



SANTEN PHARMACEUTICAL CO.,LTD.

# Data Book 2003

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Year Ended March 31, 2003

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## 2003-2005 Medium-term Management Plan

To lay the groundwork for significant advances in the year ending March 31, 2007 and beyond, Santen will devote the next three years to thoroughly overhauling its earnings structure and bolstering its R&D capabilities. By doing so, Santen aims to evolve into a company that makes R&D - in the fields of ophthalmic and rheumatic/osteoarthritic treatments - the source of growth, in addition to its existing strength in sales and marketing.

### I. Basic Objectives

1. Restoration of Profitability
2. Strengthening of R&D
3. Reinforcement of Organizational Strength

### II. Financial Targets

Billions of yen, except ROE

	Year ending March 2006	←	Year ended March 2003
Net sales	<b>93.0</b>		90.2
Operating income	<b>18.0</b>		12.6
Net income	<b>10.0</b>		8.5
Return on equity (ROE)	<b>10.0%</b>		8.8%

### III. Key Issues

#### 1. Restoration of Profitability

- Early profitability of U.S. operations
- Reduction of expenses
- Maintenance and improvement of domestic earnings base

#### 2. Strengthening of R&D

- Accelerating new product development
- Enhancing the pipeline of drug candidates through focused resource allocation

#### 3. Reinforcement of Organizational Strength

- Strengthening of corporate governance
- Employee education and enhancement of organizational management capabilities

Note: For details, please visit our Web site (<http://www.santen.co.jp/ir/en/news/pdf/200302202.pdf>).

# Contents



<b>Financial highlights</b>	<b>2</b>
Consolidated financial summary	2
Consolidated balance sheets summary	2
Consolidated financial indexes	2
Consolidated - other figures	2
Non-consolidated financial summary	2
<b>Consolidated information</b>	<b>4</b>
Consolidated income statements	4
Income statements details	5
Net sales	5
Selling, general and administrative expenses	5
Other income and expenses	5
Extraordinary gain and loss	5
Sales details	6
Sales of major prescription pharmaceuticals	6
Sales by division	8
Breakdown by region	9
Breakdown by geographic segment	9
Overseas sales	9
Consolidated balance sheets	10
Assets	10
Liabilities and shareholders' equity	11
Consolidated statements of cash flows	12
Capital expenditures and number of employees	13
Capital expenditures	13
Depreciation and amortization	13
Lease expenses	13
Number of employees	13
Affiliated companies	14
Santen group	14
Subsidiaries	14
<b>Non-consolidated information</b>	<b>16</b>
Non-consolidated income statements	16
Selling, general and administrative expenses	16
Sales by division	17
Non-consolidated balance sheets	18
Assets	18
Liabilities and shareholders' equity	19
<b>Reference information</b>	<b>20</b>
Research & development	20
Pipeline of prescription pharmaceuticals	20
Major R&D collaborations	21
Pipeline of medical devices	21
Changes from November 7 , 2002	21
Number of employees in R&D divisions	21
Pharmaceutical market in Japan	22
Revision of National Health Insurance (NHI) drug prices	22
Major healthcare reforms	22
Market shares	23
Market shares by therapeutic area - prescription ophthalmics	23
Stock information	24
Stock price	24
Major shareholders	24
Shares, convertible bonds and stock option	24
Breakdown of shareholding by number of shares	25
Breakdown of shareholding by number of shareholders	25
News releases	26

# Financial highlights

## 【Consolidated】

### Financial summary

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002	2004 Estimate	% Change 2004/2003
Net sales	79,639	83,577	88,448	88,966	90,252	1.4	90,800	0.6
Operating income	16,625	17,508	16,538	11,790	12,697	7.7	13,300	4.7
Ordinary income	15,832	17,445	16,897	12,107	12,899	6.5	14,800	14.7
Net income	8,105	7,941	7,713	5,305	8,502	60.3	6,800	-20.0

### Balance sheets summary

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002	2004 Estimate	% Change 2004/2003
Total assets	144,913	149,968	153,242	152,103	147,147	-3.3		
Shareholders' equity	88,950	95,669	94,834	95,101	97,125	2.1		
Interest-bearing debts	26,402	25,747	25,092	24,466	23,047	-5.8		

### Financial indexes

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002	2004 Estimate	% Change 2004/2003
EPS (yen)	85.27	83.54	81.32	57.34	93.67	63.4	77.33	-17.4
Debt equity ratio (times)	0.29	0.27	0.26	0.25	0.23	-	-	-
PER (times)	25.9	26.3	27.3	25.3	12.3	-	-	-
PBR (times)	2.56	2.35	2.17	1.38	1.04	-	-	-
ROE (%)	9.5	8.6	8.1	5.6	8.8	-	-	-
* Free cash flows (millions of yen)	13,250	6,862	1,889	356	8,762	2,361.2	-	-
* EBITDA (millions of yen)	22,868	20,608	21,633	18,479	14,738	-20.2	-	-

\*Free cash flows = (Cash flows from operating activities) - (Capital expenditures)

Not adjusting decrease in trade receivables for fiscal years ending on holidays.

\*EBITDA = (Income before income taxes) + (Interest expenses) + (Depreciation and amortization)

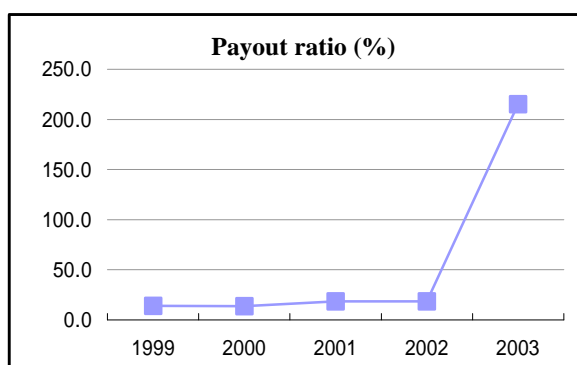
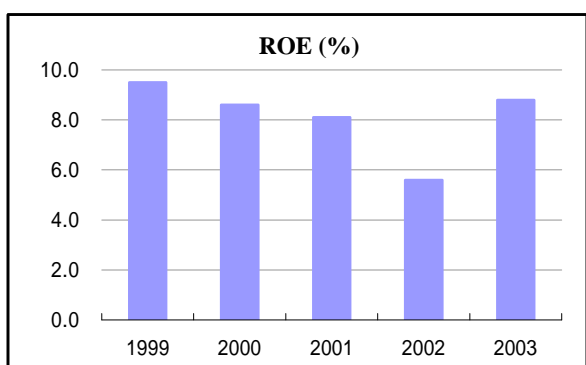
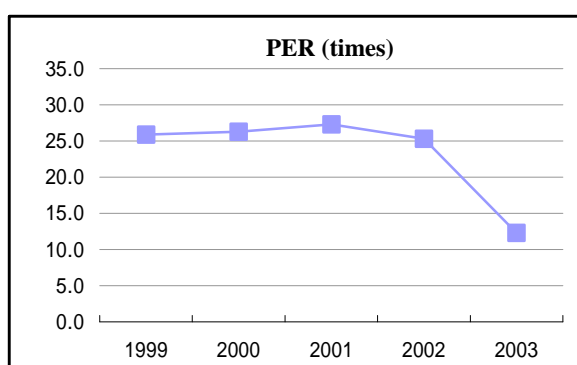
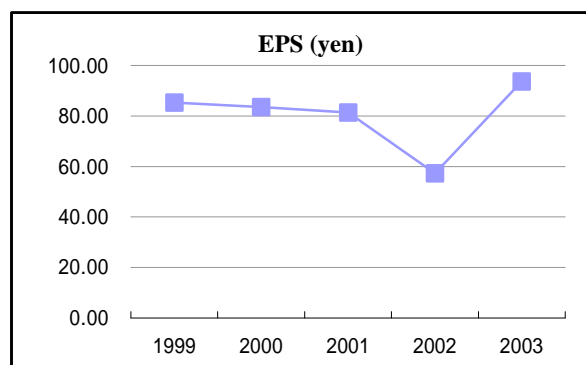
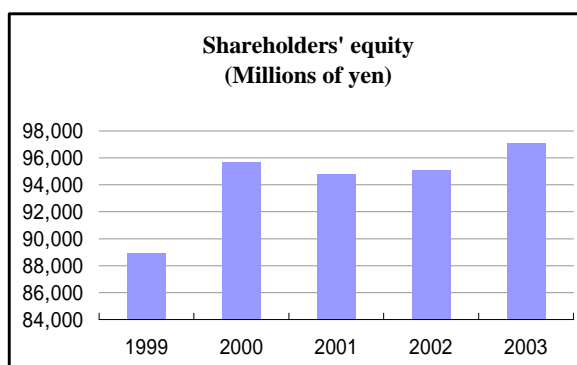
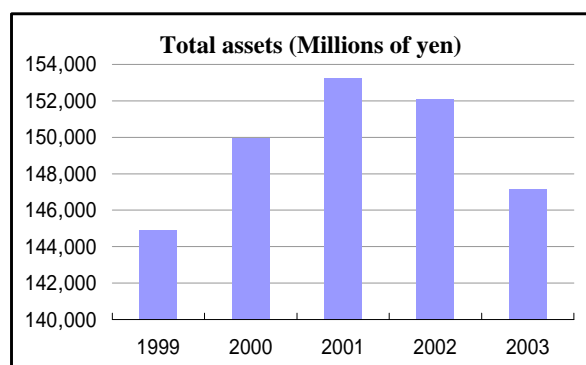
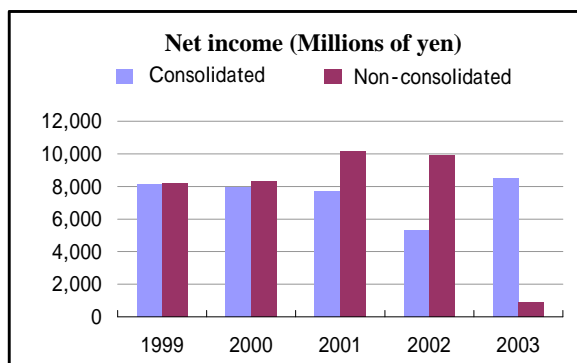
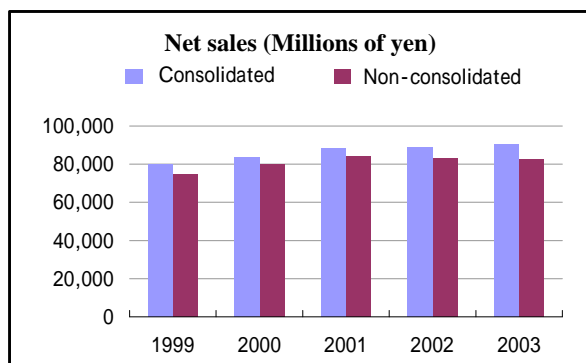
### Other figures

