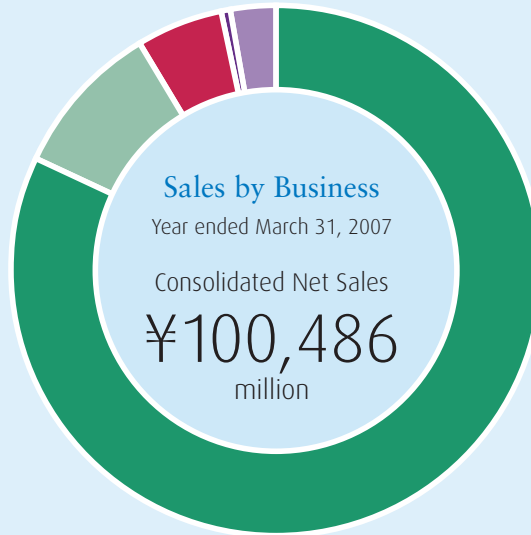


## Review of Operations

Prescription Ophthalmic Pharmaceuticals	81.8%
Anti-Rheumatic Pharmaceuticals	9.3%
Over-the-Counter Pharmaceuticals	5.3%
Medical Devices	0.5%
Others	3.1%



Business Area		Description of Business	Market Share; Market Position
Prescription Pharmaceuticals	Ophthalmic Pharmaceuticals	<ul style="list-style-type: none"> <li>Santen enjoys its position as the leader of the Japanese prescription ophthalmics market. We deploy approximately 400 medical representatives (MRs), the largest number in the industry, and our product lineup covers a broad array of ophthalmic disorders.</li> <li>Overseas, Santen markets levofloxacin ophthalmic solution (brand names: <i>Quixin</i>, <i>Oftaquix</i> and <i>Cravit</i>) and other products through a sales network in the United States, Europe and Asia.</li> </ul>	39.7%; Number One <sup>1</sup>
	Anti-Rheumatic Pharmaceuticals	<ul style="list-style-type: none"> <li>In Japan, we offer <i>Rimatil</i> and <i>Azulfidine EN</i>, physicians' disease modifying anti-rheumatic drugs (DMARDs) of choice for treating rheumatoid arthritis.</li> </ul>	46.3%; Number One <sup>1</sup>
Over-the-Counter (OTC) Pharmaceuticals		<ul style="list-style-type: none"> <li>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.</li> </ul>	Approx. 20%; Number Two <sup>2</sup>
Medical Devices		<ul style="list-style-type: none"> <li>In Japan, Santen handles medical devices used in cataract surgery, including intraocular lenses.</li> </ul>	—

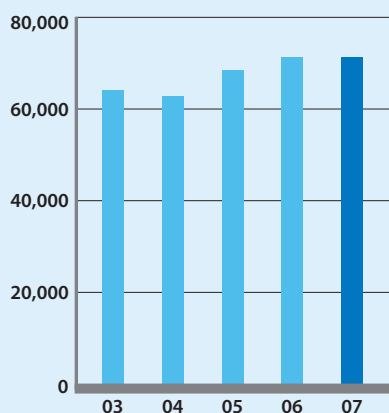
Notes: 1. Market share and market position in Japan for the year ended March 31, 2007. The share and position for anti-rheumatic pharmaceuticals represent those in the disease modifying anti-rheumatic drugs (DMARDs) segment.

Source: Santen analysis based on IMS data. Copyright IMS Japan KK, 2007. All rights reserved.

2. Market share and market position in the Japanese OTC eye drop market for the year ended March 31, 2007. Source: Santen Pharmaceutical Co., Ltd.

## Prescription Pharmaceuticals Ophthalmic Pharmaceuticals

Sales of Prescription Ophthalmic  
Pharmaceuticals in Japan  
(Millions of yen)



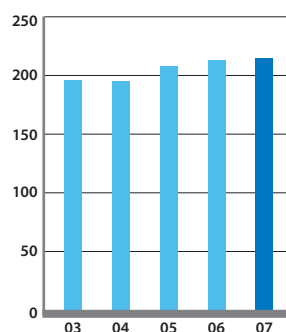
### Japan

The Japanese prescription ophthalmic pharmaceuticals market slightly expanded in the year ended March 31, 2007. This expansion was supported by advances in the market for treatments of glaucoma and corneal and conjunctival epithelial disorders, which offset the adverse effect of an industrial average 5.5% of the National Health Insurance drug price reduction.

