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Operating Results

Net Sales

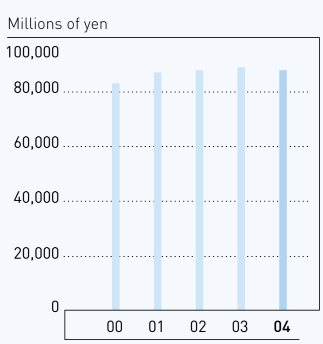
Sales of prescription pharmaceuticals for the year ended March 31, 2004 increased by ¥715 million, or 0.9%, from the previous year to ¥80,061 million. Domestic sales of prescription ophthalmic pharmaceuticals declined by ¥1,292 million, or 2.0%, from the previous year to ¥62,717 million, due to the impact of healthcare reforms and increased generic competition. Overseas sales of prescription ophthalmics expanded by ¥1,915 million, or 26.9%, to ¥9,027 million, driven by strong sales in the United States and Europe. Sales of anti-rheumatic pharmaceuticals for the year increased by ¥337 million, or 4.4%, from the previous year to ¥7,969 million, reflecting successful market penetration of our two products in the disease modifying anti-rheumatic drug (DMARD) segment.

Sales of over-the-counter (OTC) pharmaceuticals declined by ¥984 million, or 17.4%, to ¥4,672 million, as we worked to reduce trade inventory.

Sales of medical devices decreased by ¥5 million, or 0.4%, from the previous year to ¥914 million, as increased sales of intraocular lenses were offset by reduced sales of phacoemulsification machines and other devices.

Sales for other business segment decreased by ¥122 million, or 2.8%, to ¥4,210 million, as an increase in contract manufacturing sales was offset by decreased royalty income.

Net Sales



Net Sales by Business Segment

Millions of yen

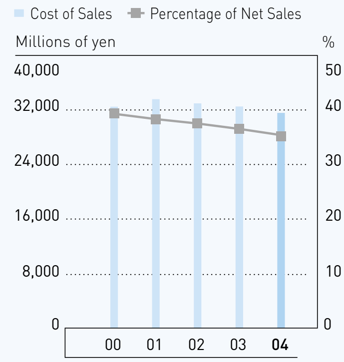
Years ended March 31	2004	2003	Change (%)
Prescription Pharmaceuticals	**80,061**	79,346	0.9
Ophthalmic	**71,744**	71,122	0.9
Anti-rheumatic	**7,969**	7,632	4.4
Others	**348**	592	(41.3)
OTC Pharmaceuticals	**4,672**	5,656	(17.4)
Medical Devices	**914**	919	(0.4)
Other Business	**4,210**	4,332	(2.8)
Total Sales	**89,858**	90,253	(0.4)

Note: Figures in parentheses indicate a decrease.

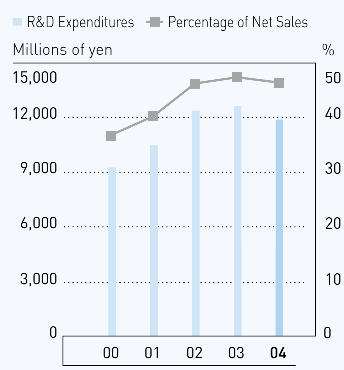
Cost of Sales

Cost of sales for the year decreased by ¥413 million, or 1.3%, from the previous year to ¥31,859 million, and the ratio of cost of sales to net sales improved by 0.3 percentage points to 35.5% from 35.8%, primarily due to the improvement of product mix and the continued efforts to reduce costs.

Cost of Sales and Percentage of Net Sales



R&D Expenditures and Percentage of Net Sales



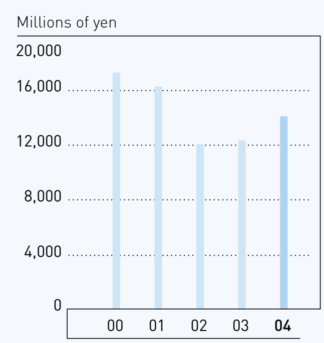
Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses for the year decreased by ¥1,809 million, or 4.0%, from the previous year to ¥43,475 million, reflecting our continuing efforts to control advertising expenses, sales promotion expenses and R&D expenditures, and due to the discontinuation of our development of phacoemulsification equipment in the U.S.

Operating Income

Supported by reduced SG&A expenses, operating income for the year improved by ¥1,827 million, or 14.4%, from the previous year to ¥14,524 million. The ratio of operating income to net sales improved by 2.1 percentage points to 16.2%, from 14.1% in the previous year.

Opereating Income



Note: All graphs in this section are based on fiscal years ended March 31.

Other Income and Expenses

Net other expenses for the year totaled ¥749 million, a decline of ¥2,001 million compared with the previous year.

Other income increased by ¥2,304 million, or 179.1%, from the previous year to ¥3,590 million, due largely to gain on insurance received of ¥1,712 million and gains of ¥675 million from the sale of investment securities.

Other expenses increased by ¥306 million, or 7.6%, to ¥4,341 million. These expenses for the year include a loss of ¥855 million from the discontinued operation of the affiliate, retirement benefits of ¥719 million under the career development support program and an impairment loss of ¥377 million on assets.

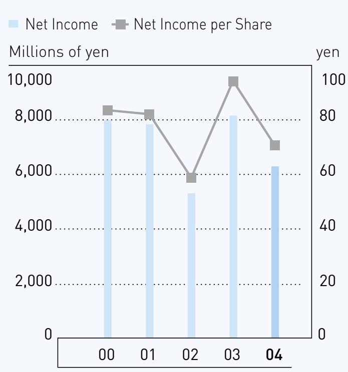
Income Taxes

Income taxes for the year increased by ¥6,010 million, or 416.3%, from the previous year to ¥7,454 million. The ratio of income taxes to income before income taxes (effective tax rate) rose to 54.1%, from 14.5% in the previous year. The main reasons consist of the increase in income before income taxes and the effect of the liquidation of a European subsidiary, Santen Pharmaceutical B.V., in the previous year.

Net Income

Net income for the year declined by ¥2,182 million, or 25.7%, from the previous year to ¥6,321 million. The ratio of net income to net sales also decreased by 2.4 percentage points to 7.0%, from 9.4%. Net income per share declined to ¥71.65 from ¥93.67, and diluted net income per share dropped to ¥71.64 from ¥85.97 in the previous year.

Net Income and Net Income per Share

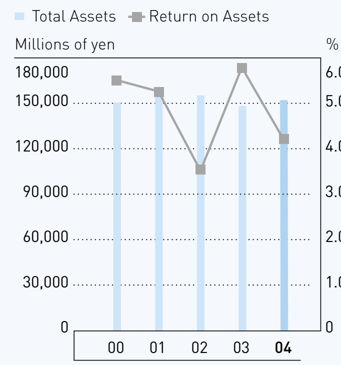


Financial Condition

Assets

As of March 31, 2004, total assets were ¥150,237 million, up ¥3,090 million, or 2.1%, from the previous year-end. Return on assets for the year declined by 1.4 percentage points to 4.3%, from 5.7%, due to decreased net income and increased total assets.

Total Assets and Return on Assets



Current assets at year-end increased by ¥7,800 million, or 9.3%, to ¥91,231 million. The ratio of current assets to total assets increased by 4.0 percentage points to 60.7%, from 56.7% in the previous year, representing enhanced liquidity. The growth in current assets is primarily due to an increase of ¥16,369 million in cash and cash equivalents. This improvement in cash and cash equivalents is due to the increase in income before income taxes and the sale of our manufacturing facilities to a lease company. The cash and cash equivalents were, however, partly used to redeem convertible bonds of ¥19,945 million.

