

---

## President's Message

---

I am very pleased to report the performance of Santen Pharmaceutical Co., Ltd. for the year ended March 31, 2005, the second year of our 2003-2005 Medium-term Management Plan. This Annual Report provides shareholders and other stakeholders a summary of our ongoing efforts and results related to the three-year Plan.



Takakazu Morita, President and Chief Executive Officer

## Outperformed the 2003-2005 Medium-term Management Plan

During the year under review, the Japanese prescription ophthalmic pharmaceuticals market experienced an average reduction in drug prices of 2.7%. We nevertheless accomplished growth in both revenue and earnings, with net sales of ¥92,696 million, up 3.2% from the previous year, operating income of ¥18,982 million, up 30.7%, and net income of ¥11,023 million, up 74.4%. We have attained our profit targets for the 2003-2005 Medium-term Management Plan one year ahead of schedule. While this was due in part to growth in the anti-allergy segment caused by extraordinarily high airborne pollen counts in Japan, I am very encouraged by our achievements and the results of our ongoing efforts to improve operational efficiency and profitability. We will continue our efforts to further enhance operational efficiency and accelerate the pace of clinical development, thus taking on the challenge of achieving higher goals ahead.

In the Japanese prescription ophthalmic market, we continued to focus on our key growth areas which are corneal and conjunctival disorders, glaucoma, and allergies. In the glaucoma segment, we achieved expected results for *Rescula Eye Drops* (generic name: unoprostone isopropyl), for which sales commenced in October 2004. Overseas, we recorded a profit before R&D expenditures in our U.S. ophthalmics pharmaceuticals business, signaling a major step in improving profitability. In Europe and Asia, we succeeded in expanding sales.

In over-the-counter (OTC) eye drops, we made further progress in controlling inventories and improving the efficiency of sales and marketing expenses. In medical devices, we concentrated resources on intraocular lenses.

In the area of anti-rheumatic pharmaceuticals, we started sales of *Metolate* (methotrexate) in July 2004 and worked to attain rapid market penetration.

With respect to R&D, we are aggressively involved in clinical trials centering on ophthalmics, and are making good progress in the development of our key candidates (two glaucoma treatments, one corneal disorders treatment, and one rheumatoid arthritis treatment).

## Increased Dividends

Returning profits to shareholders through cash dividends is an important management goal for Santen. We actively seek to return profits commensurate with performance, and improve capital efficiency while maintaining flexibility and soundness of corporate finance. In line with this policy, a

year-end dividend of ¥30 per share was approved at the 93rd Annual General Meeting of Shareholders held on June 24, 2005. Combined with the interim cash dividend already paid out, the annual dividend per share came to ¥50.

## Progress Made in the 2003-2005 Medium-term Management Plan

To establish the foundations for our next phase of growth while ensuring a sufficient earnings power, we have been implementing the Medium-term Management Plan with three key objectives of improving profitability, strengthening research and development, and reinforcing our organizational strength. The Plan is scheduled for completion in March 2006.

### I. IMPROVE PROFITABILITY

In order to improve profitability in our U.S. ophthalmic business, we entered into a sales partnership with Johnson & Johnson Vision Care, Inc. (JJVCI) in December 2003. JJVCI subsequently commenced sales of Santen's ophthalmic anti-infective *Quixin* (brand name in Japan: *Cravit*), glaucoma treatment *Betimol* and ophthalmic anti-allergy *Alamast (Alegysal)* in February 2004. This resulted in a significant reduction in selling expenses in our U.S. business and enabled us to report a profit before R&D expenditures in 2004.

During the year, we completed the conversion to the *Dimple Bottle*, a new container for prescription ophthalmics first introduced in 2002. Developed for the convenience of patients, the *Dimple Bottle* allows easy identification, administration and monitoring of solution volume, and has received high acclaim from both patients and medical professionals for its distinctive features. Moreover, the *Dimple Bottle* was also designed to improve production efficiency, and the conversion has led to further reduced manufacturing costs.

