SANTEN PHARMACEUTICAL CO., LTD.

Our vision...

ANNUAL REPORT 2004

Year ended March 31, 2004

PROFILE

Santen Pharmaceutical Co., Ltd. specializes in the research, development, manufacturing and marketing of ophthalmic and anti-rheumatic pharmaceuticals to protect and improve people's eyesight and health. We have created innovative pharmaceuticals for all types of ophthalmic disorders and provide information tailored to clinical needs. As a result, we lead Japan's market for prescription ophthalmics, which represent nearly 80 percent of our net sales. With marketing and development bases in Japan, the United States and Europe, backed by first-rate R&D capabilities, we aim to increase our corporate value as a world-class company that delivers unique products worldwide.

Deeply aware of the sanctity of human life, we apply our unique capabilities and technologies in our areas of expertise to contribute to the health and quality of life of patients and their loved ones, and society as a whole.

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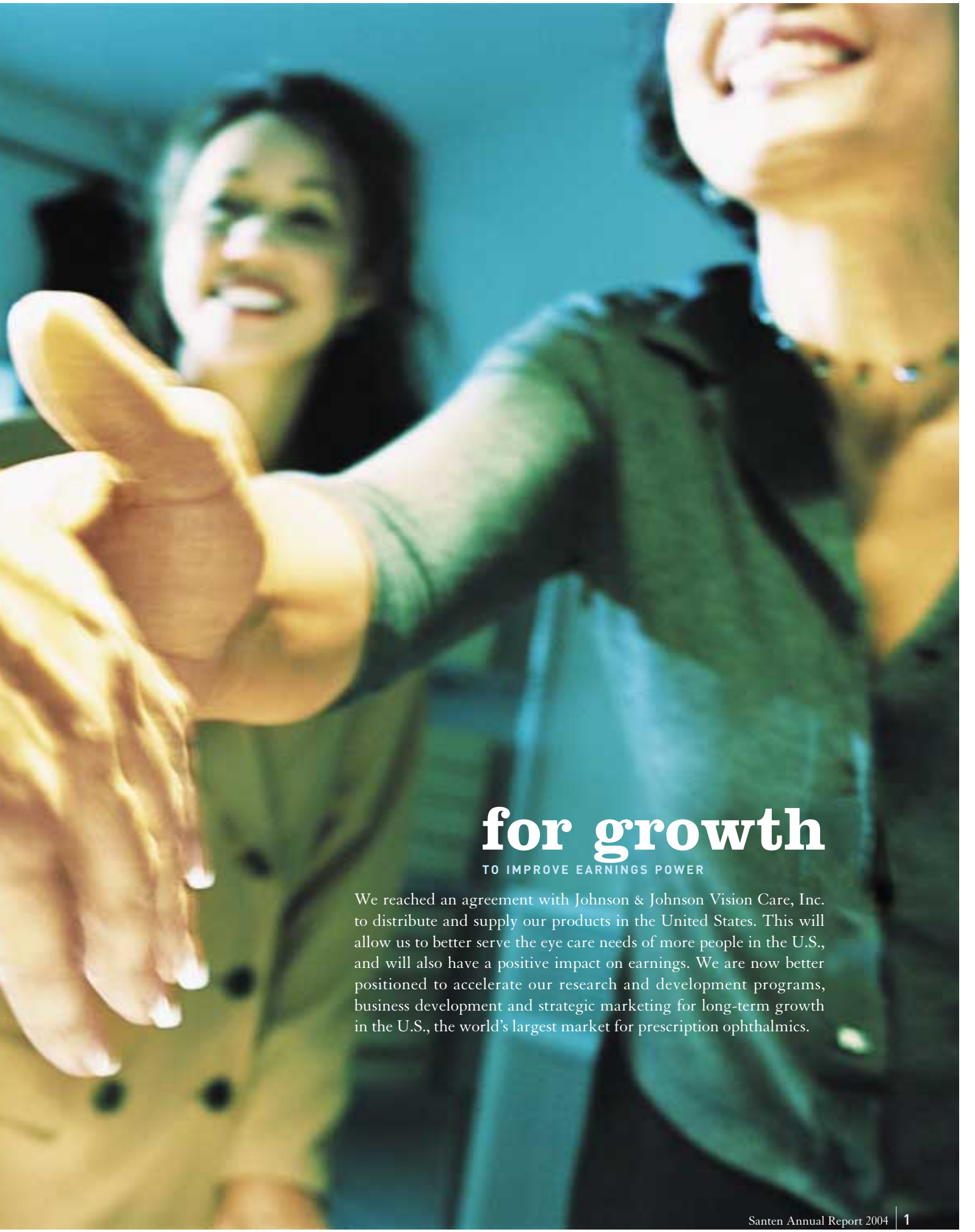
A CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication.

Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's businesses, competitive pressures, changes in related laws and regulations, status of product development programs, and changes in exchange rates.



for growth

TO IMPROVE EARNINGS POWER

We reached an agreement with Johnson & Johnson Vision Care, Inc. to distribute and supply our products in the United States. This will allow us to better serve the eye care needs of more people in the U.S., and will also have a positive impact on earnings. We are now better positioned to accelerate our research and development programs, business development and strategic marketing for long-term growth in the U.S., the world's largest market for prescription ophthalmics.

for the future

TO LEVERAGE R&D EXPERTISE

More people throughout the world, especially middle-aged and elderly, suffer from glaucoma, an eye disease that gradually narrows the visual field. We are actively developing next-generation glaucoma treatments, and are working to develop important new pharmaceuticals for retinal disorders, like diabetic retinopathy – the leading cause of blindness among adults in Japan.

for strength

TO ENHANCE ORGANIZATIONAL PERFORMANCE

Our people are our strongest asset. Every employee – and their individual talents – within the Santen Group contributes to the company's success. We are committed to finding new ways to enhance professional growth, while strengthening our corporate governance to ensure the transparency and objectivity of management for all of our stakeholders.

Takakazu Morita, President and Chief Executive Officer

I am very pleased to report the business performance of Santen Pharmaceutical Co., Ltd. for the year ended March 31, 2004. It was the first year of our 2003-2005 Medium-term Management Plan, and we have made steady progress toward our Plan goals. This Annual Report highlights some of our accomplishments, and demonstrates our continued dedication to strengthening and improving Santen for our shareholders and all other stakeholders.

Earnings Secured in Low Growth Market

During the year under review, the size of the Japanese prescription ophthalmic pharmaceutical market remained at approximately the same level as the previous fiscal year. While the corneal disorder treatment market generated healthy growth, the prescription ophthalmic pharmaceutical market suffered the effects of fixed-rate co-payments of medical expenses for the elderly, effective since 2002, and increased co-payments for insured workers, introduced in April 2003. Overseas, the ophthalmic pharmaceutical markets in the United States and Europe continued to expand, but the Asian market remained flat overall. The over-the-counter (OTC) eye drops market in Japan experienced a drop in retail prices; nevertheless, the market grew slightly compared to the previous fiscal year, supported by expanded sales of eye drops for eye strain and for the relief of tired eyes.

Amidst these challenges, we expanded our efforts to build a business structure that will generate steady profits, even in the low growth market conditions we are facing in Japan. While net sales for the year totaled ¥89,858 million, a decline of 0.4% from the previous year, operating income improved 14.4% to ¥14,524 million. Net income for the year fell 25.7% to ¥6,321 million due to the extraordinary income tax adjustment recorded in the previous year. Consequently, return on equity (ROE) decreased by 2.5 percentage points, to 6.3% from the previous year.

Cash Dividends Doubled

The 92nd Annual Meeting of Shareholders, held on June 25, 2004, approved the year-end dividends of ¥30 per share. Combined with the interim cash dividend payment, annual dividends per share doubled from the previous year to ¥40. Santen will work to maintain and improve the dividend level, while maintaining capital efficiency and keeping a sound and flexible financial position.

Steady Accomplishments Made during the First Year

Santen focused on the following three basic objectives of the 2003-2005 Medium-term Management Plan.

Improve Profitability

One critical objective was to make the U.S. business profitable. To this end, we signed a U.S. distribution and supply agreement with Johnson & Johnson Vision Care, Inc. (JJVCI) for three prescription ophthalmic pharmaceutical agents in December 2003. JJVCI commenced sales of these products in February 2004. Through the partnership with this member company of the Johnson & Johnson Group, which has a well-established presence in the U.S. prescription pharmaceutical market, we expect our products to reach a broader range of targeted healthcare professionals more quickly than would previously have been possible. We will therefore be able to focus our efforts on strengthening our R&D, business development and strategic marketing capabilities in the U.S.

To sustain and improve our earnings base in the low growth market conditions in Japan, we believe it absolutely necessary to improve the quality of our medical representative (MR) activities – not just to meet, but to anticipate the needs of eye care and other healthcare professionals. In order to serve our customers more effectively, we expanded from 56 conventional sales offices in Japan to 89 satellite offices that offer closer proximity – and responsiveness – to our customers. During the year we also launched the Santen Activity Improved Navigator (SAIN), a sales force automation system, to improve the productivity of our MRs.

Strengthen R&D

We have refocused our management resources, including manpower, on clinical development and have accelerated our product development. In the area of glaucoma treatments, the largest segment of the global prescription ophthalmic market, we began Phase Ⅲ clinical trials of the prostaglandin compound, tafluprost (development code: DE-085), in Japan, the U.S. and Europe. Olmesartan (development code: DE-092), an angiotensin Ⅱ receptor antagonist, is in Phase Ⅱ clinical trials in Japan and in preparation for Phase Ⅱ in the U.S. and Europe. In the anti-infective ophthalmics segment, we received marketing approval in March this year from the U.S. Food and Drug Administration (FDA) for *Iquix* for the treatment of bacterial corneal ulcers. *Iquix* is a self-preserved solution containing three times the fluoroquinolone concentration of *Quixin* (brand name in Japan: *Cravit*). In the area of rheumatoid arthritis treatments, we initiated Phase Ⅰ clinical trials in Japan for DE-096, an oral tumor necrosis factor (TNF) inhibitor.

Reinforce Organizational Strength

Effective the year under review, we reduced the term of directors from two years to one. We also invited Mr. Kosei Furukawa, formerly Corporate Auditor, to join the Board of Directors as an outside director to further strengthen our corporate governance. In our ongoing commitment to personnel development, we continued the Santen Innovation Project (SIP), an in-house business school which provided strategy-oriented education and training programs to middle-management employees who will take on leading roles in Santen's self-driven reforms. Also during the year, we developed and introduced the Career Development Support Program.

Promoting Powerful Implementation of the 2003-2005 Medium-term Management Plan

We expect Japan's prescription ophthalmic pharmaceutical market will remain stagnant in the year ending March 31, 2005. We estimate the National Health Insurance (NHI) drug price revisions, made in April 2004, will translate into an average 3.2% reduction in our prescription pharmaceuticals business. At the same time, we expect generic pharmaceuticals to continue influencing the Japanese prescription ophthalmic market. In recent years, we have witnessed mergers and acquisitions in the Japanese pharmaceutical industry. We anticipate this trend will gain momentum, further intensifying market competition between pharmaceutical companies, regardless of whether they are Japanese or foreign-owned.

Santen will continue to capitalize on its advantages as a company specializing in ophthalmic and anti-rheumatic pharmaceuticals. We will also continue our efforts to achieve the goals of our 2003-2005 Medium-term Management Plan as a top priority. On behalf of the members of the Board, I would like to extend my sincere appreciation for your support.

Takakazu Morita
President and Chief Executive Officer

August 2004

REPORTS FROM THE FRONT LINE: FIRST-YEAR RESULTS OF THE "2003-2005 MEDIUM-TERM MANAGEMENT PLAN"

During the year under review, Santen took aggressive actions to improve earnings from our U.S. ophthalmics business. And, in an effort to counter the impact of the prolonged sluggish Japanese prescription ophthalmics market, we carried out full implementation of the Santen Activity Improved Navigator (SAIN), a sales force automation system, and completed restructuring of the sales offices.

for growth...

TO IMPROVE EARNINGS POWER

For Future Growth

In the United States, our eye care products are now available to help more people in market segments that we earlier were not able to penetrate – namely pediatrics and primary care – through our recent agreement with Johnson & Johnson Vision Care, Inc. (JJVCI). The agreement was signed in December 2003. JJVCI started sales of the products in February 2004, and we are completing the transition of distribution, sales and marketing activities to JJVCI during the first half of the current fiscal year. One benefit of the agreement with JJVCI is the positive impact on earnings in the U.S. Another benefit of the agreement is that many of the former Santen sales representatives were hired by JJVCI so there was no disruption in the high level of service provided to physicians.

Adrienne Graves, Ph.D.
President and CEO
Santen Inc.

We are now better focused on our core strength of research and development in the U.S. We have brought three significant drugs to the U.S. ophthalmic market in less than four years. In March of this year, we received FDA approval for *Iquix*, a levofloxacin ophthalmic solution of 1.5% concentration, indicated for the treatment of bacterial corneal ulcer. Levofloxacin's high solubility at neutral pH allows the solution to be formulated at a concentration that is three times higher than any other ophthalmic fluoroquinolone on the market, and thus provides physicians and patients with a safe and powerful new option in the anti-infective market. We will continue to focus on the development of the products in our pipeline and will work to strengthen our strategic marketing and business development efforts in the U.S.

Achieving the Benefits of Sales Force Automation

Takashi Kawano
Medical Representative
Osaka South Team
Kansai Area

While we have had a digital reporting system before, SAIN is now more convenient as our reports are automatically entered into a database.

Furthermore, should a medical representative (MR) transfer to another location, for example, SAIN should reduce the time required for handing over existing work to a new MR. For our team meetings, we have already incorporated the effective sharing of information by projecting the data in SAIN in a visually broad image for group viewing and discussion. And, most valuable, SAIN has virtually eliminated the need for producing materials for meetings. It is a tremendous efficiency for MRs who are typically under heavy time constraints.

These user-friendly improvements of the SAIN for MRs still require continuous company-wide efforts. For example, our experienced MRs enjoy the strong trust of customers, and our goal is for all MRs to share their individual expertise and know-how. Once we can make full organizational use of SAIN, our top position in the Japanese prescription ophthalmics market will become increasingly solid.

Finally, SAIN also allows us to access all kinds of in-house databases from our mobile laptop computers. When we are with customers, we are now able to provide the latest academic information immediately. By utilizing SAIN, we no longer have to report back to our office to access information, giving us a greater degree of mobility in MR activities.

Looking Forward to Synergistic Effects

Hidehiko Kanaya
Team Manager
Ibaragi Team
Kansai Area

With only a half-year since full implementation of SAIN, I believe real benefits and real results are yet to come. From the perspective of the basic flow of sales activities (i.e., Research, Plan, Do, Check and Act), we are in the Research phase of database building. As a "system," it requires constant improvements; in fact, we upgrade the version after reviewing the feedback from our users at the sales front line.

Medical representative work with SAIN will provide value-added information to customers in a timely manner through accurately understanding their needs as we take advantage of the Santen brand strength. For this objective, SAIN is a very valuable tool. Specifically, it is very useful to develop and assess our team strategies as we can follow up each of our six MRs' activities in chronological order. Regarding the change to satellite offices resulting from the restructuring of sales bases, those MRs who cover a wide area now have additional benefits, including reduced distances to customers. However, the real benefits will come about in tandem with mobile computing and SAIN.

REPORTS FROM THE FRONT LINE: FIRST-YEAR RESULTS OF THE "2003-2005 MEDIUM-TERM MANAGEMENT PLAN"

For any pharmaceuticals firm, success depends on the strength and speed of research and development programs. During the year, we stepped up the pace of clinical trials on compounds for glaucoma treatment and enhanced our in-house development capabilities in high-priority research areas, including retinal disorders. In the clinical trial phase, we are adding to our global presence in the high-growth glaucoma market by advancing development of our prostaglandin (PG) compounds. Tafluprost (development code: DE-085) is expected to show an improved reduction of intraocular pressure, compared to PG products available on the market today.

for the future...

TO LEVERAGE R&D EXPERTISE

Succeeding with Shared Commitment

Thanks to the cooperation both internally and externally at Santen, our group was able to accelerate the clinical trials for tafluprost (DE-085) and move into Phase Ⅲ at the end of last year. Medical institutions have both begun to deepen their understanding of clinical studies and establish better internal systems, which have allowed us to expedite our process. In addition to the substantially increased number of patients from Phase Ⅱ to Phase Ⅲ, we are conducting three different clinical trials concurrently. We added 10 people to our clinical group to conduct the Phase Ⅲ clinical trials.

Yoshikazu Matsumoto
General Manager
Clinical Development Group 2
Clinical Development Center

Most of the additional clinical manpower has been transferred from our research division. While researchers usually focus on specialized experiments, clinical employees must coordinate the activities of physicians and medical institutions in order to successfully conduct clinical trials. Since clinical development requires different skills and competency from basic research, we offer new clinical employees in-house training for approximately one month after transferring. After the training program, new clinical employees train under the supervision of experienced staff, and are evaluated for their communication skills with the staff of medical institutions. This interpersonal skills training sometimes includes discussions with physicians who call for immediate responses to their questions.

To accelerate our clinical development, we have increased the speed of our decision-making and strengthened internal collaboration with our research centers, production departments, sales departments, academics, regulatory affairs, statistical analysis, quality control and assurance. A high degree of mutual commitment by all those involved allowed us to succeed in this project.

Development of pharmaceuticals is much like a long-distance relay race. Once the medical value and safety of our compounds created by our researchers are confirmed, we then seek to complete clinical trials successfully and on time before moving on to the registration process for the final course of the race. Working towards the same goal, each "runner" is passing the baton of the shared commitment to success.

Taking up the Challenge of Global Development

Because glaucoma treatments, from a global perspective, represent the largest market and are the highest priority for Santen, we have been promoting concurrent clinical development of tafluprost (DE-085) in Japan, the U.S. and Europe. Tafluprost represents our first major global project. To succeed, consistent, detailed collaboration among our project teams in our three geographic regions is extremely important.