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002	2004 Estimate	% Change 2004/2003
R&D expenses (millions of yen)	7,334	9,220	10,510	12,186	12,719	4.4	13,000	2.2
Capital expenditures (millions of yen)	2,018	2,222	3,039	8,516	4,134	-51.5	3,930	-4.9
Depreciation and amortization (millions of yen)	4,343	4,045	4,336	3,837	3,638	-5.2	4,190	15.2
Number of employees	2,037	2,093	2,167	2,463	2,500	-	-	-

## 【Non-consolidated】

### Financial summary

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002	2004 Estimate	% Change 2004/2003
Net sales (millions of yen)	74,498	79,669	84,295	82,990	82,372	-0.7	82,600	0.3
Operating income (millions of yen)	15,979	17,596	18,712	15,586	17,329	11.2	17,000	-1.9
Recurring income (millions of yen)	16,029	17,708	19,072	16,060	17,011	5.9	19,100	12.3
Net income (millions of yen)	8,192	8,312	10,165	9,932	871	-91.2	11,300	1,196.9
Dividends per share (yen)	12	12	20	20	20	-	20	-
Payout ratio (%)	13.9	13.7	18.5	18.5	215.1	-	-	-



## Consolidated Information

# Consolidated income statements

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002
<b>Net sales</b>	<b>79,639</b>	<b>83,577</b>	<b>88,448</b>	<b>88,966</b>	<b>90,252</b>	1.4
Cost of sales	32,670	32,175	33,363	32,699	32,271	-1.3
(Percentage of net sales)	41.0%	38.5%	37.7%	36.8%	35.7%	
<b>Gross profit</b>	<b>46,968</b>	<b>51,401</b>	<b>55,085</b>	<b>56,266</b>	<b>57,981</b>	3.0
(Percentage of net sales)	59.0%	61.5%	62.3%	63.2%	64.3%	
Selling, general and administrative expenses	30,343	33,893	38,546	44,475	45,284	1.8
(Percentage to net sales)	38.1%	40.6%	43.6%	50.0%	50.2%	
R&D expenses	7,334	9,220	10,510	12,186	12,719	4.4
(Percentage of net sales)	9.2%	11.0%	11.9%	13.7%	14.1%	
<b>Operating income</b>	<b>16,625</b>	<b>17,508</b>	<b>16,538</b>	<b>11,790</b>	<b>12,697</b>	7.7
(Percentage to net sales)	20.9%	20.9%	18.7%	13.2%	14.1%	
Non-operating income	1,308	1,338	1,414	1,128	1,269	12.5
Non-operating expenses	2,101	1,400	1,055	811	1,066	31.4
<b>Ordinary income</b>	<b>15,832</b>	<b>17,445</b>	<b>16,897</b>	<b>12,107</b>	<b>12,899</b>	6.5
(Percentage of net sales)	19.9%	20.9%	19.1%	13.6%	14.3%	
Extraordinary gain	313	202	57	952	17	-98.2
Extraordinary loss	177	3,225	1,434	380	2,969	680.2
<b>Income before income taxes</b>	<b>15,968</b>	<b>14,422</b>	<b>15,520</b>	<b>12,678</b>	<b>9,947</b>	-21.5
(Percentage of net sales)	20.1%	17.3%	17.5%	14.3%	11.0%	
Income taxes - current	8,351	8,508	8,973	6,932	463	-93.3
Income taxes - deferred	-488	-2,027	-1,166	440	981	122.6
<b>Net income</b>	<b>8,105</b>	<b>7,941</b>	<b>7,713</b>	<b>5,305</b>	<b>8,502</b>	60.3
(Percentage of sales)	10.2%	9.5%	8.7%	6.0%	9.4%	

## Exchange rates

(Yen)

Year ended March 31	1999	2000	2001	2002	2003	2004 Estimate
Exchange rate: US dollar	120.55	106.15	110.54	125.57	121.87	123.00
Euro	-	106.32	100.02	110.07	119.93	120.00

## Major change in income statements

【 Net sales 】		(Millions of yen)	
Year ended March 31	2002	2003	Change 2003/2002
Cravit ophthalmic solution	12,338	12,691	2.9
Tarivid ophthalmic solution	7,184	5,566	-22.5
Quixin	545	1,399	156.7
Detantol	593	1,498	152.6
Livostin	2,225	3,028	36.1
Hyalein	12,130	13,156	8.5
Azulfidine EN tablets	2,605	2,880	10.5
OTC pharmaceuticals	6,592	5,656	-14.2

## Selling, general and administrative expenses

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002
Personnel expenses	9,070	9,615	10,049	11,919	12,084	1.4
Sales promotion expenses	1,990	2,499	3,366	4,014	4,253	6.0
Royalty expenses	2,181	2,174	2,552	2,457	2,173	-11.5
Advertising expenses	2,186	2,183	1,578	2,189	2,218	1.4
R&D expenses	7,334	9,220	10,510	12,186	12,719	4.4

## Other income and expenses

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002
Interest and dividend income	657	565	578	304	268	-11.8
Royalty income	158	189	-	-	-	-
Interest expenses	587	461	430	465	480	3.2
Loss on sales of investment securities	187	42	-	-	-	-
Loss on valuation of investment securities	298	134	-	-	-	-
Amortization expenses of goodwill	731	590	239	263	287	9.0

## Extraordinary gain and loss

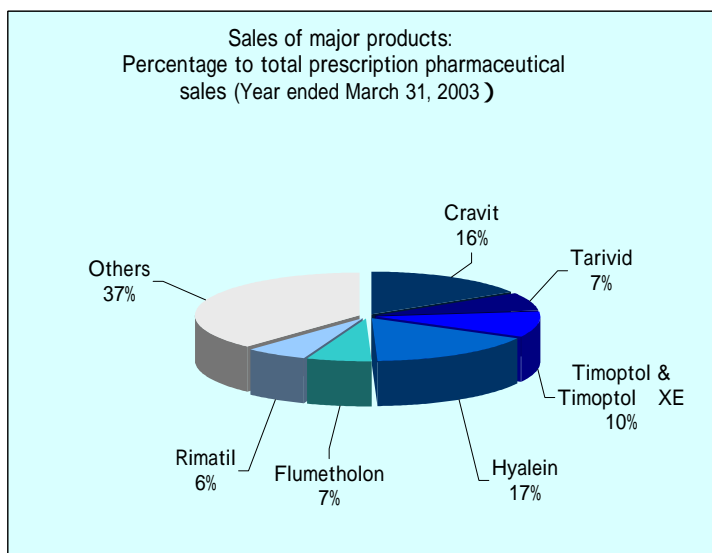
(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002
Gain on settlement of suit regarding Princeton Bonds	-	-	-	886	-	-
Gain on sale of investment securities	264	-	-	32	15	-52.0
Loss on valuation of investment securities	-	991	-	178	601	237.5
Loss on cancellation of corporate investment fund	122	-	-	-	-	-
Amortization of unfunded portion of retirement benefit obligation	-	2,037	-	-	-	-
Loss on withdrawal of OTC products	-	-	906	-	-	-
Special premium payment incurred upon secession from pension fund	-	-	-	-	2,202	-

# Sales details

## Sales of major prescription pharmaceuticals

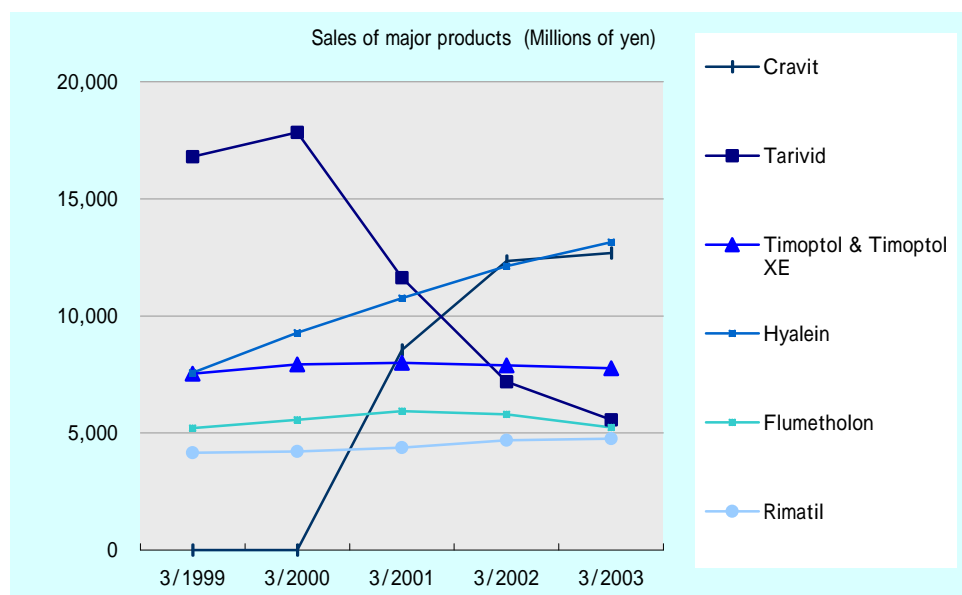
Therapeutic category	Generic name/formulation	Brand name	Region	Launched
Bacterial conjunctivitis	levofloxacin/ophthalmic solution	<b>Cravit</b>	Japan	Apr-00
		<b>Quixin</b>	U.S.A.	Nov-00
	ofloxacin/ophthalmic solution	<b>Tarivid</b>	Japan	Sep-87
	timolol maleate/ophthalmic solution	<b>Timoptol</b>	Japan	Sep-81
Glaucoma	timolol maleate/ long-acting ophthalmic solution	<b>Timoptol XE</b>	Japan	Nov-99
	dipivefrine hydrochloride	<b>Pivalephrine</b>	Japan	Dec-88
	bunazosin hydrochloride	<b>Detantol</b>	Japan	Sep-01
	timolol ophthalmic solution	<b>Betimol</b>	U.S.A.	Jun-95
	levocabastine hydrochloride/ ophthalmic solution	<b>Livostin</b>	Japan	Jan-01
Allergy	epirolast potassium/ophthalmic solution	<b>Alegysal</b>	Japan	Apr-95
		<b>Alamast</b>	U.S.A.	Jul-00
	ketotifen fumarate/ophthalmic solution	<b>Zaditen</b>	Japan	Jul-91
Corneal disease	sodium hyaluronate/ophthalmic solution	<b>Hyalein</b>	Japan	Jun-95
Inflammation	fluorometholone/ophthalmic solution	<b>Flumetholon</b>	Japan	Oct-75
Early-stage senile cataract	pirenoxine/ophthalmic solution	<b>Kary Uni</b>	Japan	Jul-92
Adjuvant for ophthalmic operations	sodium hyaluronate/ adjuvant for ophthalmic operations	<b>Opegan Hi</b>	Japan	Jan-95
Perfusate/lotion	oxiglutatione/ophthalmic perfusate and lotion	<b>BSS PLUS</b>	Japan	Jan-92
Rheumatoid arthritis	bucillamine/tablet	<b>Rimatil</b>	Japan	Sep-87
	salazosulfapyridine/enteric coated tablet	<b>Azulfidine EN</b>	Japan	Dec-95





(million of yen)

