
Financial Section

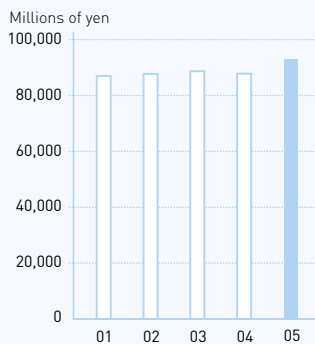
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Financial Review

Operating Results

Net Sales



Net Sales

Sales of prescription pharmaceuticals for the year ended March 31, 2005 increased by ¥4,237 million, or 5.3%, from the previous year to ¥84,298 million. Domestic sales of prescription ophthalmic pharmaceuticals increased by ¥5,666 million, or 9.0%, from the previous year to ¥68,383 million, despite the negative impact of the reduction in drug prices implemented in April 2004 and an increase in co-payments for insured workers. The increase was due to a continuing trend which brought the number of consultations back up to past levels along with the added contribution from newly introduced in-licensed products and an expanded anti-allergy treatment market driven by the higher airborne pollen count at year-end.

Overseas sales of prescription ophthalmics fell by ¥1,786 million, or 19.8%, to ¥7,241 million. Despite steady sales growth in Europe and Asia, sales were affected by a change in U.S. marketing channels from direct operation to Johnson & Johnson Vision Care, Inc. (JJVCI) and the effects of increased trade inventory at the end of the previous year.

Sales of anti-rheumatic pharmaceuticals for the year increased by ¥384 million, or 4.8%, from the previous year to ¥8,353 million, reflecting growth in sales of our two existing products in the disease modifying anti-rheumatic drug (DMARD) segment and successful market penetration of our *Metolate*, for which sales commenced in July 2004.

Sales of over-the-counter (OTC) pharmaceuticals rose by ¥605 million, or 13.0%, to ¥5,277 million, as a result of stronger sales of anti-allergy ophthalmics due to an increase in the airborne pollen count, and successfully achieving appropriate trade inventories based on our efforts in the previous year.

Sales of medical devices decreased by ¥160 million, or

17.5%, from the previous year to ¥755 million, as intensifying competition led to a decline in sales of intraocular lenses and phacoemulsification machines, and discontinuation of sales of surgical instruments as of December 31, 2004.

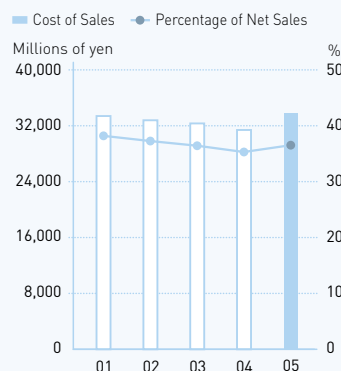
Sales of other business segment fell by ¥1,844 million, or 43.8%, to ¥2,366 million, attributable to the decline in contract manufacturing sales in Japan, the United States and Europe.

Net Sales by Business Segment

| Years ended March 31 | Millions of yen | | |
|------------------------------|-----------------|---------------|------------|
| | 2005 | 2004 | Change (%) |
| Prescription Pharmaceuticals | 84,298 | 80,061 | 5.3 |
| Ophthalmic | 75,625 | 71,745 | 5.4 |
| Anti-rheumatic | 8,353 | 7,969 | 4.8 |
| Others | 320 | 347 | (7.9) |
| OTC Pharmaceuticals | 5,277 | 4,672 | 13.0 |
| Medical Devices | 755 | 915 | (17.5) |
| Other Business | 2,366 | 4,210 | (43.8) |
| Total Sales | 92,696 | 89,858 | 3.2 |

Note: Figures in parentheses indicate a decrease.

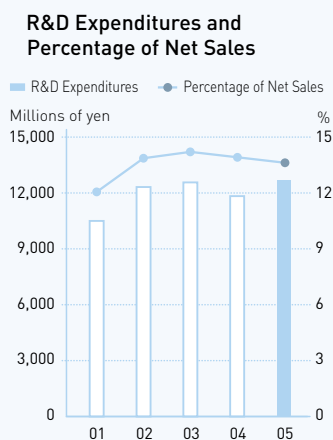
Cost of Sales and Percentage of Net Sales



Cost of Sales

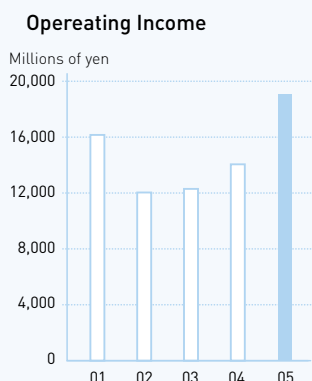
Cost of sales for the year grew by ¥1,851 million, or 5.8%, from the previous year to ¥33,710 million. The ratio of cost of sales to net sales rose by 1.0 percentage point to 36.4% from 35.4%. Despite such positive factors as increased manufacturing output and the rationalization of costs, the ratio was affected by reduced drug prices, switching our U.S. marketing channels from direct operation to Johnson & Johnson Vision Care, Inc. (JJVCI), and changes in the product mix.

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



Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses for the year decreased by ¥3,471 million, or 8.0%, from the previous year to ¥40,004 million, thus contributing to profit. Although R&D expenditures were higher as clinical development advanced to later phases, these costs were more than offset by the actual reduction in selling expenses from our sales partnership in the United States.



Operating Income

Operating income for the year advanced by ¥4,458 million, or 30.7%, from the previous year to ¥18,982 million. This was primarily due to improved profitability brought about by the growing sales of domestic prescription pharmaceuticals and reduced selling expenses, resulting from the switch in U.S. marketing channels in the ophthalmics business.

The ratio of operating income to net sales improved by 4.3 percentage points to 20.5% from 16.2% in the previous year, signifying a recovery to levels above 20%.

Other Income and Expenses

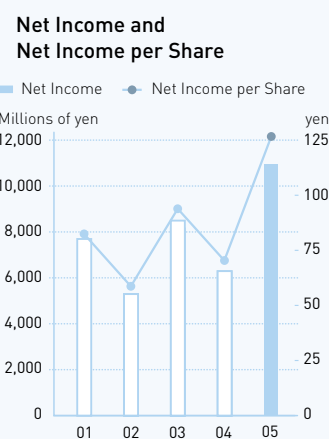
Net other expenses for the year totaled ¥546 million, a decline of ¥203 million, or 27.1%, compared with the previous year.

Other income decreased by ¥1,649 million, or 45.9%, from the previous year, to ¥1,941 million. In line with our overall review of the retirement benefit program, we introduced a new program and accordingly reported gains of ¥316 million from the transition to the new program and ¥211 million from the establishment of a retirement benefit trust. However, gains on matured insurance received declined to ¥114 million from ¥1,712 million in the previous year, resulting in the considerable drop in other income.

Other expenses decreased by ¥1,854 million, or 42.7%, to ¥2,487 million. This included an impairment loss of ¥823 million on lease property and a restructuring charge of ¥441 million for our U.S. business. However, the absence of ¥719 million in retirement benefits under the career development support program and ¥855 million in losses caused by the discontinued operation of an affiliate that had been included in the previous year, led to a significant decline in other expenses for the year.

Income Taxes

While income before income taxes was higher than in the previous fiscal year, the effective tax rate declined as a result of improved profit at our overseas subsidiaries, and therefore income taxes for the year slightly decreased to ¥7,413 million.