Koji Yamamoto, Ph.D.
Project Manager
R&D Project Planning and Coordination Group
R&D Planning Integration Department

In Phase Ⅲ we are conducting multiple clinical trials concurrently in Japan, the U.S. and Europe, making our collaboration more complex. Our global project teams are working very closely to advance clinical trials in each area, with the goal of utilizing the trial results obtained in one region for registration purposes in other regions of the world as quickly as possible. To complete the trials and file an application in each region in the shortest time, all other related operations such as non-clinical research, regulatory, quality assurance, project management and statistics are also collaborating closely.

From an operational standpoint, when Japanese pharmaceutical companies develop international products, they first get approvals in the U.S. or Europe and use their clinical trial results for application in Japan. This process – and the success thereof – should become an important asset of the Santen Group.

▲ Laboratory of Santen Oy

Prescription Pharmaceuticals in Development

As of August 2004

Generic name	Brand Name/ Development Code	Indication	Region	Pre-clinical	Phase I	Phase II	Phase III	NDA Filed	Approved	Characteristics
Levofloxacin 1.5%	*Iquix*	Bacterial corneal ulcer	USA						◎	Antibacterial ophthalmic solution containing the active ingredient fluoroquinolone three times higher than current product (*Quixin*). Exhibits potent antibacterial action. Approved in March 2004.
Ciclosporin	DE-076	Vernal keratoconjunctivitis	Japan					◎		An orphan drug*2. Expected to treat advanced vernal keratoconjunctivitis for which existing anti-allergy agents are not effective. NDA filed in August 2003.
Tafluprost	DE-085	Glaucoma and ocular hypertension	Japan USA/Europe				◎ ◎			Prostaglandin glaucoma treatment that is expected to have greater efficacy in reducing intraocular pressure than other prostaglandin glaucoma treatments. Can be stored at room temperature.
Olmesartan	DE-092	Glaucoma and ocular hypertension	Japan USA/Europe			◎ ◎*1				The only angiotensin **II** receptor antagonist in full-fledged development as a glaucoma treatment. Comparable to prostaglandin products in reducing intraocular pressure.
Lomerizine HCL	DE-090	Glaucoma	Japan			◎				A new type of oral glaucoma treatment studied for inhibiting the progression of visual field defects. The only calcium antagonist in full-fledged development as a glaucoma treatment.
Diquafosol tetrasodium	DE-089	Dry eye	Japan			◎				A dry eye treatment that stimulates corneal and conjunctival epithelial secretion of tear fluid and moisture.
Levofloxacin and prednisolone A	DE-094	Infectious keratitis	USA			◎				Combination of levofloxacin and steroid.
Sodium hyaluronate	*Hyalein*	Dry eye	USA			◎*1				Ophthalmic solution containing sodium hyaluronate for dry eye.
(Undetermined)	DE-096	Rheumatoid arthritis	Japan		◎					An oral TNF inhibitor. Anti-rheumatic effect comparable to injectable biological agents has been observed in basic research.
Gefarnate	DE-099	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	Japan		◎					Treats corneal and conjunctival epithelial disorder mostly associated with dry eye by stimulating the secretion of mucin and promoting the corneal epithelial migration. Preservative-free ointment that can be used in combination with existing drugs.
(Undetermined)	DE-098	Rheumatoid arthritis	Japan	◎						Anti-APO-1 antibody. Joint injection that induces apoptosis in diseased joints of rheumatoid arthritis patients. Bulk pharmaceutical manufacturing process for actual production scale has been established, and drug development is being studied.
Bucillamine	*Rimatil*	Osteoarthritis (additional indication)	Japan	◎						Shown to be effective on joint inflammation caused by osteoarthritis.

When safety and efficacy of candidate compounds are determined in preclinical studies, they undergo the following clinical trials. After completing the Phase **III** clinical trials, a new drug application (NDA) is filed for marketing approval.

Phase **I**: Tests to check drug safety with a small number of healthy volunteers.
Phase **II**: Tests to determine dosage and administration method with a small number of patients.
Phase **III**: Tests to confirm safety and efficacy by comparing to existing drugs and placebo with a large number of patients.

*1 In preparation
*2 Orphan drug: A drug with an indication for treating a relatively small number of patients. Orphan drug R&D expenses are eligible for government subsidies in Japan.

Updating Progress in Discovery Research

Over the past several years, unmet medical needs in ophthalmologic diseases have shifted focus for research from the anterior segment (cornea and conjunctiva) to the posterior segment (retina and optic nerve). Rheumatoid arthritis shares common etiological and pathological symptoms, such as angiogenesis, cell growth, edema and inflammation with retinal and other diseases in the posterior segment of the eye. By deploying our accumulated knowledge gained in rheumatism research over the years, we are working to establish efficient, unique drug-discovery techniques to develop breakthrough ophthalmic pharmaceuticals.

During the year, we advanced our drug discovery efforts in the priority fields of retinal disorder and osteoarthritis. In the ophthalmic field, we placed special emphasis on reinforcing our in-house drug discovery capabilities.

Today, the mainstream glaucoma treatments are prostaglandin products that lower intraocular pressure by promoting the outflow of aqueous humor through the uveal and scleral channels. At Santen, we are currently making steady progress in the preclinical development of a protein kinase inhibitor, as a new mechanism of action that promotes the outflow of aqueous humor through the trabecular channel. This channel is responsible for 80% of the outflow of aqueous humor. We have positioned this pharmaceutical agent as a treatment possibility to replace surgery. Another approach to glaucoma treatment is protection of the optic nerve. There are two ways to protect the optic nerve: improvement of retinal circulation and direct action on the optic nerve. We have already embarked on discovery research and preclinical experiments in both methods.

In the field of retinal disorders, we have been advancing preclinical studies of candidate compounds designed to treat age-related macular degeneration (AMD) and other retinal disorders, diseases with which the number of patients increases as the population ages.

In the osteoarthritis field, we have discovered an oral tumor necrosis factor (TNF) inhibitor (DE-096) and have initiated Phase I clinical trials in Japan.

Reinforcing Intellectual Property Strategies

The importance of intellectual property strategies has been growing in the prescription pharmaceuticals market today. From candidate compounds under development to basic research results, we are developing and implementing our intellectual property strategies on a global scale in order to maximize the value of our products and technologies.

▲ The ninth worldwide intellectual property committee meeting was held in Osaka in February 2004.

REPORTS FROM THE FRONT LINE: FIRST-YEAR RESULTS OF THE "2003-2005 MEDIUM-TERM MANAGEMENT PLAN"

We at Santen have continued our efforts to strengthen corporate governance and employee training as important measures to maximize corporate value. For corporate governance, we shortened the term for directors to one year from two, and appointed Mr. Kosei Furukawa as an outside director. For employee training, the Company conducted the Santen Innovation Project (SIP), an in-house business school launched in 2001. Since 2003, middle management personnel have participated in SIP and engaged in the research, development and implementation of reform programs designed to meet the current needs of the Company.

for strength...

TO ENHANCE ORGANIZATIONAL PERFORMANCE

Interview with Kosei Furukawa, Outside Director of Santen Pharmaceutical

Q: *Please tell us what brought you to Santen.*

Furukawa: During my thirty-odd years of teaching at Keio Business School, many managers and manager candidates from Santen Pharmaceutical attended the MBA program and various intensive management development programs of Keio University. Mr. Morita, President, for example, is a 1981 graduate of the MBA program. In my classes at Keio University over the years, I had come to learn about Santen's sincere pursuit of the mission of offering excellent products and services to ophthalmologists and consumers, first in the domestic market and then in various overseas markets as well.

Six years ago, Mr. Morita invited me to take the position of an outside auditor at Santen. His invitation appealed to me as an exciting challenge for several reasons. First, for many years, I had maintained academic interest in the historical patterns of global competition led largely by major European and American competitors in the knowledge-intensive pharmaceutical industry. Secondly, I had been aware of the aspirations and expectations of Japanese industry leaders, economic planners, analysts, investors and scholars at large, for the growth of Japan-based pharmaceutical companies as competitive entities in the global arena. Thirdly, I had come to regard Santen as a promising and attractive contender in the Japanese and overseas pharmaceutical market with its clearly focused product-market strategy. I did not hesitate to accept Mr. Morita's invitation.

Kosei Furukawa

Born in 1935, Mr. Furukawa is currently Professor of Business Administration at Nakamura Gakuen University, Visiting Professor at the University of the Air, and Professor Emeritus of Keio University. He specializes in management policy, technology management, and management of small business. Mr. Furukawa was appointed Outside Auditor of Santen Pharmaceutical in June 1998, and was appointed Outside Director in June 2003.

Q: *Please describe the roles you played as an outside auditor for five years and as an outside director for the year under review. Please also share your impressions about Santen with us.*

Furukawa: At various official corporate meetings, I posed questions to directors about their basic management policies, and to corporate officers about their management objectives, planned activities and specific outcomes. I occasionally visited research centers, factories, and subsidiaries to observe corporate teams in action. I tried also to meet with Santen managers outside of formal meeting rooms in order to learn about individual managers and their thoughts.

Through all these activities, I gained clear appreciation for top management's proactive attitudes towards the challenges of developing overseas markets, reinforcing and expanding Santen's tech-

nological expertise, and expanding management capabilities through adoption of IT applications.

As an outside director during the last fiscal year, I considered my important Board role to be offering objective views and suggestions that reflect my teaching and research experience, as well as my information contacts in other industries. I also believed I should be drawing the Board's attention to matters that are too sensitive for employees to express themselves. I can assure you that our Board always seeks to make Santen attractive to a diverse range of stakeholders. Our Board also aims to enhance Santen's corporate value.

Q: *What do you think Santen needs most at this point?*

Furukawa: I believe Santen needs to keep strengthening its domestic and overseas human resource development activities. In order to become a competitive worldwide manufacturer-marketer of pharmaceutical products and services, Santen needs to identify and motivate talents in the R&D areas. We also need to expand capabilities in managing global activities in all areas other than R&D.

Santen needs to increase interaction among professionals in the Japanese headquarters and in our family companies in the U.S., Europe, the Asian countries, and in Japan with a common goal of establishing a creative environment for everyone in the Santen family.

In both the ophthalmic and rheumatoid arthritis markets, Santen must aim to become a company recognized by patients and medical professionals around the world as their trustworthy partner. Fortunately, Santen is a capable and action-oriented company. We should be able to achieve all of our immediate goals in technology and in business on schedule.

Improving Internal Communication

The Santen Innovation Project (SIP) was launched to accelerate the pace of personnel development and self-driven management reforms. Since then, some 100 employees have participated in the program. Certain suggestions from the SIP have already been implemented, such as the "town hall" meetings held at 19 locations nationwide, since March 2002. During the meetings, President Morita explained Santen's results and strategies directly to employees and exchanged candid opinions.

The current SIP in which I participate is designed exclusively for middle management employees and features a small group of 15 participants. In the first half session, we studied cases of other companies. In our second half session, we are developing and implementing our own project tailored to improving the actual work conditions in our departments. My project task is to explore ways to improve the understanding of management messages aimed at all employees, such as Santen's core value, business plans, fiscal strategies and follow-up reports.

Masao Tanaka
General Manager
Corporate Communication Group
Corporate Development &
Administration Division

First, I compared the results of two employee attitude surveys, one conducted in 2002 and one more recent, and reaffirmed that a gap still remained between the intentions of information providers and the recognition and understanding of information receivers. I am currently identifying the issues and possible countermeasures. At the same time, I have also felt the strong need to develop a corporate culture in which employees take initiative to seek information. A virtual meeting system was installed as part of the sales office reform at the end of last year, and a LAN-based portal site is scheduled to launch in October this year. I would like to use IT solutions to achieve low-cost, interactive communications for all employees and develop an environment where everyone can share important management information.

Meanwhile, conventional face-to-face communications remain particularly important for middle management, including myself, to ensure accurate understanding of management philosophy and strategies among our staff members.

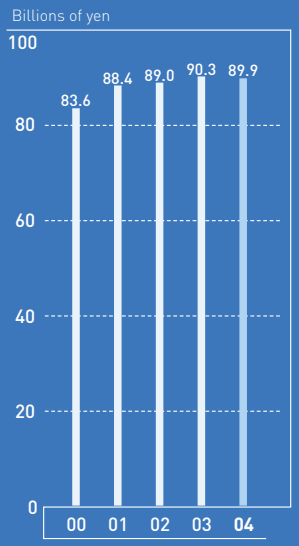
FINANCIAL HIGHLIGHTS

Santen Pharmaceutical Co., Ltd. and Subsidiaries
Years ended March 31, 2004 and 2003

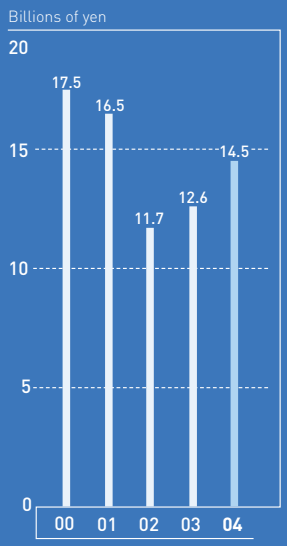
	Millions of yen		%Change	Thousands of U.S. dollars
	2004	2003	2004/2003	**2004**
For the year:				
Net sales	**¥ 89,858**	¥ 90,253	(0.4) %	**$ 850,605**
Operating income	**14,524**	12,697	14.4	**137,490**
Net income	**6,321**	8,503	(25.7)	**59,839**
R&D expenditures	**11,853**	12,719	(6.8)	**112,203**
Capital expenditures	**3,226**	7,046	(54.2)	**30,536**
Depreciation and amortization	**4,521**	4,311	4.9	**42,798**
Per share data (yen and U.S. dollars):				
Net income-basic	**¥ 71.65**	¥ 93.67	(23.5) %	**$ 0.68**
Net income-diluted	**71.64**	85.97	(16.7)	**0.68**
Cash dividends	**40.00**	20.00	100.0	**0.38**
At year-end:				
Total assets	**¥150,238**	¥147,148	2.1 %	**$ 1,422,166**
Total shareholders' equity	**103,500**	97,126	6.6	**979,740**
Return on equity (ROE)	**6.3%**	8.8%	—	—
Number of employees	**2,335**	2,500	—	—

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate prevailing on March 31, 2004 of ¥105.64 to U.S.$1.
2. Figures in parentheses indicate a decrease.

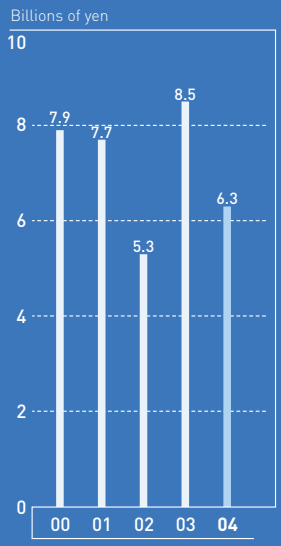
Net Sales



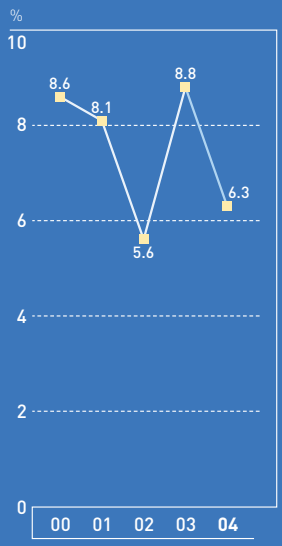
Operating Income



Net Income

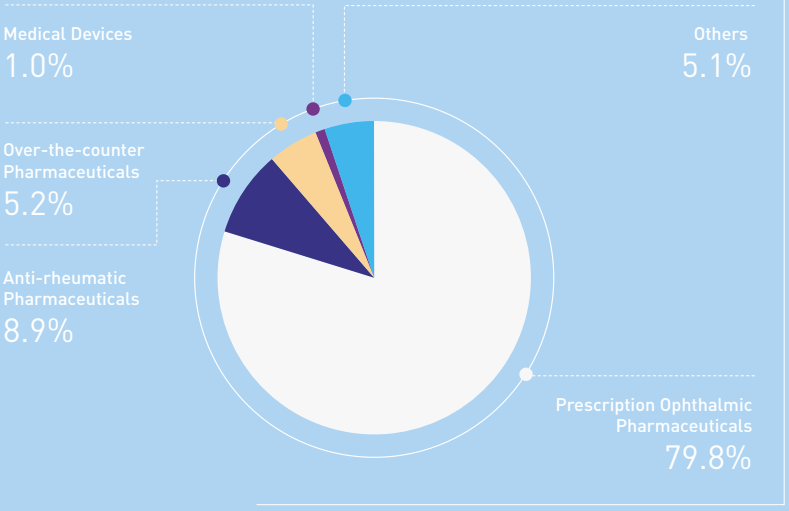


Return on Equity



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

SALES BY BUSINESS (Year ended March 31, 2004) Net Sales: ¥89,858 Million



CONTENTS

Business Area	Description of Business	Market Share ; Market Position
Prescription Pharmaceuticals Ophthalmic Pharmaceuticals	• Santen enjoys its position as the leader of the Japanese prescription ophthalmics market. We deploy some 400 medical representatives (MRs), the largest number in the industry, and our product lineup covers a broad array of ophthalmic disorders. • Overseas, Santen markets levofloxacin ophthalmic solution (brand names: *Quixin*, *Oftaquix* and *Cravit*) and other products through a sales network in the United States, Europe and Asia.	39.0% ; Number One[1]
Anti-rheumatic Pharmaceuticals	• In Japan, we offer *Rimatil* and *Azulfidine EN*, physicians' disease modifying anti-rheumatic drugs (DMARDs) of choice for treating rheumatoid arthritis.	42.5% ; Number One[1]
Over-The-Counter (OTC) Pharmaceuticals	• Our OTC pharmaceuticals business consists of market-leading eye drop brands in Japan such as *Sante FX Neo*, the *Sante 40* series and the *Sante de U* series.	Approx. 20% ; Number Two[2]
Medical Devices	• In Japan, Santen handles medical devices used in cataract surgery, including intraocular lenses, phacoemulsification machines and surgical instruments.	____

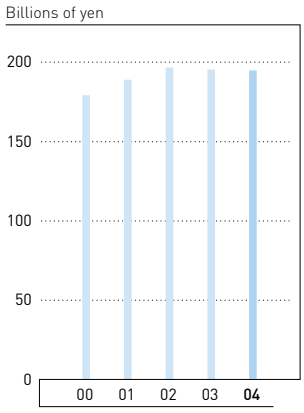
Notes: 1. Market share and market position in Japan for the year ended March 31, 2004. The share and position for anti-rheumatic pharmaceuticals represent those in the disease modifying anti-rheumatic drugs (DMARDs) segment. Source: Santen analysis based on IMS data. Copyright IMS Japan KK, 2004. Unauthorized Copy Prohibited.

