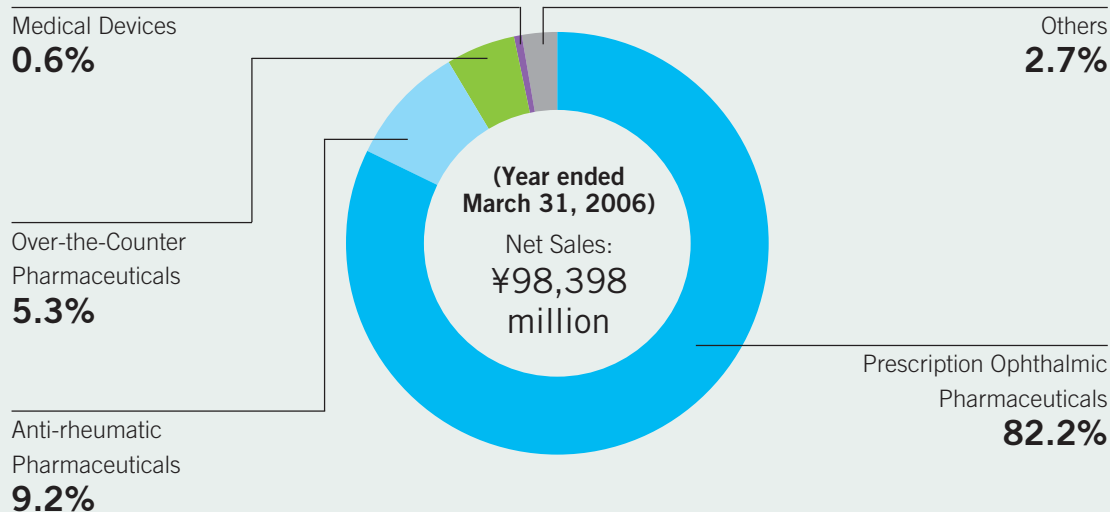


Review of Operations

Sales by Business



Business Area	Description of Business	Market Share; Market Position
Prescription Pharmaceuticals	Ophthalmic Pharmaceuticals	40.9%; Number One ¹
	Anti-rheumatic Pharmaceuticals	45.2%; Number One ¹
Over-the-Counter (OTC) Pharmaceuticals	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	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, 2006. The share and position for anti-rheumatic pharmaceuticals represent those in the disease modifying anti-rheumatic drugs (DMARDs) segment.

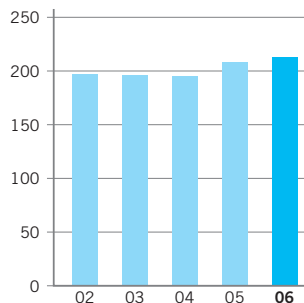
Source: Santen analysis based on IMS data. Copyright IMS Japan KK, 2006. All rights reserved.

2. Market share and market position in the Japanese OTC eye drop market for the year ended March 31, 2006. Source: Santen Pharmaceutical Co., Ltd.

Prescription Pharmaceuticals *Ophthalmic Pharmaceuticals*

Prescription Ophthalmics Market in Japan

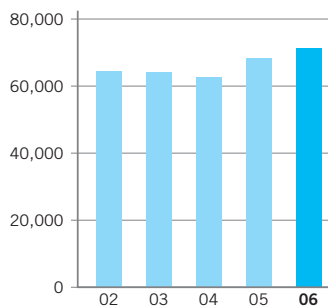
(Billions of yen)



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 Source: Santen analysis based on IMS data
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Sales of Prescription Ophthalmic Pharmaceuticals in Japan

(Millions of yen)



Japanese Prescription Ophthalmics Market by Therapeutic Field

(Year ended March 31, 2006)

■ Glaucoma	37.1%	■ Infection	12.5%
■ Corneal disorder	12.0%	■ Allergy	11.5%
■ Surgical preparation	6.8%	■ Steroid	5.3%
■ Cataract	3.1%	■ Others	11.7%



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Japan

The Japanese prescription ophthalmic pharmaceuticals market expanded in the year ended March 31, 2006. Market growth in year-on-year terms was highest in the segments for glaucoma and corneal disorders.