Property, plant and equipment decreased by ¥3,613 million, or 8.8%, from the previous year to ¥37,237 million. The main reasons are the sale of the manufacturing facilities of the Shiga plant for ¥2,037 million to the lease company and depreciation.

Liabilities

Total liabilities, which are the sum of current and noncurrent liabilities, amounted to ¥46,738 million, a decline of ¥3,284 million, or 6.6%, from the previous year-end.

Current liabilities dropped by ¥12,483 million, or 31.5%, to ¥27,154 million, as the repayment of ¥19,945 million for convertible bonds was partially offset by an increase in income tax payable of ¥8,131 million.

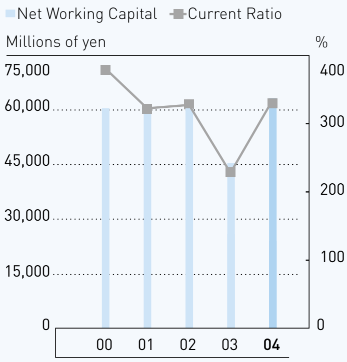
As a result, net working capital at year-end increased by ¥20,283 million, or 46.3%, from the previous year-end to ¥64,077 million. The current ratio improved to 336% from 210%.

Note: All graphs in this section are based on fiscal years ended March 31.

Noncurrent liabilities at year-end increased by ¥9,199 million, or 88.6%, from the previous year-end to ¥19,584 million. This increase resulted from the procurement of a long-term ¥10,000 million loan for the repayment of ¥19,945 million for convertible bonds.

Interest-bearing debt at year-end declined by ¥10,361 million, or 45.0%, from the previous year-end to ¥12,686 million.

Net Working Capital and Current Ratio



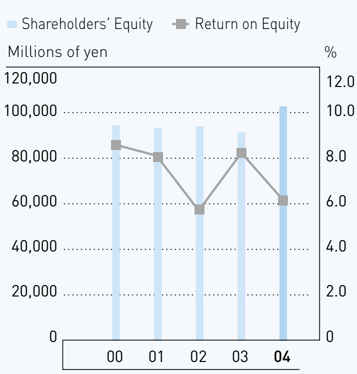
Note: Net working capital is the difference between current assets and current liabilities, and shows a company's ability to make payments in the near future.

Shareholders' Equity

Shareholders' equity at year-end increased by ¥6,374 million, or 6.6%, from the previous year-end to ¥103,500 million, reflecting increases in retained earnings and in market value of investment securities. To improve capital efficiency, we retired 2,741,000 shares of the Company's common stock, which had been held as treasury stock, at a total value of ¥3,240 million.

The shareholders' equity ratio improved by 2.9 percentage points to 68.9%, from 66.0%, while return on equity (ROE) declined 2.5 percentage points to 6.3%, from 8.8%. The decline in ROE is due to the decrease in net income and the increase in the shareholders' equity. Shareholders' equity per share at year-end increased by ¥72.62, or 6.6%, from the previous year-end to ¥1,176.83.

Shareholders' Equity and Return on Equity



Capital and Liquidity

Cash and cash equivalents at year-end increased by ¥16,369 million, or 65.3%, from the previous year-end to ¥41,423 million, as the increase in cash and cash equivalents from operating and investing activities more than offset the repayment of convertible bonds. In consideration of the maintenance of a sound balance sheet based on the management policy of maintaining appropriate liquidity, we plan to reserve these funds in order to make investments needed for future growth and reduce debt for improved capital efficiency.

Cash Flows

Cash Flows Summary

Millions of yen

Years ended March 31	2004	2003	Change
Cash Flows from Operating Activities	**23,196**	15,808	7,388
Cash Flows from Investing Activities	**5,246**	(9,951)	15,197
Cash Flows from Financing Activities	**(12,122)**	(6,507)	(5,615)
Cash and Cash Equivalents at End of Year	**41,423**	25,054	16,369

Note: Figures in parentheses indicate a decrease.

▸ *Cash Flows from Operating Activities*

Net cash provided by operating activities improved by ¥7,388 million, or 46.7%, from the previous year to ¥23,196 million. The main factors include the increase of ¥3,828 million in income before income taxes, the refund of ¥1,980 million of income taxes and the receipt of ¥3,003 million for gains on insurance.

▸ *Cash Flows from Investing Activities*

Investing activities generated net cash of ¥5,246 million for the year, while net cash used by investing activities was ¥9,951 million in the previous year. Contributing factors were an increase of ¥7,267 million in proceeds from the sale of short-term and investment securities, an increase of ¥3,707 million in proceeds from the sale of property, plant and equipment and a decrease of ¥3,820 million in capital expenditures.

▸ *Cash Flows from Financing Activities*

Net cash used in financing activities increased by ¥5,616 million, or 86.3%, from the previous year to ¥12,122 million. This resulted mainly from repayment for the redemption of convertible bonds, which was offset by the procurement of ¥10,000 million of syndicated loans, and a decrease of ¥3,270 million for the repurchase of treasury stock.

Note: All graphs in this section based on fiscal years ended March 31.

Forward-Looking Information and Factors That May Affect Future Results

Oral and written statements that we make in our annual report and through other public vehicles, other than historical facts, contain forward-looking information based on our business plans and assumptions at the time of disclosure. Such forward-looking information includes, but is not limited to, our expected growth strategies, projected operating results, market forecasts and anticipated timing for developing, obtaining approval and bringing products to market. These forward-looking statements are our best estimates given all the market conditions we are aware; we cannot guarantee that these estimated facts will in fact happen. Our business, and each product we develop and market, is subject to various risks and uncertainties outside of our control. Actual, versus planned, results may differ dramatically.

Risks and uncertainties that could affect the Company's future results and financial conditions include, but are not limited to, the factors described below.

External Factors

Regulatory Controls

Our business is affected by government regulatory controls for healthcare programs and drug prices in Japan and other countries. Our future results could be affected by changes in any of these regulations. In particular, our financial performance relies heavily on Japan's prescription pharmaceuticals market, which represents almost 80% of our net sales. When National Health Insurance (NHI) drug price revisions which are implemented typically every other year, or other healthcare reforms take place beyond the scope of our anticipated projections, our operating and/or financial results may be affected. In April 2004, NHI drug price revisions went into effect resulting in a 4.2% reduction, on average, for the prescription pharmaceuticals industry, which translated into a 3.2% reduction, on average, for our total prescription pharmaceuticals sales.

We continue to face a variety of regulatory controls and governmental pressures for drug price reduction in the other countries and markets where we manufacture and sell our products.

Social and Economic Conditions and Changes in the Law

Santen's future results may be affected by political and economical changes in the worldwide markets where we operate. Our anticipated performance and financial conditions may also be affected by changes in applicable accounting principles, and laws and regulations concerning tax, product liability, antitrust, environmental control and others.

Foreign Exchange

Overseas sales and expenses, as well as assets of overseas subsidiaries, affect our sales, profits and financial conditions depending on foreign exchange fluctuations. Overseas sales for the year ended March 31, 2004 accounted for 13.8% of our net sales.

Competition

Effects of Generic Pharmaceuticals

Sales of generic pharmaceuticals in Japan and abroad may affect Santen's overall business results.

While our mainstay products – *Cravit*, *Detantol* and *Livostin* – are protected by patents, generic pharmaceuticals for *Hyalein* and *Tarivid* have already been introduced in the Japanese market by other companies. Market analysis leads us to anticipate that generic competition will increase in the future.

An abbreviated new drug application (ANDA) was recently filed with the U.S. Food and Drug Administration (FDA) for a generic product of the anti-infective *Quixin*, although the patent for *Quixin* is still in effect. Daiichi Pharmaceutical Co., Ltd., the holder of the patent, has filed a lawsuit in the U.S. for violation of the patent.