Net Income

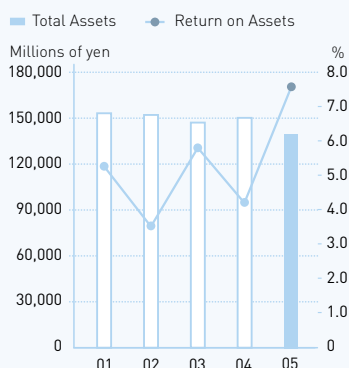
Net income expanded significantly by ¥4,702 million, or 74.4%, from the previous year to ¥11,023 million, enabling us to attain our profit target under the Medium-term Management Plan a year ahead of schedule. The ratio of net income to net sales improved by 4.9 percentage points to 11.9% from 7.0% in the previous year, primarily due to increased income reflecting growth in net sales and reduction in selling expenses.

Net income per share rose by ¥54.20 to ¥125.85 from ¥71.65 in the previous year, and diluted net income per share rose by ¥54.07 to ¥125.71 from ¥71.64.

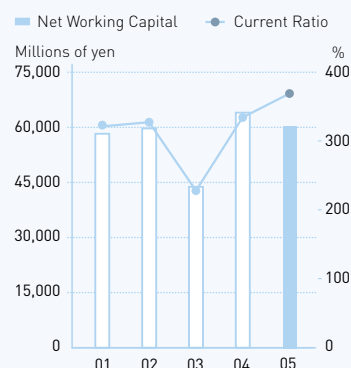
Note: All graphs in this section are based on fiscal years ended March 31.

Financial Condition

Total Assets and Return on Assets



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.

Assets

As of March 31, 2005, total assets were ¥139,980 million, down ¥10,258 million, or 6.8%, from the previous year-end. The decline in total assets was mainly due to a decrease in cash and cash equivalents caused by the payment of income taxes, repayment of long-term debt and cash expenditures for the establishment of a retirement benefit trust.

Current assets at the year-end decreased by ¥8,496 million, or 9.3%, to ¥82,735 million. Although trade receivables rose in line with increased net sales, cash and cash equivalents declined by ¥9,042 million, or 21.8%. The ratio of current assets to total assets fell by 1.6 percentage points to 59.1%, from 60.7% in the previous year.

Property, plant and equipment at year-end decreased by ¥4,561 million, or 12.2%, to ¥32,676 million, due to decreases in property, plant and equipment caused by depreciation and implementation of lease contracts. Return on assets (ROA) for the year improved by 3.3 percentage points to 7.6%, from 4.3% in the previous year, primarily due to the considerable increase in net income and reduced total assets.

Liabilities

Total liabilities, which are the sum of current and noncurrent liabilities, amounted to ¥31,740 million, a decline of ¥14,998 million, or 32.1%, from the previous year-end.

Current liabilities fell by ¥4,932 million, or 18.2%, to ¥22,222 million. This was primarily due to a decline of ¥4,719 million, or 58.0%, in income taxes payable, compared to the previous fiscal year, during which income taxes payable at year-end had significantly increased due to the small amount of income taxes paid at the interim period of the previous year.

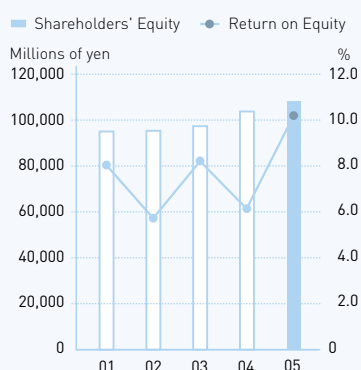
As a result, net working capital at year-end decreased by ¥3,565 million, or 5.6%, from the previous year-end to ¥60,512 million. The current ratio improved to 372% from 336% at the previous year-end.

Noncurrent liabilities at year-end decreased by ¥10,066 million, or 51.4%, from the previous year to ¥9,518 million. The main factors included a decrease of ¥5,656 million, or 46.1%, in long-term debt due to early partial repayment of a syndicated loan, and reduction of ¥3,915 million, or 67.8%, in allowances for retirement benefits caused by the establishment of a retirement benefit trust.

Interest-bearing debt at year-end declined by ¥5,804 million, or 45.8%, from the previous year to ¥6,882 million, reflecting repayment of long-term debt.

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

Shareholders' Equity and Return on Equity



Shareholders' Equity

Shareholders' equity at year-end increased by ¥4,740 million, or 4.6%, from the previous year to ¥108,240 million.

This was due to an increase in retained earnings reflecting significant growth in net income. The shareholders' equity ratio improved considerably by 8.4 percentage points to 77.3% from 68.9%, due to the effects of increased earnings and reduced liabilities. Return on equity (ROE) also jumped by 4.1 percentage points to 10.4% from 6.3%, as a result of a significant increase in net income. Shareholders' equity per share at year-end increased by ¥72.49, or 6.2%, from the previous year-end to ¥1,249.32.

Capital and Liquidity

Cash and cash equivalents at year-end decreased by ¥9,042 million, or 21.8%, from the previous year-end to ¥32,381 million. Cash carried over at the beginning of the year and cash generated by operating activities totaled ¥6,619 million, of which ¥2,907 million was used for investing activities and ¥12,712 million for financing activities.

Cash Flows

| | | Millions of yen | | |
|--|----------|-----------------|----------|--|
| Years ended March 31 | 2005 | 2004 | Change | |
| Cash Flows from Operating Activities | 6,619 | 23,196 | (16,577) | |
| Cash Flows from Investing Activities | (2,907) | 5,246 | 8,223 | |
| Cash Flows from Financing Activities | (12,712) | (12,122) | (590) | |
| Cash and Cash Equivalents at End of Year | 32,381 | 41,423 | (9,042) | |

Note: Figures in parentheses indicate a decrease.

▶ CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities declined by ¥16,577 million, or 71.5%, from the previous year to ¥6,619 million. While income before income taxes increased by ¥4,661 million and the combined payment of income taxes payable for the previous year and interim-payment of income taxes rose to ¥11,236 million, the absence of income tax refunds and the newly established retirement benefit trust resulted in the higher cash expenditure.

▶ CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used in investing activities amounted to ¥2,907 million, compared with ¥5,246 million in net cash generated in the previous year. This was in part due to the decrease in proceeds from the sale of securities.

▶ CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities increased by ¥590 million, or 4.9%, to ¥12,712 million. Despite the absence of ¥19,945 million in expenditures for the redemption of convertible bonds and ¥10,000 million in proceeds from long-term debt this year, ¥5,000 million in early partial repayment of syndicated loans, increases in dividend payments and repurchase of treasury stock led to the increase in expenditure.

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

Risks Related to Our Business

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 represent our best estimates based on our awareness of market conditions and may differ substantially from actual results. Our business, as well as each product we develop and market, is subject to various risks and uncertainties beyond our control.

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

We conduct business under government regulatory controls for healthcare programs and drug prices in Japan and other countries, and therefore future results could be affected by changes in any of these regulations. Our financial performance, in particular, relies heavily on Japan's prescription pharmaceuticals market, which represents 80% of our consolidated net sales. Biennial National Health Insurance (NHI) drug price revisions or other healthcare reforms that may take place beyond the scope of our anticipated projections, may also affect our operating and/or financial results. In April 2004, NHI drug price revisions went into effect resulting in an average 2.7% reduction for the prescription ophthalmic pharmaceuticals industry, which translated into an average 3.2% reduction for our total prescription pharmaceuticals sales.

We continue to face a variety of regulatory controls and government pressures for drug price reduction in 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 economic changes in 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 taxes, product liability, antitrust, environmental controls and other factors.