Year ended March 31					Year ended March 31			Brand name
1999	2000	2001	2002	2003	% Change 2003/2002	2004 Estimate	% Change 2004/2003	
-	-	8,543	12,338	12,691	2.9	12,920	1.8	Cravit
-	-	189	545	1,399	156.7	1,840	31.5	Quixin
16,807	17,838	11,639	7,184	5,566	-22.5	4,980	-10.5	Tarivid
7,537	7,418	6,363	5,745	5,289	-7.9	4,890	-7.5	Timoptol
-	514	1,634	2,145	2,477	15.4	2,690	8.6	Timoptol XE
2,342	1,693	1,135	848	628	-25.9	600	-4.5	Pivalephrine
-	-	-	593	1,498	152.6	2,060	37.5	Detantol
438	387	229	892	856	-4.0	1,040	21.5	Betimol
-	-	1,204	2,225	3,028	36.1	3,440	13.6	Livostin
996	1,011	1,016	865	848	-2.0	850	0.2	Alegysal
-	-	80	207	199	-3.9	250	25.6	Alamast
6,320	4,643	4,718	166	-	-	-	-	Zaditen
7,571	9,281	10,758	12,130	13,156	8.5	13,380	1.7	Hyalein
5,211	5,566	5,938	5,792	5,234	-9.6	5,150	-1.6	Flumetholon
2,495	2,743	2,909	3,092	3,326	7.6	3,180	-4.4	Kary Uni
2,292	2,496	2,449	2,319	2,305	-0.6	2,190	-5.0	Opegan Hi
1,927	2,086	2,058	2,010	1,505	-25.1	1,240	-17.6	BSS PLUS
4,160	4,209	4,380	4,685	4,751	1.4	4,920	3.6	Rimatil
1,732	2,095	2,349	2,605	2,880	10.5	3,040	5.6	Azulfidine EN



# Sales details

## Sales by division

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002
Prescription pharmaceuticals	69,090	73,168	78,878	78,149	79,345	1.5
Ophthalmic	61,708	65,561	71,231	70,043	71,122	1.5
Anti-rheumatic	5,893	6,305	6,729	7,291	7,631	4.7
Other prescription pharmaceuticals	1,488	1,301	916	814	591	-27.4
OTC pharmaceuticals	6,445	6,964	5,225	6,592	5,656	-14.2
Medical devices	980	1,017	1,144	916	918	0.3
Others	3,122	2,425	3,170	3,308	4,332	30.9
Total net sales	79,639	83,577	88,448	88,966	90,252	1.4

## [Domestic]

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002
Prescription pharmaceuticals	65,779	70,018	75,435	72,270	72,010	-0.4
Ophthalmic	58,649	62,637	67,919	64,425	64,009	-0.6
Anti-rheumatic	5,760	6,182	6,661	7,156	7,537	5.3
Other prescription pharmaceuticals	1,369	1,198	853	688	463	-32.7
OTC pharmaceuticals	6,432	6,947	5,207	6,555	5,623	-14.2
Medical devices	980	1,017	1,143	839	853	1.7
Others	787	807	966	982	1,245	26.8
Total net sales	73,980	78,789	82,753	80,647	79,732	-1.1
(Percentage of total net sales)	92.9%	94.3%	93.6%	90.7%	88.3%	-

## [Overseas]

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002
Prescription pharmaceuticals	3,311	3,150	3,443	5,878	7,335	24.8
Ophthalmic	3,059	2,924	3,312	5,617	7,112	26.6
Anti-rheumatic	133	123	67	134	94	-29.9
Other prescription pharmaceuticals	119	103	63	126	128	1.9
OTC drugs	13	17	47	36	32	-10.7
Medical devices	-	-	-	76	65	-14.5
Others	2,335	1,618	2,204	2,325	3,086	32.7
Total overseas sales	5,659	4,788	5,695	8,318	10,519	26.5
(Percentage of total net sales)	7.1%	5.7%	6.4%	9.3%	11.7%	-

# Breakdown by geographic segment



## Breakdown by geographic segment

Year ended March 31		1999		2000		2001		2002		2003	
		Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Net sales by geographic segment	Japan	74,648	93.8	79,781	95.4	84,138	95.1	82,623	92.9	81,857	90.7
	Europe	4,570	5.7	2,907	3.5	3,016	3.4	4,844	5.4	6,642	7.4
	Others	420	0.5	887	1.1	1,293	1.5	1,497	1.7	1,752	1.9
	Total	79,639	100.0	83,577	100.0	88,448	100.0	88,966	100.0	90,252	100.0
Operating expenses by geographic segment	Japan	54,166		57,385		59,951		64,263		61,865	
	Europe	4,138		3,428		6,187		9,327		11,442	
	Others	2,592		3,590		5,848		9,385		10,482	
	Total	60,897		64,404		71,987		82,976		83,790	
	Corporate and eliminations	2,116		1,664		-77		-5,800		-6,234	
	Consolidated total	63,014		66,069		71,910		77,175		77,555	
Operating income by geographic segment	Japan	20,490		22,411		24,482		18,879		20,652	
	Europe	551		-117		-2,307		-3,384		-3,816	
	Others	-184		-52		45		-473		-1,082	
	Total	20,857		22,242		22,220		15,021		15,753	
	Corporate and eliminations	-4,232		-4,734		-5,681		-3,230		-3,056	
	Consolidated total	16,625		17,508		16,538		11,790		12,697	

Europe: Finland, Sweden, Germany and Netherlands

Other: U.S.A., Taiwan and Korea

**Note:** Sales of prescription ophthalmics in the U.S. A. are included in sales in Europe.

## Overseas sales

Year ended March 31		1999		2000		2001		2002		2003	
		Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Europe		3,905	69.0	2,488	52.0	2,252	39.5	3,009	36.2	3,505	33.3
North America		852	15.1	1,437	30.0	2,206	38.8	3,499	42.1	4,649	44.2
Others		901	15.9	862	18.0	1,237	21.7	1,809	21.7	2,364	22.5
Total		5,659	100.0	4,788	100.0	5,695	100.0	8,318	100.0	10,519	100.0

Europe: Finland, Sweden, Norway, Denmark and Russia

North America: U.S.A. and Canada

Other: Southeast Asia

**Note:** Overseas sales represent sales generated in countries or regions other than Japan by Santen Pharmaceutical Co., Ltd. and its subsidiaries.

# Consolidated balance sheets

Assets											(Millions of yen)	
March 31	1999		2000		2001		2002		2003			
		%		%		%		%		%		
<b>Current assets</b>	<b>78,018</b>	<b>53.8</b>	<b>82,218</b>	<b>54.8</b>	<b>88,025</b>	<b>57.4</b>	<b>86,064</b>	<b>56.6</b>	<b>83,431</b>	<b>56.7</b>		
Cash and deposits	23,642		31,119		27,293		24,185		23,136			
Notes receivable and accounts receivable	29,757		31,914		40,921		39,415		32,516			
Marketable securities	11,405		5,080		3,189		4,131		7,771			
Inventories	9,141		11,183		11,986		12,371		11,684			
Deferred tax assets	1,178		1,419		2,412		1,870		1,201			
Other current assets	3,073		1,647		2,316		4,157		7,262			
Allowance for doubtful receivables	-181		-146		-94		-67		-141			
<b>Fixed assets</b>	<b>65,766</b>	<b>45.4</b>	<b>64,128</b>	<b>42.8</b>	<b>65,215</b>	<b>42.6</b>	<b>66,038</b>	<b>43.4</b>	<b>63,716</b>	<b>43.3</b>		
Tangible assets	39,638	27.4	37,415	25.0	36,683	24.0	42,159	27.7	40,850	27.8		
Buildings and structures	23,158		21,475		19,789		18,562		20,351			
Machinery, equipment and vehicles	2,708		2,236		1,644		1,926		1,958			
Land	11,145		11,031		10,988		11,009		10,990			
Construction in progress	245		177		1,750		8,200		4,966			
Other tangible assets	2,379		2,495		2,511		2,460		2,582			
Intangible assets	7,317	5.0	5,233	3.5	4,781	3.1	5,164	3.4	4,781	3.2		
Goodwill	5,912		1,804		1,556		2,260		1,598			
Softwear	1,071		884		721		992		911			
Consolidation adjustments	-		-		-		17		13			
Other intangible assets	333		2,544		2,504		1,893		2,256			
Investments and other assets	18,810	13.0	21,479	14.3	23,750	15.5	18,715	12.3	18,085	12.3		
Investment securities	9,728		10,104		13,237		9,821		9,945			
Long-term deferred tax assets	751		2,568		1,826		2,515		2,331			
Others	8,344		8,812		8,687		6,392		5,808			
Allowance for doubtful receivables	-14		-6		-0		-13		-0			
<b>Deferred assets</b>	-		-		2		-		-			
<b>Foreign currency translation adjustments</b>	<b>1,128</b>	<b>0.8</b>	<b>3,621</b>	<b>2.4</b>	-	-	-	-	-	-		
<b>Total assets</b>	<b>144,913</b>	<b>100.0</b>	<b>149,968</b>	<b>100.0</b>	<b>153,242</b>	<b>100.0</b>	<b>152,103</b>	<b>100.0</b>	<b>147,147</b>	<b>100.0</b>		

## 【Major variances between March 31, 2002 and March 31, 2003】

<b>Notes receivable and Accounts receivable :</b>	Notes receivable and accounts receivable as of March 31, 2002 contained accounts receivable of 6,172 million yen because financial institutions were closed on the day. This does not apply to the balance sheet of March 31, 2003.
<b>Marketable securities :</b>	Increased due to purchase of commercial paper of 2,501 million yen.
<b>Buildings and structures:</b>	Transferred 1,566 million yen from the construction in progress into buildings and structures due to the completion of Nara Research and Development Center construction works.
<b>Construction in progress:</b>	Decreased due to transfer of leasing contract of Noto Plant manufacturing facilities (1,633 million yen) and Nara Research and Development Center construction (1,113 million yen).