Competition From Other Branded Products

We have noted the launch of new branded products in the fluoroquinolone anti-infective market in Japan and overseas, and anticipate this trend to continue in the near future. These new products are in direct competition with our *Cravit* and *Quixin*, which may affect our future performance.

Dependency on Specific Products and Business Partners

Dependency on Mainstay Products

Hyalein and *Cravit* generate annual sales of over ¥10 billion each, together representing 29.9% of Santen's net sales for the year ended March 31, 2004. Sales of these products are critical to our ongoing success and any unanticipated negative influences, such as patent expiration complications, potential product defects or newly discovered side effects, could affect our financial performance.

▸ *Dependency on In-Licensed Products*
Many of the products we sell are in-licensed from other companies. We have exclusive rights to manufacture and sell ophthalmic formulations of *Cravit* and *Detantol*. We also have sales rights in Japan for *Timoptol*, *Timoptol XE* and *Livostin* and exclusive sales rights for *Azulfidine EN*. Should changes be made in the terms and conditions of the agreements or the agreements are not renewed, our financial results may be affected.

▸ *Dependency on Specific Business Partners*
As of February 16, 2004, we entered into an exclusive distribution agreement with Johnson & Johnson Vision Care, Inc. (JJVCI) for three prescription pharmaceutical agents in the U.S. In the event that JJVCI and its subsidiary VISTAKON Pharmaceuticals, cannot achieve sufficient sales per our agreement, our financial results may be affected. Sales of prescription ophthalmic pharmaceuticals in the U.S. totaled ¥3,856 million for the year ended March 31, 2004.

Some raw and processed materials, such as bulk pharmaceuticals for *Cravit* and containers for over-the-counter (OTC) pharmaceuticals, are dependent on specific business partners. If supply of these materials is interrupted or stopped for any reason, our pharmaceutical production and financial performance may be adversely affected.

The percentage of our business executed with the top 10 wholesalers in Japan reached 63.9% of the total net sales for the year ended March 31, 2004. If our wholesale partners experience bankruptcy leading to lending loss, we may be adversely affected.

Research and Development Activities

▸ *Uncertainty in New Product Development*
It takes years from the initial research and development stage to the final approval and market launch of new drugs. At every stage along the way, there are factors that can sidetrack a new product and either delay or prevent it from reaching the marketplace. It is difficult for us to accurately predict when new products will reach the approval stage and be ready to launch.

Forecasting an accurate timeline for project development and completion is dependent on a number of changing factors including, but are not limited to, delayed reviews by government, conflicting or unusable clinical data, results that do not meet the therapeutic needs of the marketplace, safety and efficacy concerns, unexpected side effects, discontinued development and delayed product launches.

▸ *Potential Insufficient Returns on R&D Investment*
The creation and development of new pharmaceuticals, as well as development of additional indications and formulations, are critical for the future growth of Santen. Every year, we make significant investments in research and development; and there is the possibility that in the future these investments will not result in sufficient sales of new products.

▸ *Issues of Alliances*
Forecasts for new pharmaceuticals include some assumptions of alliances in development and/or sales. Determination of these alliances may affect our overall results and financial conditions.

Other Factors

▸ *Stagnation and Delay of Production*
If production activities are stagnated or delayed by natural and other catastrophes such as fire, our financial performance and conditions may be affected.

Certain products are manufactured at a single location. If a specific plant is forced to stop production, supply of some products may be negatively impacted.

▸ *Cancellation of Sales and Product Withdrawals*
If sales of products are cancelled, or if we withdraw products due to a batch defect, unexpected side effects, tampering or other cause, our overall financial results may be negatively affected.

▸ *Litigation*
Our main business involves production and sales of prescription pharmaceuticals. The nature of our business makes us vulnerable to litigation related to patents, product liability, violation of antitrust law, consumers-related and environmental issues. If such legal actions take place, the proceedings may affect our overall performance and financial conditions. Currently, we are involved in no litigation that could make a substantial impact on the management or performance of our company.

EIGHT-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Years ended March 31

	Millions of yen								Thousands of U.S. dollars
	2004	2003	2002	2001	2000	1999	1998	1997	**2004**
For the year:									
Net sales	**¥ 89,858**	¥ 90,253	¥ 88,966	¥ 88,449	¥ 83,577	¥ 79,639	¥ 77,957	¥ 75,216	**$ 850,605**
Cost of sales	**31,859**	32,272	32,701	33,385	32,195	32,746	31,278	27,552	**301,579**
Selling, general and administrative expenses	**43,475**	45,284	44,475	38,546	33,894	30,294	30,535	27,984	**411,536**
Operating income	**14,524**	12,697	11,790	16,518	17,488	16,599	16,144	19,680	**137,490**
Interest expense	**366**	480	465	430	462	588	654	624	**3,460**
Income before income taxes	**13,775**	9,947	12,679	15,521	14,422	15,969	14,917	18,913	**130,394**
Income taxes	**7,454**	1,444	7,373	7,807	6,481	7,864	7,594	9,915	**70,555**
Net income	**6,321**	8,503	5,306	7,714	7,941	8,105	7,323	8,998	**59,839**
Capital expenditures	**3,226**	7,046	6,586	4,943	2,510	3,443	5,898	16,725	**30,536**
Depreciation and amortization	**4,521**	4,311	5,334	5,683	5,725	6,314	6,674	4,202	**42,798**
R&D expenditures	**11,853**	12,719	12,187	10,511	9,221	7,335	7,731	6,213	**112,203**
Per share data (yen and U.S. dollars):									
Net income-basic	**¥ 71.65**	¥ 93.67	¥ 57.34	¥ 81.32	¥ 83.54	¥ 85.27	¥ 77.06	¥ 105.32	**$ 0.68**
Net income-diluted	**71.64**	85.97	53.07	75.01	77.04	78.63	71.01	99.87	**0.68**
Cash dividends, applicable to period	**40.00**	20.00	20.00	20.00	12.00	12.00	12.00	12.00	**0.38**
Cash Flows:									
Net cash provided by operating activities	**¥ 23,196**	¥ 15,808	¥ 6,941	¥ 6,832	¥ 9,372	¥ 16,339	¥ 11,535	¥ 16,181	**$ 219,581**
Net cash provided by (used in) investing activities	**5,246**	(9,951)	(6,374)	(3,172)	837	(8,305)	(9,537)	(28,259)	**49,659**
Net cash (used in) provided by financing activities	**(12,122)**	(6,507)	(5,684)	(7,193)	(3,817)	(3,857)	(1,677)	18,610	**(114,755)**
At year-end:									
Current assets	**¥ 91,231**	¥ 83,431	¥ 86,064	¥ 88,025	¥ 82,218	¥ 78,018	¥ 70,892	¥ 69,065	**$ 863,599**
Net property, plant and equipment	**37,237**	40,850	42,159	36,684	37,416	39,638	43,425	47,278	**352,494**
Total assets	**150,238**	147,148	152,103	153,243	149,968	144,913	138,822	140,226	**1,422,166**
Long-term debt	**12,686**	23,047	24,467	25,482	26,491	27,496	31,168	31,807	**120,087**
Total shareholders' equity	**103,500**	97,126	95,101	94,834	95,669	88,950	81,998	75,759	**979,740**
Return on equity (ROE) (%)	**6.3**	8.8	5.6	8.1	8.6	9.5	9.3	11.9	
Return on total assets (ROA) (%)	**4.3**	5.7	3.5	5.1	5.4	5.7	5.2	6.4	
Shareholders' equity ratio(%)	**68.9**	66.0	62.5	61.9	63.8	61.4	59.1	54.0	
Issued shares (thousands)	**87,963**	90,704	90,704	92,721	95,075	95,075	95,075	86,410	
Number of employees	**2,335**	2,500	2,463	2,167	2,093	2,037	2,010	1,910	

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate prevailing on March 31, 2004 of ¥105.64 to U.S.$1.
2. See Notes 2. 14) and 11 of Notes to Consolidated Financial Statements in respect of per share data.
3. Net sales in the fiscal years ended March 31, 2004, 2003, 2002 and 2001 include royalty income which was presented as "Other, net" in "Other income (expenses)" through the fiscal year ended March 31, 2000.