▶ 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, 2005 accounted for 10.0% of our consolidated 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—including *Cravit*, *Rescula* and *Livostin*—are protected by patents, generic pharmaceuticals for products such as *Hyalein* and *Tarivid* have already been introduced into the Japanese market by other companies. Market analysis leads us to expect that generic competition will increase.

An abbreviated new drug application (ANDA) has been 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. alleging patent violation.

▶ COMPETITION FROM OTHER BRANDED PRODUCTS

We have noted the launch of new branded products in the anti-infective market in Japan and overseas, and expect this trend to continue in the near future. These new products directly compete with our *Cravit* and *Quixin* and may affect future performance.

Dependency on Specific Products and Business Partners

▶ DEPENDENCY ON MAINSTAY PRODUCTS

Hyalein and *Cravit* each generate annual sales of over ¥10 billion, together representing 30% of Santen's consolidated net sales for the year ended March 31, 2005. Sales of these products are critical to our ongoing success, and any unanticipated negative influences, such as patent expiration and complications, potential product defects or newly discovered side effects, could affect our financial performance significantly.

▶ DEPENDENCY ON IN-LICENSED PRODUCTS

Many of the products we sell are in-licensed from other companies. We hold 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* and *Rescula*. Should changes be made in the terms and conditions of these agreements or should the agreements not be 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) in the U.S. In the event that JJVCI cannot achieve sufficient sales per our agreement, our financial results may be affected.

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 discontinued 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 70% of our consolidated net sales. If our wholesale partners experience bankruptcy leading to lending loss, we may be adversely affected.

Research and Development Activities

▶ UNCERTAINTY IN NEW PRODUCT DEVELOPMENT

Years are required to bring new drugs from initial research and development to final approval and marketing. Factors exist at every stage along the way 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, indications, or formulations under development will reach the approval stage and be ready for launching.

Forecasting a precise timeline for project development and completion depends on a number of variable factors, including, but not limited to, delayed government reviews, conflicting or unusable clinical data, safety and efficacy concerns, unexpected side effects, discontinued development, and delayed product launches, negatively affecting projected sales of new drugs.

▶ POTENTIALLY INSUFFICIENT RETURNS ON R&D INVESTMENT

The creation and development of new pharmaceuticals, as well as the development of new indications and formulations, are critical for the future growth of Santen. Every year, we significantly invest in research and development, and there is a possibility future 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. Actual determination of these alliances may affect our overall results and financial conditions.

Other Factors

▶ PRODUCTION INTERRUPTIONS OR DELAYS

The interruption or delay of production activities due to natural disasters or other catastrophes such as fire, may affect our financial performance and conditions. Certain products are only manufactured at one 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 causes, 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, consumer-related issues, and environmental concerns. If such legal actions take place, the proceedings may affect our overall performance and financial conditions. Currently, we are involved in no litigation that substantially impacts the management or performance of our company.

Nine-year Summary of Selected Financial Data

Years ended March 31

| | 2005 | 2004 | 2003 | 2002 |
|---|----------|----------|----------|----------|
| For the year: | | | | |
| Net sales..... | ¥ 92,696 | ¥ 89,858 | ¥ 90,253 | ¥ 88,966 |
| Cost of sales..... | 33,710 | 31,859 | 32,272 | 32,701 |
| Selling, general and administrative expenses..... | 40,004 | 43,475 | 45,284 | 44,475 |
| Operating income..... | 18,982 | 14,524 | 12,697 | 11,790 |
| Interest expense..... | 182 | 366 | 480 | 465 |
| Income before income taxes..... | 18,436 | 13,775 | 9,947 | 12,679 |
| Income taxes..... | 7,413 | 7,454 | 1,444 | 7,373 |
| Net income..... | 11,023 | 6,321 | 8,503 | 5,306 |
| Capital expenditures..... | 4,907 | 3,226 | 7,046 | 6,586 |
| Depreciation and amortization..... | 4,750 | 4,521 | 4,311 | 5,334 |
| R&D expenditures..... | 12,620 | 11,853 | 12,719 | 12,187 |
| Per share data (yen and U.S. dollars): | | | | |
| Net income-basic..... | ¥ 125.85 | ¥ 71.65 | ¥ 93.67 | ¥ 57.34 |
| Net income-diluted..... | 125.71 | 71.64 | 85.97 | 53.07 |
| Shareholder's equity (BPS)..... | 1,249.32 | 1,176.83 | 1,104.21 | 1,048.51 |
| Cash dividends, applicable to period..... | 50.00 | 40.00 | 20.00 | 20.00 |
| Cash Flows: | | | | |
| Net cash provided by operating activities..... | ¥ 6,619 | ¥ 23,196 | ¥ 15,808 | ¥ 6,941 |
| Net cash (used in) provided by investing activities..... | (2,907) | 5,246 | (9,951) | (6,374) |
| Net cash used in financing activities..... | (12,712) | (12,122) | (6,507) | (5,684) |
| Interest coverage ratio (times)..... | 36.1 | 70.6 | 34.5 | 14.9 |
| Debt amortization period (years)..... | 1.0 | 0.5 | 1.5 | 3.5 |
| At year-end: | | | | |
| Current assets..... | ¥ 82,735 | ¥ 91,231 | ¥ 83,431 | ¥ 86,064 |
| Net property, plant and equipment..... | 32,676 | 37,237 | 40,850 | 42,159 |
| Total assets..... | 139,980 | 150,238 | 147,148 | 152,103 |
| Long-term debt..... | 6,882 | 12,686 | 23,047 | 24,467 |
| Total shareholders' equity..... | 108,240 | 103,500 | 97,126 | 95,101 |
| Return on equity (ROE) (%)..... | 10.4 | 6.3 | 8.8 | 5.6 |
| Return on total assets (ROA) (%)..... | 7.6 | 4.3 | 5.7 | 3.5 |
| Shareholders' equity ratio (%)..... | 77.3 | 68.9 | 66.0 | 62.5 |
| Shareholders' equity ratio on stock price basis (%)..... | 142.3 | 101.8 | 68.7 | 86.6 |
| Price earnings ratio (PER) (times)..... | 18.3 | 24.3 | 12.3 | 25.3 |
| Issued shares (thousands)..... | 86,659 | 87,963 | 90,704 | 90,704 |
| Number of employees..... | 2,308 | 2,335 | 2,500 | 2,463 |

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, 2005 of ¥107.39 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, 2005, 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.

