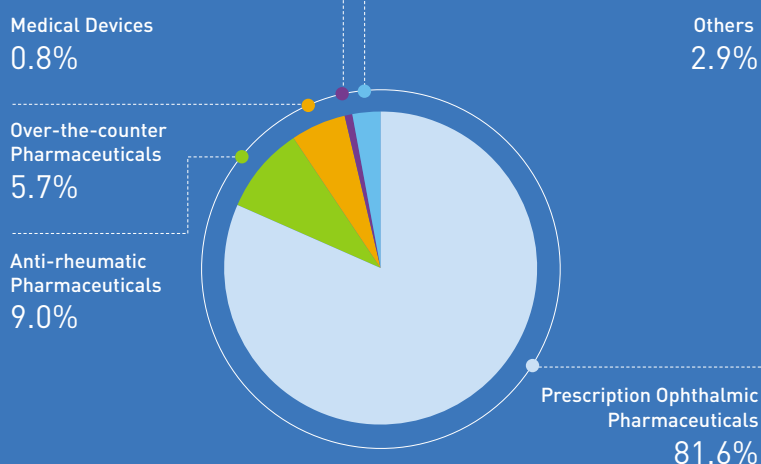


Review of Operations

Sales by Business (Year ended March 31, 2005)

Net Sales: ¥92,696 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>Oftaquix</i> and <i>Cravit</i>) and other products through a sales network in the United States, Europe and Asia. 	39.6% ; 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. 	42.9% ; 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 and phacoemulsification machines. 	—

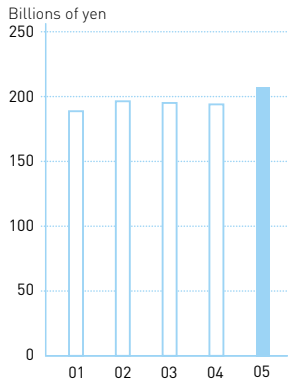
Notes: 1. Market share and market position in Japan for the year ended March 31, 2005. The share and position for anti-rheumatic pharmaceuticals represent those in the disease modifying anti-rheumatic drugs (DMARDs) segment. Source: Santen analysis based on IMS data. Copyright IMS Japan KK, 2005. Unauthorized Copy Prohibited.

2. Market share and market position in the Japanese OTC eye drop market for the year ended March 31, 2005. Source: Santen Pharmaceutical Co., Ltd.

Review of Operations

Prescription Pharmaceuticals | Ophthalmic Pharmaceuticals

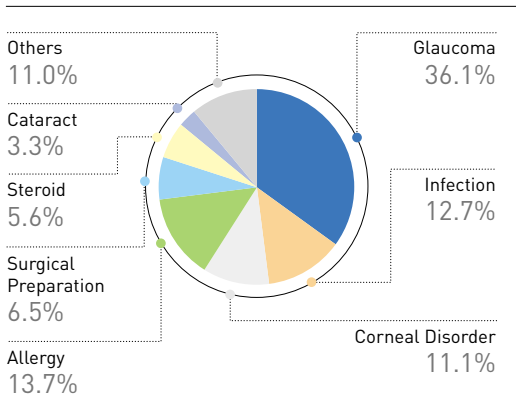
Prescription Ophthalmics Market in Japan



Copyright IMS Japan KK, 2005
 Source: Santen based on IMS data
 Period: 2001-2005; Unauthorized Copy Prohibited



Japanese Prescription Ophthalmics Market by Therapeutic Field (Year ended March 31, 2005)



Copyright IMS Japan KK, 2005
 Source: Santen analysis based on IMS data
 Period: 2005; Unauthorized Copy Prohibited

JAPAN

In the year ended March 31, 2005, the overall Japanese prescription ophthalmic market was affected by an average 2.7% drop in drug prices, due to the revision of National Health Insurance (NHI) drug prices implemented in April 2004. Sales nevertheless rose year-on-year, due to the diminished effects of an increase in contributions for elderly health insurance and co-payments of insured workers that led to a return to past levels in the number of doctor visits. The expansion of the anti-allergy market, caused by a rise in the airborne pollen count, also contributed to sales growth.