CONSOLIDATED BALANCE SHEETS

Santen Pharmaceutical Co., Ltd. and Subsidiaries
As of March 31, 2004 and 2003

ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Current assets:			
Cash and cash equivalents (Note 4)	¥ 41,423	¥ 25,054	$ 392,113
Short-term investments (Note 4)	2,010	6,354	19,025
Trade receivables:			
Notes	511	685	4,840
Accounts	31,945	31,831	302,396
Less allowance for doubtful receivables	(16)	(13)	(154)
Net trade receivables	32,440	32,503	307,082
Inventories (Note 6)	10,394	11,684	98,390
Deferred tax assets (Note 14)	2,256	1,202	21,353
Other current assets	2,708	6,634	25,636
Total current assets	91,231	83,431	863,599
Property, plant and equipment (Notes 7 and 8)**:**			
Land	10,646	10,991	100,772
Buildings and structures	41,553	39,574	393,350
Machinery and equipment	11,128	11,059	105,340
Tools, furniture and vehicles	10,588	10,744	100,228
Construction in progress	1,751	4 ,967	16,571
Total	75,666	77,335	716,261
Less accumulated depreciation	(38,429)	(36,485)	(363,767)
Net property, plant and equipment	37,237	40,850	352,494
Investments and other assets:			
Investments in and advances to affiliates	53	254	500
Investment securities (Note 4)	11,430	9,692	108,196
Goodwill	1,324	1,599	12,531
Other intangibles	2,677	3,183	25,337
Deferred tax assets (Note 14)	1,814	2,331	17,172
Other assets	4,472	5,808	42,337
Total investments and other assets	21,770	22,867	206,073
Total assets (Note 16)	¥ 150,238	¥ 147,148	$ 1,422,166

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Current liabilities:			
Current portion of long-term debt (Note 9)	**¥ 416**	¥ 20,361	**$ 3,938**
Trade accounts payable	**5,040**	5,476	**47,708**
Other payables	**8,854**	9,117	**83,811**
Accrued expenses	**3,409**	4,165	**32,271**
Income taxes payable (Note 14)	**8,133**	2	**76,987**
Other current liabilities	**1,302**	516	**12,323**
Total current liabilities	**27,154**	39,637	**257,038**
Noncurrent liabilities:			
Long-term debt (Note 9)	**12,270**	2,686	**116,149**
Retirement and severance benefits (Note 10)	**5,773**	5,754	**54,650**
Deferred tax liabilities (Note 14)	**27**	32	**254**
Other liabilities	**1,514**	1,913	**14,335**
Total noncurrent liabilities	**19,584**	10,385	**185,388**
Shareholders' equity:			
Common stock (Notes 11 and 12):			
Authorized – 152,844,454 shares			
(155,585,454 shares in 2003)			
Issued – 87,963,303 shares			
(90,704,303 shares in 2003)	**6,214**	6,214	**58,824**
Additional paid-in capital (Notes 11 and 12)	**6,909**	6,909	**65,399**
Retained earnings (Note 11)	**91,845**	90,552	**869,413**
Unrealized holding gains on securities (Note 4)	**1,426**	294	**13,500**
Foreign currency translation adjustments	**(2,854)**	(3,566)	**(27,016)**
	103,540	100,403	**980,120**
Treasury stock at cost (Note 11):			
33,353 shares in 2004 and 2,771,565 shares in 2003	**(40)**	(3,277)	**(380)**
Total shareholders' equity	**103,500**	97,126	**979,740**
Contingent liabilities (Note 15)			
Total liabilities and shareholders' equity	**¥ 150,238**	¥ 147,148	**$ 1,422,166**

CONSOLIDATED STATEMENTS OF INCOME

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	**2004**
Net sales (Note 16)	**¥89,858**	¥ 90,253	¥ 88,966	**$ 850,605**
Cost of sales (Notes 7 and 10)	**31,859**	32,272	32,701	**301,579**
Gross profit	**57,999**	57,981	56,265	**549,026**
Selling, general and administrative expenses (Notes 7, 10 and 13)	**43,475**	45,284	44,475	**411,536**
Operating income (Note 16)	**14,524**	12,697	11,790	**137,490**
Other income (expenses):				
Interest and dividend income	**240**	268	304	**2,271**
Interest expense	**(366)**	(480)	(465)	**(3,460)**
Gains on insurance received	**1,712**	—	—	**16,205**
Gains on sale of investment securities	**675**	—	—	**6,393**
Loss on impairment of fixed assets (Note 8)	**(377)**	—	—	**(3,567)**
Loss on valuation of securities	**(201)**	(602)	(179)	**(1,902)**
Special premium payment on the separation from the composite pension fund	**—**	(2,203)	—	**—**
Retirement benefit under the carrier development support program	**(719)**	—	—	**(6,812)**
Loss on discontinued operations of affiliates	**(855)**	—	—	**(8,096)**
Restructuring charge for the U.S. business	**(386)**	—	—	**(3,657)**
Gain on settlement of Princeton Notes lawsuit	**—**	—	886	**—**
Other, net	**(472)**	267	343	**(4,471)**
Income before income taxes	**13,775**	9,947	12,679	**130,394**
Income taxes (Note 14):				
Current	**8,751**	463	6,932	**82,835**
Deferred	**(1,297)**	981	441	**(12,280)**
	7,454	1,444	7,373	**70,555**
Net income	**¥ 6,321**	¥ 8,503	¥ 5,306	**$ 59,839**