Since glaucoma is a condition associated with aging, the number of glaucoma patients in Japan is expected to continue rising as the country's population ages. The number of patients seeking treatment for corneal and conjunctival epithelial disorders associated with dry eye is also increasing, reflecting growth in the elderly population and the widespread use of information technology.

Under these market conditions, Santen continued to focus on maintaining and expanding its earnings base by concentrating resources in key growth segments (glaucoma, corneal and conjunctival disorders, and allergies). Sales and marketing activities focused on boosting the market share of select drugs by supplying information to health-care professionals to cater to unmet and evolving market needs. *Rescula*, a glaucoma treatment of which Santen began sales of in October 2004, made a significant contribution to sales. Overall, sales of prescription ophthalmic pharmaceuticals in Japan totaled ¥71,215 million, an increase of 4.1% compared with the previous year.

The National Health Insurance (NHI) drug price cut that was implemented in April 2006 is expected to affect the Japanese market for prescription ophthalmic pharmaceuticals in the year ending March 31, 2007. Market competition is also expected to intensify with the launch of new rival products in several therapeutic categories. Santen plans to leverage its traditional strengths in sales and marketing in the domestic market for prescription ophthalmic drugs to combat rival products and expand earnings by focusing on retaining and building on its competitive edge in key growth areas. On the R&D front, Santen continues to work on strengthening the pipeline of new drug candidates through a combination of in-house drug discovery, joint development and in-licensing of innovative compounds from both domestic and international sources, while also seeking to establish sales platforms of new products.

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

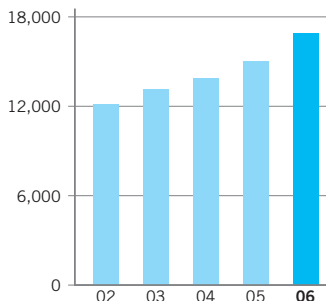
Prescription Pharmaceuticals *Ophthalmic Pharmaceuticals*

Hyalein



Sales of *Hyalein*

(Millions of yen)



Treatments for Corneal/Conjunctival Disorders

The Japanese market for drugs used to treat corneal and conjunctival epithelial disorders associated with dry eye grew approximately 11% in year-on-year terms in the year ended March 31, 2006.

The number of people in Japan suffering from dry eye is estimated in excess of eight million, and this figure is expected to continue rising with the spread of personal computers, increasing use of contact lenses and the aging of the population. More physicians are recognizing that dry eye is a condition that requires treatment, since it is not just a matter of inadequate ocular hydration but may also inflict damage to the cornea.

Santen's mainstay drug in this field is *Hyalein*, a highly water-retentive ophthalmic solution that is effective in relieving corneal and conjunctival epithelial disorders associated with conditions such as dry eye. The drug works by enhancing tear film stability and its use is recognized as contributing to higher quality of life (QOL) for patients. Santen continues to raise public awareness of this condition and provides information to healthcare professionals on the diagnosis and treatment of dry eye. Sales of *Hyalein* rose steadily in the year ended March 31, 2006, increasing 11.1% to ¥15,815 million in Japan.

Santen aims to build on the competitive edge enjoyed by *Hyalein* by continuing to provide healthcare professionals with appropriate information and services.

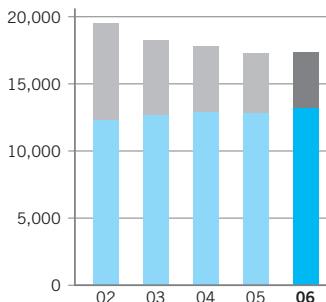
Cravit and Tarivid



Sales of *Cravit* and *Tarivid*

■ *Cravit* ■ *Tarivid*

(Millions of yen)



Anti-Infective Ophthalmics

The Japanese market for anti-infective ophthalmics was roughly flat in the year ended March 31, 2006 after declining in the past few years due to a drop in the number of eye infection consultations because of medical cost-cutting policies. Santen continues to be the market leader in this segment with a market share of approximately 78% with a product portfolio that includes *Cravit* and *Tarivid*, both of which have outstanding clinical efficacy and safety profiles. These drugs are widely used to treat common ocular infections such as keratitis and conjunctivitis, and are also used in conjunction with surgical procedures to minimize the risk of surgical infection.