**Liabilities and shareholders' equity**

(Millions of yen)

March 31	1999		2000		2001		2002		2003	
		%		%		%		%		%
<b>Current liabilities</b>	<b>24,156</b>	<b>16.7</b>	<b>21,959</b>	<b>14.6</b>	<b>27,340</b>	<b>17.8</b>	<b>26,334</b>	<b>17.3</b>	<b>39,637</b>	<b>26.9</b>
Ordinary income	5,960		5,076		6,900		4,798		5,476	
Bank loans	2,000		-		-		-		-	
Current portion of convertible bonds	-		-		-		-		19,945	
Current portion of long-term debt	650		653		629		1,417		416	
Other payables	7,163		7,565		10,784		11,754		9,117	
Income taxes payable	4,524		3,822		4,640		3,428		1	
Consumption taxes payable	551		476		582		484		283	
Reserve for bonuses	1,893		2,116		2,088		2,311		2,432	
Other reserves	1,038		1,180		1,157		1,067		741	
Other current liabilities	374		1,067		556		1,071		1,222	
<b>Noncurrent liabilities</b>	<b>31,806</b>	<b>21.9</b>	<b>32,340</b>	<b>21.6</b>	<b>31,068</b>	<b>20.3</b>	<b>30,668</b>	<b>20.2</b>	<b>10,384</b>	<b>7.1</b>
Convertible bonds	19,945		19,945		19,945		19,945		-	
Long-term loans	5,806		5,148		4,518		3,103		2,686	
Other payables - long-term	891		398		30		-		86	
Reserve for retirement benefits	3,643		5,388		-		-		-	
Reserve for retirement benefits	-		-		5,058		5,156		5,288	
Reserve for retirement benefits for directors and auditors	343		214		246		444		465	
Consolidation adjustments	7		-		-		-		-	
Deffered tax liabilities	-		41		38		34		32	
Other	1,167		1,211		1,230		1,983		1,825	
<b>Total liabilities</b>	<b>55,962</b>	<b>38.6</b>	<b>54,299</b>	<b>36.2</b>	<b>58,408</b>	<b>38.1</b>	<b>57,002</b>	<b>37.5</b>	<b>50,021</b>	<b>34.0</b>
Common stock	6,180		6,180		6,205		6,214		6,214	
Capital surplus reserves	6,874		6,874		6,900		6,908		6,908	
Appropriated retained earnings	75,924		82,663		83,735		83,892		90,551	
Unrealized holding gains on securities	-		-		1,289		474		293	
Foreign currency translation adjustments	-		-		-3,255		-2,382		-3,566	
Treasury stock at cost	-28		-50		-41		-5		-3,276	
<b>Total shareholders' equity</b>	<b>88,950</b>	<b>61.4</b>	<b>95,669</b>	<b>63.8</b>	<b>94,834</b>	<b>61.9</b>	<b>95,101</b>	<b>62.5</b>	<b>97,125</b>	<b>66.0</b>
<b>Total liabilities and shareholders' equity</b>	<b>144,913</b>	<b>100.0</b>	<b>149,968</b>	<b>100.0</b>	<b>153,242</b>	<b>100.0</b>	<b>152,103</b>	<b>100.0</b>	<b>147,147</b>	<b>100.0</b>

**【Major variances between March 31, 2002 and March 31, 2003】**

<b>Current portion of convertible bonds:</b>	Transferred from convertible bonds of noncurrent liabilities because the bonds are planned to be redeemed on September 30, 2003.
<b>Other payable :</b>	Decrease in other payables associated with fixed assets.
<b>Treasury stock at cost:</b>	The company bought back 2,741,000 shares of its own stock at 3,237 million yen in March 2003 and holds as treasury stock.

# Consolidated statements of cash flows

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003
<b>I. Cash flows from operating activities:</b>					
Net income before income taxes	15,968	14,422	15,520	12,678	9,947
Depreciation and amortization	6,313	5,725	5,683	5,333	4,311
Increase/decrease in retirement and severance benefits	125	1,616	-330	97	132
Increase/decrease in trade receivables	298	1,125	-	145	591
Increase/decrease in inventories	-343	-2,351	-8,372	1,804	6,965
Increase/decrease in account payable	99	-2,197	-765	-183	647
Increase/decrease in accounts payable	-988	-842	1,812	-2,137	660
Other, net	2,377	1,012	1,376	-2,495	-1,132
Subtotal	23,849	18,510	14,928	15,244	22,122
Interest and dividends income received	657	526	529	227	140
Interest expense paid	-587	-461	-406	-464	-458
Income taxes paid	-7,226	-9,202	-8,219	-8,065	-5,996
Net cash provided by operating activities	16,692	9,372	6,831	6,941	15,807
<b>II. Cash flows from investing activities:</b>					
Deposit/withdrawal of fixed deposit	-1,135	2,204	-815	-1,143	558
Decreases/increase in marketable securities	-4,708	2,455	2,530	789	-4,188
Purchase/sale of fixed assets	-3,442	-2,510	-4,942	-6,585	-7,045
Payment for acquisition of shares of subsidiaries due to changes in consolidation	-	-	-	-537	-
Decrease/increase in loans	497	515	158	1,011	11
Other, net	-650	-1,827	-102	90	711
Net cash used in investing activities	-9,439	835	-3,172	-6,373	-9,951
<b>III. Cash flows from financing activities:</b>					
Decrease/increase in short-term borrowings	1,951	-2,000	-	-	-
Decrease/increase in long-term borrowings	-4,718	-648	-654	-624	-1,420
Increase/decrease of treasury stock	-1,140	-1,140	-1,520	-1,854	-1,812
Cash dividends paid	42	-19	-5,080	-3,223	-3,273
Other, net	26	-9	62	17	-
Net cash used in financing activities	-3,838	-3,817	-7,192	-5,683	-6,507
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	<b>-84</b>	<b>-237</b>	<b>360</b>	<b>176</b>	<b>84</b>
<b>V. Net increase/decrease in cash and cash equivalents</b>	<b>3,330</b>	<b>6,154</b>	<b>-3,172</b>	<b>-4,939</b>	<b>-566</b>
<b>VI. Cash and cash equivalents, beginning of year</b>	<b>24,242</b>	<b>27,573</b>	<b>33,727</b>	<b>30,555</b>	<b>25,619</b>
<b>VII. Effect from consolidating subsidiaries previously unconsolidated on cash and cash equivalents</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>
<b>VII. Cash and cash equivalents, end of half year/year</b>	<b>27,573</b>	<b>33,727</b>	<b>30,555</b>	<b>25,619</b>	<b>25,053</b>

# Capital expenditures and number of employees

## Capital expenditures\*

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	2004 Estimate
Consolidated	2,018	2,222	3,039	8,516	4,134	3,930
Non-consolidated	1,119	1,533	2,396	7,507	3,820	2,650

\*Includes investment in manufacturing facilities to be spent on a lease contract basis.

### 【Major items】

- Extension of the Shiga Plant and Noto Plant to improve manufacturing processes.
- Expansion of the Nara Research & Development Center to reinforce R&D.

## Depreciation and amortization

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	2004 Estimate
Manufacturing cost	2,645	2,282	2,009	1,783	1,549	1,620
Selling, general and administrative expense	773	788	791	829	699	800
R&D expenses	829	861	1,345	1,190	1,224	1,630
Others	96	114	189	34	164	140
Consolidated	4,343	4,045	4,336	3,837	3,638	4,190
Non-consolidated	3,824	3,776	3,961	3,347	2,967	3,400

## Lease expenses

(Millions of yen)

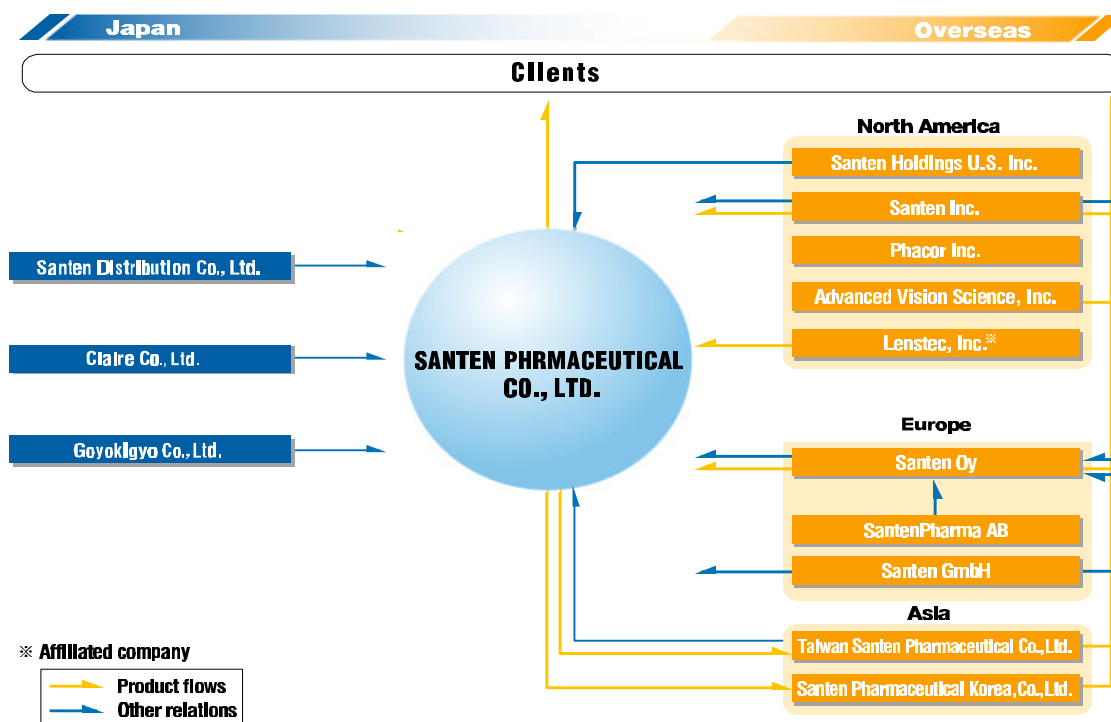
Year ended March 31	1999	2000	2001	2002	2003	2004 Estimate
Consolidated total	2,266	2,259	2,302	1,879	675	770
Manufacturing cost	2,224	2,223	2,232	1,817	588	690
Non-consolidated	2,222	2,259	2,302	1,879	675	770

## Number of employees

Year ended March 31	1999	2000	2001	2002	2003
Consolidated	2,037	2,093	2,167	2,463	2,500
Non-consolidated	1,576	1,582	1,592	1,702	1,740

# Affiliated companies

Santen group



## Consolidate subsidiaries 【Domestic】

Santen Distribution Co., Ltd.					
Main business	Distribution and warehousing of pharmaceutical products				
Location	Osaka, Japan	Paid-in capital	30 million yen	Equity owned	100%
Claire Co., Ltd.					
Main business	Cleaning of sterilized suit				
Location	Shiga, Japan	Paid-in capital	90 million yen	Equity owned	100%
Goyokigyo Co., Ltd.					
Main business	Real estate				
Location	Osaka, Japan	Paid-in capital	90 million yen	Equity owned	100%



## 【Overseas】

Santen Holdings U.S., Inc.					
Main business	Holding company for North American business				
Location	California, U.S.A.	Paid-in capital	15,029 thousand US\$	Equity owned	100%

Santen Inc.					
Main business	Contract manufacturing, sales support and development of pharmaceuticals				
Location	California, U.S.A.	Paid-in capital	8,785 thousand US\$	Equity owned	100%*

Phacor Inc.					
Main business	Development of medical devices				
Location	California, U.S.A.	Paid-in capital	10 thousand US\$	Equity owned	100%*

Advanced Vision Science, Inc.					
Main business	Development, manufacture and sale of medical devices				
Location	California, U.S.A.	Paid-in capital	10 thousand US\$	Equity owned	100%*

Santen OY					
Main business	Development, manufacture and sale of pharmaceuticals				
Location	Tampere, Finland	Paid-in capital	8,000 thousand euros	Equity owned	100%

SantenPharma AB					
Principal activities	Sales support of pharmaceuticals				
Location	Stockholm, Sweden	Paid-in capital	500 thousand S.KR	Equity owned	100%

Santen GmbH					
Main business	Business development and development of pharmaceuticals				
Location	Germaring, Germany	Paid-in capital	25 thousand euros	Equity owned	100%

Taiwan Santen Pharmaceutical Co., Ltd.					
Main business	Import and sale of pharmaceuticals				
Recurring income	Taipei, Taiwan	Paid-in capital	42,000 thousand Taiwan dollars	Equity owned	100%

Santen Pharmaceutical Korea, Co., Ltd.					
Main business	Import and sale of pharmaceuticals				
Location	Seoul, Korea	Paid-in capital	1,500,000 thousand won	Equity owned	100%

**Note:** Santen Pharmaceutical Co., Ltd. has one affiliated company but does not have any affiliated companies accounted for by the equity method.

