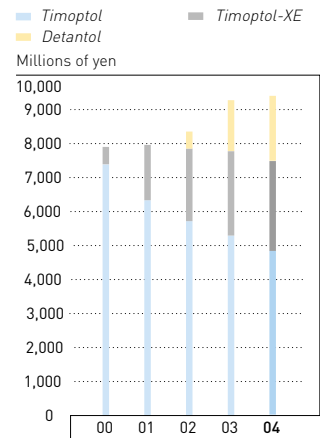
While the corneal disorder treatments market segment is growing, competition is expected to intensify in the future with the share of generic drugs gradually increasing. In the current fiscal year ending March 31, 2005, Santen is planning to implement strategies to target contact lens wearers.



Sales of Cravit and Tarivid



Sales of Detantol, Timoptol-XE and Timoptol



ANTI-INFECTIVE OPHTHALMICS

The anti-infective ophthalmics market has been showing negative growth for the past several years. For the year ended March 31, 2004, the market shrunk by 2.5% from the previous fiscal year. This impact is due to shorter treatment periods resulting from new, stronger anti-infective ophthalmic solutions, as well as fewer doctor visits due to medical cost-cutting policies.

With its ophthalmics product lineup, including *Cravit* and *Tarivid* – which are characterized by their potent, broad spectrum effects, as well as their excellent ability to penetrate ophthalmic tissues – Santen is the market leader in the anti-infective field with a share of more than 80%.

While the sales, prescription volume and market share of *Cravit* increased from the previous year, the total sales of both *Cravit* and *Tarivid* were ¥17,074 million, down 3.1% year on year, due to the decreased market size and the growth of generic drugs.

Anticipating the launch of products competing with *Cravit* in the current fiscal year ending March 31, 2005 and thereafter, Santen is planning to take more aggressive measures against these products by fully utilizing the extensive array of existing information. In so doing, we will further enhance *Cravit's* position as the first-choice drug for the treatment of eye infections, and minimize the decline of our market share in the anti-infective ophthalmics market.

GLAUCOMA TREATMENT DRUGS

Accounting for 36% of the prescription ophthalmics market in Japan, glaucoma treatments make up the largest segment of the market. This segment grew rapidly in the past due in part to the aging population; however, recent growth has slowed due to such factors as increased patient co-payment of medical expenses. This has resulted in a 3.9% annual market growth rate for the year ended March 31, 2004 and indicates a temporary slowing of future market growth.

An epidemiological survey by the Japan Glaucoma Society released in December 2002 found that approximately one in 17 people aged 40 and older in Japan have glaucoma, and that for the majority, the disease is not accompanied by elevated intraocular pressure (i.e., normal tension glaucoma).

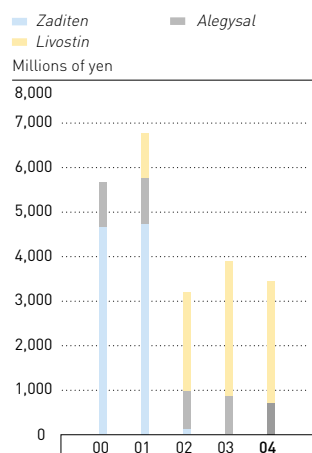
During the year ended March 31, 2004, Santen carried out promotional activities emphasizing the effectiveness and safety of *Detantol*, a concomitant medication for normal tension glaucoma. We also continued activities targeting patient awareness of disorders and treatments of glaucoma in preparation for new drugs Santen expects to launch in and after 2007, including a prostaglandin product for the treatment of glaucoma.

These efforts helped facilitate the market penetration of *Detantol* and *Timoptol-XE* and increased sales of our three glaucoma treatment drugs (i.e., the aforementioned two along with *Timoptol*), to ¥9,417 million, up 1.7% from the previous year.

Furthermore, Santen plans to launch *Rescula* (generic name: unoprostone isopropyl) in October 2004.



Sales of *Livostin*,
Alegysal and *Zaditen**



*Santen ceased selling *Zaditen* in June 2001 following the dissolution of the marketing alliance for the product.

ANTI-ALLERGY OPHTHALMICS

The anti-allergy ophthalmics market has experienced negative growth for the past two years. During the year ended March 31, 2004, the market contracted 16.8% from the previous year due to record low springtime airborne pollen counts, as compared to the past ten years.

During the year ended March 31, 2004, Santen continued its sales promotions targeting segments other than ophthalmology – such as otolaryngology – in addition to promoting *Livostin* by placing special emphasis on its ability to rapidly relieve itching. Santen's share in the anti-allergy ophthalmics market increased to 20.7%, up 3.2 percentage points from the previous year. However, due to the mild allergy season, sales of *Livostin* were ¥2,729 million, a 9.9% year-on-year decline.