Thanks to a special anniversary campaign to mark the fifth year of its launch and other promotional efforts, sales of *Cravit* increased during the year ended March 31, 2006. However, aggregate domestic sales of the two drugs declined under testing market conditions, falling 1.5% to ¥16,103 million.

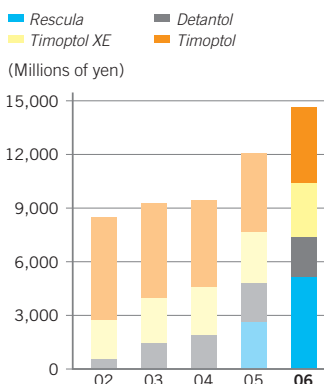
Santen will defend its dominant share of the anti-infective ophthalmics market by continuing to promote *Cravit's* clinical efficacy and safety, backed by scientific data, and by providing more information on ocular infections to further solidify *Cravit's* position as the drug of first choice to treat ocular infections.

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

Rescula and Detantol



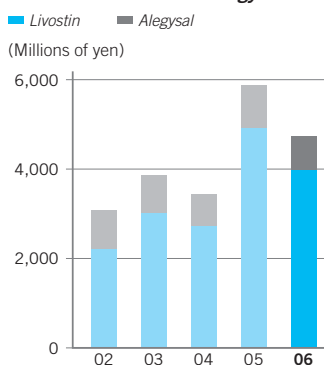
Sales of Rescula, Detantol, Timoptol XE and Timoptol



Livostin and Alegysal



Sales of Livostin and Alegysal



Treatments for Glaucoma

Glaucoma treatments are the largest segment of the Japanese prescription ophthalmic pharmaceuticals market, accounting for approximately 37% of total market value. Population aging has resulted in consistent growth in patient numbers in recent years, and the glaucoma market expanded approximately 5% in year-on-year terms in the year ended March 31, 2006.

Santen continued to provide the latest information on glaucoma and recommended treatments to establish a strong presence in the field ahead of the anticipated launch of new products such as DE-085 (generic name: tafluprost), which is currently being reviewed for manufacturing and marketing approval. In its first full year of sales after its introduction in October 2004, *Rescula* recorded approximately double the sales in the previous year. *Detantol* and *Timoptol XE* also posted higher sales than in the previous year. Including *Timoptol*, aggregate domestic sales of Santen's four treatments totaled ¥14,661 million, an increase of 21.6% compared with the previous year.

In the year ending March 31, 2007, Santen plans to continue promoting the effectiveness of *Rescula* and *Detantol* as optimal treatments for normal tension glaucoma, thereby meeting the treatment needs of healthcare professionals while helping to improve QOL for glaucoma patients.

Anti-Allergy Ophthalmics

Sales of *Livostin* in the year ended March 31, 2006 fell 19.0% in year-on-year terms to ¥3,984 million, mainly due to significantly lower cedar and cypress pollen counts in Japan (airborne pollen is one of the main causes of allergic conjunctivitis). Sales of *Alegysal* were also substantially lower at ¥677 million, a 25.5% decline. Aggregate domestic sales of the two drugs declined 20.0% to ¥4,661 million. The drop in pollen counts resulted in a significant contraction of the entire market for anti-allergy ophthalmics, leading to lower sales. However, Santen steadily increased its market share to around 25% by promoting *Livostin* specifically for fast relief of itching and by targeting MR activities at specialists other than ophthalmologists, such as otorhinolaryngologists.