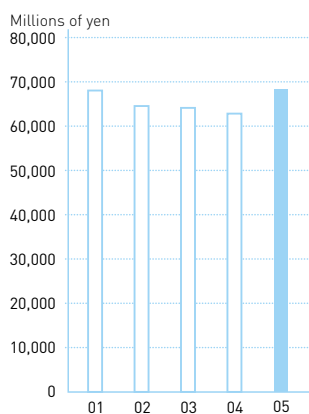
Within this market environment, Santen continued to concentrate resources on its key growth fields—corneal and conjunctival disorders, glaucoma and allergy with a view to maintaining and improving our domestic earnings base.

During the year under review, we reinforced promotional activities such as the provision of pharmaceutical information that reflects the emerging needs of healthcare professionals. To this end, we leveraged the Santen Activity Improved Navigator (SAIN), the sales force automation system for medical representatives (MRs) which we established in 2003. In addition, we continued to plan and organize seminars and lectures for healthcare professionals. As a result, overall sales of prescription ophthalmic pharmaceuticals in Japan reached ¥68,383 million, up 9.0% from the previous year.

The number of patients with ophthalmic disorders is expected to continue to rise over the mid- to long-term in step with the aging population. On the other hand, market expansion has led competitors to develop their own plans for introducing new products and to strengthen their sales efforts.

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

● Sales of Prescription Ophthalmic Pharmaceuticals in Japan



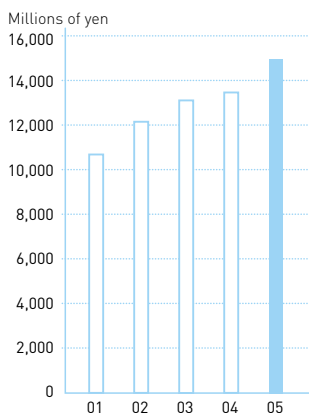
Santen will continue to sharpen its competitiveness while maintaining and expanding earnings in key growth areas. We are committed to projects that are renewing our ophthalmic business in Japan by providing information that meets the needs of individual ophthalmologists and by building a solid platform from which new drugs can be launched.



▲ About 200 ophthalmologists attending Santen's lecture meeting in commemoration of the fifth anniversary of the anti-infective *Cravit* (July 2005)



Sales of Hyalein



Corneal Disorder Treatments

With respect to treatments for corneal and conjunctival epithelium disorders caused by dry eye and other factors, the Japanese market has grown at an average annual rate of approximately 10% for the last few years. Santen has been at the forefront of this expansion, with a commanding market share of approximately 80%.

The number of dry eye patients in Japan alone is estimated at more than eight million, and a recent survey of office workers showed that about one in three suffers from dry eye. The prevalence is expected to continue rising with the spread of personal computers, increasing contact lens use, and an aging population.

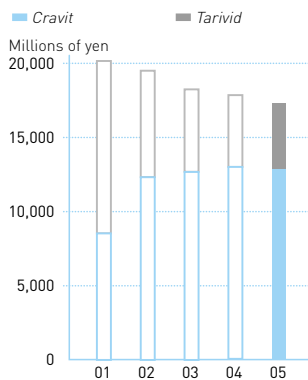
In the year ended March 31, 2005, domestic sales of our mainstay *Hyalein* reached ¥14,231 million, up 6.1% from the previous year, due to its recognized contribution to enhancing patients' quality of life (QOL) and to activities designed to raise healthcare professionals' awareness about dry eye.

Hyalein is a highly water-retentive ophthalmic solution that increases tear film stability. It relieves corneal and conjunctival epithelium disorders caused by dry eye and other factors. With the growing recognition of dry eye as a disorder, Santen will continue to provide healthcare professionals with information on its diagnosis and treatment, and thereby achieve greater sales for *Hyalein*.

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



Sales of *Cravit* and *Tarivid*



Anti-Infective Ophthalmics

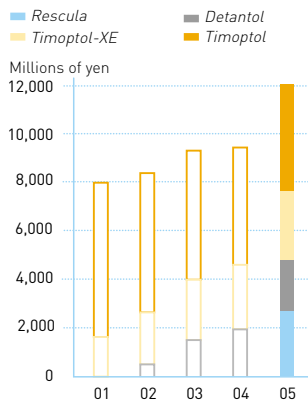
Negative growth rates in the anti-infective ophthalmic market over the past several years have been primarily due to such factors as declining doctor visits in the wake of medical cost-cutting policies. In the year ended March 31, 2005, the market shrank by 1.4% from the previous fiscal year.