| Millions of yen | | | | | Thousands of U.S. dollars |
|-----------------|----------|----------|----------|----------|------------------------------|
| 2001 | 2000 | 1999 | 1998 | 1997 | 2005 |
| ¥ 88,449 | ¥ 83,577 | ¥ 79,639 | ¥ 77,957 | ¥ 75,216 | \$ 863,175 |
| 33,385 | 32,195 | 32,746 | 31,278 | 27,552 | 313,903 |
| 38,546 | 33,894 | 30,294 | 30,535 | 27,984 | 372,511 |
| 16,518 | 17,488 | 16,599 | 16,144 | 19,680 | 176,761 |
| 430 | 462 | 588 | 654 | 624 | 1,698 |
| 15,521 | 14,422 | 15,969 | 14,917 | 18,913 | 171,678 |
| 7,807 | 6,481 | 7,864 | 7,594 | 9,915 | 69,036 |
| 7,714 | 7,941 | 8,105 | 7,323 | 8,998 | 102,642 |
| 4,943 | 2,510 | 3,443 | 5,898 | 16,725 | 45,690 |
| 5,683 | 5,725 | 6,314 | 6,674 | 4,202 | 44,229 |
| 10,511 | 9,221 | 7,335 | 7,731 | 6,213 | 117,511 |
| ¥ 81.32 | ¥ 83.54 | ¥ 85.27 | ¥ 77.06 | ¥ 105.32 | \$ 1.17 |
| 75.01 | 77.04 | 78.63 | 71.01 | 99.87 | 1.17 |
| 1,022.99 | 1,006.48 | 935.71 | 862.88 | 877.12 | 11.63 |
| 20.00 | 12.00 | 12.00 | 12.00 | 12.00 | 0.47 |
| ¥ 6,832 | ¥ 9,372 | ¥ 16,339 | ¥ 11,535 | ¥ 16,181 | \$ 61,637 |
| (3,172) | 837 | (8,305) | (9,537) | (28,259) | (27,071) |
| (7,193) | (3,817) | (3,857) | (1,677) | 18,610 | (118,372) |
| 16.8 | 20.3 | 27.8 | 21.6 | 32.8 | — |
| 3.7 | 2.7 | 1.7 | 2.7 | 2.0 | — |
| ¥ 88,025 | ¥ 82,218 | ¥ 78,018 | ¥ 70,892 | ¥ 69,065 | \$ 770,417 |
| 36,684 | 37,416 | 39,638 | 43,425 | 47,278 | 304,275 |
| 153,243 | 149,968 | 144,913 | 138,822 | 140,226 | 1,303,472 |
| 25,482 | 26,491 | 27,496 | 31,168 | 31,807 | 64,085 |
| 94,834 | 95,669 | 88,950 | 81,998 | 75,759 | 1,007,913 |
| 8.1 | 8.6 | 9.5 | 9.3 | 11.9 | |
| 5.1 | 5.4 | 5.7 | 5.2 | 6.4 | |
| 61.9 | 63.8 | 61.4 | 59.1 | 54.0 | |
| 134.3 | 139.4 | 145.0 | 106.1 | 131.8 | |
| 27.3 | 26.3 | 25.9 | 20.1 | 21.6 | |
| 92,721 | 95,075 | 95,075 | 95,075 | 86,410 | |
| 2,167 | 2,093 | 2,037 | 2,010 | 1,910 | |

Consolidated Balance Sheets

Santen Pharmaceutical Co., Ltd. and Subsidiaries
As of March 31, 2005 and 2004

| ASSETS | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|------------------|------------------|--|
| | 2005 | 2004 | 2005 |
| Current assets: | | | |
| Cash and cash equivalents (Note 4)..... | ¥ 32,381 | ¥ 41,423 | \$ 301,525 |
| Short-term investments (Note 4)..... | 914 | 2,010 | 8,513 |
| Trade receivables: | | | |
| Notes..... | 398 | 511 | 3,704 |
| Accounts..... | 35,227 | 31,945 | 328,034 |
| Less allowance for doubtful receivables..... | (18) | (16) | (168) |
| Net trade receivables..... | 35,607 | 32,440 | 331,570 |
| Inventories (Note 6)..... | 9,827 | 10,394 | 91,507 |
| Deferred tax assets (Note 14)..... | 1,625 | 2,256 | 15,132 |
| Other current assets..... | 2,381 | 2,708 | 22,170 |
| Total current assets..... | 82,735 | 91,231 | 770,417 |
| Property, plant and equipment (Notes 7 and 8): | | | |
| Land..... | 9,487 | 10,646 | 88,338 |
| Buildings and structures..... | 40,257 | 41,553 | 374,869 |
| Machinery and equipment..... | 11,036 | 11,128 | 102,770 |
| Tools, furniture and vehicles..... | 10,609 | 10,588 | 98,791 |
| Construction in progress..... | 182 | 1,751 | 1,693 |
| Total..... | 71,571 | 75,666 | 666,461 |
| Less accumulated depreciation..... | (38,895) | (38,429) | (362,186) |
| Net property, plant and equipment..... | 32,676 | 37,237 | 304,275 |
| Investments and other assets: | | | |
| Investments in affiliates..... | — | 53 | — |
| Investment securities (Note 4)..... | 14,314 | 11,430 | 133,287 |
| Goodwill..... | 1,015 | 1,324 | 9,456 |
| Other intangibles..... | 2,303 | 2,677 | 21,442 |
| Deferred tax assets (Note 14)..... | 1,052 | 1,814 | 9,792 |
| Other assets..... | 5,885 | 4,472 | 54,803 |
| Total investments and other assets..... | 24,569 | 21,770 | 228,780 |
| Total assets..... | ¥ 139,980 | ¥ 150,238 | \$ 1,303,472 |

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|-----------|--|
| | 2005 | 2004 | 2005 |
| Current liabilities: | | | |
| Current portion of long-term debt (Note 9) | ¥ 268 | ¥ 416 | \$ 2,496 |
| Trade accounts payable | 6,123 | 5,040 | 57,013 |
| Other payables (Note 10) | 8,578 | 8,854 | 79,873 |
| Accrued expenses | 3,214 | 3,409 | 29,932 |
| Income taxes payable (Note 14)..... | 3,414 | 8,133 | 31,788 |
| Other current liabilities..... | 625 | 1,302 | 5,820 |
| Total current liabilities | 22,222 | 27,154 | 206,922 |
| Noncurrent liabilities: | | | |
| Long-term debt (Note 9)..... | 6,614 | 12,270 | 61,589 |
| Retirement and severance benefits (Note 10)..... | 1,858 | 5,773 | 17,301 |
| Deferred tax liabilities (Note 14)..... | 23 | 27 | 218 |
| Other liabilities..... | 1,023 | 1,514 | 9,529 |
| Total noncurrent liabilities | 9,518 | 19,584 | 88,637 |
| Shareholders' equity: | | | |
| Common stock (Notes 11 and 12): | | | |
| Authorized – 151,493,354 shares | | | |
| (152,844,454 shares in 2004) | | | |
| Issued – 86,658,703 shares | | | |
| (87,963,303 shares in 2004) | | | |
| | 6,248 | 6,214 | 58,179 |
| Additional paid-in capital (Notes 11 and 12)..... | 6,943 | 6,909 | 64,649 |
| Retained earnings (Note 11) | 95,902 | 91,845 | 893,021 |
| Unrealized holding gains on securities (Note 4 and 11)..... | 2,049 | 1,426 | 19,079 |
| Foreign currency translation adjustments | (2,827) | (2,854) | (26,321) |
| | 108,315 | 103,540 | 1,008,607 |
| Treasury stock at cost (Note 11): | | | |
| 39,660 shares in 2005 and 33,353 shares in 2004 | | | |
| | (75) | (40) | (694) |
| Total shareholders' equity..... | 108,240 | 103,500 | 1,007,913 |
| Contingent liabilities (Note 15) | | | |
| Total liabilities and shareholders' equity..... | ¥ 139,980 | ¥ 150,238 | \$ 1,303,472 |