\* Indirect investment through Santen Holdings U.S. Inc.

\* Santen Pharmaceutical B.V., which was a subsidiary in the year ended March 31, 2002, carried out a voluntary liquidation in March 2003.

## Non-consolidated Information

# Non-consolidated income statements

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002
<b>Net sales</b>	<b>74,498</b>	<b>79,669</b>	<b>84,295</b>	<b>82,990</b>	<b>82,372</b>	<b>-0.7</b>
Cost of sales	29,647	29,946	30,996	29,829	28,901	-3.1
(Percentage of net sales)	39.8%	37.6%	36.8%	35.9%	35.1%	
<b>Gross profit</b>	<b>44,850</b>	<b>49,722</b>	<b>53,298</b>	<b>53,161</b>	<b>53,471</b>	<b>0.6</b>
(Percentage of net sales)	60.2%	62.4%	63.2%	64.1%	64.9%	
Selling, general and administrative expenses	28,870	32,125	34,586	37,575	36,141	-3.8
(Percentage of net sales)	38.8%	40.3%	41.0%	45.3%	43.9%	
R&D expenses	7,896	9,863	10,936	12,809	12,109	-5.5
(Percentage of net sales)	10.5%	12.3%	12.9%	15.4%	14.7%	
<b>Operating income</b>	<b>15,979</b>	<b>17,596</b>	<b>18,712</b>	<b>15,586</b>	<b>17,329</b>	<b>11.2</b>
(Percentage of net sales)	21.4%	22.1%	22.2%	18.8%	21.0%	
Non-operating income	1,275	1,017	1,114	932	719	-22.8
Non-operating expense	1,226	905	753	458	1,037	126.4
<b>Ordinary income</b>	<b>16,029</b>	<b>17,708</b>	<b>19,072</b>	<b>16,060</b>	<b>17,011</b>	<b>5.9</b>
(Percentage of net sales)	21.5%	22.2%	22.6%	19.3%	20.7%	
Extraordinary gain	314	42	57	952	16	-98.3
Extraordinary loss	177	3,222	1,433	263	14,728	5,481.9
<b>Income before income taxes</b>	<b>16,166</b>	<b>14,528</b>	<b>17,697</b>	<b>16,749</b>	<b>2,299</b>	<b>-86.3</b>
(Percentage of net sales)	21.7%	18.2%	21.0%	20.2%	2.8%	
Income taxes: current	8,323	7,966	8,644	6,515	442	-93.2
deferred	-350	-1,750	-1,112	300	985	227.7
<b>Net income</b>	<b>8,192</b>	<b>8,312</b>	<b>10,165</b>	<b>9,932</b>	<b>871</b>	<b>-91.2</b>
(Percentage of net sales)	11.0%	10.4%	12.1%	12.0%	1.1%	

### Selling, general and administrative expenses

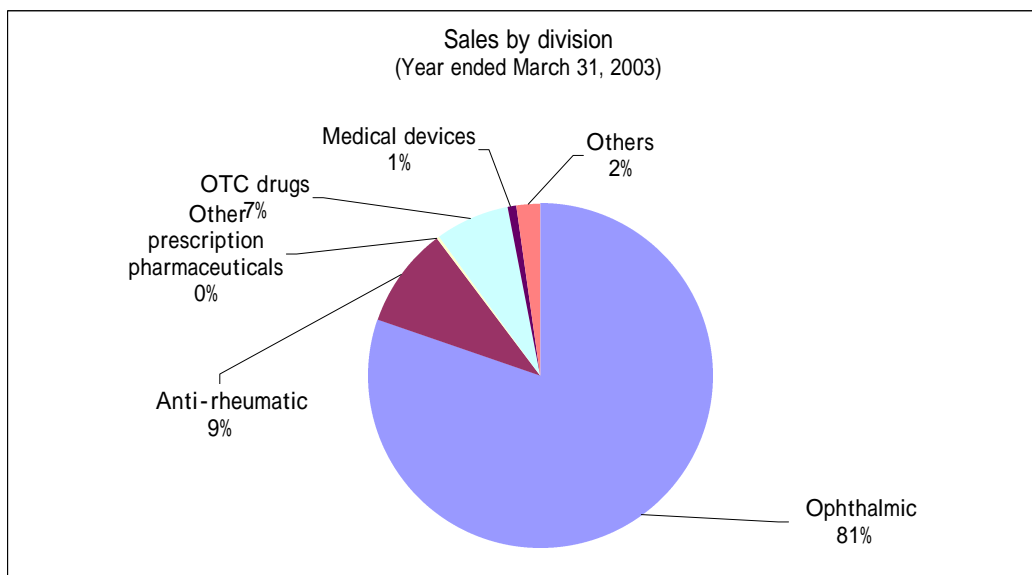
(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002
Personnel expenses	7,984	8,322	8,237	8,626	8,746	1.4
Sales promotion expenses	1,787	2,269	2,533	2,676	2,399	-10.3
Royalty expenses	2,181	2,174	2,527	2,358	1,951	-17.3
Advertising expenses	2,080	2,001	1,364	1,869	1,655	-11.5
R&D expenses	7,896	9,863	10,936	12,809	12,109	-5.5

### Sales by division

(Millions of yen)

Year ended March 31	1999	2000	2001	2002	2003	% Change 2003/2002
Prescription pharmaceuticals	66,430	71,008	76,576	74,221	74,130	-0.1
Ophthalmic	59,329	63,618	69,152	66,379	66,207	-0.3
Anti-rheumatic	5,893	6,305	6,729	7,291	7,631	4.7
Other prescription pharmaceuticals	1,207	1,084	694	551	291	-47.1
OTC drugs	6,445	6,964	5,255	6,592	5,656	-14.2
Medical devices	980	1,017	1,144	842	855	1.5
Others	641	678	1,318	1,334	1,730	29.6
<b>Total net sales</b>	<b>74,498</b>	<b>79,669</b>	<b>84,295</b>	<b>82,990</b>	<b>82,372</b>	<b>-0.7</b>



# Non-consolidated balance sheets

## Assets

(Millions of yen)

March 31	1999		2000		2001		2002		2003	
		%		%		%		%		%
<b>Current assets</b>	<b>74,507</b>	<b>51.8</b>	<b>75,602</b>	<b>50.6</b>	<b>82,645</b>	<b>52.5</b>	<b>78,800</b>	<b>49.7</b>	<b>75,794</b>	<b>51.3</b>
Cash and deposits	21,877		26,241		24,310		19,594		18,353	
Notes receivable and accounts receivable	28,842		31,186		39,937		37,852		31,300	
Income taxes receivable	-		-		-		-		2,114	
Marketable securities	11,405		4,876		2,984		4,797		7,745	
Treasury stock	28		50		41		-		-	
Inventories	8,297		10,445		11,096		10,997		10,348	
Deferred tax assets	1,128		1,379		2,276		1,859		1,138	
Other	3,107		1,569		2,093		3,765		4,934	
Allowance for doubtful receivables	-181		-146		-94		-66		-141	
<b>Fixed assets</b>	<b>69,234</b>	<b>48.2</b>	<b>73,732</b>	<b>49.4</b>	<b>74,687</b>	<b>47.5</b>	<b>79,656</b>	<b>50.3</b>	<b>72,075</b>	<b>48.7</b>
Tangible assets	36,062	25.1	34,078	22.8	32,844	20.9	37,539	23.7	36,304	24.5
Buildings and structures	20,802		19,237		17,511		16,040		17,887	
Machinery, equipment and vehicles	2,259		1,745		1,235		965		857	
Tools, furnitures and fixtures	2,164		2,192		1,926		1,724		1,932	
Land	10,819		10,742		10,666		10,666		10,666	
Construction in progress	17		160		1,503		8,142		4,959	
Intangible assets	1,013	0.7	4,350	2.9	3,973	2.5	3,446	2.2	3,129	2.1
Patents	-		1,191		1,039		887		736	
Trademarks	-		1,203		1,081		962		839	
Goodwill	-		1,177		934		692		449	
Software	899		673		543		797		719	
Other intangible assets	113		103		373		106		384	
Investments and other assets	32,158	22.4	35,304	23.7	37,869	24.1	38,670	24.4	32,641	22.1
Investment securities	9,536		9,912		13,419		9,991		10,819	
Investments in subsidiaries and affiliates	13,520		14,303		14,455		15,567		4,618	
Long-term loan	1,462		1,261		1,051		4,671		9,346	
Long-term deferred tax assets	698		2,197		1,479		2,185		2,052	
Others	6,940		7,629		7,464		6,253		5,803	
<b>Total assets</b>	<b>143,741</b>	<b>100.0</b>	<b>149,335</b>	<b>100.0</b>	<b>157,332</b>	<b>100.0</b>	<b>158,456</b>	<b>100.0</b>	<b>147,869</b>	<b>100.0</b>

### 【Major variances between March 31, 2002 and March 31, 2003】

<b>Notes receivable and Accounts receivable :</b>	Notes receivable and accounts receivable of March 31 2002 contained accounts receivable of 6,172 million yen because financial institutions were closed on the day. This does not apply to the balance sheet of March 31 2003.
<b>Income tax receivable:</b>	Refund from income tax of FY2002.
<b>Marketable securities:</b>	Increased due to purchase of commercial paper of 2,501 million yen.
<b>Current assets (Others):</b>	Increased due to the profit on sale of Noto Plant facility (1,633 million yen) to leasing company.
<b>Buildings and structures:</b>	Transferred 1,566 million yen from the construction in progress into buildings and structures due to the completion of Nara Research and Development Center construction works.
<b>Construction in progress:</b>	Decreased due to transfer of leasing contract of Noto Plant manufacturing facilities (1,633 million yen) and Nara Research and Development Center construction (1,113 million yen).