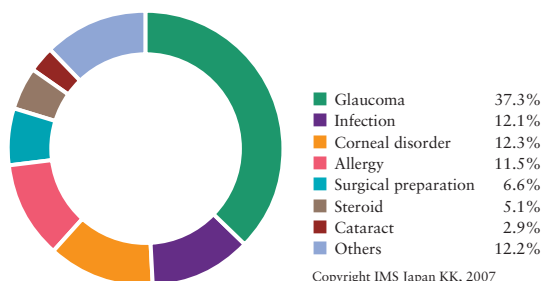
Under these market conditions, Santen continued to concentrate resources on its key growth fields with a view to maintaining and improving our domestic earning base. Sales and marketing activities focused on boosting the market share of select drugs by providing medical information tailored to the changing needs of each medical professional. Overall, sales of prescription ophthalmic pharmaceuticals in Japan totaled ¥71,272 million, an increase of 0.1% compared with the previous year.

In the year ending March 31, 2008, there is no drug price revision scheduled in the Japanese market for prescription ophthalmic pharmaceuticals. However, market competition with new rival products is expected to intensify; therefore, our business environment will be increasingly challenging. In such circumstances, Santen will take measures to defend its market share against competitors' products, conduct activities to raise awareness of dry eye, prepare to launch a new drug for glaucoma treatment and maintain and improve its competitive edge in key growth areas, thereby building a solid platform for future earnings expansion.

Prescription Ophthalmics Market in Japan  
(Billions of yen)



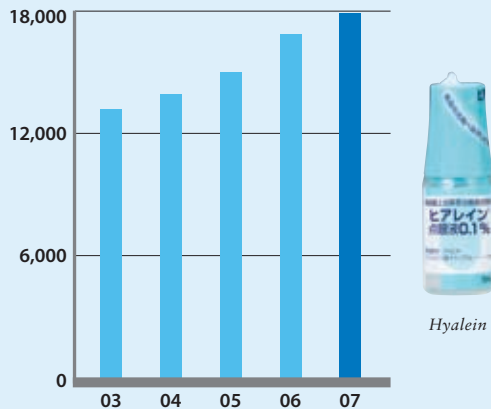
Japanese Prescription Ophthalmics  
Market by Therapeutic Field  
(Year ended March 31, 2007)



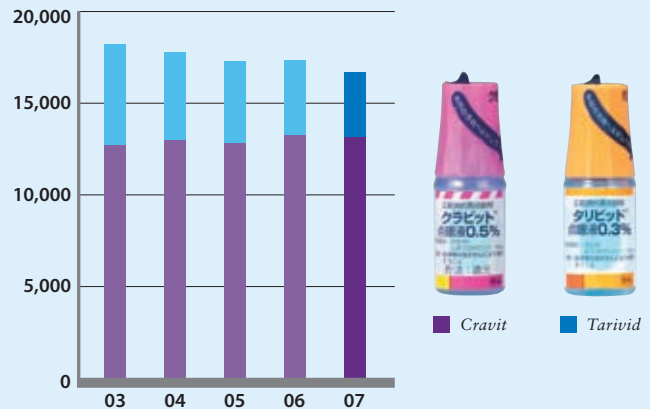
Copyright IMS Japan KK, 2007  
Source: Santen analysis based on IMS data  
Period: 2003-2007; All rights reserved.

## Prescription Pharmaceuticals Ophthalmic Pharmaceuticals (continued)

Sales of *Hyalein*  
(Millions of yen)



Sales of *Cravit* and *Tarivid*  
(Millions of yen)



### Treatments for Corneal and Conjunctival Epithelial Disorders

The Japanese market for drugs used to treat corneal and conjunctival epithelial disorders associated with dry eye, in which Santen commands about 80% share, grew 3.6% in the year ended March 31, 2007. An estimated 8 million people in Japan suffer from dry eye, and this figure is expected to continue rising with the growing use of personal computers, the increased use of contact lenses and the aging of the population. More physicians are recognizing that dry eye is a condition that requires medical treatment, as it is not just a matter of inadequate ocular hydration but may also inflict damage to the cornea due to the shortage of tear fluid and moisture and a change in their composition. 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 enhances tear film stability and its use is recognized as contributing to a higher quality of life (QOL) for patients. Santen continues to raise 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, 2007, increasing 3.3% to ¥16,343 million in Japan.