Santen holds a commanding market share of approximately 80% of the anti-infective ophthalmic market based on a product line that includes *Cravit* and *Tarivid*, both of which are characterized by potent, broad-spectrum activity and an excellent ability to penetrate ophthalmic tissue. In the year under review, Santen's sales of anti-infective ophthalmics were affected by the launch of a new competing product and reduced NHI drug prices. Sales of *Cravit* were ¥12,667 million, down 1.5% year-on-year, and sales of *Tarivid* were ¥3,679 million, down 12.7%. Combined sales of *Cravit* and *Tarivid* were ¥16,346 million, down 4.3% from the previous year.

Santen will strive to maintain its share of the anti-infective ophthalmic market against the competition by highlighting *Cravit's* clinical effectiveness, backed by scientific data, and by providing more information on ocular infections to further solidify *Cravit's* position as the drug of first choice to treat ocular infections.



Sales of *Rescula*, *Detantol*, *Timoptol EX* and *Timoptol*



Glaucoma Treatment Drugs

Glaucoma treatments account for 36% of prescription ophthalmics in Japan, representing the largest segment of this market, a segment which has rapidly grown due in part to the aging population. In the year ended March 31, 2005, the glaucoma market grew 4.5% to ¥74,900 million, driven by the increasing number of patients and rising sales of high-priced treatments.

Santen continued to provide the latest information on glaucoma and recommended treatments to establish a strong presence in advance of the launch of new drugs starting in 2008, including a prostaglandin for treating glaucoma.

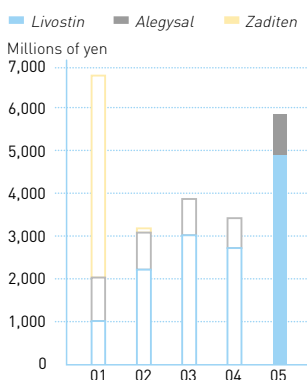
Santen in-licensed *Rescula* from R-Tech Ueno, Ltd. and began its sales in October 2004. With this product being added to the line-up, total sales of our four glaucoma treatments including *Detantol*, *Timoptol EX* and *Timoptol* were ¥12,052 million, up 28.0% from the previous year.

According to an epidemiological survey by the Japan Glaucoma Society released in December 2002, approximately one in 17 people aged 40 and older in Japan have glaucoma. Sixty percent suffer from normal tension glaucoma. We will therefore target normal tension glaucoma in the current year ending March 31, 2006, and emphasize the effectiveness of *Rescula* and *Detantol* as optimal treatments by citing the ample clinical data for *Rescula*. We will endeavor to contribute to improving the quality of life of glaucoma patients and to meet the treatment needs of healthcare professionals.

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



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



*Santen ceased selling *Zaditen* in June 2001 following the dissolution of the distribution agreement for the product.

Anti-Allergy Ophthalmics

In the year ended March 31, 2005, the anti-allergy ophthalmic market reversed the negative growth rate that had continued up to the previous fiscal year and achieved year-on-year growth of 36.0%. This was primarily due to the high airborne pollen count in Japan, one of the causes of allergic conjunctivitis.

Santen continued to provide ocular allergy and product information to segments other than ophthalmology, including otolaryngology, in addition to promoting *Livostin* by specifically addressing its ability to relieve itching.

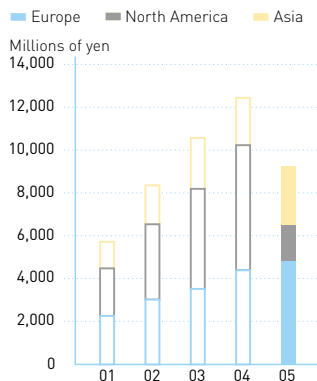
As a result, sales of *Livostin* were ¥4,917 million, up 80.2% from the previous year, enabling us to capture the top market share just four years after *Livostin*'s launch. Sales of *Alegysal* were ¥908 million, up 44.5%, bringing total sales of *Livostin* and *Alegysal* to ¥5,825 million, up 71.3% year-on-year. Santen's share of the anti-allergy ophthalmic market increased to 22.4%, up 1.7 percentage points from the previous year.