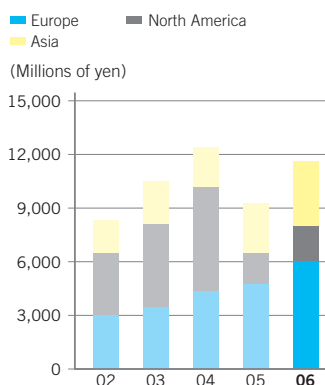
Santen will target gains in sales and market share by emphasizing the utility of *Livostin* in providing symptomatic relief of both year-round and seasonal allergies.

In January 2006, Santen launched *PAPILOCK* Mini ophthalmic solution 0.1% for the treatment of vernal keratoconjunctivitis in patients with symptoms that cannot be adequately treated with existing anti-allergy drugs. Santen's range of anti-allergy ophthalmics now meets the needs of a broad range of patients with ocular allergic conditions, including allergic conjunctivitis and vernal keratoconjunctivitis.

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

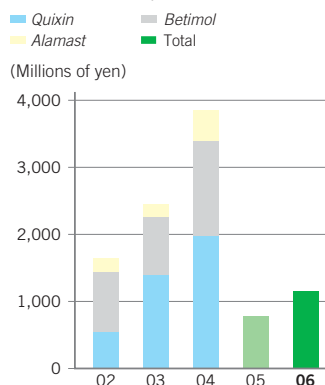
Prescription Pharmaceuticals *Ophthalmic Pharmaceuticals*

Overseas Sales



* Overseas sales include prescription ophthalmics and other products.

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.

Overseas Markets

Overseas sales grew substantially in the year ended March 31, 2006, led by Europe and Asia. After conversion into yen, total overseas sales increased 25.5% over the previous year to ¥11,613 million. Of this total, sales of prescription ophthalmic pharmaceuticals equaled ¥9,706 million, an increase of 34.0% in year-on-year terms.

United States

The U.S. market, the largest market for prescription ophthalmic pharmaceuticals in the world, continues to expand as the aging of the baby-boom generation drives growth in the number of patients suffering from age-related eye conditions such as glaucoma and age-related macular degeneration (AMD). Competition also continues to intensify in the anti-infective ophthalmics segment.

During the year ended March 31, 2006, the distribution and supply agreement with Johnson & Johnson Vision Care, Inc. (JJVCI) generated steady growth in sales of three drugs covered by the agreement—the anti-infective ophthalmic *Quixin* (sold as *Cravit* in Japan), the glaucoma treatment *Betimol*, and the anti-allergy ophthalmic *Alamast* (sold as *Alegysal* in Japan). Following an inventory supply adjustment in the previous year, sales in the U.S. rose 12.4% on a year-on-year basis to ¥1,916 million.

Under the 2003–2005 Medium-term Management Plan, Santen’s main objective in the U.S. market was to make operations profitable as quickly as possible. The switch in February 2004 from direct sales to the sales partnership with JJVCI resulted in the swift restoration of profitability. Going forward, the core aims are to strengthen the pipeline of new drug candidates by leveraging U.S.-based R&D capabilities and to bolster business development activities.

Europe

In recent years, the market for prescription ophthalmic pharmaceuticals in Europe has maintained annual growth of 5–10%, due to increasing numbers of patients suffering from glaucoma and dry eye along with solid economic growth in Eastern Europe and Russia. At the same time, however, the promotion of generics and other measures to restrict growth in medical costs adopted by various governments across Europe have contributed to an increasingly challenging business environment. European markets also differ substantially in terms of health insurance and drug pricing systems by country, making it difficult to pursue a single pan-European strategy.