In our non-manufacturing operations, we effectively cut annual costs by standardizing and downsizing our sales offices. This conversion into satellite offices also offset the increase in the number of locations. We are also continuing to improve efficiencies in other areas such as purchasing and administrative operations.

At the same time, we endeavored to maintain and strengthen our domestic sales base, which represents Santen's main profit center. We conducted a pilot study to test a new approach in our ophthalmics business designed to enhance the quality of our medical representative (MR) activities. The study confirmed improvements both in customer satisfaction and in the number of prescriptions. In the past, we based our



sales plans on a survey of clinical needs by institution. However, under this new approach, we will respond to growing diversification in the needs of ophthalmology through information and service tailored to individual ophthalmologists. In the fiscal year ending March 31, 2006, we plan to expand this initiative nationwide to strengthen our sales capabilities.

To increase the efficiency of our MR activities, we shortened the travel time to client institutions by establishing satellite offices and by using mobile computers. In addition, the Santen Activity Improved Navigator (SAIN), our sales force automation system, has significantly reduced the time required for analyzing data and formulating sales plans.

## 2. STRENGTHEN R&D

Clinical trials proceeded either on or ahead of schedule for the prostaglandin compound DE-085 (generic name: tafluprost) and the angiotensin II receptor antagonist DE-092 (olmesartan), both glaucoma drug candidates expected to drive our future growth. Successful progress was also made on the compound DE-089 (diqafosol tetrasodium) for corneal and conjunctival disorder associated with dry eye, and the compound DE-096 (undetermined) for rheumatoid arthritis. Concerning DE-096, we have initiated preparations for clinical trials with an eye to expanding applications as a treatment of retinal disorders.

## 3. REINFORCE ORGANIZATIONAL STRENGTH

We have been reinforcing our corporate governance system to further enhance the objectivity and transparency of our management. We expanded our Board of Directors from five members to a total of eight members by adding an internal director and two outside directors. We recently reorganized our committees in July 2005 and established a Corporate Strategy Committee and a Nominating Committee in addition to an Executive Compensation Committee to further enhance and strengthen corporate governance. We are maintaining the same system of corporate auditors in the current year.

With respect to employees, we have continued the Santen Innovation Project (SIP), where operational reforms were implemented by middle management, the core of our operational personnel.

## Outlook for the Next Fiscal Year and Prospects for Dynamic Growth

Even though we achieved the profit targets of the Medium-term Management Plan a year ahead of schedule, we remain committed to the three basic objectives of the Plan for the fiscal year ending March 31, 2006. We will strive to reach even higher levels of consolidated net sales and income than the financial targets set forth in the Medium-term Management Plan, targeting net sales of ¥97,500 million, an increase of 5.2% from the previous year, operating income of ¥20,800 million, up 9.6%, and net income of ¥12,500 million, up 13.4%. We intend to achieve a 10% return on equity (ROE) as originally targeted.

Another management focus during the current year is to formulate the next Medium-term Management Plan. The focus of the current Plan is to improve profitability through greater efficiency. In our next Plan we will continue our efforts to enhance operational efficiency but our primary focus will be to accelerate growth through the launch of key new products currently under development.

We expect to benefit from the overall market growth in the areas of glaucoma, retina, and corneal and conjunctival disorders including dry eye. The combination of current unmet medical needs and an increase in the number of patients associated with the aging population will help drive market growth in these areas.

While Japanese drug prices and medical fees are scheduled for revision in the year ending March 31, 2007, we will strive to maintain planned profits for the current fiscal year and prepare for decisive growth in the future. On behalf of the members of the Board, I would like to extend my sincere appreciation for your continued support.

A handwritten signature in black ink that reads "T. Morita". The signature is written in a cursive, flowing style.

Takakazu Morita  
President and Chief Executive Officer

August 2005