We expect that the anti-allergy ophthalmics market will improve in the current fiscal year ending March 31, 2005 and we will work to accelerate the expansion of our presence in this treatment segment. Santen will promote *Livostin* by emphasizing its effectiveness for year-round allergies and will also take proactive measures against competing products in order to expand the sales and market share of anti-allergy ophthalmics. We plan to launch ciclosporin, a drug for the treatment of vernal keratoconjunctivitis, during the current fiscal year. The launch of ciclosporin will give Santen a full range of treatment drugs for all ocular allergic conditions

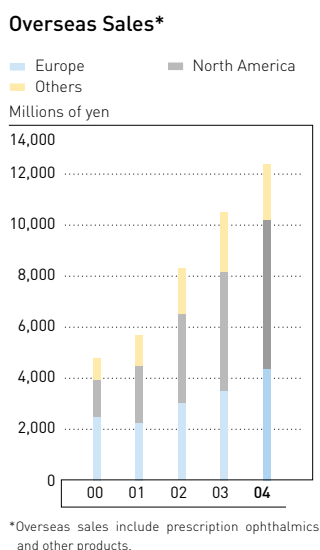
(i.e., allergic conjunctivitis, vernal keratoconjunctivitis and atopic conjunctivitis).

Ciclosporin is a treatment drug with a new mechanism of action which is expected to have positive effects on vernal keratoconjunctivitis patients who do not respond to existing treatments. Vernal keratoconjunctivitis is a severe, refractory allergic ocular disease often seen in people aged 20 or younger. While anti-allergy drugs are used to treat the disease, it is estimated that there are approximately 4,000 patients who do not respond well to existing drugs.

➔ Prescription Pharmaceuticals

Prescription Ophthalmic Pharmaceuticals

While the prescription ophthalmics markets in Europe and North America continued to show strong growth, the Asian market remained virtually flat overall. Santen's overseas sales of prescription ophthalmic pharmaceuticals for the year ended March 31, 2004 were ¥9,027 million, up 26.9% from the previous year.



UNITED STATES

The ophthalmic pharmaceuticals market in the United States, the largest in the world, experienced double-digit growth for the year ended March 31, 2004. Factors noted as leading causes for the strong market growth in the U.S. include: the aging of the baby boomer population resulting in an increased number of patients with age-related eye diseases, such as glaucoma and age-related macular degeneration (AMD); the newly-introduced Medicare coverage for glaucoma examinations; and the expansion of treatments for diseases in posterior segments of the eye.

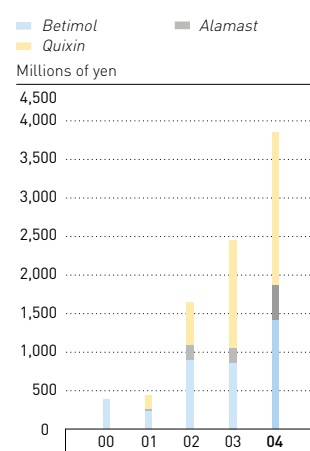
Our ophthalmic pharmaceuticals business in the U.S. experienced a challenging environment due primarily to the launch of competing products and strengthened competitive sales activities in the anti-infective ophthalmics market. However, the total sales of our three drugs – namely, the anti-infective ophthalmic *Quixin* (brand name in Japan: *Cravit*), the glaucoma treatment *Betimol* and the anti-allergy ophthalmic *Alamast* (brand name in Japan: *Alegysal*) – reached ¥3,856 million, up 57.1% from the previous year. This was due in part to the temporary demand increase for our products among wholesalers anticipating price increases.

In March 2004, we also obtained market approval from the Food and Drug Administration (FDA) for *Iquix*, which is a self-preserved high-concentration anti-infective ophthalmic solution containing three times the amount of active ingredient as *Quixin* and is effective for the treatment of bacterial corneal ulcers. A bacterial corneal ulcer is caused by bacterial infection in a scarred cornea (the membrane that covers the surface of the iris of the eye) which might, when deteriorated, result in a hole forming in the cornea and require surgery. *Iquix* provides a new effective treatment option for corneal ulcer patients.