Per share data:	Yen			U.S. dollars (Note 3)
	2004	2003	2002	**2004**
Net income-basic	**¥ 71.65**	¥ 93.67	¥ 57.34	**$ 0.68**
Net income-diluted	**71.64**	85.97	53.07	**0.68**
Cash dividends, applicable to the period	**40.00**	20.00	20.00	**0.38**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	**2004**
Common stock (Notes 11 and 12):				
Balance at beginning of year	**¥ 6,214**	¥ 6,214	¥ 6,206	**$ 58,824**
Exercise of stock options	**—**	—	8	**—**
Balance at end of year	**¥ 6,214**	¥ 6,214	¥ 6,214	**$ 58,824**
Additional paid-in capital (Notes 11 and 12):				
Balance at beginning of year	**¥ 6,909**	¥ 6,909	¥ 6,900	**$ 65,399**
Exercise of stock options	**—**	—	9	**—**
Balance at end of year	**¥ 6,909**	¥ 6,909	¥ 6,909	**$ 65,399**
Retained earnings (Note 11):				
Balance at beginning of year	**¥ 90,552**	¥ 83,893	¥ 83,735	**$ 857,173**
Net income	**6,321**	8,503	5,306	**59,839**
Cash dividends paid	**(1,758)**	(1,814)	(1,854)	**(16,642)**
Bonuses to directors and corporate auditors	**(30)**	(30)	(36)	**(288)**
Retirement of treasury stock	**(3,240)**	—	(3,258)	**(30,669)**
Balance at end of year	**¥ 91,845**	¥ 90,552	¥ 83,893	**$ 869,413**
Unrealized holding gains on securities (Note 4):				
Balance at beginning of year	**¥ 294**	¥ 474	¥ 1,290	**$ 2,781**
Net change	**1,132**	(180)	(816)	**10,719**
Balance at end of year	**¥ 1,426**	¥ 294	¥ 474	**$ 13,500**
Foreign currency translation adjustments:				
Balance at beginning of year	**¥ (3,566)**	¥ (2,383)	¥ (3,256)	**$ (33,757)**
Net change	**712**	(1,183)	873	**6,741**
Balance at end of year	**¥ (2,854)**	¥ (3,566)	¥ (2,383)	**$ (27,016)**
Treasury stock at cost (Note 11):				
Balance at beginning of year	**¥ (3,277)**	¥ (6)	¥ (41)	**$ (31,015)**
Repurchase of treasury stock, net	**(3)**	(3,271)	(3,223)	**(34)**
Retirement of treasury stock	**3,240**	—	3,258	**30,669**
Balance at end of year	**¥ (40)**	¥ (3,277)	¥ (6)	**$ (380)**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	**2004**
Cash flows from operating activities:				
Income before income taxes	**¥13,775**	¥ 9,947	¥12,679	**$130,394**
Depreciation and amortization	**4,521**	4,311	5,334	**42,798**
Increase in retirement and severance benefits	**43**	133	98	**407**
Interest and dividend income	**(240)**	(268)	(304)	**(2,271)**
Gains on insurance received	**(1,712)**	—	—	**(16,205)**
Interest expense	**366**	480	465	**3,460**
Loss on valuation of securities	**201**	602	179	**1,902**
(Increase) decrease in trade receivables	**(315)**	6,966	1,804	**(2,984)**
Decrease (increase) in inventories	**1,342**	647	(184)	**12,707**
(Decrease) increase in trade accounts payable	**(441)**	660	(2,138)	**(4,172)**
Other, net	**1,222**	(1,355)	(2,688)	**11,566**
Subtotal	**18,762**	22,123	15,245	**177,602**
Interest and dividend income received	**233**	140	227	**2,204**
Interest expense paid	**(329)**	(458)	(465)	**(3,111)**
Insurance received	**3,003**	—	—	**28,427**
Income taxes paid	**(453)**	(5,997)	(8,066)	**(4,288)**
Income taxes refunded	**1,980**	—	—	**18,747**
Net cash provided by operating activities	**23,196**	15,808	6,941	**219,581**
Cash flows from investing activities:				
Capital expenditures	**(3,226)**	(7,046)	(6,586)	**(30,536)**
Purchase of investment securities	**(511)**	(3,704)	(267)	**(4,835)**
Proceeds from sale of investment securities	**1,074**	473	857	**10,164**
Proceeds from sale of property, plant and equipment	**3,770**	—	—	**35,688**
Purchase of short-term investments	**(7,022)**	(5,252)	(2,841)	**(66,470)**
Proceeds from sale of short-term investments	**11,520**	4,854	1,898	**109,049**
Investment in a subsidiary	—	—	(537)	—
Proceeds from collection of loans receivable	—	12	1,012	—
Other, net	**(359)**	712	90	**(3,401)**
Net cash provided by (used in) investing activities	**5,246**	(9,951)	(6,374)	**49,659**
Cash flows from financing activities:				
Proceeds from long-term debt	**10,000**	—	—	**94,661**
Repayment of long-term debt	**(416)**	(1,421)	(624)	**(3,938)**
Redemption of convertible bond	**(19,945)**	—	—	**(188,802)**
Repurchase of treasury stock, net	**(3)**	(3,274)	(3,223)	**(34)**
Dividends paid	**(1,758)**	(1,812)	(1,854)	**(16,642)**
Other, net	—	—	17	—
Net cash used in financing activities	**(12,122)**	(6,507)	(5,684)	**(114,755)**
Effect of exchange rate changes on cash and cash equivalents	**49**	84	177	**470**
Net increase (decrease) in cash and cash equivalents	**16,369**	(566)	(4,940)	**154,955**
Cash and cash equivalents at beginning of year	**25,054**	25,620	30,555	**237,158**
Cash and cash equivalents of a newly consolidated subsidiary	—	—	5	—
Cash and cash equivalents at end of year	**¥41,423**	¥25,054	¥25,620	**$392,113**

See accompanying notes to consolidated financial statements.

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of Santen Pharmaceutical Co., Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Change in accounting method

In August 2002, the Financial Accounting Deliberation Council issued Financial Accounting Standard on Accounting for Impairment of Fixed Assets, which is required to be adopted in the fiscal year ending March 31, 2006. Earlier application is allowed from the year ended March 31, 2004. Effective in the year ended March 31, 2004, the Company and its domestic subsidiaries have early adopted the new Accounting Standard for Impairment of Fixed Assets including related Guidelines issued on October 31, 2003 by the Accounting Standards Board. The effect of this change was to decrease income before income taxes by ¥377 million ($3,567 thousand).

2. Summary of Significant Accounting Policies

1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (the "Companies"). All significant intercompany balances and transactions are eliminated on consolidation.

Investments in affiliated companies are stated at cost, because the Companies' equity in earnings of these companies is not significant.

2) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

3) Short-term investments, investment securities and golf membership rights (see Note 4)

The Company and all domestic subsidiaries have adopted the Financial Accounting Standard on Accounting for Financial Instruments, which was issued by the Financial Accounting Deliberation Council. In accordance with this standard, securities are classified into three categories; trading, held-to-maturity, or other securities.

Based on this classification, all trading securities and, any held-to-maturity and other securities with a maturity of less than one year, are included in current assets. All other securities are included in investment securities as noncurrent assets.

Those classified as other securities with a market value would be reported at fair value with unrealized holding gains, net of related taxes reported in equity. Realized gains and losses on sales of such securities are determined on the moving average cost method. Other securities with no market value are carried at cost, which is determined by the moving average cost method.

In addition, this standard also requires the recognition of an impairment loss on golf membership rights, included in other assets, on the consolidated balance sheets, when the market value showed a substantial decline and was not judged to recover.

4) Derivative instruments (see Note 5)

Derivative instruments are stated at fair value, and accounted for using deferral hedge accounting. Deferral hedge accounting requires unrealized gains or losses to be deferred as assets or liabilities. Foreign exchange contracts that meet the criteria are accounted for under the allocation method. The allocation method requires recognized foreign currency receivables or payables to be translated using the corresponding foreign exchange contract rates. Interest rate swaps that meet the criteria are accounted for under the special method, as regulated in the accounting standard, as if the interest rates under interest rate swaps were originally applied to underlying borrowings. The Company has also developed a hedging policy to control various aspects of derivative instruments including authorization levels and transaction volumes. Based on this policy, the Company hedges the exposure risk arising from fluctuations in foreign currency exchange rates, interest rates, and price of securities. The Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows from hedged items and corresponding changes in hedging derivative instruments.

5) Allowance for doubtful receivables

Allowance for doubtful receivables is provided principally at an amount computed based on the actual ratio of bad debts in the past and the estimated uncollectible amounts based on the individual analysis of certain receivables.

6) Inventories (see Note 6)

Inventories are stated at cost, determined principally by the average method.

7) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation of buildings, acquired prior to April 1, 1998, and other property, plant and equipment is computed over the estimated useful lives of the assets by the declining-balance method for the Company and all domestic subsidiaries. Buildings (other than leasehold improvements), which were acquired on or after April 1, 1998, are depreciated using the straight-line method for the Company and all domestic subsidiaries. Depreciation is computed over the estimated useful lives of the assets by the straight-line method for all overseas subsidiaries.