Santen's booth at the World Ophthalmology Congress (WOC), February 2006



Groundbreaking ceremony at Santen Pharmaceutical (China) Co., Ltd., July 2006

Subsidiaries such as Santen Oy (Finland), Santen GmbH (Germany) and Santen Pharma AB (Sweden) sell ophthalmic pharmaceuticals in Northern and Eastern Europe, Germany, Russia and other local markets. Santen Oy also undertakes clinical development and manufacturing for the European and U.S. markets. In Europe, the anti-infective ophthalmic *Oftaquix* (sold as *Cravit* in Japan) is currently sold in 12 countries, including Finland, Sweden and Germany. Santen is acknowledged as a reliable partner for ophthalmologists in niche markets, including anti-infective ophthalmics for applications such as the treatment of post-operative infections. During the year ended March 31, 2006, Santen achieved steady growth in sales in Northern and Eastern Europe, Russia and Germany, and also sought to raise profits through cost reductions and other efficiency enhancing initiatives. Sales of ophthalmic pharmaceuticals in Russia in particular posted robust growth, contributing to an overall increase in European sales of 27.0% compared with the previous year, to ¥6,089 million.

Asia

Santen is developing prescription pharmaceuticals business in 10 markets in Asia, notably China, South Korea and Taiwan. Santen's vision for the Asian market is to become the top drug manufacturer in ophthalmology by building trust-based relationships with patients and medical professionals and thereby contributing to the development of improved ophthalmic treatments in Asia. Santen primarily exports products to Asian markets for sale through local distributors.

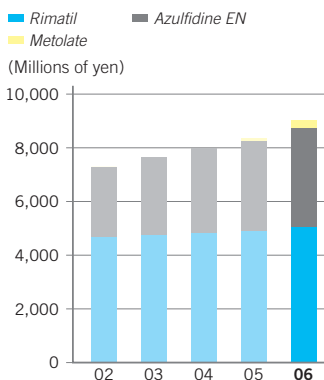
Santen's focus in the year ended March 31, 2006 was to boost the supply of scientific information to physicians in Asian markets and to bolster marketing activities. Sales rose steadily in the main target markets of China and South Korea. Overall, sales in Asia were 31.1% higher than in the previous year, reaching ¥3,608 million.

The Chinese market is expected to expand over the medium to long term, reflecting both population and economic growth. Since opening representative offices in Beijing and Guangzhou, Santen has focused on developing promotional activities in the major cities through the dissemination of scientific information. The leading products are the anti-infective ophthalmic *Tarivid* and the corneal and conjunctival disorder treatment *Hyalein*.

Santen established a new office in Shanghai in July 2005 to increase the communication of scientific product information and the collection of data on drug-related clinical needs in the local market. In September 2005, Santen also established a wholly owned subsidiary, Santen Pharmaceutical (China) Co., Ltd. This subsidiary is due to commence operations in China by 2009, with the completion of construction of a new manufacturing facility and the creation of an in-house sales and marketing network.

Prescription Pharmaceuticals *Anti-Rheumatic Pharmaceuticals*

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



Rheumatoid arthritis is an inflammatory disorder that affects the whole body, causing pain and swelling associated with inflammation in joints throughout the body. A progressive disease, it can result in destruction of bone and cartilage leading to joint deformation. It may even cause organ damage. An estimated 700,000 people in Japan are afflicted with the condition.

The market for disease-modifying anti-rheumatic drugs (DMARDs*) for the year ended March 31, 2006 was ¥23.8 billion, an increase of 2% due to the increased number of patients associated with an aging population and the growth in sales of high-priced drugs. Santen is the leading supplier in the DMARD market with three products—*Rimatil*, *Azulfidine EN* and *Metolate* (all tablet formulations). Sales of the flagship product *Rimatil* rose 3.1%, while sales of *Azulfidine EN*, a drug with an early-onset effect, increased 10.1%. *Metolate*, which was launched in July 2004, also achieved steady gains in market penetration. Overall sales of the three DMARDs amounted to ¥9,041 million, an increase of 8.2% compared with the previous year. Santen’s share of the Japanese DMARD market increased from 42.9% in the previous year to 45.2%.