Although our ophthalmics business in the U.S. achieved steady sales growth, we faced greater-than-expected competition and, thus, remained unable to achieve the level of revenue anticipated when we began independent sales and marketing activities. In order to accelerate market penetration of the aforementioned three products and improve the profitability of our ophthalmics business in the U.S., Santen entered into a Distribution and Supply Agreement with Johnson & Johnson Vision Care, Inc. (JJVCI) in December 2003 and JJVCI assumed the sales and marketing in the U.S. of our three products – *Quixin*, *Alamast* and *Betimol* – starting in February 2004. *Iquix* will also be marketed by JJVCI in the region and through this arrangement we expect to see our products help more patients in the U.S.

Santen will now focus on enhancing our research and development, as well as business development and strategic marketing activities, in the U.S. in order to expand our business in the world's largest ophthalmics market over the mid- to long-term.

Sales of Quixin, Alamast and Betimol



▲ Santen booth seminar at the American Academy of Ophthalmology meeting in November 2003.



▲ *Iquix* approved by the FDA in March 2004.

EUROPE

The ophthalmic pharmaceuticals market in Europe has been growing at a rate of roughly 5% annually, and is expected to maintain similar growth in the future. Factors behind this market growth include the expansion of the European Union, the increased number of glaucoma and dry eye patients, and the launch of high-priced pharmaceutical products particularly in the field of age-related macular degeneration (AMD). In the meantime, however, the business environment is becoming increasingly challenging as various governments continue to enforce medical cost-cutting plans including encouragement of the use of generic drugs.

The European market has diverse market structures characterized by different healthcare and medical insurance systems with varied medication costs.

In Europe, our Finnish subsidiary Santen Oy engages in the sales, marketing, new product development, manufacturing and contract manufacturing of pharmaceuticals. The top three geographical areas of our ophthalmics sales in Europe are Finland, Russia and Sweden, with the remainder distributed among other northern European countries, Germany and eastern European countries. Viewed by product category, drugs for treatment of glaucoma, dry eye and cataract are among the top sellers.

During the year ended March 31, 2004, Santen sought to maximize the value of its existing products and compounds under clinical development, and to further advance our posi-



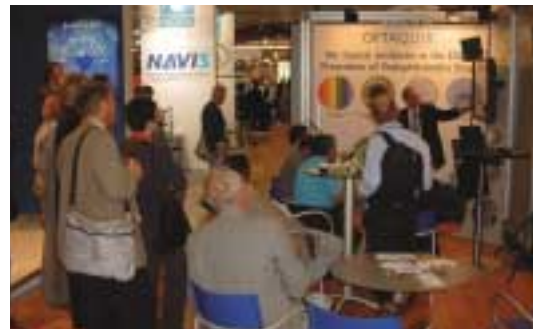
▲ Oftaquix

tion in the markets in northern and eastern Europe as well as Russia. In Germany, we launched new products including two dry eye treatments. In addition, we carried out a sales promotional campaign in northern Europe and Russia for *Oftagel*, a dry eye product, and successfully expanded its sales. Meanwhile, the anti-infective ophthalmic *Oftaquix* (brand name in Japan: *Cravit*), which we began selling in Europe in 2002, became the best-selling product in the fluoroquinolone anti-infective ophthalmics segment in Finland and Sweden during the year under review.

As a result, sales grew from the previous year in almost all major countries, mainly in northern Europe and Russia, and the total sales in Europe also topped last year's performance.



▲ A TV commercial for our dry eye product *Oftagel* aired in Russia from October to November 2003.



▲ At the XXI Congress of the European Society of Cataract and Refractive Surgeons held in Munich, Germany, in September 2003.

ASIA

During the year ended March 31, 2004, the Asian market remained flat overall, while China has steadily become more important. The Chinese market has continued to generate double-digit growth, despite significant changes in the market environment, including drastic changes in drug pricing policies and domestic competition.

In Asia, Santen conducts import and sales operations primarily through local distributors in 10 countries and regions in eastern Asia – including China, Korea and Taiwan – with the vision to "contribute to the development of ophthalmology in Asia by connecting with patients and medical professionals under a relationship of trust, ultimately in an attempt to become the top company in the field of ophthalmology in Asia."

As in past years,



▲ *Asian Ophthalmology.com* run by Santen to provide Asian ophthalmologists with a communication medium and contribute to the development of ophthalmology in Asia.

we continued our efforts during the year under review to provide enhanced scientific information and marketing activities in the Asian region. Santen sponsored symposia on themes such as ocular infection during the Third International Ophthalmologic Conference in Beijing in November 2003 and the 19th Congress of the Asia Pacific Academy of Ophthalmology (APAO) in Bangkok in December 2003. These programs successfully attracted the participation of 250 and 400 ophthalmologists, respectively. We also continued to provide scientific information through our educational website, *Asian Ophthalmology.com*, which targets young ophthalmologists in Asia. As of March 31, 2004, the number of registered members reached 400.