**Liabilities and shareholders' equity**

(Millions of yen)

<b>March 31</b>	<b>1999</b>		<b>2000</b>		<b>2001</b>		<b>2002</b>		<b>2003</b>	
		%		%		%		%		%
<b>Current liabilities</b>	<b>23,358</b>	<b>16.3</b>	<b>21,268</b>	<b>14.2</b>	<b>25,870</b>	<b>16.5</b>	<b>24,094</b>	<b>15.2</b>	<b>38,055</b>	<b>25.7</b>
Accounts payable	5,698		4,711		6,452		4,335		5,122	
Short-term loans	2,000		-		-		-		-	
Current portion of convertible bonds	-		-		-		-		19,945	
Current portion of long-term debt	640		640		624		1,416		416	
Other payables	7,187		8,298		10,556		11,242		9,449	
Corporate income taxes receivable	4,470		3,741		4,597		3,412		-	
Consumption taxes payable	544		470		573		478		275	
Reserves	2,685		2,855		2,858		2,886		2,609	
Others	131		489		207		323		237	
<b>Noncurrent liabilities</b>	<b>31,631</b>	<b>22.0</b>	<b>32,204</b>	<b>21.6</b>	<b>30,735</b>	<b>19.5</b>	<b>29,654</b>	<b>18.7</b>	<b>9,530</b>	<b>6.5</b>
Convertible bonds	19,945		19,945		19,945		19,945		-	
Long-term loans	5,782		5,142		4,518		3,102		2,686	
Other payables - long-term	891		389		30		-		-	
Reserve for retirement benefit	3,986		5,599		-		-		-	
Reserve for retirement benefit	-		-		5,290		5,580		5,724	
Other noncurrent liabilities	1,025		1,127		951		1,026		1,120	
<b>Total liabilities</b>	<b>54,989</b>	<b>38.3</b>	<b>53,472</b>	<b>35.8</b>	<b>56,605</b>	<b>36.0</b>	<b>53,749</b>	<b>33.9</b>	<b>47,586</b>	<b>32.2</b>
Common stock	6,180	4.3	6,180	4.1	6,205	4.0	6,214	3.9	6,214	4.2
Capital surplus reserves	6,874	4.8	6,874	4.6	6,900	4.3	6,908	4.4	6,908	4.6
Additional paid-in capital	6,874		6,874		6,900		6,908		6,908	
Appropriated retained earnings	75,697	52.6	82,808	55.5	86,331	54.9	91,115	57.5	90,143	61.0
Earnings reserve	1,195		1,316		1,473		1,551		1,551	
Reserve for retirement benefit	372		372		372		372		372	
Special depreciation reserve	361		295		287		250		180	
General reserve	63,709		72,409		79,409		82,109		84,109	
Unappropriated retained earnings	10,058		8,414		4,789		6,833		3,930	
Net income	8,192		8,312		10,165		9,932		871	
Unrealized holding gains on securities	-	-	-	-	1,289	0.8	474	0.3	293	0.2
Treasury stock	-	-	-	-	-	-	-5	-0.0	-3,276	-2.2
<b>Total shareholders' equity</b>	<b>88,752</b>	<b>61.7</b>	<b>95,863</b>	<b>64.2</b>	<b>100,727</b>	<b>64.0</b>	<b>104,706</b>	<b>66.1</b>	<b>100,283</b>	<b>67.8</b>
<b>Total liabilities and shareholders' equity</b>	<b>143,741</b>	<b>100.0</b>	<b>149,335</b>	<b>100.0</b>	<b>157,332</b>	<b>100.0</b>	<b>158,456</b>	<b>100.0</b>	<b>147,869</b>	<b>100.0</b>

**【 Major variances between March 31, 2002 and March 31, 2003 】**

<b>Current portion of convertible bonds:</b>	Transferred from convertible bonds of noncurrent liabilities because the bonds are planned to be redeemed on September 30, 2003.
<b>Other payable:</b>	Decrease in other payables associated with fixed assets.
<b>Income taxes payable:</b>	Due to the decrease in net income.
<b>Treasury stock at cost:</b>	The company bought back 2,741,000 shares of its own stock at 3,237 million yen in March 2003 and holds them as treasury stock.

## Reference information

# Research & development

### Pipeline of prescription pharmaceuticals (Clinical study)

Generic name	Brand name/dev. code	Indication	Original/in-licensing	Region	Ph II	Ph III	NDA Filed	Approved	Launched
Levofloxacin	Cravit Quixin 0.5% Oftraquix 0.5% Levofloxacin 1.5%	Bacterial conjunctivitis Bacterial conjunctivitis Bacterial conjunctivitis Bacterial corneal ulcer	Daiichi Pharmaceuticals	Japan					Apr-00
				USA					Nov-00
				Europe					May-02
				USA				Apr-03	
Levofloxacin + prednisolone A	DE-094	Infectious keratitis	Daiichi Pharmaceuticals	USA					

Characteristics: New quinolone antibacterial agent. The adoption of a more highly concentrated formulation enables stronger antibacterial action. Also expected to be effective for intractable bacterial corneal ulcers. In Europe, the treatment has obtained marketing authorization in 10 countries and launched it in four countries including Germany. Levofloxacin + prednisolone A is an ophthalmic combination solution of levofloxacin and steroid.

Generic name	Brand name/dev. code	Indication	Original/in-licensing	Region	Ph II	Ph III	NDA Filed	Approved	Launched
Pemirolast potassium	Alegysal Alamast Alamast	Allergic conjunctivitis	Mitsubishi Pharma	Japan					Apr-95
				USA					Jul-00
				France				Dec-99	

Characteristics: A mast cell stabilizer with superior efficacy on allergic conjunctivitis and vernal keratoconjunctivitis.

Generic name	Brand name/dev. code	Indication	Original/in-licensing	Region	Ph II	Ph III	NDA Filed	Approved	Launched
Sodium hyaluronate	Hyalein Hyalein	Corneal and conjunctival epithelial disorders Dry eye	Original	Japan					Jun-95
				USA					Preparation

Characteristics: Ophthalmic solution containing sodium hyaluronate. Treats dry eye and corneal and conjunctivitis epithelial lesions caused by contact lenses, etc.

Generic name	Brand name/dev. code	Indication	Original/in-licensing	Region	Ph II	Ph III	NDA Filed	Approved	Launched
Cyclosporine	DE-076	Vernal keratoconjunctivitis	Licensed-in	Japan					

Characteristics: An orphan drug. Expected to treat advanced vernal keratoconjunctivitis for which existing anti-allergic agents are not effective. Because it is an ophthalmic solution, virtually no generalized side effects are noted.

Generic name	Brand name/dev. code	Indication	Original/in-licensing	Region	Ph II	Ph III	NDA Filed	Approved	Launched
(Undetermined)	DE-085	Glaucoma, Ocular hypertension	Co-development with Asahi Glass	USA					
				Japan					

Characteristics: Prostaglandin-based treatment for glaucoma to reduce ocular pressure. Clinical trials will be conducted in parallel in the U.S., Europe and Japan. Expected to have greater efficacy in reducing ocular pressure than other prostaglandin-based agents. Can be stored at room temperature.

Generic name	Brand name/dev. code	Indication	Original/in-licensing	Region	Ph II	Ph III	NDA Filed	Approved	Launched
Olmesartan	DE-092	Glaucoma, Ocular hypertension	Sankyo (Japan)	Japan					

Characteristics: Angiotensin II receptor antagonist developed by Sankyo. Expected to become a glaucoma treatment with unique anti-ocular hypertensive action not seen in any existing treatments.

Generic name	Brand name/dev. code	Indication	Original/in-licensing	Region	Ph II	Ph III	NDA Filed	Approved	Launched
Lomerizine HCL	DE-090	Glaucoma	Nippon Organon	Japan					

Characteristics: It has a calcium antagonizing activity. Currently sold by Nippon Organon as a migraine treatment. Expected to become a new type of treatment for glaucoma with excellent safety to suppress the progression of visual field disorder by improving ocular circulation. In oral administration tablets.

Generic name	Brand name/dev. code	Indication	Original/in-licensing	Region	Ph II	Ph III	NDA Filed	Approved	Launched
Diquafosol tetrasodium	DE-089	Dry eye	Inspire Pharm.(USA)	Japan					

Characteristics: Facilitates secretion of lacrimal components and water from epithelial cells of conjunctiva and cornea through endogenous receptors in order to increase tears on conjunctiva and cornea while stabilizing tear film. Indicated for dry eye.

Generic name	Brand name/dev. code	Indication	Original/in-licensing	Region	Ph II	Ph III	NDA Filed	Approved	Launched
Apafant	DE-081	Allergic conjunctivitis	Licensed-in	Japan					

Characteristics: A platelet active factor (PAF) antagonist. Controls the production and secretion of prostaglandins and other chemical mediators in inflammation or allergy. Expected to have an effect on congestion, edema and itching caused by allergic conjunctivitis. An ophthalmic solution with low irritation to the eye.

### Pipeline of prescription pharmaceuticals (Preparation for clinical study)

Generic name	Brand name/dev. code	Indication	Original/in-licensing
(Undetermined)	DE-096	Rheumatoid arthritis	Original
Characteristics:TNF inhibitor. Anti-rheumatic effect comparable to oral antibody drugs has been observed in basic research. Will soon begin negotiating with major overseas pharmaceutical company for overseas out-licensing. Also in tie-up negotiations with several companies for domestic development.			
Generic name	Brand name/dev. code	Indication	Original/in-licensing
(Undetermined)	DE-098(Anti-APO-1 antibody)	Rheumatoid arthritis	Original
Characteristics:Joint injection that induces apoptosis in diseased joints of rheumatoid arthritis patients. Bulk pharmaceutical manufacturing process for actual production scale established, and drug development being studied.			
Generic name	Brand name/dev. code	Indication	Original/in-licensing
Bucillamine	Rimatil	Osteoarthritis(additional indication)	Original
Characteristics:Shown to be effective on joint inflammation due to osteoarthritis (OA).			

### Pipeline for medical devices

Product under development	Product name	Region
Intraocular lens	MD-13	Japan
Characteristics: Foldable intraocular lens using new new material. Already launched in Europe by Lenstec and STAAR Surgical.		
Product under development	Product name	Region
Intraocular lens	MD-14	Japan and USA
Characteristics: Foldable intraocular lens using new material with high refractive index. Developed by Advanced Vision Science in the U.S.		

### Changes from November 7, 2002

#### [Progress]

Brand name/dev. code	Indication	Stage
Levofloxacin 1.5% (USA)	Bacterial corneal ulcer	Ph III NDA File
DE-092	Glaucoma, Ocular hypertension	Ph II
DE-089	Dry eye	Ph I Ph II

#### [Changed test method]

Brand name/dev. Code	Indication	Stage
Hyalein (USA)	Dry eye	Ph III Ph II under preparation
Reason: Phase 2 tests showed significant difference in the efficacy between this drug and placebo, but in the Phase 3 tests, both the drug and placebo alleviated symptoms in a number of subjects. Phase 2 tests will be carried out once again after modifying the clinical study model.		

#### [Discontinued study]

Brand name/dev. Code	Indication	Discontinued Stage
Hyalein (UK)	Dry eye	Ph II
Reason: Discontinued after consideration on the European market.		
Compound	Indication	discontinued Stage
ADL2-1294	Corneal pain	Pre-clinical
Reason: Discontinued due to safety concerns.		