The principal estimated useful lives are as follows:

Buildings and structures	31 to 50 years
Machinery and equipment	7 years
Tools, furniture and vehicles	4 to 10 years

8) Goodwill

Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is amortized on a straight-line basis over a period of ten years.

9) Leases (see Note 7)

In Japan, finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

10) Impairment of assets (see Note 8)

In accordance with the Accounting Standards for Impairment of Fixed Assets in Japan, fixed assets, such as property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset, or group of assets, to estimated undiscounted future cash flows expected to be generated. If the carrying amount of an asset, or group of assets, exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the greater of its net realizable value or value in use.

11) Retirement and severance benefits (see Note 10)

Employees of the Company and all domestic subsidiaries are generally entitled to lump-sum severance and, in certain cases, annuity payments on retirement, based on current rates of pay, length of service and certain other factors. A portion of the prescribed benefit plan is covered by funded defined benefit pension plans.

The Company and all domestic subsidiaries have adopted the Accounting Standard for Retirement Benefits which was issued by the Financial Accounting Deliberation Council. In accordance with this standard, the allowance for retirement benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets. Actuarial gains and losses are amortized, from the year in which the actuarial gains and losses are incurred, using the straight-line method, over the estimated average remaining service years of employees.

In addition, the Company has an unfunded retirement benefit plan for directors and corporate auditors. The amounts required under the plan have been fully accrued. Accrued severance indemnities for the members of the board and corporate auditors of the Company are provided based on internal regulations that are similar to those for employees. The accrued provision for severance indemnities of the members of the board and corporate auditors is not funded.

Certain overseas subsidiaries have a defined contribution plan covering substantially all of their employees. The amounts contributed under the plan are charged to income.

12) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing on the balance sheet date, except for those items covered by forward exchange contracts.

The Company and all domestic subsidiaries have adopted the Accounting Standard for Foreign Currency Transactions which was issued by the Financial Accounting Deliberation Council, and requires all monetary assets and liabilities denominated in foreign currencies to be translated at the rate of exchange prevailing on the balance sheet date, except for those items covered by forward exchange contracts.

Financial statements of overseas subsidiaries are translated into Japanese yen at year-end rates for all assets and liabilities and at weighted average rates for income and expense accounts. Adjustments resulting from the translation of financial statements were reflected under the caption, “Foreign currency translation adjustments”, which are included in “Shareholders’ equity”.

13) Research and development and computer software (see Note 13)

Research and development expenditures are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred except if they contribute to the generation of income or to future cost savings. Such expenditures are capitalized as an asset and are amortized using the straight-line method over their estimated useful life, five years.

14) Net income and dividends per share (see Note 11)

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation is 87,931 thousand, 90,452 thousand and 92,536 thousand for the years ended March 31, 2004, 2003 and 2002, respectively.

The diluted net income per share assumes full conversion of outstanding convertible bonds at the beginning of the year (or at the time of issuance, if after the beginning of the year), and full exercise of outstanding warrants at the end of the year. The average number of shares used in the computation is 87,942 thousand, 99,635 thousand and 101,731 thousand for the years ended March 31, 2004, 2003 and 2002, respectively.

Cash dividends per share shown in the accompanying consolidated statements of income are the amounts applicable to the respective years.

15) Income taxes (see Note 14)

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and foreign tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

16) Cash and cash equivalents

Cash and cash equivalents mainly include cash in hand, readily available deposits and all highly liquid debt investments, generally with a maturity of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

3. Translation into United States Dollars

The accompanying consolidated financial statements are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥105.64=US$1, the approximate exchange rate prevailing on March 31, 2004. The translation should not be construed as a representation that the Japanese yen have been, could have been, or could in the future be converted into United States dollars at that rate or any other rate.

4. Short-term Investments and Investment Securities

The following is a summary of held-to-maturity debt securities and other securities with a market value at March 31, 2004 and 2003:

	Millions of yen							
	2004				2003			
	Held-to-maturity debt securities				Held-to-maturity debt securities			
	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Bonds and debentures	**¥1,500**	**¥ 13**	**¥ (1)**	**¥1,512**	¥3,737	¥ 0	¥ (16)	¥3,721

	Other securities				Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	**¥6,058**	**¥2,525**	**¥ (58)**	**¥8,525**	¥4,913	¥ 998	¥(420)	¥5,491
Other securities	**947**	**9**	**(81)**	**875**	943	4	(75)	872
	¥7,005	**¥2,534**	**¥(139)**	**¥9,400**	¥5,856	¥1,002	¥(495)	¥6,363

	Thousands of U.S. dollars			
	2004			
	Held-to-maturity debt securities			
	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Bonds and debentures	**$ 14,199**	**$ 124**	**$ (5)**	**$ 14,318**

	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	**$ 57,341**	**$ 23,898**	**$ (547)**	**$ 80,692**
Other securities	**8,961**	**83**	**(768)**	**8,276**
	$ 66,302	**$ 23,981**	**$ (1,315)**	**$ 88,968**

Maturities of investments at March 31, 2004 and 2003 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2004		2003		**2004**	
	Bonds and debentures	Other securities	Bonds and debentures	Other securities	Bonds and debentures	Other securities
Cash equivalents	**¥7,500**	**¥ —**	¥ 2,500	¥ —	**$ 70,996**	**$ —**
Due within one year	**500**	**261**	4,205	—	**4,733**	**2,471**
Due after one year through five years	**1,005**	**595**	1,542	270	**9,513**	**5,632**
Due after five years through ten years	**—**	**294**	—	393	**—**	**2,783**
	¥9,005	**¥1,150**	¥ 8,247	¥ 663	**$ 85,242**	**$ 10,886**

5. Derivative Instruments

The Company principally utilizes derivative instruments such as foreign exchange contracts, interest rate swaps, currency interest rate swaps, currency options and equity options to hedge the exposure risk arising from fluctuations in foreign currency exchange rates, interest rates and market price of securities.

The Company is exposed to the risk that the counterparties will not be able to fully satisfy their obligations under contracts, but the Company believes that such risk is mitigated by the high credit ratings of the counterparties.

The interest rate swap contracts outstanding at March 31, 2004 and 2003 are as follows:

		Millions of yen					
		2004			2003		
	Currency	Notional amounts	Market value	Unrealized gain (loss)	Notional amounts	Market value	Unrealized gain (loss)
Variable-rate into fixed-rate obligations	Yen	**¥ 1,926**	**¥ 191**	**¥ 191**	¥ 1,000	¥ (23)	¥ (23)

		Thousands of U.S. dollars		
		2004		
	Currency	Notional amounts	Market value	Unrealized gain (loss)
Variable-rate into fixed-rate obligations	Yen	**$ 18,228**	**$ 1,804**	**$ 1,804**

6. Inventories

Inventories at March 31, 2004 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Merchandise	**¥ 2,011**	¥ 2,117	**$ 19,038**
Finished goods	**5,462**	6,877	**51,699**
Work in process and semi-finished goods	**937**	662	**8,872**
Raw materials and supplies	**1,984**	2,028	**18,781**
	¥10,394	¥11,684	**$ 98,390**

7. Leases

Finance leases, except for those in which ownership is deemed to be transferred to the lessee, are accounted for as operating leases.