Although we temporarily suspended the operation of our local offices in China at the beginning of the fiscal year due to the epidemic of Severe Acute Respiratory Syndrome (SARS), we maintained the top share in the hospital market, and also improved sales from the previous year. This was achieved, in part, due to the entry of our products on the public medical insurance reimbursement list. Despite the strong results in China, our sales in the Asian region for the year ended March 31, 2004 declined in comparison with the previous year. This was a result of the decreased sales in Korea due to the end of the extraordinary demand that had emerged in the first half of the previous fiscal year.

THE DIMPLE BOTTLE

The shape of the *Dimple Bottle*, introduced in 2002, makes it easier to hold, particularly for older patients. It also facilitates squeezability, while a slit window allows users to monitor the remaining volume in the bottle. Large, color-coded caps and the clear display of the product names allow for easy identification.

In the year ended March 31, 2004, the production lines for *Dimple Bottle* in our Noto and Shiga plants were almost completed, and containers for 14 key products including *Hyalein* and *Cravit* have been converted to *Dimple Bottles*. In addition, we also developed "identification stickers" with a highly readable font and Braille for the visually impaired, which can be attached to *Dimple Bottles* as necessary.

Survey results regarding prescription ophthalmics suggest that consumers look for a sense of reassurance from the medical benefits and familiarity of use, as well as a handy container with "an easy grip" and "fixed amount of solution per drop."* We are confident that the *Dimple Bottle*, developed from Santen's technology through its many years of experience in prescription ophthalmics, will help differentiate our products from competing products. Santen is planning to replace nearly all containers for its key prescription ophthalmic solutions with these easy-to-use *Dimple Bottles* in the near future.

* According to a survey on prescription ophthalmic solutions conducted in Japan by Infoplan Inc. in May 2003, with 300 respondents including ophthalmology outpatients.



▲ Previous bottle ▲ *Dimple Bottle*

Anti-Rheumatic Pharmaceuticals

Rheumatoid arthritis is a chronic disease where inflammation occurs in joints, followed by gradual joint deformation and degeneration. It is estimated that there are between 600,000 and 700,000 people afflicted with rheumatoid arthritis in Japan. In the year ended March 31, 2004, the market for disease-modifying anti-rheumatic drugs (DMARDs) in Japan grew by 5.3% year on year to ¥22,200 million, due to factors such as an increased number of patients resulting from the aging population, as well as the launch of new drugs.

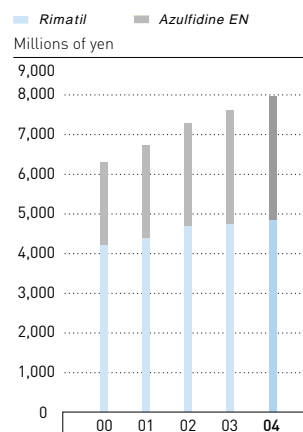
Santen has gained the top position in the DMARD market with its two DMARDs, *Rimatil* and *Azulfidine EN*. The "Guidelines for the Management of Rheumatoid Arthritis" released by the Japan College of Rheumatology in April 2004 set out a treatment guideline stating that DMARDs can inhibit immune abnormality at an early stage of treatment and are effective in maintaining the patient's quality of life as they help to delay damage to joints. Doctors should prescribe DMARDs for early-stage rheumatoid arthritis patients within three months of the initial diagnosis. The guidelines designate *Rimatil* and *Azulfidine EN* as "Recommendation Grade A" drugs (i.e., with a highly recommendable therapeutic structure).

During the year ended March 31, 2004, Santen continued promoting *Rimatil* and *Azulfidine EN* to rheumatology specialists, emphasizing their effectiveness and positioning them as the first-choice drug for rheumatoid arthritis. We also held the "Online Rheumatoid Clinical Conference," a program that Santen launched exclusively for physicians and repeated on four occasions during the year. Here, supervising doctors explain subjects of high interest and discuss cases of difficult diagnosis in the treatment of rheumatoid arthritis in clinical medical care. Many doctors are invited to participate in the clinical-level discussions.



▲ *Rimatil*

Sales of *Rimatil* and *Azulfidine EN*



Sales of anti-rheumatic pharmaceuticals for the year ended March 31, 2004 were ¥7,969 million, up 4.4% from the previous year, as a result of increased sales of *Azulfidine EN* in response to its rapid effects following administration.