2. Market share and market position in the Japanese OTC eye drop market for the year ended March 31, 2004. Source: Santen Pharmaceutical Co., Ltd.

Prescription Pharmaceuticals

Prescription Ophthalmic Pharmaceuticals

Prescription Ophthalmics Market in Japan



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Source: Santen based on IMS data
Period: 2000-2004; Unauthorized Copy Prohibited

JAPAN

While the corneal disorder treatments segment showed stable growth during the year ended March 31, 2004, with an 11.6% increase over the previous year, the overall Japanese prescription ophthalmics market remained unchanged from the previous year. This market condition was influenced by such factors as fewer doctor visits due to increases in patient co-payments during 2002 and 2003, and a mild allergy season.

Santen continued to concentrate management resources on its key growth fields – corneal and conjunctival disorders, glaucoma and allergies – with a view to maintaining and improving our domestic earnings base. We launched the Santen Activity Improved Navigator (SAIN) sales force automation system for medical representatives (MRs) and reorganized our sales locations nationwide in order to further improve the quality, as well as efficiency and agility, of our MRs' activities.

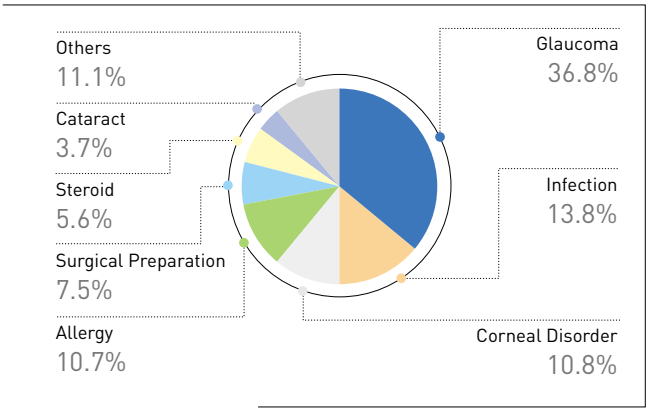
In our continuing efforts to plan and organize seminars and lectures tailored to healthcare professionals, we enjoyed a much higher attendance of medical personnel than had been targeted.

In the year ended March 31, 2004, the sales of corneal disorder treatment *Hyalein* continued to expand, showing a 6.4% increase from the previous fiscal year. However, the overall sales of prescription ophthalmic pharmaceuticals in Japan were ¥62,717 million, a decline of 2.0%, due to factors such as decreased sales of the anti-infectives *Cravit* and *Tarivid*, as well as the anti-allergy ophthalmic *Livostin*. Santen's share in the Japanese prescription ophthalmics market remained at 39.0%, a level unchanged from the previous year.

As we look to the future, competition in the Japanese ophthalmic pharmaceutical market is expected to intensify, with further market penetration of generic drugs along with increased competition from foreign pharmaceutical companies and the expected launch of competitive anti-infective and anti-allergy ophthalmic pharmaceutical products.

In keeping with current transitions in healthcare – such as the emphasis on evidence-based medicine (EBM) and the introduction of treatment guidelines for specific diseases – we are working to establish the "evidence" for our core products. At the same time, we are taking thorough countermeasures

Japanese Prescription Ophthalmics Market by Therapeutic Field
Year ended March 31, 2004



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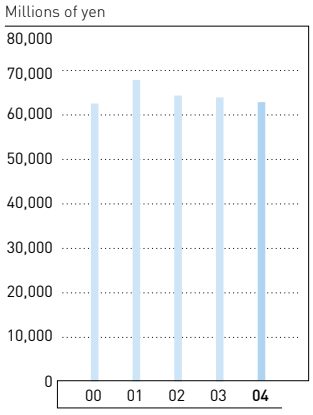
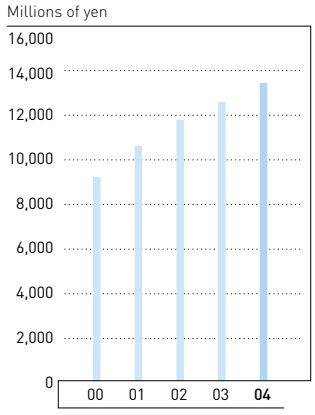
Source: Santen analysis based on IMS data
Period: 2004; Unauthorized Copy Prohibited

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

Sales of Prescription Ophthalmic Pharmaceuticals in Japan



Sales of *Hyalein*



against competitors' key branded and generic products.

During the three years of the 2003-2005 Medium-term Management Plan, our domestic prescription pharmaceuticals sales team will work to strengthen our sales and marketing capabilities in preparation for new product launches scheduled for 2007 and forward. We will also strive to further enhance our relationships with healthcare professionals by providing them with our competitive products and services and developing an efficient, IT-based infrastructure to support such activities. Through these efforts, we are working to reinforce our current position as the "best partner of eye care professionals."

▲ The "Ninth Vision Times Seminar" sponsored by Santen at the 57th Congress of Clinical Ophthalmology of Japan in October 2003. This year's theme was "Regenerative Medicine."

CORNEAL DISORDER TREATMENTS

The market for corneal disorder treatments in Japan has been growing at an average annual rate of approximately 10% for the last few years. This growth is expected to continue in the future due to the increased use of personal computers, the increased number of contact lens wearers and an aging population. In addition, only two million of the estimated eight million dry eye patients in Japan currently receive treatment.

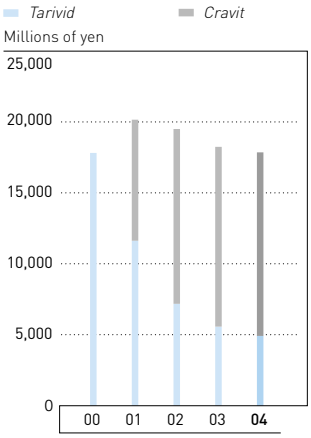
Santen's *Hyalein* is a highly water-retentive ophthalmic solution with viscoelasticity that works to increase the stability of the tear film, and has excellent effects for curing corneal and conjunctival epithelium disorders caused by dry eye and other factors. With a market share of over 80%, *Hyalein* is leading the growth of this market segment.

Sales of *Hyalein* for the year ended March 31, 2004 reached ¥13,409 million, up 6.4% from the previous year. This success is the result of our educational efforts targeting healthcare professionals and potential patients, as well as promotional activities emphasizing the ease of use of our new container *Dimple Bottle*.

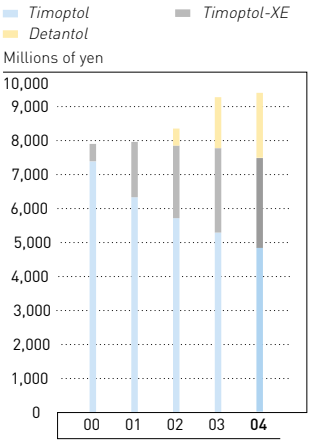
While the corneal disorder treatments market segment is growing, competition is expected to intensify in the future with the share of generic drugs gradually increasing. In the current fiscal year ending March 31, 2005, Santen is planning to implement strategies to target contact lens wearers.

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

Sales of *Cravit* and *Tarivid*



Sales of *Detantol*, *Timoptol-XE* and *Timoptol*



ANTI-INFECTIVE OPHTHALMICS

The anti-infective ophthalmics market has been showing negative growth for the past several years. For the year ended March 31, 2004, the market shrunk by 2.5% from the previous fiscal year. This impact is due to shorter treatment periods resulting from new, stronger anti-infective ophthalmic solutions, as well as fewer doctor visits due to medical cost-cutting policies.

With its ophthalmics product lineup, including *Cravit* and *Tarivid* – which are characterized by their potent, broad spectrum effects, as well as their excellent ability to penetrate ophthalmic tissues – Santen is the market leader in the anti-infective field with a share of more than 80%.

While the sales, prescription volume and market share of *Cravit* increased from the previous year, the total sales of both *Cravit* and *Tarivid* were ¥17,074 million, down 3.1% year on year, due to the decreased market size and the growth of generic drugs.

Anticipating the launch of products competing with *Cravit* in the current fiscal year ending March 31, 2005 and thereafter, Santen is planning to take more aggressive measures against these products by fully utilizing the extensive array of existing information. In so doing, we will further enhance *Cravit*'s position as the first-choice drug for the treatment of eye infections, and minimize the decline of our market share in the anti-infective ophthalmics market.

GLAUCOMA TREATMENT DRUGS

Accounting for 36% of the prescription ophthalmics market in Japan, glaucoma treatments make up the largest segment of the market. This segment grew rapidly in the past due in part to the aging population; however, recent growth has slowed due to such factors as increased patient co-payment of medical expenses. This has resulted in a 3.9% annual market growth rate for the year ended March 31, 2004 and indicates a temporary slowing of future market growth.

An epidemiological survey by the Japan Glaucoma Society released in December 2002 found that approximately one in 17 people aged 40 and older in Japan have glaucoma, and that for the majority, the disease is not accompanied by elevated intraocular pressure (i.e., normal tension glaucoma).

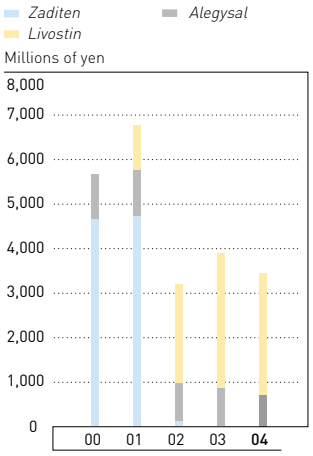
During the year ended March 31, 2004, Santen carried out promotional activities emphasizing the effectiveness and safety of *Detantol*, a concomitant medication for normal tension glaucoma. We also continued activities targeting patient awareness of disorders and treatments of glaucoma in preparation for new drugs Santen expects to launch in and after 2007, including a prostaglandin product for the treatment of glaucoma.

These efforts helped facilitate the market penetration of *Detantol* and *Timoptol-XE* and increased sales of our three glaucoma treatment drugs (i.e., the aforementioned two along with *Timoptol*), to ¥9,417 million, up 1.7% from the previous year.

Furthermore, Santen plans to launch *Rescula* (generic name: unoprostone isopropyl) in October 2004.

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

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



*Santen ceased selling *Zaditen* in June 2001 following the dissolution of the marketing alliance for the product.

ANTI-ALLERGY OPHTHALMICS

The anti-allergy ophthalmics market has experienced negative growth for the past two years. During the year ended March 31, 2004, the market contracted 16.8% from the previous year due to record low springtime airborne pollen counts, as compared to the past ten years.

During the year ended March 31, 2004, Santen continued its sales promotions targeting segments other than ophthalmology – such as otolaryngology – in addition to promoting *Livostin* by placing special emphasis on its ability to rapidly relieve itching. Santen's share in the anti-allergy ophthalmics market increased to 20.7%, up 3.2 percentage points from the previous year. However, due to the mild allergy season, sales of *Livostin* were ¥2,729 million, a 9.9% year-on-year decline.

We expect that the anti-allergy ophthalmics market will improve in the current fiscal year ending March 31, 2005 and we will work to accelerate the expansion of our presence in this treatment segment. Santen will promote *Livostin* by emphasizing its effectiveness for year-round allergies and will also take proactive measures against competing products in order to expand the sales and market share of anti-allergy ophthalmics. We plan to launch ciclosporin, a drug for the treatment of vernal keratoconjunctivitis, during the current fiscal year. The launch of ciclosporin will give Santen a full range of treatment drugs for all ocular allergic conditions (i.e., allergic conjunctivitis, vernal keratoconjunctivitis and atopic conjunctivitis).

Ciclosporin is a treatment drug with a new mechanism of action which is expected to have positive effects on vernal keratoconjunctivitis patients who do not respond to existing treatments. Vernal keratoconjunctivitis is a severe, refractory allergic ocular disease often seen in people aged 20 or younger. While anti-allergy drugs are used to treat the disease, it is estimated that there are approximately 4,000 patients who do not respond well to existing drugs.

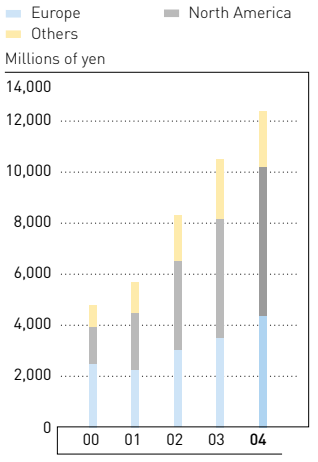
Note: All graphs in this section are based on fiscal years ended March 31.

Prescription Pharmaceuticals

Prescription Ophthalmic Pharmaceuticals

While the prescription ophthalmics markets in Europe and North America continued to show strong growth, the Asian market remained virtually flat overall. Santen's overseas sales of prescription ophthalmic pharmaceuticals for the year ended March 31, 2004 were ¥9,027 million, up 26.9% from the previous year.

Overseas Sales*



*Overseas sales include prescription ophthalmics and other products.

UNITED STATES

The ophthalmic pharmaceuticals market in the United States, the largest in the world, experienced double-digit growth for the year ended March 31, 2004. Factors noted as leading causes for the strong market growth in the U.S. include: the aging of the baby boomer population resulting in an increased number of patients with age-related eye diseases, such as glaucoma and age-related macular degeneration (AMD); the newly-introduced Medicare coverage for glaucoma examinations; and the expansion of treatments for diseases in posterior segments of the eye.

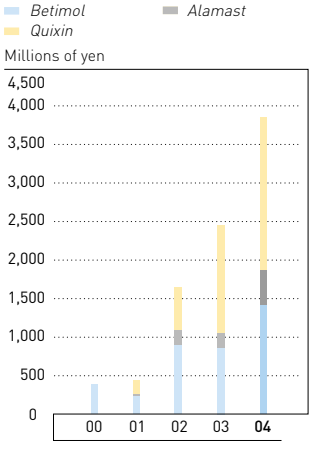
Our ophthalmic pharmaceuticals business in the U.S. experienced a challenging environment due primarily to the launch of competing products and strengthened competitive sales activities in the anti-infective ophthalmics market. However, the total sales of our three drugs – namely, the anti-infective ophthalmic *Quixin* (brand name in Japan: *Cravit*), the glaucoma treatment *Betimol* and the anti-allergy ophthalmic *Alamast* (brand name in Japan: *Alegysal*) – reached ¥3,856 million, up 57.1% from the previous year. This was due in part to the temporary demand increase for our products among wholesalers anticipating price increases.

In March 2004, we also obtained market approval from the Food and Drug Administration (FDA) for *Iquix*, which is a self-preserved high-concentration anti-infective ophthalmic solution containing three times the amount of active ingredient as *Quixin* and is effective for the treatment of bacterial corneal ulcers. A bacterial corneal ulcer is caused by bacterial infection in a scarred cornea (the membrane that covers the surface of the iris of the eye) which might, when deteriorated, result in a hole forming in the cornea and require surgery. *Iquix* provides a new effective treatment option for corneal ulcer patients.

Although our ophthalmics business in the U.S. achieved steady sales growth, we faced greater-than-expected competition and, thus, remained unable to achieve the level of revenue anticipated when we began independent sales and marketing activities. In order to accelerate market penetration of the aforementioned three products and improve the profitability of our ophthalmics business in the U.S., Santen entered into a Distribution and Supply Agreement with Johnson & Johnson Vision Care, Inc. (JJVCI) in December 2003 and JJVCI assumed the sales and marketing in the U.S. of our three products – *Quixin*, *Alamast* and *Betimol* – starting in February 2004. *Iquix* will also be marketed by JJVCI in the region and through this arrangement we expect to see our products help more patients in the U.S.

Santen will now focus on enhancing our research and development, as well as business development and strategic marketing activities, in the U.S. in order to expand our business in the world's largest ophthalmics market over the mid- to long-term.

Sales of *Quixin*, *Alamast* and *Betimol*



▲ Santen booth seminar at the American Academy of Ophthalmology meeting in November 2003.

▲ *Iquix* approved by the FDA in March 2004.

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

EUROPE

The ophthalmic pharmaceuticals market in Europe has been growing at a rate of roughly 5% annually, and is expected to maintain similar growth in the future. Factors behind this market growth include the expansion of the European Union, the increased number of glaucoma and dry eye patients, and the launch of high-priced pharmaceutical products particularly in the field of age-related macular degeneration (AMD). In the meantime, however, the business environment is becoming increasingly challenging as various governments continue to enforce medical cost-cutting plans including encouragement of the use of generic drugs.

The European market has diverse market structures characterized by different healthcare and medical insurance systems with varied medication costs.

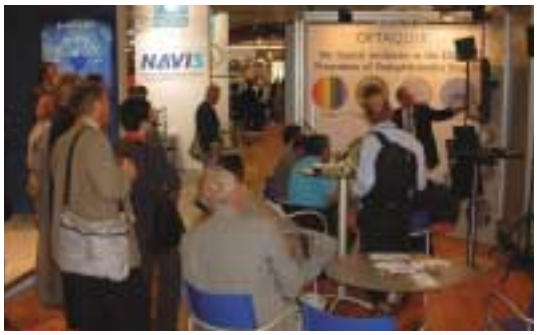
In Europe, our Finnish subsidiary Santen Oy engages in the sales, marketing, new product development, manufacturing and contract manufacturing of pharmaceuticals. The top three geographical areas of our ophthalmics sales in Europe are Finland, Russia and Sweden, with the remainder distributed among other northern European countries, Germany and eastern European countries. Viewed by product category, drugs for treatment of glaucoma, dry eye and cataract are among the top sellers.