Looking ahead in the anti-allergy ophthalmic market for the current year ending March 31, 2006, the airborne pollen count is expected to subside below average annual levels in Japan. Santen will continue to actively promote *Livostin*, focusing on its ability to improve both year-round and seasonal allergies in order to further expand our sales of anti-allergy ophthalmics and boost market share. We also anticipate the addition of ciclosporin to our product line, which is a treatment for vernal keratoconjunctivitis* featuring a new mechanism of action, starting in the current fiscal year. This will give Santen a wide range of treatments for such ocular allergic conditions as allergic conjunctivitis and vernal keratoconjunctivitis. We are firmly determined to accelerate the expansion of our presence in this segment.

* Vernal keratoconjunctivitis is a severe, refractory ocular disease often seen in people aged 20 or younger. While anti-allergy drugs are used to treat the disease, an estimated 4,000 patients in Japan suffer from a condition above moderate severity and do not respond well to existing drugs.

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

Overseas Sales*



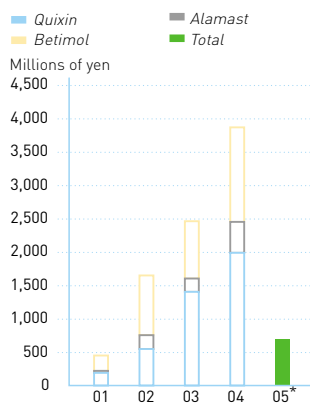
*Overseas sales include prescription ophthalmics and other products.

Overseas sales of prescription ophthalmic pharmaceuticals for the year ended March 31, 2005 were ¥7,241 million, down 19.8% from the previous year. While sales grew in Europe and Asia, they declined in the United States.



▲ Santen booth at the American Academy of Ophthalmology meeting in New Orleans (October 2004)

Sales of Quixin, Alamast and Betimol



*Sales in and thereafter February 2004, when the marketing channels were changed, represent combined sales of three products to JJVCI.

UNITED STATES

The ophthalmic pharmaceuticals market in the United States, the largest in the world, continues to show strong market growth, primarily due to the rising number of patients with age-related eye diseases such as glaucoma and age-related macular degeneration (AMD) resulting from the aging of the baby boomer population.

Sales of Santen’s U.S. ophthalmic business were ¥1,703 million, down 70.7% from the previous year, due largely to our distribution and supply agreement of December 2003 with Johnson & Johnson Vision Care, Inc. (JJVCI) and the resulting transition in marketing channels from direct operation to JJVCI. The effects of increased trade inventory at the end of the previous year also led to the decrease. On the other hand, operating income before R&D expenses moved into the black, as a result of reduced operating expenses. In addition, the trade inventory levels have shown a marked improvement since September 2004 and have reached appropriate levels.

Santen’s total sales of anti-infective ophthalmic *Quixin* (*Cravit* in Japan), glaucoma treatment *Betimol* and anti-allergy ophthalmic *Alamast* (*Alegysal* in Japan) to JJVCI for the year under review were ¥781 million, down 79.7% year-on-year. In the current year ending March 31, 2006, promotion of these three products will continue through our partnership with JJVCI.

We also continued to actively participate in major ophthalmic conventions in the United States. At every opportunity, we worked to provide product information to ophthalmologists attending these events from around the world and to communicate our message of “*A Clear Vision for Life*,” which embodies our goal of contributing to the quality of life of people through the development and supply of prescription ophthalmic pharmaceuticals that match the needs of patients and healthcare professionals.

Our U.S. business will be enhanced by our new drug candidate pipeline and reinforced strategic marketing activities focused on achieving our goal of business expansion in the world’s largest ophthalmic pharmaceutical market.

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



▲ The XXII Congress of the European Society of Cataract and Refractive Surgeons held in Paris, France (September 2004)



▲ Santen Oy in Tampere, Finland



▲ Laboratory at Santen Oy

EUROPE

The ophthalmic pharmaceutical market in Europe has been growing at a rate of roughly 5% to 12% annually, and is expected to maintain similar growth in the future. Factors behind this 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 AMD field. However, the market environment is becoming increasingly challenging as several national governments continue to enforce medical cost-cutting plans, such as encouraging the use of generic drugs.