In the year ending March 31, 2008, we will conduct disease awareness campaigns targeting patients to promote medical consultations, thereby expanding the market for treatments of dry eye and enhancing our presence in this field.

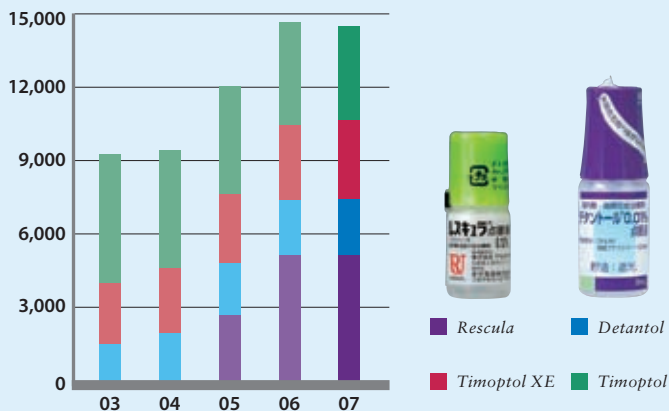
### Anti-Infective Ophthalmics

The Japanese market for anti-infective ophthalmics has been roughly flat since the year ended March 31, 2006, after declining in the past few years due to a drop in the number of eye infection consultations caused by medical cost-cutting policies. Santen continues to be the market leader in this segment with a market share of approximately 80% and a product portfolio that includes *Cravit* and *Tarivid*, which both feature strong anti-infective properties, broad spectrum coverage (effective for a wide range of infections), and safe and comfortable intraocular permeation of the solution. These two drugs are widely used to treat common ocular infections such as conjunctivitis and keratitis, and are also used in conjunction with surgical procedures to minimize the risk of surgical infection.

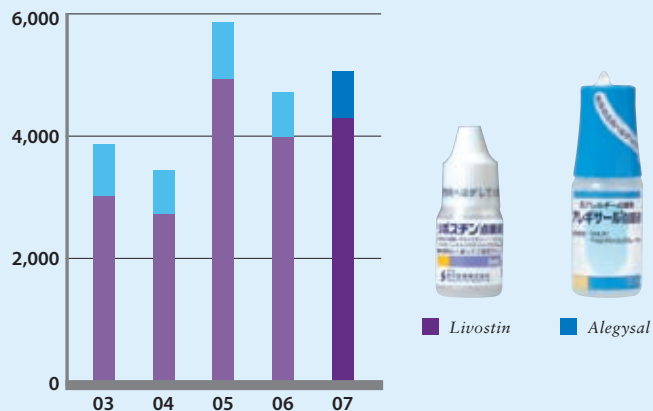
Due to the impact of a drug price reduction and competition with rival drugs, aggregate sales of *Cravit* and *Tarivid* for the year ended March 31, 2007, fell 4.9% to ¥15,318 million.

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 additional information on infectious ocular diseases to further solidify *Cravit's* position as the drug of first choice to treat ocular infections.

Sales of *Rescula*, *Detantol*, *Timoptol XE* and *Timoptol*  
(Millions of yen)



Sales of *Livostin* and *Alegysal*  
(Millions of yen)



### Treatments for Glaucoma

Glaucoma treatments are the largest segment of the Japanese prescription ophthalmic pharmaceutical market, accounting for approximately 37% of the total market value. Glaucomatous damage to the optic nerve causes a defect of the visual field, which is a major cause of visual disabilities such as poor eyesight and blindness. Glaucoma is currently believed to be a prime cause of blindness. Moreover, according to recent research, it is thought that there are many undiagnosed patients. Early detection and treatment are increasingly important in dealing with glaucoma. The aging population has resulted in consistent growth in patient numbers in recent years, and the glaucoma treatment market is steadily expanding. However, the impact of the drug price reduction was significant and the growth rate for the glaucoma treatment market in Japan was only 1% for the year under review.

During the year ended March 31, 2007, Santen continued to provide the latest information on glaucoma and treatment recommendations in addition to marketing *Rescula* and other drugs in the market to establish a strong presence in the glaucoma treatment field. Due to the impact of competition with rival drugs and the drug price revision, aggregate sales of the four major treatments—*Rescula*, *Detantol*, *Timoptol XE* and *Timoptol*—decreased 1.2% from a year earlier to ¥14,492 million.