During the year ended March 31, 2004, Santen sought to maximize the value of its existing products and compounds under clinical development, and to further advance our position in the markets in northern and eastern Europe as well as Russia. In Germany, we launched new products including two dry eye treatments. In addition, we carried out a sales promotional campaign in northern Europe and Russia for *Oftagel*, a dry eye product, and successfully expanded its sales. Meanwhile, the anti-infective ophthalmic *Oftaquix* (brand name in Japan: *Cravit*), which we began selling in Europe in 2002, became the best-selling product in the fluoroquinolone anti-infective ophthalmics segment in Finland and Sweden during the year under review.

As a result, sales grew from the previous year in almost all major countries, mainly in northern Europe and Russia, and the total sales in Europe also topped last year's performance.

▲ *Oftaquix*

▲ A TV commercial for our dry eye product *Oftagel* aired in Russia from October to November 2003.



▲ At the XXI Congress of the European Society of Cataract and Refractive Surgeons held in Munich, Germany, in September 2003.

ASIA

During the year ended March 31, 2004, the Asian market remained flat overall, while China has steadily become more important. The Chinese market has continued to generate double-digit growth, despite significant changes in the market environment, including drastic changes in drug pricing policies and domestic competition.

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

▲ *Asian Ophthalmology. com* run by Santen to provide Asian ophthalmologists with a communication medium and contribute to the development of ophthalmology in Asia.

As in past years, we continued our efforts during the year under review to provide enhanced scientific information and marketing activities in the Asian region. Santen sponsored symposia on themes such as ocular infection during the Third International Ophthalmologic Conference in Beijing in November 2003 and the 19th Congress of the Asia Pacific Academy of Ophthalmology (APAO) in Bangkok in December 2003. These programs successfully attracted the participation of 250 and 400 ophthalmologists, respectively. We also continued to provide scientific information through our educational website, *Asian Ophthalmology.com*, which targets young ophthalmologists in Asia. As of March 31, 2004, the number of registered members reached 400.

Although we temporarily suspended the operation of our local offices in China at the beginning of the fiscal year due to the epidemic of Severe Acute Respiratory Syndrome (SARS), we maintained the top share in the hospital market, and also improved sales from the previous year. This was achieved, in part, due to the entry of our products on the public medical insurance reimbursement list. Despite the strong results in China, our sales in the Asian region for the year ended March 31, 2004 declined in comparison with the previous year. This was a result of the decreased sales in Korea due to the end of the extraordinary demand that had emerged in the first half of the previous fiscal year.

THE DIMPLE BOTTLE

The shape of the *Dimple Bottle*, introduced in 2002, makes it easier to hold, particularly for older patients. It also facilitates squeezability, while a slit window allows users to monitor the remaining volume in the bottle. Large, color-coded caps and the clear display of the product names allow for easy identification.

In the year ended March 31, 2004, the production lines for *Dimple Bottle* in our Noto and Shiga plants were almost completed, and containers for 14 key products including *Hyalein* and *Cravit* have been converted to *Dimple Bottles*. In addition, we also developed "identification stickers" with a highly readable font and Braille for the visually impaired, which can be attached to *Dimple Bottles* as necessary.

Survey results regarding prescription ophthalmics suggest that consumers look for a sense of reassurance from the medical benefits and familiarity of use, as well as a handy container with "an easy grip" and "fixed amount of solution per drop."* We are confident that the *Dimple Bottle*, developed from Santen's technology through its many years of experience in prescription ophthalmics, will help differentiate our products from competing products. Santen is planning to replace nearly all containers for its key prescription ophthalmic solutions with these easy-to-use *Dimple Bottles* in the near future.

▲ Previous bottle ▲ *Dimple Bottle*

* According to a survey on prescription ophthalmic solutions conducted in Japan by Infoplan Inc. in May 2003, with 300 respondents including ophthalmology outpatients.

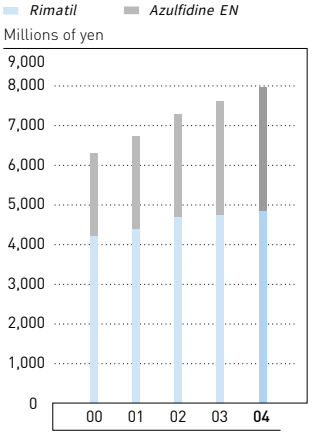
Anti-Rheumatic Pharmaceuticals

Rheumatoid arthritis is a chronic disease where inflammation occurs in joints, followed by gradual joint deformation and degeneration. It is estimated that there are between 600,000 and 700,000 people afflicted with rheumatoid arthritis in Japan. In the year ended March 31, 2004, the market for disease-modifying anti-rheumatic drugs (DMARDs) in Japan grew by 5.3% year on year to ¥22,200 million, due to factors such as an increased number of patients resulting from the aging population, as well as the launch of new drugs.

Santen has gained the top position in the DMARD market with its two DMARDs, *Rimatil* and *Azulfidine EN*. The "Guidelines for the Management of Rheumatoid Arthritis" released by the Japan College of Rheumatology in April 2004 set out a treatment guideline stating that DMARDs can inhibit immune abnormality at an early stage of treatment and are effective in maintaining the patient's quality of life as they help to delay damage to joints. Doctors should prescribe DMARDs for early-stage rheumatoid arthritis patients within three months of the initial diagnosis. The guidelines designate *Rimatil* and *Azulfidine EN* as "Recommendation Grade A" drugs (i.e., with a highly recommendable therapeutic structure).

During the year ended March 31, 2004, Santen continued promoting *Rimatil* and *Azulfidine EN* to rheumatology specialists, emphasizing their effectiveness and positioning them as the first-choice drug for rheumatoid arthritis. We also held the "Online Rheumatoid Clinical Conference," a program that Santen launched exclusively for physicians and repeated on four occasions during the year. Here, supervising doctors explain subjects of high interest and discuss cases of difficult diagnosis in the treatment of rheumatoid arthritis in clinical medical care. Many doctors are invited to participate in the clinical-level discussions.

Sales of *Rimatil* and *Azulfidine EN*



Sales of anti-rheumatic pharmaceuticals for the year ended March 31, 2004 were ¥7,969 million, up 4.4% from the previous year, as a result of increased sales of *Azulfidine EN* in response to its rapid effects following administration.

In the current fiscal year ending March 31, 2005, we will continue to promote *Rimatil* and *Azulfidine EN* by emphasizing their effectiveness in the treatment of rheumatism and promoting their recommendation in the "Guidelines for the Management of Rheumatoid Arthritis." Santen is aiming to further expand its presence in the DMARD market by offering treatment options tailored to the patient's condition. Also, the launch of *Metolate* (generic name: methotrexate) in July 2004 increased our DMARD product lineup to three different drugs that can be administered according to the stage and severity of rheumatoid arthritis.

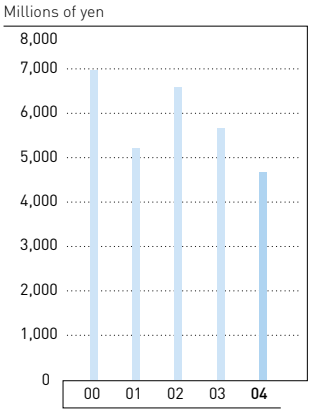
▲ *Rimatil*

▲ *Azulfidine EN*

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

Over-The-Counter Pharmaceuticals

Sales of Over-The-Counter Pharmaceuticals



In the area of over-the-counter (OTC) pharmaceuticals, Santen focuses on the marketing of eye drop products including *Sante FX Neo*, a leading eye drop brand in Japan, and *Sante 40*, which provides effective relief from blurred vision. Santen's OTC pharmaceuticals business is supported by its advanced drug manufacturing technology and planning capabilities. Santen's strength in the OTC eye drop segment is due to the superior abilities of our sales and marketing staff, the large share we hold with large-scale retailers, and products designed to help people maintain and improve their ophthalmic health.

For the year ended March 31, 2004, the OTC eye drops market in Japan expanded marginally from the previous year, owing in part to the growth of products for eye strain treatment and eye refreshment, which offset the impact of reduced distribution prices.

During the year under review, we continued working on sales promotions mainly for our eye drops for eye strain and blurred vision products, as well as the eye refreshment drops. We maintained our market share in the OTC pharmaceuticals market at approximately 20%, a level comparable to the previous year. However, sales for the year were ¥4,672 million, down 17.4% from the previous year, as a result of reductions in trade inventory.

For the current fiscal year ending March 31, 2005, we will develop and execute a restructuring plan based on cost analysis in order to improve profitability in our OTC pharmaceuticals business.



▲ New *Sante 40* TV commercial launched in May 2004.

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

Medical Devices

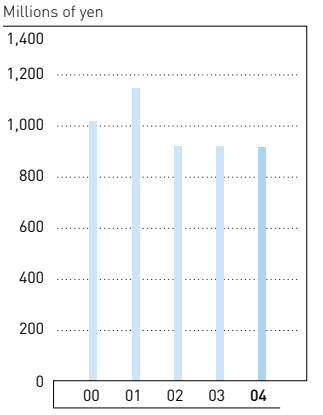
▲ At the 42nd Japanese Society for Cataract Research and the 18th Annual Meeting of the Japanese Society of Cataract and Refractive Surgery held in June 2003 in Kyoto.

Santen's medical devices business specializes in the field of cataract surgery. Products include intraocular lenses (IOLs), phacoemulsification machines and surgical instruments. Seeking to be the best partner for surgeons, our surgical representatives with expertise in cataract surgery provide information to over 3,000 surgical institutions in Japan in cooperation with our 400 pharmaceutical MRs.

Cataract is a condition in which the lens clouds with aging and other factors, causing blurred and weakened vision. Vision can be recovered through surgery that involves the insertion of an IOL to replace the cloudy lens. While the IOL market in Japan for the year ended March 31, 2004 was up marginally from the previous year on a volume basis, it declined by approximately 5% on a sales basis, according to Santen's estimate.

Thus, we are working with improved technology. Santen is currently conducting clinical trials in the U.S. and Japan on a new foldable IOL (development code: MD-14) developed by Advanced Vision Science, Inc. (AVS), our surgical subsidiary in the U.S. Foldable IOLs can be inserted through a small incision, and they account for almost 80% of the IOL market. The percentage is expected to increase with the development of IOLs that can be inserted through an even smaller incision and that enable better vision after surgery.

Sales of Medical Devices



With the increased sales of *ClariFlex*, an IOL launched in March 2003 that can potentially reduce the incidence of secondary cataract, Santen's IOL sales grew from the previous year in terms of both sales and volume. However, as sales of phacoemulsification machines and surgical instruments declined, total sales of medical devices were ¥914 million, down 0.4% from the previous year.

In September 2003, we decided to focus our efforts on IOL business and to discontinue our investment in Phacor Inc., a wholly owned subsidiary developing phacoemulsification machines in the U.S.

▲ Intraocular lenses used in cataract surgery

▲ Our U.S. subsidiary Advanced Vision Science, Inc. conducts research and development of next-generation intraocular lenses.

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

CORPORATE CITIZENSHIP

As a pharmaceutical company dedicated to vision and health, Santen contributes to society through donations and support to many organizations within the field of ophthalmology. We also carry out company-wide environmental activities in line with our Basic Environmental Policy to "hand the Earth to the next generation in the best state possible."

PROTECTING THE JOY OF SIGHT

With an increasingly aging population, more people are paying closer attention to healthy vision. Our mission is to develop superior pharmaceutical products to help people around the world maintain healthy vision and protect their "joy of sight."

To work for the benefit of the greater world beyond our business activities, we give donations and support to charitable organizations. For example, we have continued to donate funds to the U.S.-based Helen Keller International for more than 10 years, as well the Japan Eye Bank Association and the Japan National Society for the Prevention of Blindness. In the U.S., we also contribute regularly to Prevent Blindness America, in addition to a variety of other vision-related charitable organizations. In Asia, we support a variety of training programs for ophthalmologists, including a scholarship fund in China, as well as a fund jointly established with The Korean Ophthalmological Society, which supports young Korean ophthalmologists to attend training at Japanese medical institutions.

HANDING THE EARTH TO THE NEXT GENERATION IN THE BEST STATE POSSIBLE

Santen carries out a variety of activities to reduce the environmental impact of its business operations, including the introduction of co-generation facilities and low-emission vehicles, as well as the promotion of segregated waste disposal, recycling and ecologically friendly purchasing.

In March 2002, we established the Environmental Committee, chaired by a director responsible for social and environmental activities, as the top decision-making group for our company-wide environmental activities. This committee is a decision-making body and has developed the directions and the principles for our environmental activities. Based on these principles, our seven sites in Japan (Head Office, sales offices, the Research and Development Center, the Pharmaceutical Development Center, and the Noto, Shiga and Osaka plants) have implemented activities to meet their specific targets.

We also regard the environmental management system as an important tool to promote our environmental activities. With the certification of the Noto Plant in January 2003, all of our plants in Japan are certified with the ISO14001 environmental management system standards. Each of the plants has continued to reduce its environmental impact and sets annual goals for the reduction of electric power consumption, water use, recycling of plastics, papers and other materials, and reduction of industrial waste. For our non-manufacturing operations, we established our original environmental management system and have implemented activities since 2001.

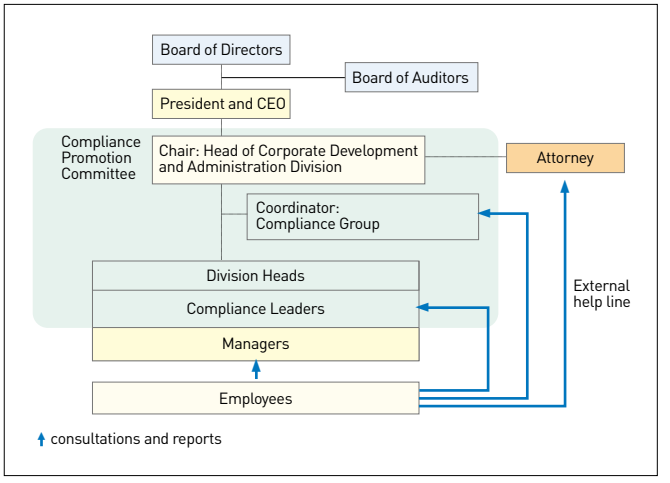
During the year under review, internal audits were conducted for all of our sites in Japan, except for the three plants that were audited according to the ISO14001 requirements.

▲ *Environmental Report 2003*

To help our stakeholders better understand our environmental initiatives, we issued our *Environmental Report 2003*. This report is also available on our Web site and describes Santen's position on environmental protection, our Environmental Policy and guidelines, the environmental management system and activities at each plant and office. The report also includes a summary of our expenditures for environmental protection and the results of our efforts.

STRENGTHENING COMPLIANCE

As we think it is essential for a company in the pharmaceutical industry to conduct business based on high ethical standards, we created the Santen Corporate Ethics Mission and established compliance guidelines for business activities in December 1999. We have also worked to strengthen and thoroughly ensure compliance by directors and employees through a new organizational structure and internal help line. Furthermore, in 2002 we established the Compliance Promotion Committee and started the Santen Compliance Program, which includes regular training, seminars and internal regulations. The Committee, playing a pivotal role, has developed compliance policies, action plans, preventive measures and countermeasures for violations.



OPENING OUTSIDE HELP LINE

As part of our measures to strengthen the compliance program, we opened an external help line in September 2003. We use an external attorney, who has no vested interest in Santen, for consultations and reports. This service is designed to prevent compliance violations and is available to all employees ranging from directors to employees on short-term contracts and temporary staff members.

IMPROVING COMPLIANCE TRAINING

It is very important that each and every employee be aware of our compliance requirements. To this end, we improved our compliance training and seminar programs during the year under review. In addition to introducing a training program for employees at the time of both employment initiation and promotion to management positions, we began a similar training program for all employees in management positions in the summer of 2003.

RISK MANAGEMENT COMMITTEE

We have established the Risk Management Committee to identify, minimize and manage risks.

Santen believes improving and strengthening corporate governance is an indispensable means to maximizing our corporate value and ensures sound, transparent management under the following governance system.

BOARD OF DIRECTORS

As of August 2004, our Board of Directors consists of five directors, four internal and one outside. The Santen Board of Directors is intentionally small to facilitate thorough discussions and swift decision-making. The Board of Directors met 17 times during the year ended March 31, 2004, and made decisions on issues including the Santen Group's management policies and strategies, business plans, major agreements, as well as important organizational and personnel changes. In addition, the Board of Directors supervised and directed the execution of business at Santen and its subsidiaries.

Following the approval of the 91st Annual Shareholders' Meeting, held on June 26, 2003, Santen shortened the office term of directors from two years to one. The shorter term not only allows for flexibility of appointment and dismissal – and thus immediate response to change in the business environment – but also clarifies the responsibilities of each director for a given fiscal year.

Also on June 26, 2003, Santen appointed Mr. Kosei Furukawa, Professor at Nakamura Gakuen University and Professor Emeritus at Keio University as Outside Director. Director Furukawa leveraged his broad knowledge and expertise in corporate management and played an active role in ensuring and further enhancing transparency and objectivity in our management during the year under review.

BOARD OF CORPORATE AUDITORS

Our Board of Corporate Auditors consists of four members, one internal and three outside, as of August 2004. To ensure that Santen is in compliance with the Commercial Code and other legal standards, the members audit the operation of directors and corporate officers, attend important company meetings including Board of Directors meetings, and review important company documents and conduct inspections at Santen's offices and subsidiaries.

The Board of Corporate Auditors met eight times during the year ended March 31, 2004 to approve financial statements, propose agendas for the Annual Shareholders' Meeting and to discuss and resolve audit plans. The Board of Corporate Auditors received reports from independent accounting auditors on the results and methods of the independent audit. The Board of Corporate Auditors regularly reported the results of its audits to the Board of Directors, and submitted their annual report to the Board of Directors on May 7, 2004.

COMMITTEES

Santen has established an Executive Compensation Committee as a specialized committee within the Board of Directors and a Management Advisory Committee to advise the President. Our committees differ from those under the "Committee System" within the revised Commercial Code of Japan.

The Executive Compensation Committee has three members (the president, a managing director and an outside director) who decide on policies for the compensation of executives, review the executive compensation system and determine the compensation of individual executives. Duties also include supervising impartial decision-making of compensation issues and the fair implementation of the system. This committee met three times during the year. In April 1999, we introduced a performance-based executive compensation system that establishes a clear link between company objectives and compensation of executives.