### Number of employees in R&D divisions

(number of people)

Year ended March 31	1999	2000	2001	2002	2003
R&D personnel (consolidated)	314	370	404	482	485

# Pharmaceutical market

## Revision of National Health Insurance (NHI) drug prices

(%)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Industry average	-	-8.1	-	-6.6	-	-6.8	-4.4	-9.7	-	-7.0	-	-6.3	-
Ophthalmic drugs	-	-0.6	-	-1.6	-	-3.5	-1.8	-7.5	-	-6.2	-	-6.0	-
Santen	-	0.9	-	-0.4	-	-2.6	-1.3	-7.2	-	-5.7	-	-6.0	-

(Compiled by Santen)

Revision of NHI drug prices: In Japan, drug prices are generally revised every two years to reflect their market price. The drugs marketed at lower market prices will bear larger reduction margins at the revision.

## Major healthcare reforms

	1997	Enforcement of the Revised Health Insurance System Law. Increased contribution for insured employees (10% to 20%) Revision of the Insurance Law for Seniors Contribution: 500 yen/day for out-patients (up to four times a month) and 1,000 yen/day for in-patients
	2001	Revision of the Insurance Law for Seniors Contribution: fixed rate of 10% for out-patients and in-patients
April	2002	Reimbursed consulting fee for physicians were reduced by 2.7% on average Revision of prescription fee (two points are added for every prescription of generic drugs)
October	2002	Increased contribution for seniors (fixed amount system was abolished for a uniform fixed rate system of 10% contribution)
April	2003	Increased contribution for insured employees (20% to 30%)



### Market shares

(Billions of yen)

Year ended March 31	1999	2000	2001	2002	2003
Prescription ophthalmics	45.6%	44.2%	42.9%	40.3%	38.9%
	162.5	179.6	189.4	197.1	195.9
Anti-rheumatic drugs	27.3%	28.0%	28.5%	30.2%	30.3%
	26.5	27.9	28.1	28.9	29.4

(Source: Santen estimation)

Note: The market shares are on an NHI drug price basis. Lower figures indicate market size.

### Market shares by therapeutic area - ophthalmic pharmaceuticals

(Billions of yen)

Year ended March 31	1999	2000	2001	2002	2003
Anti-glaucoma	31.1%	22.4%	19.1%	17.6%	17.3%
	46.6	55.3	60.2	66.1	69.1
Anti-infective	76.2%	77.4%	80.8%	81.8%	80.9%
	29.7	31.0	31.0	30.2	26.6
Anti-allergy	33.1%	31.5%	29.2%	18.2%	17.5%
	20.2	22.9	26.8	26.5	25.1
Agents for surgeries	39.9%	42.4%	41.9%	41.0%	39.6%
	17.6	17.7	16.0	16.0	14.9
Corneal disease treatments	88.0%	89.9%	89.3%	89.0%	85.4%
	11.6	13.9	15.3	17.2	18.8
Anti-cataract	40.0%	43.5%	47.0%	50.1%	53.3%
	8.1	8.0	7.9	7.7	7.7
Corticosteroids	55.1%	55.9%	56.2%	56.0%	53.1%
	11.9	12.5	12.7	12.5	11.5

(Source: Santen estimation)

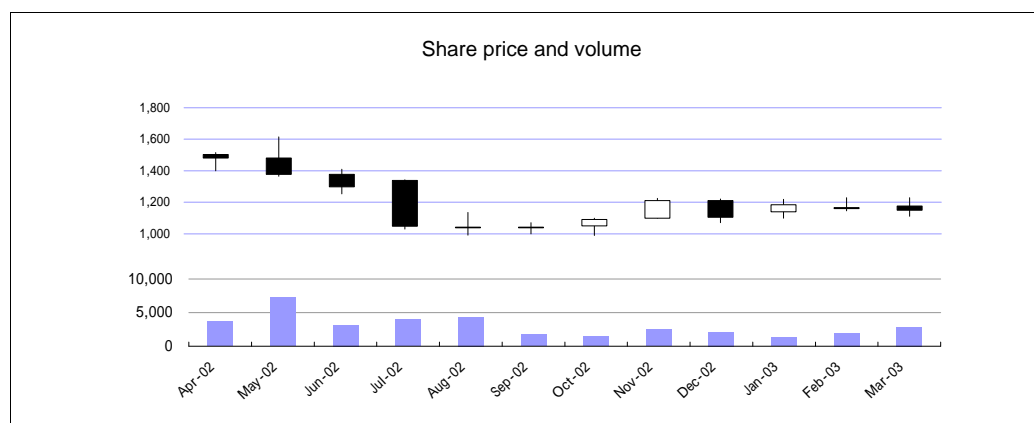
Note: The market shares are on an NHI drug price basis. Lower figures indicate market size.

# Stock information

## Share price

( Yen and thousand shares )

	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03
Share price:												
Open	1,504	1,480	1,378	1,338	1,040	1,038	1,050	1,099	1,210	1,139	1,165	1,176
High	1,515	1,615	1,409	1,342	1,136	1,071	1,099	1,224	1,220	1,219	1,228	1,228
Low	1,399	1,366	1,253	1,029	991	999	990	1,099	1,070	1,099	1,146	1,111
End of month	1,480	1,378	1,298	1,048	1,037	1,041	1,091	1,210	1,104	1,185	1,160	1,150
Volume	3,736	7,306	3,209	3,962	4,383	1,728	1,462	2,495	2,097	1,322	1,979	2,857



## Major shareholders

As of March 31, 2003

Name	Number of shares Held	Percentage of voting rights
	Thousand shares	%
Northern Trust Company AVFC Sub-account	10,072	11.5
American Clients		
Japan Trustee Service Bank, Ltd.	5,902	6.7
Mita Sangyo Co., Ltd.	4,756	5.4
UFJ Trust and Banking Co., Ltd.	4,483	5.1
Nippon Life Insurance Company	4,272	4.9
UFJ Bank Limited	3,221	3.7
The Bank of Tokyo-Mitsubishi, Ltd.	3,117	3.6
The Tokio Marine and Fire Insurance Co., Ltd.	2,724	3.1
Euroclear Bank S.A./N.V.	2,668	3.0
Trust and Custody Services Bank, Ltd.	2,072	2.4

## Shares, convertible bonds and stock option

Year ended March 31	1999	2000	2001	2002	2003
Number of shares outstanding (thousand shares)	95,074	95,074	92,720	90,704	90,704
Third Unsecured Convertible Bonds -balance (millions of yen)	19,945	19,945	19,945	19,945	19,945
Stock option balance (thousand shares)	106	172	199	243	335
Granted in June 1998 - 106 thousand shares at 1,540 yen/share	106	106	73	62	62
Granted in June 1999 - 66 thousand shares at 2,480 yen/share	-	66	66	66	66
Granted in June 2000 - 60 thousand shares at 2,705 yen/share	-	-	60	60	60
Granted in June 2001 - 55 thousand shares at 2,299 yen/share	-	-	-	55	55
Granted in June 2002 - 92 thousand shares at 1,326 yen/share	-	-	-	-	92

Note: 1 The company repurchased and retired 2,387 thousand shares in March 2001 and 2,027 thousand shares in March 2002.

2 Details of the Third Unsecured Convertible Bonds:

(Launch) September 12, 1996 (Maturing) September 30, 2003  
(Total amount) 20 billion yen (Coupon rate) 0.8% (Convertible price) 2,171.80 yen/share

3 The company has a stock-based compensation plans under which stock options are granted to directors and corporate officers. The grants are fully exercisable after two years.

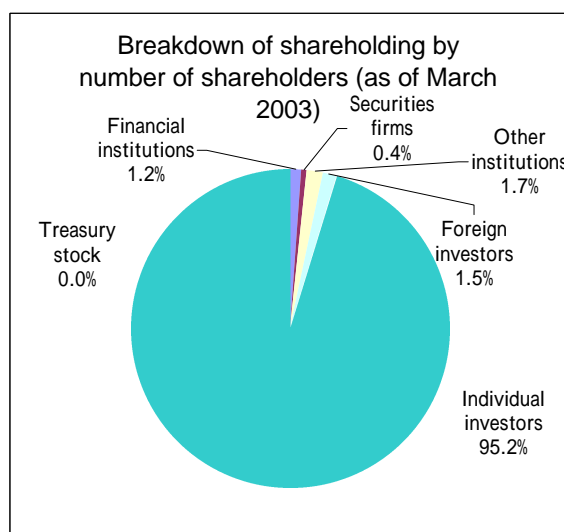
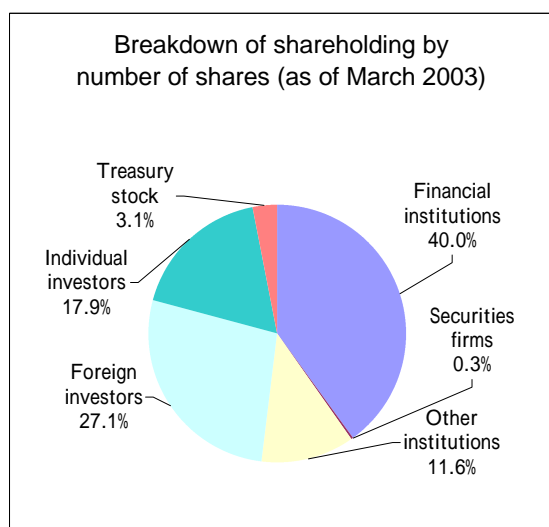
### Breakdown of shareholding by number of shares

Year ended March 31	1999		2000		2001		2002		2003	
	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)
Financial institutions	54,106	56.9	50,099	52.7	52,429	56.5	41,005	45.2	36,302	40.0
City & regional banks	16,393	17.2	14,862	15.6	11,581	12.5	9,054	9.9	6,660	7.3
Trust banks	25,905	27.3	24,853	26.2	29,651	32.0	20,641	22.8	19,018	21.0
(concerned in trust works)	23,021		22,055		26,824		18,429		15,743	
Life and non-life insurar	11,581	12.2	10,255	10.8	11,136	12.0	11,033	12.2	10,414	11.5
Other financial institution	226	0.2	128	0.1	61	0.1	276	0.3	208	0.2
Securities firms	470	0.5	499	0.5	385	0.5	646	0.7	293	0.3
Other institutions	11,555	12.2	11,497	12.1	10,398	11.2	10,300	11.4	10,555	11.6
Foreign investors	13,138	13.8	18,041	19.0	15,868	17.1	23,675	26.1	24,580	27.1
Individual investors	15,790	16.6	14,915	15.7	13,624	14.7	15,073	16.6	16,200	17.9
Treasury stock	14	0.0	23	0.0	18	0.0	2	0.0	2,771	3.1
<b>Total</b>	<b>95,075</b>	<b>100.0</b>	<b>95,075</b>	<b>100.0</b>	<b>92,721</b>	<b>100.0</b>	<b>90,704</b>	<b>100.0</b>	<b>90,704</b>	<b>100.0</b>

Note: Trading unit for Santen shares were reduced to 100 shares from 1,000 shares effective August 1, 2002