Finance leases:

Equivalent purchase amount, accumulated depreciation and future minimum lease payments on an "as if capitalized" basis at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Machinery and equipment:			
Equivalent purchase amount	**¥13,280**	¥11,005	**$125,709**
Equivalent accumulated depreciation amount	**10,001**	9,372	**94,667**
Equivalent balance at year-end	**3,279**	1,633	**31,042**
Tools:			
Equivalent purchase amount	**711**	484	**6,734**
Equivalent accumulated depreciation amount	**301**	152	**2,852**
Equivalent balance at year-end	**410**	332	**3,882**
Total:			
Equivalent purchase amount	**13,991**	11,489	**132,443**
Equivalent accumulated depreciation amount	**10,302**	9,524	**97,519**
Equivalent balance at year-end	**¥ 3,689**	¥ 1,965	**$ 34,924**
Future minimum lease payments:			
Due within one year	**¥ 810**	¥ 426	**$ 7,670**
Due after one year	**2,980**	1,592	**28,209**
	¥ 3,790	¥ 2,018	**$ 35,879**

Lease payments, equivalent depreciation and equivalent interest expense for the three years ended March 31, 2004 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Lease payments	**¥ 736**	¥ 638	¥ 1,880	**$ 6,962**
Equivalent depreciation	**¥ 692**	¥ 486	¥ 1,692	**$ 6,551**
Equivalent interest expense	**¥ 55**	¥ 18	¥ 46	**$ 520**

Operating leases:

Future minimum rents under non-cancellable operating leases at March 31, 2004 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 97**	¥ 189	**$ 914**
Due after one year	**159**	300	**1,502**
	¥ 256	¥ 489	**$ 2,416**

8. Impairment of assets

The Company and all domestic subsidiaries review the recorded value of their property, plant and equipment and intangible assets to determine if the future cash flows to be derived from these properties will be sufficient to recover the remaining recorded asset values. As discussed in Note 1, the Company and all domestic subsidiaries account for impairment of assets in accordance with the new Financial Accounting Standard on Accounting for Impairment of Assets. The Company and all domestic subsidiaries recognized an impairment loss of ¥377 million ($3,567 thousand) during the year ended March 31, 2004 related to write-down of the carrying value of land and building. Impairment loss of ¥323 million ($ 3,057 thousand) relates to idle land of the distribution center and the remaining ¥54 million ($ 510 thousand) is for a rental building which is to be sold in the fiscal year ending March 31, 2005.

9. Long-term Debt

Long-term debt at March 31, 2004 and 2003 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Unsecured convertible bond, due in installments through 2003, interest 0.80%	**¥ —**	¥ 19,945	**$ —**
Unsecured yen syndicated loans from domestic banks, due in 2008, interest 0.44%	**10,000**	—	**94,661**
Unsecured loans from governmental institutions, due in installments through 2010, interest 0.00%	**336**	384	**3,181**
Unsecured yen loans from domestic banks, due in installments through 2011, interest 1.78% to 4.75%	**2,350**	2,718	**22,245**
Total	**12,686**	23,047	**120,087**
Less: Current portion shown in current liabilities	**(416)**	(20,361)	**(3,938)**
	¥ 12,270	¥ 2,686	**$ 116,149**

The Company obtained a five-year long-term syndicated loan of ¥10,000 million ($94,661 thousand) from thirteen Japanese commercial banks in 2004 and the Bank of Tokyo Mitsubishi has acted as the lead arranger.

As is customary in Japan, long-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given upon request of the bank under certain circumstances, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations due to the bank. To date, the Company has not received such a request from its banks.

The aggregate annual maturities of long-term debt at March 31, 2004 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 416	$ 3,938
2006	416	3,938
2007	416	3,938
2008	416	3,938
2009	10,416	98,599
2010 and thereafter	606	5,736
Total	¥ 12,686	$ 120,087

10. Retirement and Severance Benefits

The following tables set forth the details of benefit obligation, plan assets and funded status of the Companies at March 31, 2004 and 2003.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
For employees:			
Benefit obligation at end of year	**¥ (12,140)**	¥ (12,003)	**$ (114,915)**
Fair value of plan assets at end of year	**5,512**	4,591	**52,180**
Funded status (benefit obligation in excess of plan assets)	**(6,628)**	(7,412)	**(62,735)**
Unrecognized actuarial loss	**1,296**	2,124	**12,264**
For directors and corporate auditors:			
Accrued retirement benefit	**(441)**	(466)	**(4,179)**
Retirement and severance benefits recognized in the consolidated balance sheets	**¥ (5,773)**	¥ (5,754)	**$ (54,650)**

All domestic subsidiaries have adopted the permitted alternative treatment, accrual for 100% of the amount required if all employees were to voluntarily terminate their employment as of the balance sheet date, prescribed by the accounting standard for retirement benefits for small business entities.

Retirement and severance costs of the Companies include the following components for the three years ended March 31, 2004.

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
For employees:				
Service cost	**¥ 1,086**	¥ 796	¥ 706	**$ 10,278**
Interest cost	**265**	259	288	**2,507**
Expected return on plan assets	**(92)**	(142)	(132)	**(869)**
Recognized actuarial loss	**122**	170	58	**1,155**
Expense for multi-employer pension plan	**—**	198	346	**—**
Net periodic benefit cost	**¥ 1,381**	¥ 1,281	¥ 1,266	**$ 13,071**
For directors and corporate auditors:				
Accrual for retirement benefit	**¥ 28**	¥ 21	¥ 228	**$ 269**

Assumptions used in the accounting for retirement and severance benefits for the three years ended March 31, 2004 are as follows:

	2004	2003	2002
Method of attributing benefit to period of service	**Straight-line basis**	Straight-line basis	Straight-line basis
Discount rate	**2.00%**	2.00%	3.00%
Expected return on plan assets	**2.00%**	3.00%	3.00%
Amortization period for actuarial losses*	**14 years**	14 years	14 years

* Amortized on a straight-line basis over the average remaining service period for employees in service starting from the year in which the losses occur.

11. Shareholders' Equity

Under the Code, at least 50% of the issue price of new shares is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital have been credited to additional paid-in capital.

The Code, amended effective on October 1, 2001, provides that an amount equal to at least 10% of cash payments for appropriation of retained earnings with respect to each fiscal period be appropriated to a legal reserve until the aggregated amount of additional paid-in capital and the legal reserve equals 25% of the stated capital. Additional paid-in capital and the legal reserve may be used to reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. The portion in excess of 25% of the stated capital may be used for dividend distribution. The legal reserve, which is included in retained earnings, amounted to ¥1,551 million ($14,686 thousand) and ¥1,551 million as of March 31, 2004 and 2003, respectively.

Cash dividends charged to retained earnings during the three years ended March 31, 2004 represent dividends paid out during the periods. The accompanying consolidated financial statements do not include any provision for the semi-annual dividend of ¥30 ($0.28) per share, aggregating ¥2,638 million ($24,971 thousand) which was approved at the Company's shareholders' meeting on June 25, 2004 in respect of the year ended March 31, 2004.

Under the Code, the amount available for dividends is based on retained earnings, net of treasury stock, as recorded on the Company's book. At March 31, 2004, retained earnings, net of treasury stock, recorded on the Company's book were ¥90,739 million ($858,953 thousand). Such retained earnings included ¥84,109 million ($796,185 thousand) which are designated as general reserves, but are available for distribution as future dividends subject to approval of the shareholders' meeting and legal reserve requirements. Unrealized holding gains on securities, net of related taxes is not available for distribution as dividends and bonuses to directors and corporate auditors.

The Company repurchased 2,768,713 shares with aggregate value of ¥3,271 million during the year ended March 31, 2003, and retired 2,741,000 shares with aggregate value of ¥3,240 million ($30,669 thousand) during the year ended March 31, 2004.

12. Stock Options

The Company has stock-based compensation plans under which stock options are granted annually to directors and corporate officers at the market price on the date of the grant. The grants are fully exercisable after two years and span ten years.