In the year ending March 31, 2008, we will prepare for the launch of DE-085 (generic name: tafluprost), which is in

the process of application for manufacturing and marketing regulatory approval and is scheduled to be released in the fiscal year ending March 31, 2009, to ensure that the product value of the new drug can be enhanced quickly.

### Anti-Allergy Ophthalmics

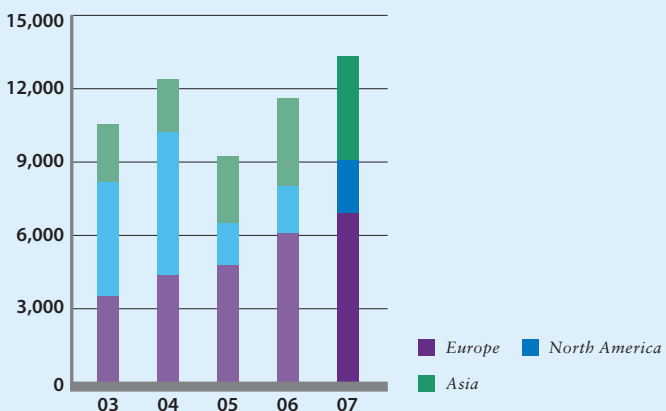
In the year ended March 31, 2007, cedar and cypress pollen counts in Japan (airborne pollen being one of the main causes of allergic conjunctivitis) were at the same low level as the previous year and there was the impact of the drug price revision, resulting in sales for the allergy ophthalmic solution market increasing only 0.3%.

Meanwhile, sales of *Livostin* in the year ended March 31, 2007, increased 8.0% to ¥4,306 million, and sales of *Alegysal* rose 0.5% to ¥681 million. Aggregate sales of the two drugs increased 7.0% to ¥4,987 million. Santen has maintained its top market share of 24.3% through such successful activities as promoting *Livostin* specifically for the fast relief of itching and targeting MR activities at specialists other than ophthalmologists, such as otorhinolaryngologists.

Cedar and cypress pollen counts in the year ending March 31, 2008, are estimated to be level with the previous year. Santen will continue to offer competitive products and expand sales and market share through promotions that emphasize the effectiveness of *Livostin* in providing symptomatic relief of year-round and seasonal allergies.

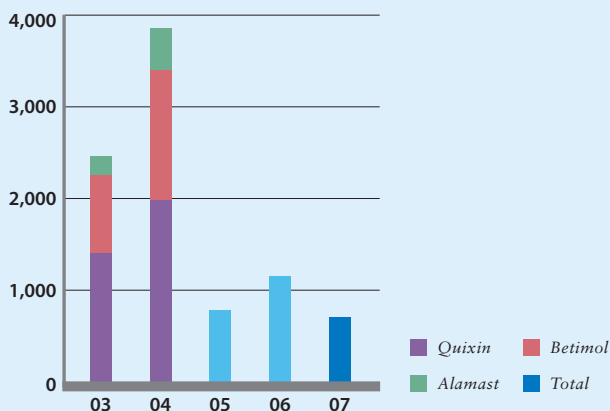
## Prescription Pharmaceuticals Ophthalmic Pharmaceuticals (continued)

Overseas Sales  
(Millions of yen)



\* Overseas sales include prescription ophthalmics and other products.

Sales of *Quixin*, *Alamast* and *Betimol*  
(Millions of yen)



\* 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, 2007, led by Europe and Asia. After conversion into yen, total overseas sales increased 14.8% over the previous year to ¥13,333 million. Of this total, sales of prescription ophthalmic pharmaceuticals were ¥10,880 million, an increase of 12.1% year over year.

### 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 macular degeneration (AMD). Competition also continues to intensify in the anti-infective ophthalmics segment.



The 110th American Academy of Ophthalmology (AAO) meeting held in Las Vegas, Nevada, United States, in November 2006

During the year ended March 31, 2007, sales in the United States of three drugs covered by the distribution and supply agreement with Johnson & Johnson

Vision Care, Inc. (JJVCI)—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) decreased 38.8% year over year to ¥702 million. However, due to an increase of contract manufacturing, sales increased 11.2% to ¥2,128 million.