Consolidated Statements of Income

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|----------|----------|--|
| | 2005 | 2004 | 2003 | 2005 |
| Net sales..... | ¥ 92,696 | ¥ 89,858 | ¥ 90,253 | \$ 863,175 |
| Cost of sales..... | 33,710 | 31,859 | 32,272 | 313,903 |
| Gross profit..... | 58,986 | 57,999 | 57,981 | 549,272 |
| Selling, general and administrative expenses..... | 40,004 | 43,475 | 45,284 | 372,511 |
| Operating income..... | 18,982 | 14,524 | 12,697 | 176,761 |
| Other income (expenses): | | | | |
| Interest and dividend income..... | 249 | 240 | 268 | 2,320 |
| Gains on insurance received..... | 114 | 1,712 | — | 1,066 |
| Interest expense..... | (182) | (366) | (480) | (1,698) |
| Gains on sale of investment securities..... | 1 | 675 | — | 8 |
| Gains on sale of fixed assets..... | 341 | 5 | 2 | 3,175 |
| Net gains on the change of the retirement benefits program (Note 10)... | 316 | — | — | 2,946 |
| Gains on marketable securities contributed to employees' retirement benefit trust (Note 10)..... | 211 | — | — | 1,964 |
| Loss on impairment of fixed assets (Note 8)..... | (823) | (377) | — | (7,665) |
| Loss on valuation of investment securities..... | (51) | (201) | (602) | (474) |
| Special premium payment on the separation from the composite pension fund..... | — | — | (2,203) | — |
| Retirement benefit under the carrier development support program..... | — | (719) | — | — |
| Loss on discontinued operations of affiliates..... | — | (855) | — | — |
| Restructuring charge for the U.S. business..... | (441) | (386) | — | (4,104) |
| Other, net..... | (281) | (477) | 265 | (2,621) |
| Income before income taxes..... | 18,436 | 13,775 | 9,947 | 171,678 |
| Income taxes (Note 14): | | | | |
| Current..... | 6,447 | 8,751 | 463 | 60,033 |
| Deferred..... | 966 | (1,297) | 981 | 9,003 |
| | 7,413 | 7,454 | 1,444 | 69,036 |
| Net income..... | ¥ 11,023 | ¥ 6,321 | ¥ 8,503 | \$ 102,642 |

Per share data:

| | Yen | | | U.S. dollars (Note 3) |
|---|----------|---------|---------|--------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| Net income-basic..... | ¥ 125.85 | ¥ 71.65 | ¥ 93.67 | \$ 1.17 |
| Net income-diluted..... | 125.71 | 71.64 | 85.97 | 1.17 |
| Cash dividends, applicable to the period..... | 50.00 | 40.00 | 20.00 | 0.47 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|-----------|-----------|--|
| | 2005 | 2004 | 2003 | 2005 |
| Common stock (Notes 11 and 12): | | | | |
| Balance at beginning of year | ¥ 6,214 | ¥ 6,214 | ¥ 6,214 | \$ 57,865 |
| Exercise of stock options..... | 34 | — | — | 314 |
| Balance at end of year | ¥ 6,248 | ¥ 6,214 | ¥ 6,214 | \$ 58,179 |
| Additional paid-in capital (Notes 11 and 12): | | | | |
| Balance at beginning of year | ¥ 6,909 | ¥ 6,909 | ¥ 6,909 | \$ 64,333 |
| Exercise of stock options..... | 34 | — | — | 316 |
| Balance at end of year | ¥ 6,943 | ¥ 6,909 | ¥ 6,909 | \$ 64,649 |
| Retained earnings (Note 11): | | | | |
| Balance at beginning of year | ¥91,845 | ¥90,552 | ¥83,893 | \$ 855,245 |
| Net income | 11,023 | 6,321 | 8,503 | 102,642 |
| Cash dividends paid | (4,397) | (1,758) | (1,814) | (40,942) |
| Bonuses to directors and corporate auditors..... | (21) | (30) | (30) | (196) |
| Retirement of treasury stock..... | (2,548) | (3,240) | — | (23,728) |
| Balance at end of year | ¥95,902 | ¥91,845 | ¥90,552 | \$ 893,021 |
| Unrealized holding gains on securities (Notes 4 and 11): | | | | |
| Balance at beginning of year | ¥ 1,426 | ¥ 294 | ¥ 474 | \$ 13,280 |
| Net change..... | 623 | 1,132 | (180) | 5,799 |
| Balance at end of year | ¥ 2,049 | ¥ 1,426 | ¥ 294 | \$ 19,079 |
| Foreign currency translation adjustments: | | | | |
| Balance at beginning of year | ¥ (2,854) | ¥ (3,566) | ¥ (2,383) | \$ (26,575) |
| Net change..... | 27 | 712 | (1,183) | 254 |
| Balance at end of year | ¥ (2,827) | ¥ (2,854) | ¥ (3,566) | \$ (26,321) |
| Treasury stock at cost (Note 11): | | | | |
| Balance at beginning of year | ¥ (40) | ¥ (3,277) | ¥ (6) | \$ (374) |
| Repurchase of treasury stock, net..... | (2,583) | (3) | (3,271) | (24,048) |
| Retirement of treasury stock..... | 2,548 | 3,240 | — | 23,728 |
| Balance at end of year | ¥ (75) | ¥ (40) | ¥ (3,277) | \$ (694) |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|----------|---------|--|
| | 2005 | 2004 | 2003 | 2005 |
| Cash flows from operating activities: | | | | |
| Income before income taxes..... | ¥18,436 | ¥13,775 | ¥9,947 | \$171,678 |
| Depreciation and amortization..... | 4,750 | 4,521 | 4,311 | 44,229 |
| Loss on impairment of fixed assets (Note 8)..... | 823 | 377 | — | 7,665 |
| (Decrease) increase in retirement and severance benefits..... | (2,551) | 43 | 133 | (23,754) |
| Interest and dividend income..... | (249) | (240) | (268) | (2,320) |
| Gains on insurance received..... | (114) | (1,712) | — | (1,066) |
| Interest expense..... | 182 | 366 | 480 | 1,698 |
| (Increase) decrease in trade receivables..... | (3,082) | (315) | 6,966 | (28,701) |
| Decrease in inventories..... | 595 | 1,342 | 647 | 5,536 |
| Increase (decrease) in trade accounts payable..... | 1,066 | (441) | 660 | 9,925 |
| Other, net..... | (2,263) | 1,046 | (753) | (21,068) |
| Subtotal..... | 17,593 | 18,762 | 22,123 | 163,822 |
| Interest and dividend income received..... | 247 | 233 | 140 | 2,297 |
| Interest expense paid..... | (183) | (329) | (458) | (1,706) |
| Insurance received..... | 198 | 3,003 | — | 1,847 |
| Income taxes paid..... | (11,236) | (453) | (5,997) | (104,623) |
| Income taxes refunded..... | — | 1,980 | — | — |
| Net cash provided by operating activities..... | 6,619 | 23,196 | 15,808 | 61,637 |
| Cash flows from investing activities: | | | | |
| Capital expenditures..... | (4,907) | (3,226) | (7,046) | (45,690) |
| Purchase of investment securities..... | (3,230) | (511) | (3,704) | (30,075) |
| Proceeds from sale of investment securities..... | 1,059 | 1,074 | 473 | 9,862 |
| Proceeds from sale of property, plant and equipment..... | 2,488 | 3,770 | — | 23,169 |
| Purchase of short-term investments..... | (6,048) | (7,022) | (5,252) | (56,315) |
| Proceeds from sale of short-term investments..... | 7,722 | 11,520 | 4,854 | 71,907 |
| Proceeds from collection of loans receivable..... | — | — | 12 | — |
| Other, net..... | 9 | (359) | 712 | 71 |
| Net cash (used in) provided by investing activities..... | (2,907) | 5,246 | (9,951) | (27,071) |
| Cash flows from financing activities: | | | | |
| Proceeds from long-term debt..... | — | 10,000 | — | — |
| Repayment of long-term debt..... | (5,804) | (416) | (1,421) | (54,046) |
| Redemption of convertible bonds..... | — | (19,945) | — | — |
| Repurchase of treasury stock, net (Note 11)..... | (2,583) | (3) | (3,274) | (24,048) |
| Dividends paid..... | (4,393) | (1,758) | (1,812) | (40,911) |
| Other, net..... | 68 | — | — | 633 |
| Net cash used in financing activities..... | (12,712) | (12,122) | (6,507) | (118,372) |
| Effect of exchange rate changes on cash and cash equivalents..... | (42) | 49 | 84 | (392) |
| Net (decrease) increase in cash and cash equivalents..... | (9,042) | 16,369 | (566) | (84,198) |
| Cash and cash equivalents at beginning of year..... | 41,423 | 25,054 | 25,620 | 385,723 |
| Cash and cash equivalents at end of year..... | ¥32,381 | ¥41,423 | ¥25,054 | \$301,525 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Santen Pharmaceutical Co., Ltd. and Subsidiaries

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.