In the current fiscal year ending March 31, 2005, we will continue to promote *Rimatil* and *Azulfidine EN* by emphasizing their effectiveness in the treatment of rheumatism and promoting their recommendation in the "Guidelines for the Management of Rheumatoid Arthritis." Santen is aiming to further expand its presence in the DMARD market by offering treatment options tailored to the patient's condition. Also, the launch of *Metolate* (generic name: methotrexate) in July 2004 increased our DMARD product lineup to three different drugs that can be administered according to the stage and severity of rheumatoid arthritis.

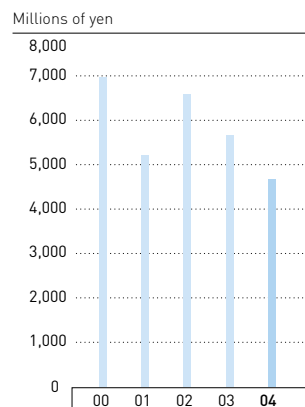


▲ *Azulfidine EN*

➔ Over-The-Counter Pharmaceuticals



Sales of Over-The-Counter Pharmaceuticals



In the area of over-the-counter (OTC) pharmaceuticals, Santen focuses on the marketing of eye drop products including *Sante FX Neo*, a leading eye drop brand in Japan, and *Sante 40*, which provides effective relief from blurred vision. Santen's OTC pharmaceuticals business is supported by its advanced drug manufacturing technology and planning capabilities. Santen's strength in the OTC eye drop segment is due to the superior abilities of our sales and marketing staff, the large share we hold with large-scale retailers, and products designed to help people maintain and improve their ophthalmic health.

For the year ended March 31, 2004, the OTC eye drops market in Japan expanded marginally from the previous year, owing in part to the growth of products for eye strain treatment and eye refreshment, which offset the impact of reduced distribution prices.

During the year under review, we continued working on sales promotions mainly for our eye drops for eye strain and blurred vision products, as well as the eye refreshment drops. We maintained our market share in the OTC pharmaceuticals market at approximately 20%, a level comparable to the previous year. However, sales for the year were ¥4,672 million, down 17.4% from the previous year, as a result of reductions in trade inventory.

For the current fiscal year ending March 31, 2005, we will develop and execute a restructuring plan based on cost analysis in order to improve profitability in our OTC pharmaceuticals business.



▲ New *Sante 40* TV commercial launched in May 2004.

➔ Medical Devices



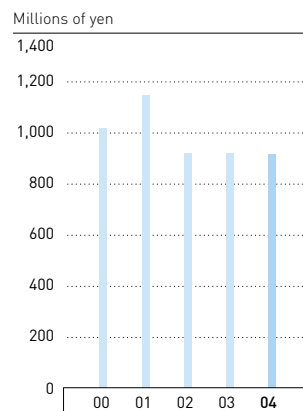
▲ At the 42nd Japanese Society for Cataract Research and the 18th Annual Meeting of the Japanese Society of Cataract and Refractive Surgery held in June 2003 in Kyoto.

Santen’s medical devices business specializes in the field of cataract surgery. Products include intraocular lenses (IOLs), phacoemulsification machines and surgical instruments. Seeking to be the best partner for surgeons, our surgical representatives with expertise in cataract surgery provide information to over 3,000 surgical institutions in Japan in cooperation with our 400 pharmaceutical MRs.

Cataract is a condition in which the lens clouds with aging and other factors, causing blurred and weakened vision. Vision can be recovered through surgery that involves the insertion of an IOL to replace the cloudy lens. While the IOL market in Japan for the year ended March 31, 2004 was up marginally from the previous year on a volume basis, it declined by approximately 5% on a sales basis, according to Santen’s estimate.

Thus, we are working with improved technology. Santen is currently conducting clinical trials in the U.S. and Japan on a new foldable IOL (development code: MD-14) developed by Advanced Vision Science, Inc. (AVS), our surgical subsidiary in the U.S. Foldable IOLs can be inserted through a small incision, and they account for almost 80% of the IOL market. The percentage is expected to increase with the development of IOLs that can be inserted through an even smaller incision and that enable better vision after surgery.

Sales of Medical Devices



With the increased sales of *ClariFlex*, an IOL launched in March 2003 that can potentially reduce the incidence of secondary cataract, Santen’s IOL sales grew from the previous year in terms of both sales and volume. However, as sales of phacoemulsification machines and surgical instruments declined, total sales of medical devices were ¥914 million, down 0.4% from the previous year.

In September 2003, we decided to focus our efforts on IOL business and to discontinue our investment in Phacor Inc., a wholly owned subsidiary developing phacoemulsification machines in the U.S.



▲ Intraocular lenses used in cataract surgery



▲ Our U.S. subsidiary Advanced Vision Science, Inc. conducts research and development of next-generation intraocular lenses.