The diverse healthcare structure of the European market is characterized by differing healthcare and medical insurance systems with varied prescription drug costs among countries, making it difficult to pursue a single pan-European strategy.

In Santen's European business, our Finnish subsidiary Santen Oy conducts marketing and clinical development in Northern and Eastern Europe and Russia, as well as the manufacturing and contract manufacturing of pharmaceuticals. In the year ended March 31, 2005, our local subsidiaries increased market share in Germany, Sweden and Finland. In 2002, we launched the anti-infective ophthalmic *Oftaquix* (*Cravit* in Japan) in Europe, which is currently sold in seven countries including Finland, Sweden and Germany. We have established our competitive edge as a reliable partner for ophthalmologists in the specialized market of post-surgery infections. In Germany, we have launched new products for dry eye and other ocular disorders. As a result, sales in Europe were ¥4,794 million, up 9.7% from the previous year.

We are currently selling successfully our ophthalmic branded generic line in Europe. We intend to take advantage of new product launches, including glaucoma treatment DE-085 (generic name: tafluprost), which is expected to gain approval in 2007 or 2008, to thus begin to transform our business by expanding sales based on new, proprietary drugs. We are going to promote these new drugs by using the most effective means available, including the use of direct marketing channels or distribution agreements, and by carefully considering the unique characteristics of each region and country. The current year ending March 31, 2006 will be a year of preparation for future launches of our new products. We will review costs to improve earnings and ensure a successful launch of DE-085.



▲ Signing ceremony for the China Ophthalmology Scholarship Program held in Beijing (December 2004)

ASIA

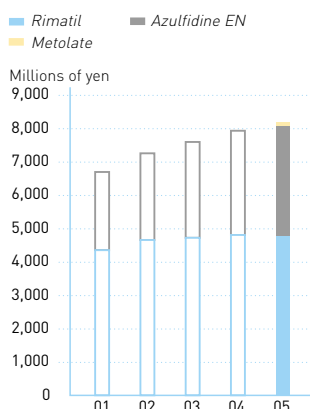
In Asia, Santen conducts importation and sales operations primarily through local distributors in 10 countries and regions in eastern Asia, including China, Korea and Taiwan. Our vision is to contribute to the development of ophthalmology in Asia by connecting with patients and medical professionals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

The Chinese market is particularly volatile, with rapid changes in drug price policy and fierce competition from local rivals. This market has shown double-digit growth, and Santen recognizes it as a priority. Aggressive marketing in China is focused on the key products, including the anti-infective drug *Tarivid* and the corneal disorder treatment *Hyalein*, and persistent efforts to provide academic information have paid off. Korea is another important market, and our reinforced promotional activities in this region have contributed to improved earnings. Despite negative growth rates in the anti-infective ophthalmic market, sales of *Cravit* remained strong. *Tarivid* also secured sales comparable to previous year's levels.

As a result, sales in the Asian market for the year ended March 31, 2005 were ¥2,752 million, up 25.3% from the previous year. In the current year ending March 31, 2006, we plan to increase sales in line with market growth in China and Korea.

Prescription Pharmaceuticals | Anti-Rheumatic Pharmaceuticals

Sales of *Rimatil*,
Azulfidine EN and *Metolate*



▲ Santen runs a booth at the 49th meeting of the Japan College of Rheumatology (April 2005)

Rheumatoid arthritis is a chronic disease in which tissue inflammation occurs in joints, destroys bone and results in gradual joint deformation. The estimated number of rheumatoid arthritis patients in Japan is approximately 700,000. In the year ended March 31, 2005, the market for disease-modifying anti-rheumatic drugs (DMARDs*) in Japan grew 5% to ¥23,300 million, due to factors such as the rising number of patients in an aging population and the expanding sales of high-priced drugs. Since 2003, new drugs such as tumor necrosis factor (TNF) inhibitors have been introduced, creating a new category of rheumatoid arthritis treatments.