U.S.-based R&D projects are progressing smoothly. Major clinical developments in the United States include DE-101 and DE-104, both of which have been progressing in clinical studies faster than scheduled.

In the year ending March 31, 2008, we will improve the U.S. business channels and environment as an important R&D base for new drug candidates and 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. On the other hand, the business environment has become increasingly challenging due to the promotion of generics and other measures to restrict growth in medical expenses adopted by various governments across Europe. Also, European markets differ substantially in terms of health insurance and drug pricing systems by country.

Santen manufactures pharmaceutical products in Finland



European Society of Cataract and Refractive Surgeons (ESCRS) meeting held in London in September 2006

which will be marketed in more than 20 countries in Europe and in the United States. Santen runs sales and marketing operations in 13 countries in Europe, including Northern and Eastern Europe, Russia and Germany. Santen's European Preclinical and Pharmaceutical Research and Development center and the Clinical Research department are located in Finland. In Europe overall the anti-infective ophthalmic *Oftaquix* (sold as *Cravit* in Japan) is currently sold in 20 countries, including Finland, Sweden and Germany. Santen is highly recognized as a reliable partner for healthcare professionals in ophthalmology, including anti-infective ophthalmics for applications such as the treatment of post-operative infections.

During the year ended March 31, 2007, European sales increased 13.6% to ¥6,916 million due to well timed and focused promotion activities.

In the year ending March 31, 2008, promotion activities for existing products will continue and *Oftaquix* will be launched in many new markets including Russia. In April 2007, Santen applied for marketing approval for DE-085 (generic name: tafluprost) in Europe.

### Asia

Santen is developing the prescription pharmaceutical business in 10 countries in Asia, including China, South Korea and the member countries of ASEAN. Santen's vision for the Asian market is to become the top drug manufacturer in ophthalmology. To this end, we are striving to build trust-based

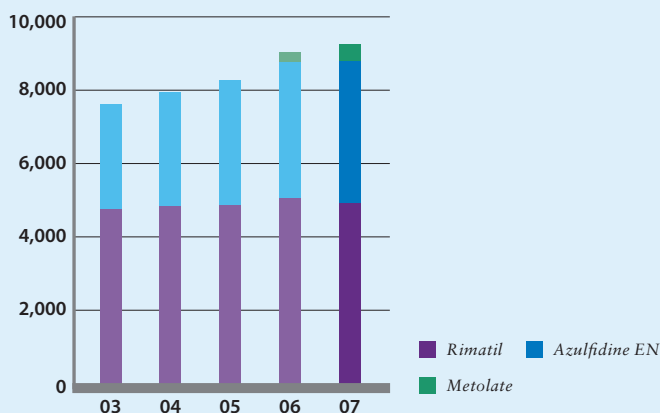
relationships with patients and medical professionals, thereby contributing to the improvement of ophthalmic treatments in Asia. Currently, Santen primarily exports and sells its products to Asian markets via local sales agencies.

In the year ended March 31, 2007, Santen boosted the supply of scientific information and marketing activities in Asian markets. Sales rose steadily in the main target markets of China and South Korea. As a result, net sales in Asia increased 19.5% to ¥4,246 million.

The Chinese market is expected to expand over the medium to long term, reflecting both population and economic growth. In addition to representative offices in Beijing, Guangzhou and Shanghai, Santen established a new office in Shenyang and has focused on the dissemination of academic medical information in major cities. Santen sells prescription ophthalmic pharmaceuticals such as the anti-infective ophthalmic solution *Cravit* and the corneal and conjunctival epithelial disorder treatment *Hyalein* via local agencies. In September 2005, Santen established a wholly owned subsidiary, Santen Pharmaceutical (China) Co., Ltd., in Suzhou, Jiangsu Province. This subsidiary, which is scheduled to commence operations in 2009, will develop prescription pharmaceuticals, establish plants in the Suzhou industrial district and launch its own sales network to expand the Santen brand in the Chinese market.

## Prescription Pharmaceuticals Anti-Rheumatic Pharmaceuticals

Sales of *Rimatil*, *Azulfidine EN* and *Metolate*  
(Millions of yen)



Rheumatoid arthritis is a disease for which the causes are unknown. It is currently understood to be a chronic inflammatory disorder that affects the whole body. It causes pain and swelling associated with inflammation in joints throughout the body. The progressive disease can result in the destruction of bone and cartilage leading to joint deformation. An estimated 700,000 people in Japan are afflicted with the condition. Santen offers *Rimatil*, *Azulfidine EN* and *Metolate* to hospitals and clinics, and has established a top share in the market for disease-modifying anti-rheumatic drugs (DMARDs\*).