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 “Accounting Standard for Financial Instruments” which was issued by the Business Accounting Council in Japan. 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 an available market value are 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 available 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 shows a substantial decline and is not judged to recover.

4) Derivative instruments (see Note 5)

Derivative instruments are stated at fair value, and accounted for using deferred hedge accounting. Deferred 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 prices 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 "Accounting Standards for Impairment of Fixed Assets" which was issued by the business Accounting Council 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.

The Company and all domestic subsidiaries have adopted "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. Prior service cost is expensed as incurred.

In January 2005, according to enforcement of the defined contribution pension plan act in Japan, the Company has abolished its qualified pension plan and introduced a new retirement benefit scheme, which is a combination of lump-sum severance plan, cash balance and defined contribution pension plan and has adopted the Financial Accounting Standards Implementation Guidance No.1 "Accounting for Transfers between Retirement Benefit Plans" which was issued by the Accounting Standards Board of Japan. The effect of this transition, ¥316 millions, was included in other income.

The Company established the retirement benefits trust in March 2005. The effect of this was ¥211 millions which is included in other income.

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 for members of the board and corporate auditors is not funded.

Certain overseas subsidiaries have defined contribution plans covering substantially all of their employees. The amounts contributed under the plans 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 "Accounting Standard for Foreign Currency Transactions" which was issued by the Business Accounting Council in Japan.

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 are reflected under the caption, "Foreign currency translation adjustments", 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 87,390 thousand, 87,931 thousand and 90,452 thousand for the years ended March 31, 2005, 2004 and 2003, 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 87,485 thousand, 87,942 thousand and 99,635 thousand for the years ended March 31, 2005, 2004 and 2003, 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, operating loss carry forwards 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 on 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.

17) Reclassifications

Certain reclassifications have been made to prior years' consolidated financial statements to conform with the presentation used for the year ended March 31, 2005.

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 ¥107.39=US\$1, the approximate exchange rate

prevailing on March 31, 2005. 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, 2005 and 2004:

| | Millions of yen | | | | | | | |
|------------------------------------|----------------------------------|-------------------------------|-------------------------|------------------------------------|----------------------------------|-------------------------------|-------------------------|---------|
| | 2005 | | | | 2004 | | | |
| | 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..... | ¥ 1,000 | ¥ 12 | ¥ — | ¥ 1,012 | ¥ 1,500 | ¥ 13 | ¥ (1) | ¥ 1,512 |

| | Millions of yen | | | | | | | |
|-------------------------|------------------|------------------------|-------------------------|-----------------------------------|------------------|------------------------|-------------------------|-----------------------------------|
| | 2005 | | | | 2004 | | | |
| | 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 | ¥ 8,789 | ¥ 3,576 | ¥ (114) | ¥ 12,251 | ¥ 6,058 | ¥ 2,525 | ¥ (58) | ¥ 8,525 |
| Other securities..... | — | — | — | — | 947 | 9 | (81) | 875 |
| | ¥ 8,789 | ¥ 3,576 | ¥ (114) | ¥ 12,251 | ¥ 7,005 | ¥ 2,534 | ¥ (139) | ¥ 9,400 |

| | Thousands of U.S. dollars | | | |
|---------------------------|----------------------------------|------------------------|-------------------------|----------------------|
| | 2005 | | | |
| | Held-to-maturity debt securities | | | |
| | Book value (Carrying amount) | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Bonds and debentures..... | \$ 9,312 | \$ 115 | \$ — | \$ 9,427 |

| | Other securities | | | |
|-----------------------|-------------------------|------------------------|-------------------------|-----------------------------------|
| | Cost | Gross unrealized gains | Gross unrealized losses | Book value (Estimated fair value) |
| | Equity securities | \$ 81,838 | \$ 33,302 | \$ (1,061) |
| Other securities..... | — | — | — | — |
| | \$ 81,838 | \$ 33,302 | \$ (1,061) | \$ 114,079 |

Maturities of investments at March 31, 2005 and 2004 are as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|----------------------|------------------|----------------------|------------------|---------------------------|------------------|
| | 2005 | | 2004 | | 2005 | |
| | Bonds and debentures | Other securities | Bonds and debentures | Other securities | Bonds and debentures | Other securities |
| Cash equivalents | ¥ 7,500 | ¥ — | ¥ 7,500 | ¥ — | \$ 69,838 | \$ — |
| Due within one year | 5 | — | 500 | 261 | 47 | — |
| Due after one year through five years..... | 1,000 | — | 1,005 | 595 | 9,312 | — |
| Due after five years through ten years..... | — | — | — | 294 | — | — |
| | ¥ 8,505 | ¥ — | ¥ 9,005 | ¥ 1,150 | \$ 79,197 | \$ — |

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, 2005 and 2004 are as follows:

| | Currency | Millions of yen | | | | | |
|--|----------|------------------|--------------|------------------------|------------------|--------------|------------------------|
| | | 2005 | | | 2004 | | |
| | | 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 |

6 INVENTORIES

Inventories at March 31, 2005 and 2004 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2005 | 2004 | 2005 |
| Merchandise..... | ¥ 2,295 | ¥ 2,011 | \$ 21,370 |
| Finished goods..... | 5,159 | 5,462 | 48,038 |
| Work in process and semi-finished goods..... | 854 | 937 | 7,953 |
| Raw materials and supplies..... | 1,519 | 1,984 | 14,146 |
| | ¥ 9,827 | ¥ 10,394 | \$ 91,507 |

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, 2005 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|------------------------------|
| | 2005 | 2004 | 2005 |
| Machinery and equipment: | | | |
| Equivalent purchase amount..... | ¥ 14,318 | ¥ 13,280 | \$ 133,324 |
| Equivalent accumulated depreciation amount..... | 10,751 | 10,001 | 100,109 |
| Equivalent balance at year-end..... | 3,567 | 3,279 | 33,215 |
| Tools: | | | |
| Equivalent purchase amount..... | 623 | 711 | 5,807 |
| Equivalent accumulated depreciation amount..... | 298 | 301 | 2,776 |
| Equivalent balance at year-end..... | 325 | 410 | 3,031 |
| Total: | | | |
| Equivalent purchase amount..... | 14,941 | 13,991 | 139,131 |
| Equivalent accumulated depreciation amount..... | 11,049 | 10,302 | 102,885 |
| Equivalent balance at year-end..... | ¥ 3,892 | ¥ 3,689 | \$ 36,246 |
| Future minimum lease payments: | | | |
| Due within one year..... | ¥ 963 | ¥ 810 | \$ 8,968 |
| Due after one year..... | 3,045 | 2,980 | 28,356 |
| | ¥ 4,008 | ¥ 3,790 | \$ 37,324 |