The Management Advisory Committee has five members (the president, a managing director, a corporate officer and two members from outside Santen) who study and discuss issues that may have a significant medium-term impact on Santen. This committee met 11 times during the year to review the directions and strategies for achieving the 2003-2005 Medium-term Management Plan, among other matters.

CORPORATE OFFICER SYSTEM

We introduced the Corporate Officer System in July 1999 to separate management supervision and important decision-making from business operations.

CONTENTS

Operating Results

Net Sales

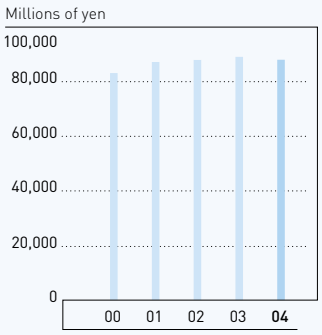
Sales of prescription pharmaceuticals for the year ended March 31, 2004 increased by ¥715 million, or 0.9%, from the previous year to ¥80,061 million. Domestic sales of prescription ophthalmic pharmaceuticals declined by ¥1,292 million, or 2.0%, from the previous year to ¥62,717 million, due to the impact of healthcare reforms and increased generic competition. Overseas sales of prescription ophthalmics expanded by ¥1,915 million, or 26.9%, to ¥9,027 million, driven by strong sales in the United States and Europe. Sales of anti-rheumatic pharmaceuticals for the year increased by ¥337 million, or 4.4%, from the previous year to ¥7,969 million, reflecting successful market penetration of our two products in the disease modifying anti-rheumatic drug (DMARD) segment.

Sales of over-the-counter (OTC) pharmaceuticals declined by ¥984 million, or 17.4%, to ¥4,672 million, as we worked to reduce trade inventory.

Sales of medical devices decreased by ¥5 million, or 0.4%, from the previous year to ¥914 million, as increased sales of intraocular lenses were offset by reduced sales of phacoemulsification machines and other devices.

Sales for other business segment decreased by ¥122 million, or 2.8%, to ¥4,210 million, as an increase in contract manufacturing sales was offset by decreased royalty income.

Net Sales



Net Sales by Business Segment

Millions of yen

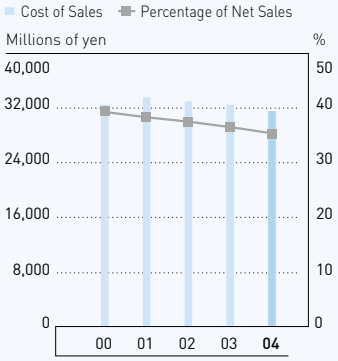
Years ended March 31	**2004**	2003	Change (%)
Prescription Pharmaceuticals	**80,061**	79,346	0.9
Ophthalmic	**71,744**	71,122	0.9
Anti-rheumatic	**7,969**	7,632	4.4
Others	**348**	592	(41.3)
OTC Pharmaceuticals	**4,672**	5,656	(17.4)
Medical Devices	**914**	919	(0.4)
Other Business	**4,210**	4,332	(2.8)
Total Sales	**89,858**	90,253	(0.4)

Note: Figures in parentheses indicate a decrease.

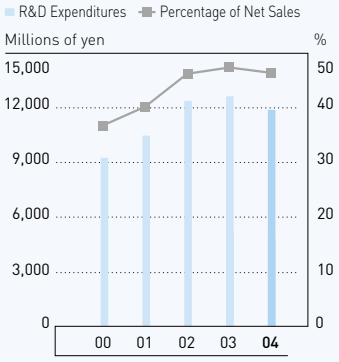
Cost of Sales

Cost of sales for the year decreased by ¥413 million, or 1.3%, from the previous year to ¥31,859 million, and the ratio of cost of sales to net sales improved by 0.3 percentage points to 35.5% from 35.8%, primarily due to the improvement of product mix and the continued efforts to reduce costs.

Cost of Sales and Percentage of Net Sales



R&D Expenditures and Percentage of Net Sales



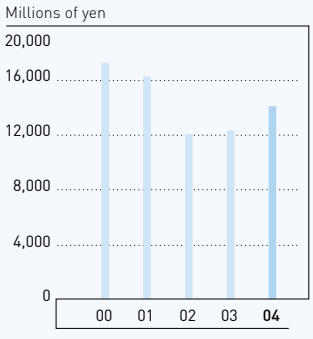
Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses for the year decreased by ¥1,809 million, or 4.0%, from the previous year to ¥43,475 million, reflecting our continuing efforts to control advertising expenses, sales promotion expenses and R&D expenditures, and due to the discontinuation of our development of phacoemulsification equipment in the U.S.

Operating Income

Supported by reduced SG&A expenses, operating income for the year improved by ¥1,827 million, or 14.4%, from the previous year to ¥14,524 million. The ratio of operating income to net sales improved by 2.1 percentage points to 16.2%, from 14.1% in the previous year.

Opereating Income



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

Other Income and Expenses

Net other expenses for the year totaled ¥749 million, a decline of ¥2,001 million compared with the previous year.

Other income increased by ¥2,304 million, or 179.1%, from the previous year to ¥3,590 million, due largely to gain on insurance received of ¥1,712 million and gains of ¥675 million from the sale of investment securities.

Other expenses increased by ¥306 million, or 7.6%, to ¥4,341 million. These expenses for the year include a loss of ¥855 million from the discontinued operation of the affiliate, retirement benefits of ¥719 million under the career development support program and an impairment loss of ¥377 million on assets.

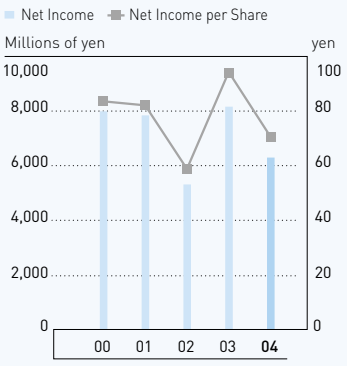
Income Taxes

Income taxes for the year increased by ¥6,010 million, or 416.3%, from the previous year to ¥7,454 million. The ratio of income taxes to income before income taxes (effective tax rate) rose to 54.1%, from 14.5% in the previous year. The main reasons consist of the increase in income before income taxes and the effect of the liquidation of a European subsidiary, Santen Pharmaceutical B.V., in the previous year.

Net Income

Net income for the year declined by ¥2,182 million, or 25.7%, from the previous year to ¥6,321 million. The ratio of net income to net sales also decreased by 2.4 percentage points to 7.0%, from 9.4%. Net income per share declined to ¥71.65 from ¥93.67, and diluted net income per share dropped to ¥71.64 from ¥85.97 in the previous year.

Net Income and Net Income per Share

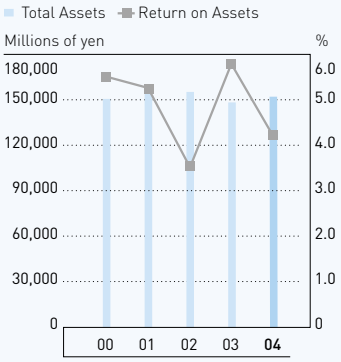


Financial Condition

Assets

As of March 31, 2004, total assets were ¥150,237 million, up ¥3,090 million, or 2.1%, from the previous year-end. Return on assets for the year declined by 1.4 percentage points to 4.3%, from 5.7%, due to decreased net income and increased total assets.

Total Assets and Return on Assets



Current assets at year-end increased by ¥7,800 million, or 9.3%, to ¥91,231 million. The ratio of current assets to total assets increased by 4.0 percentage points to 60.7%, from 56.7% in the previous year, representing enhanced liquidity. The growth in current assets is primarily due to an increase of ¥16,369 million in cash and cash equivalents. This improvement in cash and cash equivalents is due to the increase in income before income taxes and the sale of our manufacturing facilities to a lease company. The cash and cash equivalents were, however, partly used to redeem convertible bonds of ¥19,945 million.

Property, plant and equipment decreased by ¥3,613 million, or 8.8%, from the previous year to ¥37,237 million. The main reasons are the sale of the manufacturing facilities of the Shiga plant for ¥2,037 million to the lease company and depreciation.

Liabilities

Total liabilities, which are the sum of current and noncurrent liabilities, amounted to ¥46,738 million, a decline of ¥3,284 million, or 6.6%, from the previous year-end.

Current liabilities dropped by ¥12,483 million, or 31.5%, to ¥27,154 million, as the repayment of ¥19,945 million for convertible bonds was partially offset by an increase in income tax payable of ¥8,131 million.

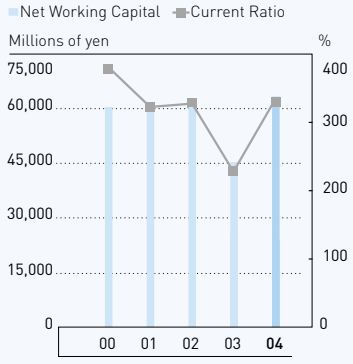
As a result, net working capital at year-end increased by ¥20,283 million, or 46.3%, from the previous year-end to ¥64,077 million. The current ratio improved to 336% from 210%.

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

Noncurrent liabilities at year-end increased by ¥9,199 million, or 88.6%, from the previous year-end to ¥19,584 million. This increase resulted from the procurement of a long-term ¥10,000 million loan for the repayment of ¥19,945 million for convertible bonds.

Interest-bearing debt at year-end declined by ¥10,361 million, or 45.0%, from the previous year-end to ¥12,686 million.

Net Working Capital and Current Ratio



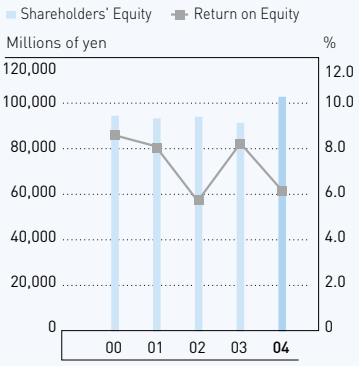
Note: Net working capital is the difference between current assets and current liabilities, and shows a company's ability to make payments in the near future.

Shareholders' Equity

Shareholders' equity at year-end increased by ¥6,374 million, or 6.6%, from the previous year-end to ¥103,500 million, reflecting increases in retained earnings and in market value of investment securities. To improve capital efficiency, we retired 2,741,000 shares of the Company's common stock, which had been held as treasury stock, at a total value of ¥3,240 million.

The shareholders' equity ratio improved by 2.9 percentage points to 68.9%, from 66.0%, while return on equity (ROE) declined 2.5 percentage points to 6.3%, from 8.8%. The decline in ROE is due to the decrease in net income and the increase in the shareholders' equity. Shareholders' equity per share at year-end increased by ¥72.62, or 6.6%, from the previous year-end to ¥1,176.83.

Shareholders' Equity and Return on Equity



Capital and Liquidity

Cash and cash equivalents at year-end increased by ¥16,369 million, or 65.3%, from the previous year-end to ¥41,423 million, as the increase in cash and cash equivalents from operating and investing activities more than offset the repayment of convertible bonds. In consideration of the maintenance of a sound balance sheet based on the management policy of maintaining appropriate liquidity, we plan to reserve these funds in order to make investments needed for future growth and reduce debt for improved capital efficiency.

Cash Flows

Cash Flows Summary

Millions of yen

Years ended March 31	**2004**	2003	Change
Cash Flows from Operating Activities	**23,196**	15,808	7,388
Cash Flows from Investing Activities	**5,246**	(9,951)	15,197
Cash Flows from Financing Activities	**(12,122)**	(6,507)	(5,615)
Cash and Cash Equivalents at End of Year	**41,423**	25,054	16,369

Note: Figures in parentheses indicate a decrease.

▸ *Cash Flows from Operating Activities*

Net cash provided by operating activities improved by ¥7,388 million, or 46.7%, from the previous year to ¥23,196 million. The main factors include the increase of ¥3,828 million in income before income taxes, the refund of ¥1,980 million of income taxes and the receipt of ¥3,003 million for gains on insurance.

▸ *Cash Flows from Investing Activities*

Investing activities generated net cash of ¥5,246 million for the year, while net cash used by investing activities was ¥9,951 million in the previous year. Contributing factors were an increase of ¥7,267 million in proceeds from the sale of short-term and investment securities, an increase of ¥3,707 million in proceeds from the sale of property, plant and equipment and a decrease of ¥3,820 million in capital expenditures.

▸ *Cash Flows from Financing Activities*

Net cash used in financing activities increased by ¥5,616 million, or 86.3%, from the previous year to ¥12,122 million. This resulted mainly from repayment for the redemption of convertible bonds, which was offset by the procurement of ¥10,000 million of syndicated loans, and a decrease of ¥3,270 million for the repurchase of treasury stock.

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

Forward-Looking Information and Factors That May Affect Future Results

Oral and written statements that we make in our annual report and through other public vehicles, other than historical facts, contain forward-looking information based on our business plans and assumptions at the time of disclosure. Such forward-looking information includes, but is not limited to, our expected growth strategies, projected operating results, market forecasts and anticipated timing for developing, obtaining approval and bringing products to market. These forward-looking statements are our best estimates given all the market conditions we are aware; we cannot guarantee that these estimated facts will in fact happen. Our business, and each product we develop and market, is subject to various risks and uncertainties outside of our control. Actual, versus planned, results may differ dramatically.

Risks and uncertainties that could affect the Company's future results and financial conditions include, but are not limited to, the factors described below.

External Factors

▸ *Regulatory Controls*

Our business is affected by government regulatory controls for healthcare programs and drug prices in Japan and other countries. Our future results could be affected by changes in any of these regulations. In particular, our financial performance relies heavily on Japan's prescription pharmaceuticals market, which represents almost 80% of our net sales. When National Health Insurance (NHI) drug price revisions which are implemented typically every other year, or other healthcare reforms take place beyond the scope of our anticipated projections, our operating and/or financial results may be affected. In April 2004, NHI drug price revisions went into effect resulting in a 4.2% reduction, on average, for the prescription pharmaceuticals industry, which translated into a 3.2% reduction, on average, for our total prescription pharmaceuticals sales.

We continue to face a variety of regulatory controls and governmental pressures for drug price reduction in the other countries and markets where we manufacture and sell our products.

▸ *Social and Economic Conditions and Changes in the Law*

Santen's future results may be affected by political and economical changes in the worldwide markets where we operate. Our anticipated performance and financial conditions may also be affected by changes in applicable accounting principles, and laws and regulations concerning tax, product liability, antitrust, environmental control and others.

▸ *Foreign Exchange*

Overseas sales and expenses, as well as assets of overseas subsidiaries, affect our sales, profits and financial conditions depending on foreign exchange fluctuations. Overseas sales for the year ended March 31, 2004 accounted for 13.8% of our net sales.

Competition

▸ *Effects of Generic Pharmaceuticals*

Sales of generic pharmaceuticals in Japan and abroad may affect Santen's overall business results.

While our mainstay products – *Cravit*, *Detantol* and *Livostin* – are protected by patents, generic pharmaceuticals for *Hyalein* and *Tarivid* have already been introduced in the Japanese market by other companies. Market analysis leads us to anticipate that generic competition will increase in the future.

An abbreviated new drug application (ANDA) was recently filed with the U.S. Food and Drug Administration (FDA) for a generic product of the anti-infective *Quixin*, although the patent for *Quixin* is still in effect. Daiichi Pharmaceutical Co., Ltd., the holder of the patent, has filed a lawsuit in the U.S. for violation of the patent.

▸ *Competition From Other Branded Products*

We have noted the launch of new branded products in the fluoroquinolone anti-infective market in Japan and overseas, and anticipate this trend to continue in the near future. These new products are in direct competition with our *Cravit* and *Quixin*, which may affect our future performance.

Dependency on Specific Products and Business Partners

▸ *Dependency on Mainstay Products*

Hyalein and *Cravit* generate annual sales of over ¥10 billion each, together representing 29.9% of Santen's net sales for the year ended March 31, 2004. Sales of these products are critical to our ongoing success and any unanticipated negative influences, such as patent expiration complications, potential product defects or newly discovered side effects, could affect our financial performance.

▸ *Dependency on In-Licensed Products*

Many of the products we sell are in-licensed from other companies. We have exclusive rights to manufacture and sell ophthalmic formulations of *Cravit* and *Detantol*. We also have sales rights in Japan for *Timoptol*, *Timoptol XE* and *Livostin* and exclusive sales rights for *Azulfidine EN*. Should changes be made in the terms and conditions of the agreements or the agreements are not renewed, our financial results may be affected.

▸ *Dependency on Specific Business Partners*

As of February 16, 2004, we entered into an exclusive distribution agreement with Johnson & Johnson Vision Care, Inc. (JJVCI) for three prescription pharmaceutical agents in the U.S. In the event that JJVCI and its subsidiary VISTAKON Pharmaceuticals, cannot achieve sufficient sales per our agreement, our financial results may be affected. Sales of prescription ophthalmic pharmaceuticals in the U.S. totaled ¥3,856 million for the year ended March 31, 2004.

Some raw and processed materials, such as bulk pharmaceuticals for *Cravit* and containers for over-the-counter (OTC) pharmaceuticals, are dependent on specific business partners. If supply of these materials is interrupted or stopped for any reason, our pharmaceutical production and financial performance may be adversely affected.

The percentage of our business executed with the top 10 wholesalers in Japan reached 63.9% of the total net sales for the year ended March 31, 2004. If our wholesale partners experience bankruptcy leading to lending loss, we may be adversely affected.

Research and Development Activities

▸ *Uncertainty in New Product Development*

It takes years from the initial research and development stage to the final approval and market launch of new drugs. At every stage along the way, there are factors that can sidetrack a new product and either delay or prevent it from reaching the marketplace. It is difficult for us to accurately predict when new products will reach the approval stage and be ready to launch.

Forecasting an accurate timeline for project development and completion is dependent on a number of changing factors including, but are not limited to, delayed reviews by government, conflicting or unusable clinical data, results that do not meet the therapeutic needs of the marketplace, safety and efficacy concerns, unexpected side effects, discontinued development and delayed product launches.

▸ *Potential Insufficient Returns on R&D Investment*

The creation and development of new pharmaceuticals, as well as development of additional indications and formulations, are critical for the future growth of Santen. Every year, we make significant investments in research and development; and there is the possibility that in the future these investments will not result in sufficient sales of new products.