Information concerning option activities and balances is as follows:

		Weighted average exercise price	
	Number of shares	Yen	U.S. dollars
Balance at March 31, 2001	199,000	¥2,203	
Granted	55,000	2,299	
Exercised	11,000	1,540	
Balance at March 31, 2002	243,000	2,255	
Granted	92,000	1,326	
Balance at March 31, 2003	335,000	2,000	$18.93
Granted	**137,600**	**1,176**	**11.13**
Balance at March 31, 2004	**472,600**	**¥1,760**	**$16.66**

On June 25, 2004, the Company's shareholders' meeting approved that the Company's stock acquisition rights as stock options would be allotted to directors and corporate officers of the Company and directors of major overseas subsidiaries. These stock option rights are exercisable from June 26, 2006 to June 24, 2014. The total number of stock acquisition rights is limited in aggregate to 78,200 common shares.

13. Research and Development Expenditures

Research and development expenditures charged to income for the years ended March 31, 2004, 2003 and 2002 amounted to ¥11,853 million ($112,203 thousand), ¥12,719 and ¥12,187 million, respectively.

14. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on earnings which, in the aggregate, resulted in an average normal tax rate of approximately 42.0% for the three years ended March 31, 2004. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The effective rates for the years ended March 31, 2004, 2003 and 2002 differ from the normal tax rates for the following reasons:

	2004	2003	2002
Normal tax rate	**42.0** %	42.0 %	42.0 %
Change in valuation allowance allocated to income tax expenses	**12.6**	12.2	14.0
Lower tax rates of subsidiaries	**2.8**	4.6	4.2
Expenses not deductible for tax purposes	**2.0**	3.2	3.0
Adjustments of deferred tax assets and liabilities for enacted changes in tax laws and rates	**0.6**	—	—
Per capita inhabitant tax	**0.6**	—	—
Tax credit for research and development expenses	**(8.3)**	—	(4.6)
Loss on the liquidation of affiliates	—	(49.3)	—
Others	**1.8**	1.8	(0.4)
Effective tax rate	**54.1** %	14.5 %	58.2 %

The tax effects of temporary differences and tax loss carryforwards that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2004 and 2003 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Tax loss carryforwards	**¥5,715**	¥5,095	**$ 54,097**
Retirement and severance benefits	**1,844**	1,847	**17,455**
Accrued expenses	**1,290**	953	**12,210**
Accrued enterprise taxes	**789**	—	**7,467**
Depreciation and amortization	**696**	—	**6,589**
Unrealized profits of other intangibles	**139**	321	**1,312**
Deferred assets for tax purposes	**221**	351	**2,089**
Loss on impairment of golf membership rights	**220**	229	**2,082**
Loss on valuation of securities	**181**	—	**1,708**
Loss on impairment of fixed assets	**173**	—	**1,637**
Loss on valuation of inventories	**171**	—	**1,617**
Other	**834**	669	**7,905**
Total gross deferred tax assets	**12,273**	9,465	**116,168**
Less valuation allowance	**(6,975)**	(5,296)	**(66,031)**
Net deferred tax assets	**5,298**	4,169	**50,137**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(1,026)**	(226)	**(9,699)**
Reserve for special depreciation	**(202)**	(213)	**(1,913)**
Refundable enterprise taxes	**—**	(197)	**—**
Other	**(27)**	(32)	**(254)**
Total gross deferred tax liabilities	**(1,255)**	(668)	**(11,866)**
Net deferred tax assets	**¥4,043**	¥3,501	**$ 38,271**

Net deferred tax assets at March 31, 2004 and 2003 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Current assets — deferred tax assets	**¥2,256**	¥1,202	**$ 21,353**
Investments and other assets — deferred tax assets	**1,814**	2,331	**17,172**
Non current liabilities — deferred tax liabilities	**(27)**	(32)	**(254)**
Net deferred tax assets	**¥4,043**	¥3,501	**$ 38,271**

Income taxes have not been accrued on undistributed earnings of domestic subsidiaries, as distributions of such income are not taxable under present circumstances.

The Company has not recognized deferred tax liabilities for the portion of undistributed earnings of overseas subsidiaries because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future, except for the amount that will probably be distributed. Deferred tax liabilities will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments.

15. Contingent Liabilities

At March 31, 2004, the Company has provided guarantees to financial institutions covering employee loans totaling ¥679 million ($ 6,427 thousand).

16. Segment Information

The Companies operate predominantly in a single industry segment: the production, sale and marketing of pharmaceuticals.

Intercompany sales between geographic areas are recorded at cost plus a markup and intercompany sales and profits are eliminated on consolidation. Corporate assets are composed mainly of cash and cash equivalents, short-term investments and investment securities.

Information by geographic area and overseas sales are as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Geographic areas:				
Net sales:				
Japan:				
External customers	**¥ 79,338**	¥ 81,858	¥ 82,624	**$ 751,024**
Intersegment	**1,018**	660	519	**9,636**
Total	**80,356**	82,518	83,143	**760,660**
Europe:				
External customers	**8,849**	6,643	4,845	**83,761**
Intersegment	**1,156**	983	1,098	**10,946**
Total	**10,005**	7,626	5,943	**94,707**
Other:				
External customers	**1,671**	1,752	1,498	**15,820**
Intersegment	**6,036**	7,648	7,414	**57,133**
Total	**7,707**	9,400	8,912	**72,953**
Corporate and eliminations	**(8,210)**	(9,291)	(9,032)	**(77,715)**
Consolidated	**¥ 89,858**	¥ 90,253	¥ 88,966	**$ 850,605**
Operating income (loss):				
Japan	**¥ 20,351**	¥ 20,652	¥ 18,879	**$ 192,650**
Europe	**(2,599)**	(3,816)	(3,384)	**(24,603)**
Other	**(550)**	(1,083)	(474)	**(5,201)**
Corporate and eliminations	**(2,678)**	(3,056)	(3,231)	**(25,356)**
Consolidated	**¥ 14,524**	¥ 12,697	¥ 11,790	**$ 137,490**
Assets:				
Japan	**¥ 132,791**	¥ 129,750	¥ 117,864	**$ 1,257,021**
Europe	**11,669**	9,865	21,397	**110,461**
Other	**6,016**	7,030	7,936	**56,945**
Corporate and eliminations	**(238)**	503	4,906	**(2,261)**
Consolidated	**¥ 150,238**	¥ 147,148	¥ 152,103	**$ 1,422,166**

The main countries included in Europe and Other are as follows:
Europe: Finland, Sweden, and Germany
Other: United States of America, Taiwan and Korea

Overseas sales:				
Europe	**¥ 4,370**	¥ 3,506	¥ 3,009	**$ 41,367**
North America	**5,814**	4,650	3,500	**55,034**
Other	**2,197**	2,364	1,809	**20,795**
Total	**¥ 12,381**	¥ 10,520	¥ 8,318	**$ 117,196**
Consolidated net sales	**¥ 89,858**	¥ 90,253	¥ 88,966	**$ 850,605**
Percentage of overseas sales to consolidated net sales	**13.8%**	11.7%	9.3%	**13,8%**

The main countries included in Europe, North America and Other are as follows:
Europe: Finland, Sweden, Denmark, Russia and Germany
North America: United States of America and Canada
Other: Korea, China and Taiwan

Overseas sales represent the total amount of export sales of the Company and domestic subsidiaries and sales of overseas subsidiaries (intercompany sales between consolidated subsidiaries are eliminated upon consolidation).

KPMG

To the Board of Directors of
Santen Pharmaceutical Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Santen Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Santen Pharmaceutical Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As described in Note 1 to the consolidated financial statements, Santen Pharmaceutical Co., Ltd. and its domestic subsidiaries adopted the new accounting standard for impairment of fixed assets effective in the year ended March 31, 2004.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 25, 2004