Santen has gained the top position in the DMARD market with *Rimatil*, *Azulfidine EN* and *Metolate*. The Guidelines for the Management of Rheumatoid Arthritis released by the Japan College of Rheumatology in April 2004 states that DMARDs delay progressive joint damage when administered from the onset of the disease and are effective in improving the quality of life for patients. The guidelines designate *Rimatil*, *Azulfidine EN* and *Metolate* as “Recommendation Grade A,” that is, drugs with a highly recommendable therapeutic structure.

Sales of Santen’s anti-rheumatic pharmaceuticals for the year ended March 31, 2005 were ¥8,353 million, up 4.8% from the previous year. This was the result of increased sales of *Rimatil* and *Azulfidine EN* due to their rapid effectiveness following administration and the addition of *Metolate* to the product lineup.

In the current year ending March 31, 2006, we will recommend treatment for rheumatoid arthritis, depending on its stage and severity, communicating the effectiveness of *Rimatil*, *Azulfidine EN* and *Metolate*, as recommended in the Guidelines for the Management of Rheumatoid Arthritis. By doing so, Santen plans to further expand its presence in the DMARD market.

* Disease-modifying anti-rheumatic drugs (DMARDs): General term for drugs that demonstrate an anti-rheumatic effect by correcting immune abnormalities of rheumatoid arthritis, thereby calming the inflammation.



▲ *Azulfidine EN*



▲ *Rimatil*



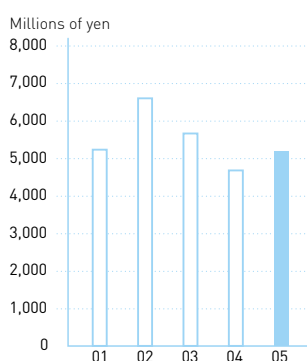
▲ *Metolate*

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

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 brand in Japan, and *Sante 40*, which provides effective relief from blurred vision. Santen's strength in the OTC pharmaceuticals market is due to the high-quality sales support capabilities and the communication skills of its sales and marketing staff. The Company also benefits from a product lineup designed to help people maintain and improve their ophthalmic health based on its advanced technology in eye drop development and formulation.

In the year ended March 31, 2005, the OTC eye drops market expanded year-on-year, invigorated by the introduction of new products in the contact lens and cooling effects segments, with the added contribution from an increase in the ocular allergy segment caused by the high airborne pollen count.

During the year under review, we continued working on sales promotions mainly related to eye drops for eye strain, blurred vision and cooling effects. Growth in eye drops for allergies due to the high pollen count and the culmination of our continued efforts at achieving appropriate levels of trade inventory resulted in sales of ¥5,277 million, up 13.0% year-on-year.

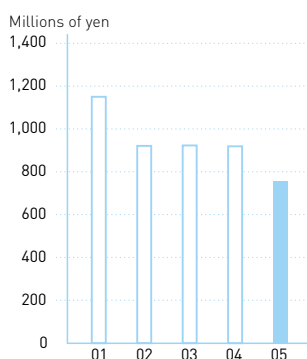
Amid continuing price competition in this field, Santen will consistently develop high value-added products that enjoy strong consumer demand. In the current year ending March 31, 2006, we will tackle business reforms to improve future profitability, including the advancement of marketing efficiency and reinforcement of planning capabilities of the head office.



▲ TV commercial for *Sante FX Neo* aired beginning April 2005

Medical Devices

Sales of Medical Devices



Santen's medical device business specializes in the field of cataract surgery centered on intraocular lenses (IOLs). With the goal of being 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.

ClariFlex, a foldable IOL launched in March 2003 that can potentially reduce the incidence of secondary cataract, demonstrated strong sales, increasing 20.5% year-on-year. However, sales of other IOLs and our phacoemulsification machines showed a decline, and we discontinued the sale of surgical instruments in December 2004. As a result, sales of medical devices for the year ended March 31, 2005 were ¥754 million, down 17.5% from the previous year.

In recent years, demand has concentrated on foldable IOLs that can be inserted through a small incision. Advanced Vision Science, Inc. (AVS), our U.S. subsidiary, is currently developing a unique new foldable IOL (development code: MD-14). In August 2004, Santen applied for approval of this lens in Japan, and we are currently conducting clinical trials in the United States.

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