▸ *Issues of Alliances*

Forecasts for new pharmaceuticals include some assumptions of alliances in development and/or sales. Determination of these alliances may affect our overall results and financial conditions.

Other Factors

▸ *Stagnation and Delay of Production*

If production activities are stagnated or delayed by natural and other catastrophes such as fire, our financial performance and conditions may be affected.

Certain products are manufactured at a single location. If a specific plant is forced to stop production, supply of some products may be negatively impacted.

▸ *Cancellation of Sales and Product Withdrawals*

If sales of products are cancelled, or if we withdraw products due to a batch defect, unexpected side effects, tampering or other cause, our overall financial results may be negatively affected.

▸ *Litigation*

Our main business involves production and sales of prescription pharmaceuticals. The nature of our business makes us vulnerable to litigation related to patents, product liability, violation of antitrust law, consumers-related and environmental issues. If such legal actions take place, the proceedings may affect our overall performance and financial conditions. Currently, we are involved in no litigation that could make a substantial impact on the management or performance of our company.

EIGHT-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Years ended March 31

	Millions of yen								Thousands of U.S. dollars
	2004	2003	2002	2001	2000	1999	1998	1997	**2004**
For the year:									
Net sales	**¥ 89,858**	¥ 90,253	¥ 88,966	¥ 88,449	¥ 83,577	¥ 79,639	¥ 77,957	¥ 75,216	**$ 850,605**
Cost of sales	**31,859**	32,272	32,701	33,385	32,195	32,746	31,278	27,552	**301,579**
Selling, general and administrative expenses	**43,475**	45,284	44,475	38,546	33,894	30,294	30,535	27,984	**411,536**
Operating income	**14,524**	12,697	11,790	16,518	17,488	16,599	16,144	19,680	**137,490**
Interest expense	**366**	480	465	430	462	588	654	624	**3,460**
Income before income taxes	**13,775**	9,947	12,679	15,521	14,422	15,969	14,917	18,913	**130,394**
Income taxes	**7,454**	1,444	7,373	7,807	6,481	7,864	7,594	9,915	**70,555**
Net income	**6,321**	8,503	5,306	7,714	7,941	8,105	7,323	8,998	**59,839**
Capital expenditures	**3,226**	7,046	6,586	4,943	2,510	3,443	5,898	16,725	**30,536**
Depreciation and amortization	**4,521**	4,311	5,334	5,683	5,725	6,314	6,674	4,202	**42,798**
R&D expenditures	**11,853**	12,719	12,187	10,511	9,221	7,335	7,731	6,213	**112,203**
Per share data (yen and U.S. dollars):									
Net income-basic	**¥ 71.65**	¥ 93.67	¥ 57.34	¥ 81.32	¥ 83.54	¥ 85.27	¥ 77.06	¥ 105.32	**$ 0.68**
Net income-diluted	**71.64**	85.97	53.07	75.01	77.04	78.63	71.01	99.87	**0.68**
Cash dividends, applicable to period	**40.00**	20.00	20.00	20.00	12.00	12.00	12.00	12.00	**0.38**
Cash Flows:									
Net cash provided by operating activities	**¥ 23,196**	¥ 15,808	¥ 6,941	¥ 6,832	¥ 9,372	¥ 16,339	¥ 11,535	¥ 16,181	**$ 219,581**
Net cash provided by (used in) investing activities	**5,246**	(9,951)	(6,374)	(3,172)	837	(8,305)	(9,537)	(28,259)	**49,659**
Net cash (used in) provided by financing activities	**(12,122)**	(6,507)	(5,684)	(7,193)	(3,817)	(3,857)	(1,677)	18,610	**(114,755)**
At year-end:									
Current assets	**¥ 91,231**	¥ 83,431	¥ 86,064	¥ 88,025	¥ 82,218	¥ 78,018	¥ 70,892	¥ 69,065	**$ 863,599**
Net property, plant and equipment	**37,237**	40,850	42,159	36,684	37,416	39,638	43,425	47,278	**352,494**
Total assets	**150,238**	147,148	152,103	153,243	149,968	144,913	138,822	140,226	**1,422,166**
Long-term debt	**12,686**	23,047	24,467	25,482	26,491	27,496	31,168	31,807	**120,087**
Total shareholders' equity	**103,500**	97,126	95,101	94,834	95,669	88,950	81,998	75,759	**979,740**
Return on equity (ROE) (%)	**6.3**	8.8	5.6	8.1	8.6	9.5	9.3	11.9	
Return on total assets (ROA) (%)	**4.3**	5.7	3.5	5.1	5.4	5.7	5.2	6.4	
Shareholders' equity ratio(%)	**68.9**	66.0	62.5	61.9	63.8	61.4	59.1	54.0	
Issued shares (thousands)	**87,963**	90,704	90,704	92,721	95,075	95,075	95,075	86,410	
Number of employees	**2,335**	2,500	2,463	2,167	2,093	2,037	2,010	1,910	

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate prevailing on March 31, 2004 of ¥105.64 to U.S.$1.

2. See Notes 2. 14) and 11 of Notes to Consolidated Financial Statements in respect of per share data.

3. Net sales in the fiscal years ended March 31, 2004, 2003, 2002 and 2001 include royalty income which was presented as "Other, net" in "Other income (expenses)" through the fiscal year ended March 31, 2000.

CONSOLIDATED BALANCE SHEETS

Santen Pharmaceutical Co., Ltd. and Subsidiaries
As of March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Current assets:			
Cash and cash equivalents (Note 4)	**¥ 41,423**	¥ 25,054	**$ 392,113**
Short-term investments (Note 4)	**2,010**	6,354	**19,025**
Trade receivables:			
Notes	**511**	685	**4,840**
Accounts	**31,945**	31,831	**302,396**
Less allowance for doubtful receivables	**(16)**	(13)	**(154)**
Net trade receivables	**32,440**	32,503	**307,082**
Inventories (Note 6)	**10,394**	11,684	**98,390**
Deferred tax assets (Note 14)	**2,256**	1,202	**21,353**
Other current assets	**2,708**	6,634	**25,636**
Total current assets	**91,231**	83,431	**863,599**
Property, plant and equipment (Notes 7 and 8)**:**			
Land	**10,646**	10,991	**100,772**
Buildings and structures	**41,553**	39,574	**393,350**
Machinery and equipment	**11,128**	11,059	**105,340**
Tools, furniture and vehicles	**10,588**	10,744	**100,228**
Construction in progress	**1,751**	4 ,967	**16,571**
Total	**75,666**	77,335	**716,261**
Less accumulated depreciation	**(38,429)**	(36,485)	**(363,767)**
Net property, plant and equipment	**37,237**	40,850	**352,494**
Investments and other assets:			
Investments in and advances to affiliates	**53**	254	**500**
Investment securities (Note 4)	**11,430**	9,692	**108,196**
Goodwill	**1,324**	1,599	**12,531**
Other intangibles	**2,677**	3,183	**25,337**
Deferred tax assets (Note 14)	**1,814**	2,331	**17,172**
Other assets	**4,472**	5,808	**42,337**
Total investments and other assets	**21,770**	**22,867**	**206,073**
Total assets (Note 16)	**¥ 150,238**	**¥ 147,148**	**$ 1,422,166**

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Current liabilities:			
Current portion of long-term debt (Note 9)	**¥ 416**	¥ 20,361	**$ 3,938**
Trade accounts payable	**5,040**	5,476	**47,708**
Other payables	**8,854**	9,117	**83,811**
Accrued expenses	**3,409**	4,165	**32,271**
Income taxes payable (Note 14)	**8,133**	2	**76,987**
Other current liabilities	**1,302**	516	**12,323**
Total current liabilities	**27,154**	39,637	**257,038**
Noncurrent liabilities:			
Long-term debt (Note 9)	**12,270**	2,686	**116,149**
Retirement and severance benefits (Note 10)	**5,773**	5,754	**54,650**
Deferred tax liabilities (Note 14)	**27**	32	**254**
Other liabilities	**1,514**	1,913	**14,335**
Total noncurrent liabilities	**19,584**	10,385	**185,388**
Shareholders' equity:			
Common stock (Notes 11 and 12):			
Authorized – 152,844,454 shares			
(155,585,454 shares in 2003)			
Issued – 87,963,303 shares			
(90,704,303 shares in 2003)	**6,214**	6,214	**58,824**
Additional paid-in capital (Notes 11 and 12)	**6,909**	6,909	**65,399**
Retained earnings (Note 11)	**91,845**	90,552	**869,413**
Unrealized holding gains on securities (Note 4)	**1,426**	294	**13,500**
Foreign currency translation adjustments	**(2,854)**	(3,566)	**(27,016)**
	103,540	100,403	**980,120**
Treasury stock at cost (Note 11):			
33,353 shares in 2004 and 2,771,565 shares in 2003	**(40)**	(3,277)	**(380)**
Total shareholders' equity	**103,500**	97,126	**979,740**
Contingent liabilities (Note 15)			
Total liabilities and shareholders' equity	**¥ 150,238**	¥ 147,148	**$ 1,422,166**

CONSOLIDATED STATEMENTS OF INCOME

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	**2004**
Net sales (Note 16)	**¥89,858**	¥90,253	¥88,966	**$850,605**
Cost of sales (Notes 7 and 10)	**31,859**	32,272	32,701	**301,579**
Gross profit	**57,999**	57,981	56,265	**549,026**
Selling, general and administrative expenses (Notes 7, 10 and 13)	**43,475**	45,284	44,475	**411,536**
Operating income (Note 16)	**14,524**	12,697	11,790	**137,490**
Other income (expenses):				
Interest and dividend income	**240**	268	304	**2,271**
Interest expense	**(366)**	(480)	(465)	**(3,460)**
Gains on insurance received	**1,712**	—	—	**16,205**
Gains on sale of investment securities	**675**	—	—	**6,393**
Loss on impairment of fixed assets (Note 8)	**(377)**	—	—	**(3,567)**
Loss on valuation of securities	**(201)**	(602)	(179)	**(1,902)**
Special premium payment on the separation from the composite pension fund	**—**	(2,203)	—	**—**
Retirement benefit under the carrier development support program	**(719)**	—	—	**(6,812)**
Loss on discontinued operations of affiliates	**(855)**	—	—	**(8,096)**
Restructuring charge for the U.S. business	**(386)**	—	—	**(3,657)**
Gain on settlement of Princeton Notes lawsuit	**—**	—	886	**—**
Other, net	**(472)**	267	343	**(4,471)**
Income before income taxes	**13,775**	9,947	12,679	**130,394**
Income taxes (Note 14):				
Current	**8,751**	463	6,932	**82,835**
Deferred	**(1,297)**	981	441	**(12,280)**
	7,454	1,444	7,373	**70,555**
Net income	**¥ 6,321**	¥ 8,503	¥ 5,306	**$ 59,839**

Per share data:	Yen			U.S. dollars (Note 3)
	2004	2003	2002	**2004**
Net income-basic	**¥ 71.65**	¥ 93.67	¥ 57.34	**$ 0.68**
Net income-diluted	**71.64**	85.97	53.07	**0.68**
Cash dividends, applicable to the period	**40.00**	20.00	20.00	**0.38**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	**2004**
Common stock (Notes 11 and 12)**:**				
Balance at beginning of year	**¥ 6,214**	¥ 6,214	¥ 6,206	**$ 58,824**
Exercise of stock options	**—**	—	8	**—**
Balance at end of year	**¥ 6,214**	¥ 6,214	¥ 6,214	**$ 58,824**
Additional paid-in capital (Notes 11 and 12)**:**				
Balance at beginning of year	**¥ 6,909**	¥ 6,909	¥ 6,900	**$ 65,399**
Exercise of stock options	**—**	—	9	**—**
Balance at end of year	**¥ 6,909**	¥ 6,909	¥ 6,909	**$ 65,399**
Retained earnings (Note 11)**:**				
Balance at beginning of year	**¥ 90,552**	¥ 83,893	¥ 83,735	**$ 857,173**
Net income	**6,321**	8,503	5,306	**59,839**
Cash dividends paid	**(1,758)**	(1,814)	(1,854)	**(16,642)**
Bonuses to directors and corporate auditors	**(30)**	(30)	(36)	**(288)**
Retirement of treasury stock	**(3,240)**	—	(3,258)	**(30,669)**
Balance at end of year	**¥ 91,845**	¥ 90,552	¥ 83,893	**$ 869,413**
Unrealized holding gains on securities (Note 4)**:**				
Balance at beginning of year	**¥ 294**	¥ 474	¥ 1,290	**$ 2,781**
Net change	**1,132**	(180)	(816)	**10,719**
Balance at end of year	**¥ 1,426**	¥ 294	¥ 474	**$ 13,500**
Foreign currency translation adjustments:				
Balance at beginning of year	**¥ (3,566)**	¥ (2,383)	¥ (3,256)	**$ (33,757)**
Net change	**712**	(1,183)	873	**6,741**
Balance at end of year	**¥ (2,854)**	¥ (3,566)	¥ (2,383)	**$ (27,016)**
Treasury stock at cost (Note 11)**:**				
Balance at beginning of year	**¥ (3,277)**	¥ (6)	¥ (41)	**$ (31,015)**
Repurchase of treasury stock, net	**(3)**	(3,271)	(3,223)	**(34)**
Retirement of treasury stock	**3,240**	—	3,258	**30,669**
Balance at end of year	**¥ (40)**	¥ (3,277)	¥ (6)	**$ (380)**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	**2004**
Cash flows from operating activities:				
Income before income taxes	**¥13,775**	¥ 9,947	¥12,679	**$130,394**
Depreciation and amortization	**4,521**	4,311	5,334	**42,798**
Increase in retirement and severance benefits	**43**	133	98	**407**
Interest and dividend income	**(240)**	(268)	(304)	**(2,271)**
Gains on insurance received	**(1,712)**	—	—	**(16,205)**
Interest expense	**366**	480	465	**3,460**
Loss on valuation of securities	**201**	602	179	**1,902**
(Increase) decrease in trade receivables	**(315)**	6,966	1,804	**(2,984)**
Decrease (increase) in inventories	**1,342**	647	(184)	**12,707**
(Decrease) increase in trade accounts payable	**(441)**	660	(2,138)	**(4,172)**
Other, net	**1,222**	(1,355)	(2,688)	**11,566**
Subtotal	**18,762**	22,123	15,245	**177,602**
Interest and dividend income received	**233**	140	227	**2,204**
Interest expense paid	**(329)**	(458)	(465)	**(3,111)**
Insurance received	**3,003**	—	—	**28,427**
Income taxes paid	**(453)**	(5,997)	(8,066)	**(4,288)**
Income taxes refunded	**1,980**	—	—	**18,747**
Net cash provided by operating activities	**23,196**	15,808	6,941	**219,581**
Cash flows from investing activities:				
Capital expenditures	**(3,226)**	(7,046)	(6,586)	**(30,536)**
Purchase of investment securities	**(511)**	(3,704)	(267)	**(4,835)**
Proceeds from sale of investment securities	**1,074**	473	857	**10,164**
Proceeds from sale of property, plant and equipment	**3,770**	—	—	**35,688**
Purchase of short-term investments	**(7,022)**	(5,252)	(2,841)	**(66,470)**
Proceeds from sale of short-term investments	**11,520**	4,854	1,898	**109,049**
Investment in a subsidiary	**—**	—	(537)	**—**
Proceeds from collection of loans receivable	**—**	12	1,012	**—**
Other, net	**(359)**	712	90	**(3,401)**
Net cash provided by (used in) investing activities	**5,246**	(9,951)	(6,374)	**49,659**
Cash flows from financing activities:				
Proceeds from long-term debt	**10,000**	—	—	**94,661**
Repayment of long-term debt	**(416)**	(1,421)	(624)	**(3,938)**
Redemption of convertible bond	**(19,945)**	—	—	**(188,802)**
Repurchase of treasury stock, net	**(3)**	(3,274)	(3,223)	**(34)**
Dividends paid	**(1,758)**	(1,812)	(1,854)	**(16,642)**
Other, net	**—**	—	17	**—**
Net cash used in financing activities	**(12,122)**	(6,507)	(5,684)	**(114,755)**
Effect of exchange rate changes on cash and cash equivalents	**49**	84	177	**470**
Net increase (decrease) in cash and cash equivalents	**16,369**	(566)	(4,940)	**154,955**
Cash and cash equivalents at beginning of year	**25,054**	25,620	30,555	**237,158**
Cash and cash equivalents of a newly consolidated subsidiary	**—**	—	5	**—**
Cash and cash equivalents at end of year	**¥41,423**	¥25,054	¥25,620	**$392,113**

See accompanying notes to consolidated financial statements.

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of Santen Pharmaceutical Co., Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Change in accounting method

In August 2002, the Financial Accounting Deliberation Council issued Financial Accounting Standard on Accounting for Impairment of Fixed Assets, which is required to be adopted in the fiscal year ending March 31, 2006. Earlier application is allowed from the year ended March 31, 2004. Effective in the year ended March 31, 2004, the Company and its domestic subsidiaries have early adopted the new Accounting Standard for Impairment of Fixed Assets including related Guidelines issued on October 31, 2003 by the Accounting Standards Board. The effect of this change was to decrease income before income taxes by ¥377 million ($3,567 thousand).

2. Summary of Significant Accounting Policies

1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (the "Companies"). All significant intercompany balances and transactions are eliminated on consolidation.

Investments in affiliated companies are stated at cost, because the Companies' equity in earnings of these companies is not significant.

2) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

3) Short-term investments, investment securities and golf membership rights (see Note 4)

The Company and all domestic subsidiaries have adopted the Financial Accounting Standard on Accounting for Financial Instruments, which was issued by the Financial Accounting Deliberation Council. In accordance with this standard, securities are classified into three categories; trading, held-to-maturity, or other securities.

Based on this classification, all trading securities and, any held-to-maturity and other securities with a maturity of less than one year, are included in current assets. All other securities are included in investment securities as noncurrent assets.

Those classified as other securities with a market value would be reported at fair value with unrealized holding gains, net of related taxes reported in equity. Realized gains and losses on sales of such securities are determined on the moving average cost method. Other securities with no market value are carried at cost, which is determined by the moving average cost method.