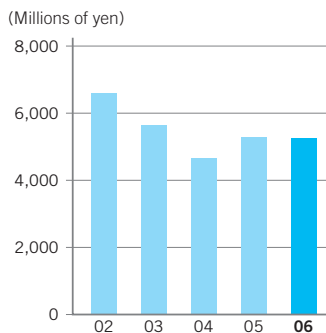
The Guidelines for the Management of Rheumatoid Arthritis published by the Japan Rheumatism Foundation in April 2004 state that DMARDs can be effective in delaying the progression of bone and cartilage destruction if administered from the onset of the disease, thus improving patients’ quality of life. These guidelines designate *Rimatil*, *Azulfidine EN* and *Metolate* as “Recommendation Grade A,” meaning that the drugs are strongly recommended as treatment options. Santen intends to achieve further market share gains by capitalizing on the effectiveness of these three drugs based on the guideline recommendations.

Since 2003, new categories of drugs such as tumor necrosis factor (TNF) inhibitors (injectable solution) have been launched in Japan for the treatment of rheumatoid arthritis. Santen is currently developing DE-096, a TNF inhibitor that is administered orally.

* Disease-modifying anti-rheumatic drugs (DMARDs) are a class of medicines whose anti-rheumatic effect involves calming of inflammation through the correction of immune abnormalities characteristic of rheumatoid arthritis.

Over-the-Counter Pharmaceuticals

Sales of OTC Pharmaceuticals



Sante 40V and Sante FX Neo

Santen has developed its over-the-counter (OTC) pharmaceutical business in Japan by concentrating on a broad range of eye drops. OTC brands include the top-selling *Sante FX Neo* and the *Sante 40* series, which is promoted for relieving blurred vision.

The Japanese OTC market for ophthalmic medicines was virtually flat in the year ended March 31, 2006, although sales of anti-allergy eye drops declined due to the steep fall in pollen counts compared with the previous year's season. Overall, sales of OTC pharmaceuticals declined 0.5% in year-on-year terms, to ¥5,248 million.

In September 2005, Santen established new units within the OTC Products Sales & Marketing Division to strengthen planning and marketing functions. At the same time, organizational reforms aimed at increasing the speed in which Santen can incorporate customer and consumer input into product development at the planning stage involved relocating the OTC headquarters to Tokyo, since this is the largest consumer market in Japan. Other reforms included the introduction of IT-based sales and promotional support systems. The revised sales organization and processes are expected to improve the development of high-value-added products through stronger connections and smoother communication between the sales organization and central corporate functions.

Going forward, Santen plans to focus promotional sales activities on both established and new products, particularly OTC medicines that relieve conditions such as eye fatigue or blurred vision, and that can provide cool refreshment for fatigued eyes.

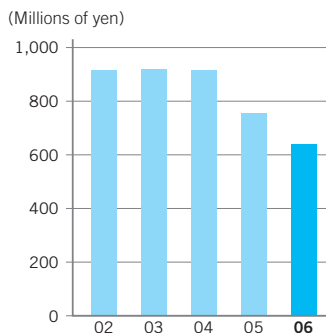


Shots from the TV commercial for Sante 40

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

Medical Devices

Sales of Medical Devices



Santen's medical device business specializes in intraocular lenses (IOLs) and other products used in cataract surgery.

The number of cataract procedures performed in Japan increased slightly in the year ended March 31, 2006. Sales of *ClariFlex*, a foldable IOL that was the focus of promotional efforts, increased in volume and value terms. However, Santen's overall IOL sales were only on a par with the previous year due to increased competition. Total sales of medical devices fell 15.4% in year-on-year terms to ¥639 million. This reflected a number of factors, including the discontinuation of surgical instrument sales at the end of December 2004.

Demand in the IOL market has shifted in recent years toward new materials and foldable lenses that can be inserted through a small incision. Advanced Vision Science, Inc., a U.S.-based Santen subsidiary, is developing an original foldable IOL (development code: MD-14) made out of new high refractive index optical material. Santen has applied for regulatory approval to manufacture and market this lens in Japan, and a regulatory filing in the United States is pending.

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