Lease payments, equivalent depreciation and equivalent interest expense for the three years ended March 31, 2005 are as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|----------------------------------|-----------------|-------|-------|------------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| Lease payments..... | ¥ 977 | ¥ 736 | ¥ 638 | \$ 9,099 |
| Equivalent depreciation..... | ¥ 911 | ¥ 692 | ¥ 486 | \$ 8,482 |
| Equivalent interest expense..... | ¥ 68 | ¥ 55 | ¥ 18 | \$ 634 |

Operating leases:

Future minimum rents under non-cancellable operating leases at March 31, 2005 and 2004 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------|-----------------|-------|------------------------------|
| | 2005 | 2004 | 2005 |
| Due within one year..... | ¥ 97 | ¥ 97 | \$ 903 |
| Due after one year..... | 147 | 159 | 1,366 |
| | ¥ 244 | ¥ 256 | \$ 2,269 |

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. The Company and all domestic subsidiaries account for impairment of assets in accordance with the Financial Accounting Standard on Accounting for Impairment of Assets. The Company and all

domestic subsidiaries recognized an impairment loss of ¥823 million (\$7,665 thousand) during the year ended March 31, 2005 related to write-down of the carrying value of land, building, machinery and other intangibles. Main impairment loss of ¥773 million (\$ 7,202 thousand) relates to a rental building and land in Nara prefecture that at the 1st half closing was to be sold and was subsequently sold in October 2004.

9 LONG-TERM DEBT

Long-term debt at March 31, 2005 and 2004 consists of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2005 | 2004 | 2005 |
| Unsecured yen syndicated loans from domestic banks, due in 2008, interest 0.45%..... | ¥ 5,000 | ¥ 10,000 | \$ 46,559 |
| Unsecured loans from governmental institutions, due in installments through 2010, interest 0.00%..... | — | 336 | — |
| Unsecured yen loans from domestic banks, due in installments through 2011, interest 1.79% to 4.75%..... | 1,882 | 2,350 | 17,526 |
| Total..... | 6,882 | 12,686 | 64,085 |
| Less: Current portion shown in current liabilities..... | (268) | (416) | (2,496) |
| | ¥ 6,614 | ¥ 12,270 | \$ 61,589 |

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, 2005 are as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|--------------------------|-----------------|------------------------------|
| 2006..... | ¥ 268 | \$ 2,496 |
| 2007..... | 368 | 3,427 |
| 2008..... | 368 | 3,427 |
| 2009..... | 5,368 | 49,986 |
| 2010..... | 310 | 2,887 |
| 2011 and thereafter..... | 200 | 1,862 |
| Total..... | ¥ 6,882 | \$ 64,085 |

10 RETIREMENT AND SEVERANCE BENEFITS

As discussed in Note 2, 11), the Company has abolished its qualified pension plan and introduced a new retirement benefit scheme, which is a combination of lump-sum severance, cash

balance and defined contribution pension plans in January 2005. In addition, the Company has set up an employees' retirement benefit trust in March 2005.

The following table sets forth the details of benefit obligation, plan assets and funded status of the Companies at March 31, 2005 and 2004.

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|------------|------------------------------|
| | 2005 | 2004 | 2005 |
| For employees: | | | |
| Benefit obligation at end of year..... | ¥ (10,053) | ¥ (12,140) | \$ (93,617) |
| Fair value of plan assets at end of year..... | 7,694 | 5,512 | 71,644 |
| Funded status (benefit obligation in excess of plan assets)..... | (2,359) | (6,628) | (21,973) |
| Unrecognized actuarial loss..... | 904 | 1,296 | 8,421 |
| For directors and corporate auditors: | | | |
| Accrued retirement benefit..... | (403) | (441) | (3,749) |
| Retirement and severance benefits recognized in the consolidated balance sheets..... | ¥ (1,858) | ¥ (5,773) | \$ (17,301) |

The decrease in retirement and severance benefits related to transition described in Note 2,11) was ¥2,891 million (\$26,921 thousand), and the relevant plan assets of ¥2,574 million (\$23,974 thousand) were scheduled to be transferred to the defined contribution pension plan over four years. The amount, which has not yet been transferred as of this fiscal year end, is ¥815 million (\$7,594 thousand) and is included in other

payables and other liabilities.

All domestic subsidiaries have adopted the permitted alternative treatment, accruing for 100% of the amount required if all employees were to voluntarily terminate their employment as of the balance sheet date, in accordance with 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, 2005.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|---------|---------|------------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| For employees: | | | | |
| Service cost..... | ¥ 869 | ¥ 1,086 | ¥ 796 | \$ 8,092 |
| Interest cost..... | 217 | 265 | 259 | 2,022 |
| Expected return on plan assets..... | (103) | (92) | (142) | (958) |
| Recognized actuarial loss..... | 111 | 122 | 170 | 1,033 |
| Expense for multi-employer pension plan..... | — | — | 198 | — |
| Amortization of unrecognized prior service cost..... | 572 | — | — | 5,327 |
| Net gains on the change of the retirement benefits program..... | (316) | — | — | (2,946) |
| Contribution to defined contribution pension plan..... | 491 | — | — | 4,570 |
| Net periodic benefit cost..... | ¥ 1,841 | ¥ 1,381 | ¥ 1,281 | \$ 17,140 |
| For directors and corporate auditors: | | | | |
| Accrual for retirement benefit..... | ¥ 6 | ¥ 28 | ¥ 21 | \$ 54 |

Assumptions used in the accounting for retirement and severance benefits for the three years ended March 31, 2005 are as follows:

| | 2005 | 2004 | 2003 |
|---|---------------------|---------------------|---------------------|
| Method of attributing benefit to period of service..... | Straight-line basis | Straight-line basis | Straight-line basis |
| Discount rate..... | 2.00% | 2.00% | 2.00% |
| Expected return on plan assets..... | 2.00% | 2.00% | 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 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 (\$14,447 thousand) and ¥1,551 million as of March 31, 2005 and 2004, respectively.

Cash dividends charged to retained earnings during the three years ended March 31, 2005 represent dividends paid out during the periods. The accompanying consolidated financial

statements do not include any provision for the year end dividend of ¥30 (\$0.28) per share, aggregating ¥2,599 million (\$24,198 thousand) which was approved at the Company's shareholders' meeting on June 24, 2005 in respect of the year ended March 31, 2005.

Under the Code, the amount available for dividends is based on retained earnings, net of treasury stock, as recorded on the Company's books. At March 31, 2005, retained earnings, net of treasury stock, recorded on the Company's books were ¥96,302 million (\$896,749 thousand). Such retained earnings included ¥84,109 million (\$783,211 thousand) which is 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 are not available for distribution as dividends or bonuses to directors and corporate auditors.

The Company repurchased 1,357,407 shares with aggregate value of ¥2,583 million (\$24,048 thousand) and retired 1,351,100 shares with aggregate value of ¥2,548 million (\$23,728 thousand) during the year ended March 31, 2005.