In the year ended March 31, 2007, the domestic DMARDs market was affected by the drug price cut and shrank 2.3% year over year to ¥23.2 billion. Although sales of *Rimatil*, a mainstay product, declined 2.5%, sales of *Azulfidine EN*, a drug with an early-onset effect, advanced 4.6%, and the continued promotion of *Metolate* steadily increased in the market. As a result, sales of DMARDs rose 3.7% to ¥9,379 million. Santen's share in the Japanese DMARDs market increased from 45.2% in the previous year to 46.3%.

The Guidelines for the Management of Rheumatoid Arthritis, which were announced by the Japan College of Rheumatology in April 2004, state that the use of DMARDs in the early stages of the disease can be effective in delaying the progression of the destruction of joints and preventing their distortion, thus improving patients' quality of life. These guidelines designate *Rimatil*, *Azulfidine EN* and *Metolate* as "Grade A—Highly Recommended," meaning that the drugs are strongly

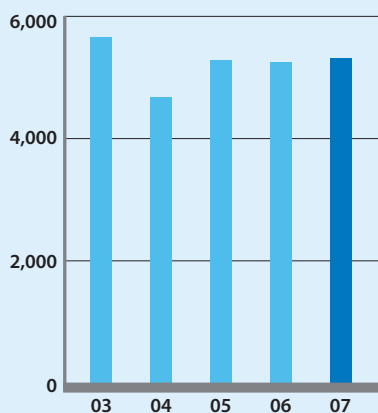
recommended as treatment options. Santen intends to seek further market distribution of the three DMARDs by capitalizing on the effectiveness of these drugs based on the guideline recommendations.

Since 2003, new categories of drugs such as tumor necrosis factor (TNF) inhibitors have been launched in Japan for the treatment of rheumatoid arthritis. Santen is currently developing DE-096, an oral TNF inhibitor, and conducting Phase II clinical trials in Japan.

\* Disease-modifying anti-rheumatic drugs (DMARDs) are a class of medicines that are used not only to alleviate symptoms but also to treat the causes of disease. The anti-rheumatic effect works by calming inflammation through the correction of immune abnormalities, which are considered a cause of rheumatoid arthritis.

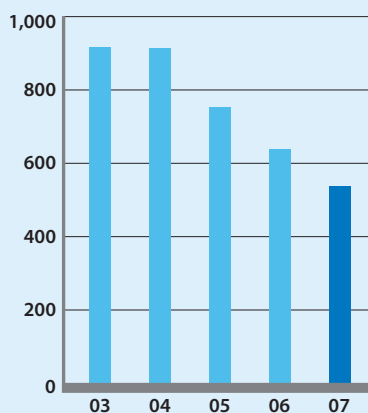
## Over-the-Counter Pharmaceuticals

Sales of OTC Pharmaceuticals  
(Millions of yen)



## Medical Devices

Sales of Medical Devices  
(Millions of yen)



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

The Japanese OTC eye drop market was virtually flat in the year ended March 31, 2007, while market competition intensified. In this severe business environment, Santen continued to focus sales promotion mainly on eye drops for eye fatigue, blurred vision or cool relief for fatigued eyes, including our new product, *Sante Medical 10*, which was launched in October 2006. As a result, sales of OTC pharmaceuticals increased 1.1% year over year to ¥5,308 million.

Going forward, we will continue to maintain our current market share while focusing on sales promotion of new products.

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

The number of cataract procedures performed in Japan increased slightly in the year ended March 31, 2007. However, given the intensifying market competition, sales of IOLs declined and total sales of medical devices fell 15.9% to ¥537 million.

In recent years, demand in the IOL market has shifted toward foldable lenses that can be inserted through a small incision. Advanced Vision Science, Inc., a U.S.-based Santen subsidiary, is developing a new foldable IOL (development code: MD-14) that uses a new high-refractive index optical material. Santen obtained the regulatory approval to manufacture and market this lens in Japan in October 2006, and is preparing for the product launch in the year ending March 31, 2008. A regulatory filing in the United States is pending.