### Breakdown of shareholding by number of shareholders

Year ended March 31	1999		2000		2001		2002		2003	
	Thousand shareholders	Proportion (%)	Thousand shareholders	Proportion (%)	Thousand shareholders	Proportion (%)	Thousand shareholders	Proportion (%)	Thousand shareholders	Proportion (%)
Financial institutions	110	2.2	114	2.2	108	2.2	107	1.8	98	1.2
City & regional banks	14	0.3	15	0.3	15	0.3	13	0.2	8	0.1
Trust banks	54	1.0	60	1.2	57	1.2	60	1.0	55	0.7
Life and non-life insurar	36	0.7	33	0.6	32	0.6	28	0.5	29	0.4
Other financial institution	6	0.1	6	0.1	4	0.1	6	0.1	6	0.1
Securities firms	21	0.4	20	0.4	22	0.5	35	0.6	28	0.4
Other institutions	145	2.9	140	2.7	132	2.7	137	2.3	134	1.7
Foreign investors	145	2.8	168	3.3	162	3.4	148	2.4	119	1.5
Individual investors	4,597	91.6	4,679	91.3	4,387	91.2	5,583	92.9	7,493	95.2
Treasury stock	1	0.0	1	0.0	1	0.0	1	0.0	1	0.0
<b>Total</b>	<b>5,019</b>	<b>100.0</b>	<b>5,122</b>	<b>100.0</b>	<b>4,812</b>	<b>100.0</b>	<b>6,011</b>	<b>100.0</b>	<b>7,873</b>	<b>100.0</b>



# News releases

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## News releases during April 2002-March 2003

For details, please refer to our Investor Relations Web site (<http://www.santen.co.jp/ir/en/news>).

- | (Date)        | (Summary)   |
|---------------|---|
| <b>10-Apr</b> | <b>Construction Work on Second Building of the Shiga Plant Completed</b><br>Construction work on the second building of Santen's Shiga Plant (Shiga Prefecture, Japan), which we started in July 2001, has been completed. Employing the latest manufacturing technology and know-how, this facility for producing prescription eye drops will provide production capacity for stable product supply and enhance cost competitiveness.  |
| <b>11-Apr</b> | <b>Santen Receives Manufacturing Approval for Ophthagreen for Intravenous Injection 25mg</b><br>Santen received manufacturing approval for Ophthagreen for Intravenous Injection 25mg (generic name: indocyanine green), a diagnostic for chorioretinal disease, in Japan. The product is used for the diagnosis of various fundic diseases, including exudative age-related macular degeneration.  |
| <b>1-May</b>  | <b>Management Change in U.S. Subsidiary, Santen Incorporated</b><br>Ichiro Otokozaawa, Corporate Officer and Head of Corporate Development & Administration Division, Santen Pharmaceutical Co., Ltd., stepped down from the position of President and CEO (concurrent) of Santen Incorporated ("the Company"), and Dr. Adrienne Graves, the Company's former Head of Worldwide Clinical Development, was designated as the new President and CEO.  |
| <b>13-May</b> | <b>Notice Regarding Share Buyback</b><br>Santen's Board of Directors resolved the buyback of its common stock with par value up to 5,000,000 shares and 7,500 million yen. This was approved in the 90th Annual General Meeting of Shareholders held on June 26, 2002.  |
| <b>28-May</b> | <b>Santen Agrees with Koken Concerning Marketing of KK-951</b><br>Santen entered into an agreement with Koken Co, Ltd. concerning the marketing of Koken's KK-951, a lacrimal canaliculus closing material for the treatment of dry eye syndrome. The agreement allows Santen to exclusively market KK-951 in Japan.  |
| <b>28-May</b> | <b>Notice Regarding Stock Option (Warrant)</b><br>Santen's Board of Directors resolved that a proposal be presented for approval in the 90th Annual General Meeting of Shareholders to implement a stock warrant program to grant stock options to a total of 14 persons including Santen's Directors, Corporate Officers and Directors of overseas subsidiaries. This was approved in the 90th Annual General Meeting of Shareholders held on June 26, 2002.   |
| <b>28-May</b> | <b>Santen Revises Trading Unit of Company Stock</b><br>Santen resolved to revise the trading unit of company stock to 100 shares from 1000 shares, effective August 1, 2002.  |
| <b>1-Jul</b>  | <b>Santen to Transfer Marketing of THIOLA Tablets 100 to Merck Hoesl</b><br>Santen concluded an agreement with Merck Hoesl Ltd. on the transfer of marketing of Santen's THIOLA Tablets 100, a metabolic improving and detoxifying agent, to Merck Hoesl, effective August 1, 2002.   |
| <b>5-Jul</b>  | <b>Change of Principal Shareholder</b><br>Santen announced that there was change of the Company's "principal shareholder," as stipulated by the Tokyo Stock Exchange as a shareholder with 10 percent or more shares in a company's total number of voting rights, as of June 25, 2002. The purchase of Santen shares by Silchester International Investors Limited has resulted in a change of Santen's "principal shareholder" with Silchester holding 9,268 or 10.34 percent voting rights (shareholder ranking: 1st). |
| <b>8-Jul</b>  | <b>Santen's THIOLA Tablets 100 Obtains Additional Indication of Treating Cystinuria</b><br>The Japanese Ministry of Health, Labour and Welfare approved the additional indication of treating cystinuria for Santen's metabolic improving and detoxifying agent, THIOLA Tablets 100.  |
| <b>19-Jul</b> | <b>Santen Launches OTC Eye Drops SANTE 40V</b><br>Santen launched SANTE 40V, OTC eye drops, in Japan on July 23. SANTE 40V relieves blurred vision and eyestrain and is a nutrition-fortified version of the existing SANTE 40 series.  |
| <b>21-Aug</b> | <b>Santen Launches Ophthagreen for Intravenous Injection 25mg</b><br>Santen launched Ophthagreen for Intravenous Injection 25mg (generic name: indocyanine green), a diagnostic for chorioretinal disease, in Japan on August 22. The product is used for the diagnosis of various fundic diseases, including exudative age-related macular degeneration.   |
| <b>23-Aug</b> | <b>Santen Launches OTC Eye Drops SANTE 40</b><br>Santen launched SANTE 40, OTC eye drops, in Japan on August 26. SANTE 40 is a new version of SANTE 40NE and SANTE 40EA, which have been used by Japanese consumers for many years as a treatment for blurred vision and eyestrain.   |

(Date)	(Summary)
<b>17-Sep</b>	<p><b>Santen Introduces Dimple Bottle for Prescription Eye Drops</b> Santen has developed a new type of bottle called Dimple Bottle for its prescription eye drops products in Japan. While maintaining the advantages of Santen's conventional bottles, Dimple Bottle is more distinguishable and easy-to-handle. Santen will replace the bottles of its prescription eye drops with Dimple Bottles starting with the anti-inflammatory PRORANON Ophthalmic Solution in October 2002.</p>
<b>30-Sep</b>	<p><b>Revision of Performance Forecasts</b> Santen revised its performance forecasts for the six months ending September 30, 2002 and the year ending March 31, 2003, which it announced on May 13, 2002. The revision was due to higher-than-expected net sales, decreased selling, general and administrative expenses, and an extraordinary loss of 2,205 million yen during the first half of the current fiscal year, associated with a special premium payment incurred upon the secession of Santen and its wholly owned subsidiary Santen Distribution Co., Ltd. from a composite pension fund (Osaka Pharmaceutical Industry Pension Fund).</p>
<b>10-Oct</b>	<p><b>Santen to Launch OTC Eye Drops <i>Sante Uruoi Contact</i></b> Santen launched <i>Sante Uruoi Contact</i>, a new over-the-counter eye drop product of artificial tear type used to relieve discomfort, dryness and gritty symptoms of the eyes while wearing contact lenses. The product can be used for all types of contact lenses; however, it works best with disposable lenses whose surfaces have a negative electric charge.</p>
<b>30-Oct</b>	<p><b>Revision of Performance Forecasts</b> Santen revised its performance forecasts for the six months ending September 30, 2002 and the year ended March 31, 2003, which it announced on September 30, 2002. The revision was due to higher-than-expected net sales of prescription pharmaceuticals in Japan and other Asian markets, reduced COGS in overseas and exchange gains on foreign currency liabilities of an overseas subsidiary.</p>
<b>22-Nov</b>	<p><b>Santen Completes Construction Work on North Building of Nara Research and Development Center</b> Santen completed construction work on the North Building of its Nara Research and Development Center which had started in October, 2001. The expansion of the Center enables the Company to further reinforce ophthalmic research. Santen also integrated its ophthalmic and rheumatic research by transferring some functions of the Central Research Laboratories in Osaka, including rheumatic research, synthetic and safety research and research support, to the Nara Research and Development Center.</p>
<b>26-Nov</b>	<p><b>Organization Change Effective December 1, 2002</b> Santen integrated its four research and development divisions into Research and Development Division in order to accelerate and improve efficiency of its research and development activities.</p>
<b>30-Jan</b>	<p><b>Santen's Noto Plant Obtains Certification of ISO 14001</b> Santen's Noto Plant obtained certification of ISO 14001, an international standard for environmental management system. Santen has now acquired ISO 14001 certification at all three of its manufacturing plants (Noto, Shiga and Osaka) in Japan.</p>
<b>20-Feb</b>	<p><b>2003-2005 Medium-term Management Plan</b> Santen formulated a three-year management plan for the period from April 2003 to March 2006. To lay the groundwork for significant advances in the year ending March 2007 and beyond, Santen will devote the next three years to thoroughly overhauling its earnings structure and bolstering its R&amp;D capabilities. By doing so, Santen aims to evolve into a company that makes R&amp;D – in the fields of ophthalmic and rheumatic/osteoarthritic treatments – the source of growth, in addition to its existing strength in sales and marketing.</p>
<b>20-Feb</b>	<p><b>Revision of Performance Forecasts</b> Santen revised its performance forecasts for the year ending March 31, 2003, which it announced on November 6, 2002. The revision was due to the loss of 11.8 billion yen from revaluation of shares of the subsidiary Santen Pharmaceutical B.V. and the loss from revaluation of marketable securities.</p>
<b>3-Mar</b>	<p><b>Santen to Purchase Own Shares on Market</b> Santen decided to purchase on March 4 up to 3 million of its own common shares on the market at 1,181 yen, the closing price of March 3.</p>
<b>4-Mar</b>	<p><b>Santen Purchases Own Shares on Market</b> Santen purchased 2,741,000 of its own shares on the market at 1,181 yen, the closing price of March 3.</p>
<b>4-Mar</b>	<p><b>Santen Files Complaint Against Sante Japan Alleging Unlawful Use of "Sante" Marks</b> Santen filed with the Osaka District Court a complaint against a defendant, Sante Japan, who runs a food supplement mail-order business. Santen alleged that the use of "Sante" marks by Sante Japan infringes Unfair Competition Prevention Law and Trademark Law and that the company should stop any usage of "Sante" marks.</p>