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 for the three years ended March 31, 2005 is as follows:

| | Number of shares | Weighted average exercise price | |
|--------------------------------|------------------|---------------------------------|--------------|
| | | Yen | U.S. dollars |
| Balance at March 31, 2002..... | 243,000 | ¥ 2,255 | |
| Granted..... | 92,000 | 1,326 | |
| Balance at March 31, 2003..... | 335,000 | 2,000 | |
| Granted..... | 137,600 | 1,176 | |
| Balance at March 31, 2004..... | 472,600 | 1,760 | \$ 16.39 |
| Granted..... | 78,200 | 1,743 | 16.23 |
| Exercised..... | (46,500) | (1,450) | (13.50) |
| Balance at March 31, 2005..... | 504,300 | ¥ 1,786 | \$ 16.63 |

On June 24, 2005, 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 25, 2007 to June 23, 2015. The total number of stock acquisition rights is limited in aggregate to 136,000 common shares.

13 RESEARCH AND DEVELOPMENT EXPENDITURES

Research and development expenditures charged to income for the years ended March 31, 2005, 2004 and 2003 amounted to

¥12,620 million (\$117,511 thousand), ¥11,853 and ¥12,719 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 rates of approximately 40.4%,

42.0% and 42.0% for the years ended March 31, 2005, 2004 and 2003, respectively. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The effective rates for the years ended March 31, 2005, 2004 and 2003 differ from the normal tax rates for the following reasons:

| | 2005 | 2004 | 2003 |
|---|--------|--------|--------|
| Normal tax rate | 40.4 % | 42.0 % | 42.0 % |
| Change in valuation allowance allocated to income tax expenses | 2.7 | 12.6 | 12.2 |
| Expenses not deductible for tax purposes | 1.6 | 2.0 | 3.2 |
| Lower tax rates of subsidiaries | 0.6 | 2.8 | 4.6 |
| Per capita inhabitant tax | 0.4 | 0.6 | — |
| Tax credit for research and development expenses | (5.7) | (8.3) | — |
| Adjustments of deferred tax assets and liabilities for enacted changes in tax rates | — | 0.6 | — |
| Loss on the liquidation of affiliates | — | — | (49.3) |
| Others | 0.2 | 1.8 | 1.8 |
| Effective tax rate | 40.2 % | 54.1 % | 14.5 % |

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, 2005 and 2004 are presented below:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2005 | 2004 | 2005 |
| Deferred tax assets: | | | |
| Tax loss carryforwards | ¥5,657 | ¥5,715 | \$ 52,680 |
| Retirement and severance benefits | 1,798 | 1,844 | 16,745 |
| Accrued expenses | 1,044 | 1,290 | 9,722 |
| Accrued enterprise taxes | 298 | 789 | 2,771 |
| Depreciation and amortization | 666 | 696 | 6,202 |
| Unrealized profits of other intangibles | 92 | 139 | 854 |
| Deferred assets for tax purposes | 118 | 221 | 1,099 |
| Loss on impairment of golf membership rights | 230 | 220 | 2,142 |
| Loss on valuation of securities | 231 | 181 | 2,155 |
| Loss on impairment of fixed assets | 148 | 173 | 1,378 |
| Loss on valuation of inventories | 74 | 171 | 689 |
| Other | 839 | 834 | 7,809 |
| Total gross deferred tax assets | 11,195 | 12,273 | 104,246 |
| Less valuation allowance | (6,921) | (6,975) | (64,447) |
| Net deferred tax assets | 4,274 | 5,298 | 39,799 |
| Deferred tax liabilities: | | | |
| Net unrealized holding gains on securities | (1,391) | (1,026) | (12,953) |
| Reserve for special depreciation | (206) | (202) | (1,918) |
| Other | (23) | (27) | (222) |
| Total gross deferred tax liabilities | (1,620) | (1,255) | (15,093) |
| Net deferred tax assets | ¥2,654 | ¥4,043 | \$ 24,706 |

Net deferred tax assets at March 31, 2005 and 2004 are reflected in the accompanying consolidated balance sheets under the following captions:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|--------|------------------------------|
| | 2005 | 2004 | 2005 |
| Current assets — deferred tax assets | ¥1,625 | ¥2,256 | \$ 15,132 |
| Investments and other assets — deferred tax assets | 1,052 | 1,814 | 9,792 |
| Non-current liabilities — deferred tax liabilities | (23) | (27) | (218) |
| Net deferred tax assets | ¥2,654 | ¥4,043 | \$ 24,706 |

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, 2005, the Company has provided guarantees to financial institutions covering employee loans totaling ¥562 million (\$ 5,231 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 |
|---------------------------------|-----------------|-----------|-----------|---------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| Geographic areas: | | | | |
| Net sales: | | | | |
| Japan: | | | | |
| External customers..... | ¥ 85,837 | ¥ 79,338 | ¥ 81,858 | \$ 799,303 |
| Intersegment..... | 549 | 1,018 | 660 | 5,111 |
| Total..... | 86,386 | 80,356 | 82,518 | 804,414 |
| Europe: | | | | |
| External customers..... | 6,375 | 8,849 | 6,643 | 59,363 |
| Intersegment..... | 1,624 | 1,156 | 983 | 15,125 |
| Total..... | 7,999 | 10,005 | 7,626 | 74,488 |
| Other: | | | | |
| External customers..... | 484 | 1,671 | 1,752 | 4,509 |
| Intersegment..... | 2,570 | 6,036 | 7,648 | 23,933 |
| Total..... | 3,054 | 7,707 | 9,400 | 28,442 |
| Corporate and eliminations..... | (4,743) | (8,210) | (9,291) | (44,169) |
| Consolidated..... | ¥ 92,696 | ¥ 89,858 | ¥ 90,253 | \$ 863,175 |
| Operating income (loss): | | | | |
| Japan..... | ¥ 22,169 | ¥ 20,351 | ¥ 20,652 | \$ 206,442 |
| Europe..... | (150) | (2,599) | (3,816) | (1,389) |
| Other..... | (743) | (550) | (1,083) | (6,927) |
| Corporate and eliminations..... | (2,294) | (2,678) | (3,056) | (21,365) |
| Consolidated..... | ¥ 18,982 | ¥ 14,524 | ¥ 12,697 | \$ 176,761 |
| Assets: | | | | |
| Japan..... | ¥ 123,067 | ¥ 132,791 | ¥ 129,750 | \$ 1,145,980 |
| Europe..... | 8,604 | 11,669 | 9,865 | 80,121 |
| Other..... | 5,155 | 6,016 | 7,030 | 47,998 |
| Corporate and eliminations..... | 3,154 | (238) | 503 | 29,373 |
| Consolidated..... | ¥ 139,980 | ¥ 150,238 | ¥ 147,148 | \$ 1,303,472 |

The main countries included in Europe and Other are as follows:

| | |
|---------|--|
| Europe: | Finland, Germany and Sweden |
| Other: | United States of America, Taiwan and Korea |

Overseas sales:

| | | | | |
|---|----------|----------|----------|------------|
| Europe..... | ¥ 4,794 | ¥ 4,370 | ¥ 3,506 | \$ 44,642 |
| North America..... | 1,704 | 5,814 | 4,650 | 15,867 |
| Other..... | 2,752 | 2,197 | 2,364 | 25,628 |
| Total..... | ¥ 9,250 | ¥ 12,381 | ¥ 10,520 | \$ 86,137 |
| Consolidated net sales..... | ¥ 92,696 | ¥ 89,858 | ¥ 90,253 | \$ 863,175 |
| Percentage of overseas sales to consolidated net sales..... | 10.0% | 13.8% | 11.7% | 10.0% |

The main countries included in Europe, North America and Other are as follows:

| | |
|----------------|---|
| Europe: | Finland, Russia, Sweden, Germany and Norway |
| 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).

Independent Auditors' Report



**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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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 24, 2005