In addition, this standard also requires the recognition of an impairment loss on golf membership rights, included in other assets, on the consolidated balance sheets, when the market value showed a substantial decline and was not judged to recover.

4) Derivative instruments (see Note 5)

Derivative instruments are stated at fair value, and accounted for using deferral hedge accounting. Deferral hedge accounting requires unrealized gains or losses to be deferred as assets or liabilities. Foreign exchange contracts that meet the criteria are accounted for under the allocation method. The allocation method requires recognized foreign currency receivables or payables to be translated using the corresponding foreign exchange contract rates. Interest rate swaps that meet the criteria are accounted for under the special method, as regulated in the accounting standard, as if the interest rates under interest rate swaps were originally applied to underlying

borrowings. The Company has also developed a hedging policy to control various aspects of derivative instruments including authorization levels and transaction volumes. Based on this policy, the Company hedges the exposure risk arising from fluctuations in foreign currency exchange rates, interest rates, and price of securities. The Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows from hedged items and corresponding changes in hedging derivative instruments.

5) Allowance for doubtful receivables
Allowance for doubtful receivables is provided principally at an amount computed based on the actual ratio of bad debts in the past and the estimated uncollectible amounts based on the individual analysis of certain receivables.

6) Inventories (see Note 6)
Inventories are stated at cost, determined principally by the average method.

7) Property, plant and equipment
Property, plant and equipment is stated at cost. Depreciation of buildings, acquired prior to April 1, 1998, and other property, plant and equipment is computed over the estimated useful lives of the assets by the declining-balance method for the Company and all domestic subsidiaries. Buildings (other than leasehold improvements), which were acquired on or after April 1, 1998, are depreciated using the straight-line method for the Company and all domestic subsidiaries. Depreciation is computed over the estimated useful lives of the assets by the straight-line method for all overseas subsidiaries.

The principal estimated useful lives are as follows:

Buildings and structures	31 to 50 years
Machinery and equipment	7 years
Tools, furniture and vehicles	4 to 10 years

8) Goodwill
Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is amortized on a straight-line basis over a period of ten years.

9) Leases (see Note 7)
In Japan, finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

10) Impairment of assets (see Note 8)
In accordance with the Accounting Standards for Impairment of Fixed Assets in Japan, fixed assets, such as property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset, or group of assets, to estimated undiscounted future cash flows expected to be generated. If the carrying amount of an asset, or group of assets, exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the greater of its net realizable value or value in use.

11) Retirement and severance benefits (see Note 10)
Employees of the Company and all domestic subsidiaries are generally entitled to lump-sum severance and, in certain cases, annuity payments on retirement, based on current rates of pay, length of service and certain other factors. A portion of the prescribed benefit plan is covered by funded defined benefit pension plans.

The Company and all domestic subsidiaries have adopted the Accounting Standard for Retirement Benefits which was issued by the Financial Accounting Deliberation Council. In accordance with this standard, the allowance for retirement benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets. Actuarial gains and losses are amortized, from the year in which the actuarial gains and losses are incurred, using the straight-line method, over the estimated average remaining service years of employees.

In addition, the Company has an unfunded retirement benefit plan for directors and corporate auditors. The amounts required under the plan have been fully accrued. Accrued severance indemnities for the members of the board and corporate auditors of the Company are provided based on internal regulations that are similar to those for employees. The accrued provision for severance indemnities of the members of the board and corporate auditors is not funded.

Certain overseas subsidiaries have a defined contribution plan covering substantially all of their employees. The amounts contributed under the plan are charged to income.

12) Foreign currency translation
All monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing on the balance sheet date, except for those items covered by forward exchange contracts.

The Company and all domestic subsidiaries have adopted the Accounting Standard for Foreign Currency Transactions which was issued by the Financial Accounting Deliberation Council, and requires all monetary assets and liabilities denominated in foreign currencies to be translated at the rate of exchange prevailing on the balance sheet date, except for those items covered by forward exchange contracts.

Financial statements of overseas subsidiaries are translated into Japanese yen at year-end rates for all assets and liabilities and at

weighted average rates for income and expense accounts. Adjustments resulting from the translation of financial statements were reflected under the caption, "Foreign currency translation adjustments", which are included in "Shareholders' equity".

13) Research and development and computer software (see Note 13)

Research and development expenditures are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred except if they contribute to the generation of income or to future cost savings. Such expenditures are capitalized as an asset and are amortized using the straight-line method over their estimated useful life, five years.

14) Net income and dividends per share (see Note 11)

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation is 87,931 thousand, 90,452 thousand and 92,536 thousand for the years ended March 31, 2004, 2003 and 2002, respectively.

The diluted net income per share assumes full conversion of outstanding convertible bonds at the beginning of the year (or at the time of issuance, if after the beginning of the year), and full exercise of outstanding warrants at the end of the year. The average number of shares used in the computation is 87,942 thousand, 99,635 thousand and 101,731 thousand for the years ended March 31, 2004, 2003 and 2002, respectively.

Cash dividends per share shown in the accompanying consolidated statements of income are the amounts applicable to the respective years.

15) Income taxes (see Note 14)

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and foreign tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

16) Cash and cash equivalents

Cash and cash equivalents mainly include cash in hand, readily available deposits and all highly liquid debt investments, generally with a maturity of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

3. Translation into United States Dollars

The accompanying consolidated financial statements are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥105.64=US$1, the approximate exchange rate prevailing on March 31, 2004. The translation should not be construed as a representation that the Japanese yen have been, could have been, or could in the future be converted into United States dollars at that rate or any other rate.

4. Short-term Investments and Investment Securities

The following is a summary of held-to-maturity debt securities and other securities with a market value at March 31, 2004 and 2003:

Millions of yen

	2004				2003			
	Held-to-maturity debt securities				Held-to-maturity debt securities			
	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Bonds and debentures	**¥1,500**	**¥ 13**	**¥ (1)**	**¥1,512**	¥3,737	¥ 0	¥ (16)	¥3,721

	Other securities				Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	**¥6,058**	**¥2,525**	**¥ (58)**	**¥8,525**	¥4,913	¥ 998	¥(420)	¥5,491
Other securities	**947**	**9**	**(81)**	**875**	943	4	(75)	872
	¥7,005	**¥2,534**	**¥(139)**	**¥9,400**	¥5,856	¥1,002	¥(495)	¥6,363

	Thousands of U.S. dollars			
	2004			
	Held-to-maturity debt securities			
	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Bonds and debentures	**$ 14,199**	**$ 124**	**$ (5)**	**$ 14,318**

	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	**$ 57,341**	**$ 23,898**	**$ (547)**	**$ 80,692**
Other securities	**8,961**	**83**	**(768)**	**8,276**
	$ 66,302	**$ 23,981**	**$ (1,315)**	**$ 88,968**

Maturities of investments at March 31, 2004 and 2003 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2004		2003		**2004**	
	Bonds and debentures	Other securities	Bonds and debentures	Other securities	Bonds and debentures	Other securities
Cash equivalents	**¥7,500**	**¥ —**	¥2,500	¥ —	**$ 70,996**	**$ —**
Due within one year	**500**	**261**	4,205	—	**4,733**	**2,471**
Due after one year through five years	**1,005**	**595**	1,542	270	**9,513**	**5,632**
Due after five years through ten years	**—**	**294**	—	393	**—**	**2,783**
	¥9,005	**¥1,150**	¥8,247	¥663	**$ 85,242**	**$ 10,886**

5. Derivative Instruments

The Company principally utilizes derivative instruments such as foreign exchange contracts, interest rate swaps, currency interest rate swaps, currency options and equity options to hedge the exposure risk arising from fluctuations in foreign currency exchange rates, interest rates and market price of securities.

The Company is exposed to the risk that the counterparties will not be able to fully satisfy their obligations under contracts, but the Company believes that such risk is mitigated by the high credit ratings of the counterparties.

The interest rate swap contracts outstanding at March 31, 2004 and 2003 are as follows:

		Millions of yen					
		2004			2003		
	Currency	Notional amounts	Market value	Unrealized gain (loss)	Notional amounts	Market value	Unrealized gain (loss)
Variable-rate into fixed-rate obligations	Yen	**¥ 1,926**	**¥ 191**	**¥ 191**	¥1,000	¥(23)	¥(23)

		Thousands of U.S. dollars		
		2004		
	Currency	Notional amounts	Market value	Unrealized gain (loss)
Variable-rate into fixed-rate obligations	Yen	**$ 18,228**	**$ 1,804**	**$ 1,804**

6. Inventories

Inventories at March 31, 2004 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Merchandise	**¥ 2,011**	¥ 2,117	**$ 19,038**
Finished goods	**5,462**	6,877	**51,699**
Work in process and semi-finished goods	**937**	662	**8,872**
Raw materials and supplies	**1,984**	2,028	**18,781**
	¥ 10,394	¥ 11,684	**$ 98,390**

7. Leases

Finance leases, except for those in which ownership is deemed to be transferred to the lessee, are accounted for as operating leases.

Finance leases:

Equivalent purchase amount, accumulated depreciation and future minimum lease payments on an "as if capitalized" basis at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Machinery and equipment:			
Equivalent purchase amount	**¥ 13,280**	¥ 11,005	**$ 125,709**
Equivalent accumulated depreciation amount	**10,001**	9,372	**94,667**
Equivalent balance at year-end	**3,279**	1,633	**31,042**
Tools:			
Equivalent purchase amount	**711**	484	**6,734**
Equivalent accumulated depreciation amount	**301**	152	**2,852**
Equivalent balance at year-end	**410**	332	**3,882**
Total:			
Equivalent purchase amount	**13,991**	11,489	**132,443**
Equivalent accumulated depreciation amount	**10,302**	9,524	**97,519**
Equivalent balance at year-end	**¥ 3,689**	¥ 1,965	**$ 34,924**
Future minimum lease payments:			
Due within one year	**¥ 810**	¥ 426	**$ 7,670**
Due after one year	**2,980**	1,592	**28,209**
	¥ 3,790	¥ 2,018	**$ 35,879**

Lease payments, equivalent depreciation and equivalent interest expense for the three years ended March 31, 2004 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Lease payments	**¥ 736**	¥ 638	¥ 1,880	**$ 6,962**
Equivalent depreciation	**¥ 692**	¥ 486	¥ 1,692	**$ 6,551**
Equivalent interest expense	**¥ 55**	¥ 18	¥ 46	**$ 520**

Operating leases:

Future minimum rents under non-cancellable operating leases at March 31, 2004 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 97**	¥ 189	**$ 914**
Due after one year	**159**	300	**1,502**
	¥ 256	¥ 489	**$ 2,416**

8. Impairment of assets

The Company and all domestic subsidiaries review the recorded value of their property, plant and equipment and intangible assets to determine if the future cash flows to be derived from these properties will be sufficient to recover the remaining recorded asset values. As discussed in Note 1, the Company and all domestic subsidiaries account for impairment of assets in accordance with the new Financial Accounting Standard on Accounting for Impairment of Assets. The Company and all domestic subsidiaries recognized an impairment loss of ¥377 million ($3,567 thousand) during the year ended March 31, 2004 related to write-down of the carrying value of land and building. Impairment loss of ¥323 million ($ 3,057 thousand) relates to idle land of the distribution center and the remaining ¥54 million ($ 510 thousand) is for a rental building which is to be sold in the fiscal year ending March 31, 2005.

9. Long-term Debt

Long-term debt at March 31, 2004 and 2003 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Unsecured convertible bond, due in installments through 2003, interest 0.80%	**¥ —**	¥ 19,945	**$ —**
Unsecured yen syndicated loans from domestic banks, due in 2008, interest 0.44%	**10,000**	—	**94,661**
Unsecured loans from governmental institutions, due in installments through 2010, interest 0.00%	**336**	384	**3,181**
Unsecured yen loans from domestic banks, due in installments through 2011, interest 1.78% to 4.75%	**2,350**	2,718	**22,245**
Total	**12,686**	23,047	**120,087**
Less: Current portion shown in current liabilities	**(416)**	(20,361)	**(3,938)**
	¥ 12,270	¥ 2,686	**$ 116,149**

The Company obtained a five-year long-term syndicated loan of ¥10,000 million ($94,661 thousand) from thirteen Japanese commercial banks in 2004 and the Bank of Tokyo Mitsubishi has acted as the lead arranger.

As is customary in Japan, long-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given upon request of the bank under certain circumstances, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations due to the bank. To date, the Company has not received such a request from its banks.

The aggregate annual maturities of long-term debt at March 31, 2004 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 416	$ 3,938
2006	416	3,938
2007	416	3,938
2008	416	3,938
2009	10,416	98,599
2010 and thereafter	606	5,736
Total	¥ 12,686	$ 120,087

10. Retirement and Severance Benefits

The following tables set forth the details of benefit obligation, plan assets and funded status of the Companies at March 31, 2004 and 2003.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
For employees:			
Benefit obligation at end of year	**¥ (12,140)**	¥ (12,003)	**$ (114,915)**
Fair value of plan assets at end of year	**5,512**	4,591	**52,180**
Funded status (benefit obligation in excess of plan assets)	**(6,628)**	(7,412)	**(62,735)**
Unrecognized actuarial loss	**1,296**	2,124	**12,264**
For directors and corporate auditors:			
Accrued retirement benefit	**(441)**	(466)	**(4,179)**
Retirement and severance benefits recognized in the consolidated balance sheets	**¥ (5,773)**	¥ (5,754)	**$ (54,650)**

All domestic subsidiaries have adopted the permitted alternative treatment, accrual for 100% of the amount required if all employees were to voluntarily terminate their employment as of the balance sheet date, prescribed by the accounting standard for retirement benefits for small business entities.

Retirement and severance costs of the Companies include the following components for the three years ended March 31, 2004.

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
For employees:				
Service cost	**¥ 1,086**	¥ 796	¥ 706	**$ 10,278**
Interest cost	**265**	259	288	**2,507**
Expected return on plan assets	**(92)**	(142)	(132)	**(869)**
Recognized actuarial loss	**122**	170	58	**1,155**
Expense for multi-employer pension plan	**—**	198	346	**—**
Net periodic benefit cost	**¥ 1,381**	¥ 1,281	¥ 1,266	**$ 13,071**
For directors and corporate auditors:				
Accrual for retirement benefit	**¥ 28**	¥ 21	¥ 228	**$ 269**

Assumptions used in the accounting for retirement and severance benefits for the three years ended March 31, 2004 are as follows:

	2004	2003	2002
Method of attributing benefit to period of service	**Straight-line basis**	Straight-line basis	Straight-line basis
Discount rate	**2.00%**	2.00%	3.00%
Expected return on plan assets	**2.00%**	3.00%	3.00%
Amortization period for actuarial losses*	**14 years**	14 years	14 years

* Amortized on a straight-line basis over the average remaining service period for employees in service starting from the year in which the losses occur.

11. Shareholders' Equity

Under the Code, at least 50% of the issue price of new shares is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital have been credited to additional paid-in capital.

The Code, amended effective on October 1, 2001, provides that an amount equal to at least 10% of cash payments for appropriation of retained earnings with respect to each fiscal period be appropriated to a legal reserve until the aggregated amount of additional paid-in capital and the legal reserve equals 25% of the stated capital. Additional paid-in capital and the legal reserve may be used to reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. The portion in excess of 25% of the stated capital may be used for dividend distribution. The legal reserve, which is included in retained earnings, amounted to ¥1,551 million ($14,686 thousand) and ¥1,551 million as of March 31, 2004 and 2003, respectively.

Cash dividends charged to retained earnings during the three years ended March 31, 2004 represent dividends paid out during the periods. The accompanying consolidated financial statements do not include any provision for the semi-annual dividend of ¥30 ($0.28) per share, aggregating ¥2,638 million ($24,971 thousand) which was approved at the Company's shareholders' meeting on June 25, 2004 in respect of the year ended March 31, 2004.

Under the Code, the amount available for dividends is based on retained earnings, net of treasury stock, as recorded on the Company's book. At March 31, 2004, retained earnings, net of treasury stock, recorded on the Company's book were ¥90,739 million ($858,953 thousand). Such retained earnings included ¥84,109 million ($796,185 thousand) which are designated as general reserves, but are available for distribution as future dividends subject to approval of the shareholders' meeting and legal reserve requirements. Unrealized holding gains on securities, net of related taxes is not available for distribution as dividends and bonuses to directors and corporate auditors.

The Company repurchased 2,768,713 shares with aggregate value of ¥3,271 million during the year ended March 31, 2003, and retired 2,741,000 shares with aggregate value of ¥3,240 million ($30,669 thousand) during the year ended March 31, 2004.

12. Stock Options

The Company has stock-based compensation plans under which stock options are granted annually to directors and corporate officers at the market price on the date of the grant. The grants are fully exercisable after two years and span ten years.

Information concerning option activities and balances is as follows:

		Weighted average exercise price	
	Number of shares	Yen	U.S. dollars
Balance at March 31, 2001	199,000	¥2,203	
Granted	55,000	2,299	
Exercised	11,000	1,540	
Balance at March 31, 2002	243,000	2,255	
Granted	92,000	1,326	
Balance at March 31, 2003	335,000	2,000	$18.93
Granted	**137,600**	**1,176**	**11.13**
Balance at March 31, 2004	**472,600**	**¥1,760**	**$16.66**

On June 25, 2004, the Company's shareholders' meeting approved that the Company's stock acquisition rights as stock options would be allotted to directors and corporate officers of the Company and directors of major overseas subsidiaries. These stock option rights are exercisable from June 26, 2006 to June 24, 2014. The total number of stock acquisition rights is limited in aggregate to 78,200 common shares.

13. Research and Development Expenditures

Research and development expenditures charged to income for the years ended March 31, 2004, 2003 and 2002 amounted to ¥11,853 million ($112,203 thousand), ¥12,719 and ¥12,187 million, respectively.

14. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on earnings which, in the aggregate, resulted in an average normal tax rate of approximately 42.0% for the three years ended March 31, 2004. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The effective rates for the years ended March 31, 2004, 2003 and 2002 differ from the normal tax rates for the following reasons:

	2004	2003	2002
Normal tax rate	**42.0** %	42.0 %	42.0 %
Change in valuation allowance allocated to income tax expenses	**12.6**	12.2	14.0
Lower tax rates of subsidiaries	**2.8**	4.6	4.2
Expenses not deductible for tax purposes	**2.0**	3.2	3.0
Adjustments of deferred tax assets and liabilities for enacted changes in tax laws and rates	**0.6**	—	—
Per capita inhabitant tax	**0.6**	—	—
Tax credit for research and development expenses	**(8.3)**	—	(4.6)
Loss on the liquidation of affiliates	**—**	(49.3)	—
Others	**1.8**	1.8	(0.4)
Effective tax rate	**54.1** %	14.5 %	58.2 %

The tax effects of temporary differences and tax loss carryforwards that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2004 and 2003 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Tax loss carryforwards	**¥5,715**	¥5,095	**$ 54,097**
Retirement and severance benefits	**1,844**	1,847	**17,455**
Accrued expenses	**1,290**	953	**12,210**
Accrued enterprise taxes	**789**	—	**7,467**
Depreciation and amortization	**696**	—	**6,589**
Unrealized profits of other intangibles	**139**	321	**1,312**
Deferred assets for tax purposes	**221**	351	**2,089**
Loss on impairment of golf membership rights	**220**	229	**2,082**
Loss on valuation of securities	**181**	—	**1,708**
Loss on impairment of fixed assets	**173**	—	**1,637**
Loss on valuation of inventories	**171**	—	**1,617**
Other	**834**	669	**7,905**
Total gross deferred tax assets	**12,273**	9,465	**116,168**
Less valuation allowance	**(6,975)**	(5,296)	**(66,031)**
Net deferred tax assets	**5,298**	4,169	**50,137**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(1,026)**	(226)	**(9,699)**
Reserve for special depreciation	**(202)**	(213)	**(1,913)**
Refundable enterprise taxes	**—**	(197)	**—**
Other	**(27)**	(32)	**(254)**
Total gross deferred tax liabilities	**(1,255)**	(668)	**(11,866)**
Net deferred tax assets	**¥4,043**	¥3,501	**$ 38,271**

Net deferred tax assets at March 31, 2004 and 2003 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Current assets — deferred tax assets	**¥2,256**	¥1,202	**$ 21,353**
Investments and other assets — deferred tax assets	**1,814**	2,331	**17,172**
Non current liabilities — deferred tax liabilities	**(27)**	(32)	**(254)**
Net deferred tax assets	**¥4,043**	¥3,501	**$ 38,271**

Income taxes have not been accrued on undistributed earnings of domestic subsidiaries, as distributions of such income are not taxable under present circumstances.

The Company has not recognized deferred tax liabilities for the portion of undistributed earnings of overseas subsidiaries because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future, except for the amount that will probably be distributed. Deferred tax liabilities will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments.

15. Contingent Liabilities

At March 31, 2004, the Company has provided guarantees to financial institutions covering employee loans totaling ¥679 million ($ 6,427 thousand).

16. Segment Information

The Companies operate predominantly in a single industry segment: the production, sale and marketing of pharmaceuticals.

Intercompany sales between geographic areas are recorded at cost plus a markup and intercompany sales and profits are eliminated on consolidation. Corporate assets are composed mainly of cash and cash equivalents, short-term investments and investment securities.

Information by geographic area and overseas sales are as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Geographic areas:				
Net sales:				
Japan:				
External customers	**¥ 79,338**	¥ 81,858	¥ 82,624	**$ 751,024**
Intersegment	**1,018**	660	519	**9,636**
Total	**80,356**	82,518	83,143	**760,660**
Europe:				
External customers	**8,849**	6,643	4,845	**83,761**
Intersegment	**1,156**	983	1,098	**10,946**
Total	**10,005**	7,626	5,943	**94,707**
Other:				
External customers	**1,671**	1,752	1,498	**15,820**
Intersegment	**6,036**	7,648	7,414	**57,133**
Total	**7,707**	9,400	8,912	**72,953**
Corporate and eliminations	**(8,210)**	(9,291)	(9,032)	**(77,715)**
Consolidated	**¥ 89,858**	¥ 90,253	¥ 88,966	**$ 850,605**
Operating income (loss):				
Japan	**¥ 20,351**	¥ 20,652	¥ 18,879	**$ 192,650**
Europe	**(2,599)**	(3,816)	(3,384)	**(24,603)**
Other	**(550)**	(1,083)	(474)	**(5,201)**
Corporate and eliminations	**(2,678)**	(3,056)	(3,231)	**(25,356)**
Consolidated	**¥ 14,524**	¥ 12,697	¥ 11,790	**$ 137,490**
Assets:				
Japan	**¥ 132,791**	¥ 129,750	¥ 117,864	**$ 1,257,021**
Europe	**11,669**	9,865	21,397	**110,461**
Other	**6,016**	7,030	7,936	**56,945**
Corporate and eliminations	**(238)**	503	4,906	**(2,261)**
Consolidated	**¥ 150,238**	¥ 147,148	¥ 152,103	**$ 1,422,166**

The main countries included in Europe and Other are as follows:
Europe: Finland, Sweden, and Germany
Other: United States of America, Taiwan and Korea

Overseas sales:				
Europe	**¥ 4,370**	¥ 3,506	¥ 3,009	**$ 41,367**
North America	**5,814**	4,650	3,500	**55,034**
Other	**2,197**	2,364	1,809	**20,795**
Total	**¥ 12,381**	¥ 10,520	¥ 8,318	**$ 117,196**
Consolidated net sales	**¥ 89,858**	¥ 90,253	¥ 88,966	**$ 850,605**
Percentage of overseas sales to consolidated net sales	**13.8%**	11.7%	9.3%	**13.8%**

The main countries included in Europe, North America and Other are as follows:
Europe: Finland, Sweden, Denmark, Russia and Germany
North America: United States of America and Canada
Other: Korea, China and Taiwan

Overseas sales represent the total amount of export sales of the Company and domestic subsidiaries and sales of overseas subsidiaries (intercompany sales between consolidated subsidiaries are eliminated upon consolidation).

KPMG

To the Board of Directors of
Santen Pharmaceutical Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Santen Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Santen Pharmaceutical Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As described in Note 1 to the consolidated financial statements, Santen Pharmaceutical Co., Ltd. and its domestic subsidiaries adopted the new accounting standard for impairment of fixed assets effective in the year ended March 31, 2004.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 25, 2004

BOARD OF DIRECTORS, CORPORATE AUDITORS AND CORPORATE OFFICERS

As of August 2004

From left: Akira Kurokawa, Masahiro Mita, Takakazu Morita, Katsuhiro Waga and Kosei Furukawa

Board of Directors

Takakazu Morita
President and Chief Executive Officer

Masahiro Mita, M.D., Ph.D.
Managing Director
Corporate, Community & Environment Relations and Regulatory Affairs

Katsuhiro Waga
Member of the Board
Senior Corporate Officer
Head of Product Supply Division

Akira Kurokawa
Member of the Board
Senior Corporate Officer
Head of Sales & Marketing Division, Prescription Pharmaceuticals

Kosei Furukawa
Member of the Board
(Professor, Nakamura Gakuen University, and Professor Emeritus, Keio University)

Corporate Auditors

Shushi Sakamoto
Standing Corporate Auditor

Yukinori Mizumoto
Standing Corporate Auditor

Koji Hori
Corporate Auditor
(Attorney-at-law)

Tadao Kagono
Corporate Auditor
(Professor, Graduate School of Business Administration, Kobe University)

From left: Kenji Iwamoto, Ichiro Otokozawa, Toshiaki Nishihata and Masamichi Sato

Adrienne Graves

Jyrki Liljeroos

Corporate Officers

(Excluding concurrent members of the Board of Directors)

Toshiaki Nishihata, Ph.D.
Senior Corporate Officer
Head of Research and Development Division

Ichiro Otokozawa
Senior Corporate Officer
Head of Corporate Development and Administration Division, and Europe and the U.S. Operation

Kenji Iwamoto
Corporate Officer
Head of Asia Division

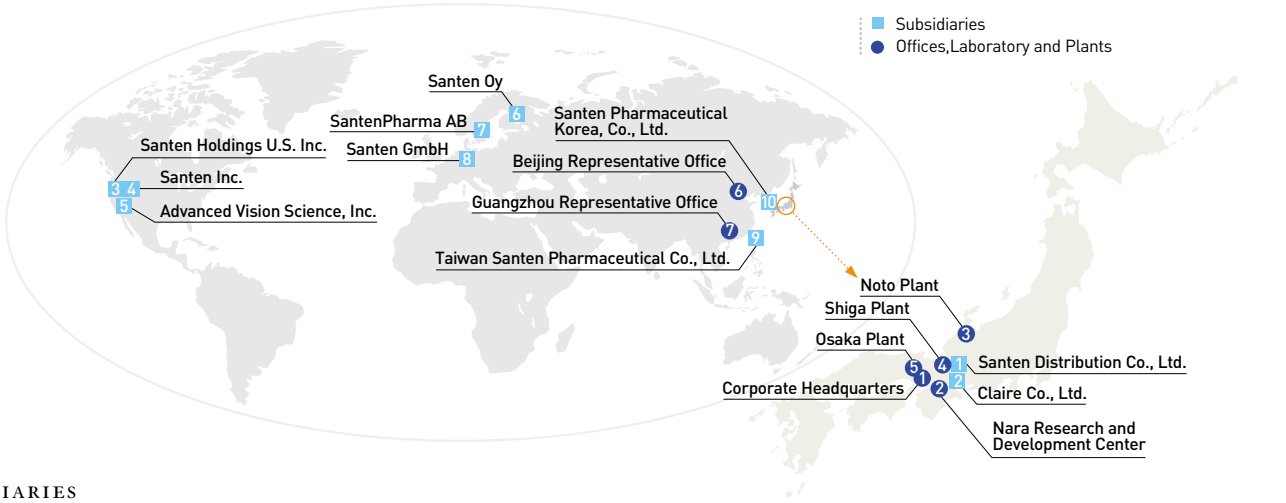
Masamichi Sato
Corporate Officer
Head of Sales & Marketing Division, OTC Products

Adrienne Graves, Ph.D.
Corporate Officer
President of Santen Inc.

Jyrki Liljeroos
Corporate Officer
President of Santen Oy

MAJOR SUBSIDIARIES AND FACILITIES

As of March 31, 2004



Subsidiaries

1 Santen Distribution Co., Ltd.
1011-1, Oaza-godo, Omi-cho, Sakata-gun, Shiga 521-0072, Japan
TEL: +81-749-52-4026 FAX: +81-749-52-6080
Business: Storage and shipping of pharmaceuticals
Equity Ownership: 100%

2 Claire Co., Ltd.
348-3, Aza-suwa, Oaza-shide, Taga-cho, Inukami-gun, Shiga 522-0314, Japan
TEL: +81-749-48-2234 FAX: +81-749-48-2239
Business: Cleaning of antidust and sterilized clothing
Equity Ownership: 100%

3 Santen Holdings U.S. Inc.
555 Gateway Drive, Napa, California 94558, U.S.A.
Business: Holding company for North American businesses
Equity Ownership: 100%

4 Santen Inc.
555 Gateway Drive, Napa, California 94558, U.S.A.
TEL: +1-707-254-1750 FAX: +1-707-254-1755
Business: Clinical development and contract manufacturing of pharmaceuticals
Equity Ownership: 100%*

5 Advanced Vision Science, Inc.
5743 Thornwood Drive, Goleta, California 93117, U.S.A.
TEL: +1-805-683-3851 FAX: +1-805-964-3065
Business: Research and development of medical devices
Equity Ownership: 100%*

6 Santen Oy
Niittyhaankatu 20, P.O. Box 33, FIN-33721 Tampere, Finland
TEL: +358-3-284-8111 FAX: +358-3-318-1900
Business: Development, production and marketing of pharmaceuticals
Equity Ownership: 100%

7 SantenPharma AB
Solna torg 3, SE-17145 Solna, Sweden
TEL: +46-8-83-4140 FAX: +46-8-83-4145
Business: Marketing support of pharmaceuticals
Equity Ownership: 100%

8 Santen GmbH
Industriestrasse 1, Germering D-82110, Germany
TEL: +49-89-848078-0 FAX: +49-89-848078-60
Business: Marketing support of pharmaceuticals, regulatory affairs, scientific marketing and business development
Equity Ownership: 100%

9 Taiwan Santen Pharmaceutical Co., Ltd.
16F, No.57, Sec. 2, Tun-Hwa South Rd., Taipei, Taiwan, R.O.C.
TEL: +886-2-2700-1553 FAX: +886-2-2700-1730
Business: Import and marketing of pharmaceuticals
Equity Ownership: 100%

10 Santen Pharmaceutical Korea, Co., Ltd.
Room 1002, Center Building, 91-1, Sogong-dong, Chung-ku, Seoul, Republic of Korea
TEL: +82-2-754-1434 FAX: +82-2-754-2929
Business: Import and marketing of pharmaceuticals
Equity Ownership: 100%

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

Offices, Laboratory and Plants

1 Corporate Headquarters
9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku Osaka 533-8651, Japan
TEL: +81-6-6321-7000 FAX: +81-6-6328-5082

2 Nara Research and Development Center
8916-16, Takayama-cho, Ikoma-shi, Nara 630-0101, Japan
TEL: +81-743-79-4501 FAX: +81-743-79-4521

3 Noto Plant
2-14, Aza-shikinami, Shio-machi, Hakui-gun, Ishikawa 929-1494, Japan
TEL: +81-767-29-2666 FAX: +81-767-29-4233

4 Shiga Plant
348-3, Aza-suwa, Oaza-shide, Taga-cho, Inukami-gun
Shiga 522-0314, Japan
TEL: +81-749-48-2900 FAX: +81-749-48-2901

5 Osaka Plant
9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku Osaka 533-8651, Japan
TEL: +81-6-6321-7070 FAX: +81-6-6321-3026

6 Beijing Representative Office
Room 1015, Beijing Fortune Bldg., No. 5, Dongsanhuan Beilu, Chaoyang District Beijing City 100004, China
TEL: +86-10-6590-8535 FAX: +86-10-6590-8537

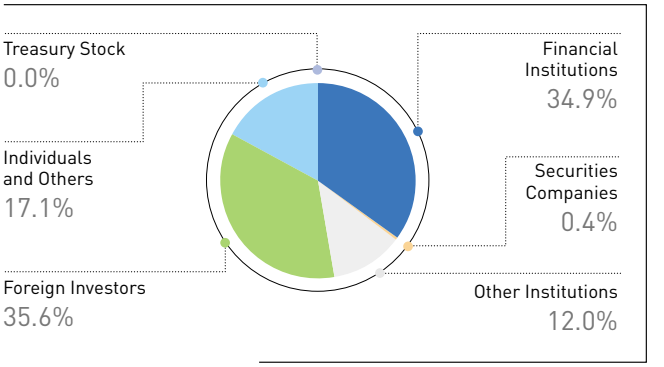
7 Guangzhou Representative Office
2605 Peace World Plaza, 362-366, Huan-shi East Road
Guangzhou 510060, China
TEL: +86-20-8375-2212 FAX: +86-20-8387-8799

CORPORATE INFORMATION

As of March 31, 2004

Corporate Headquarters	Santen Pharmaceutical Co., Ltd. 9-19, Shimoshinjo 3-chome Higashiyodogawa-ku Osaka 533-8651, Japan URL: http://www.santen.co.jp **Investor relations contact:** TEL: +81-6-6321-7007 FAX: +81-6-6321-8400 E-mail: ir@santen.co.jp
Established	1890
Paid-in Capital	¥6,214 million
Number of Shareholders	7,862
Stock Exchange Listings	Tokyo and Osaka
Ticker Code	4536
Transfer Agent	UFJ Trust Bank Limited 6-3, Fushimicho 3-chome, Chuo-ku Osaka 541-8502, Japan TEL: +81-6-6229-3011
Major Offices	Sendai, Tokyo, Saitama, Nagoya, Osaka, Hiroshima and Fukuoka
Manufacturing Plants	Noto, Shiga and Osaka
Research Laboratory	Nara Research and Development Center
Number of Employees	2,335 (non-consolidated: 1,694)
Number of Shares Issued	87,963,303

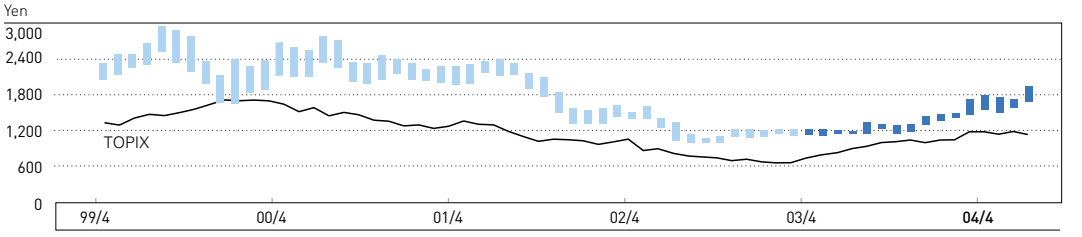
Distribution of Shareholders by Number of Shares Held



Major Shareholders

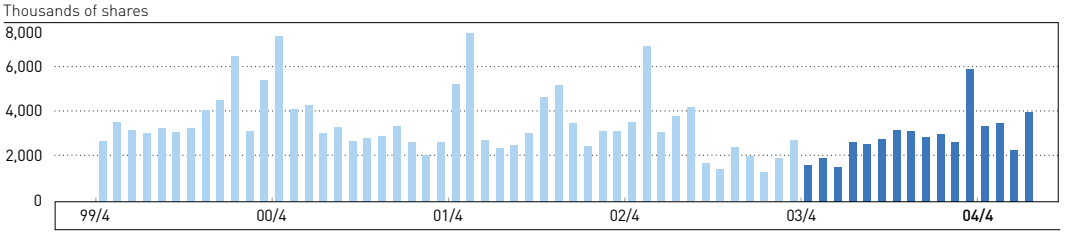
Shareholders	Thousands of Shares	Percentage of Total Voting Rights
Northern Trust Company		
AVFC Sub-account American Clients	11,746	13.4%
Japan Trustee Service Bank, Ltd.	5,568	6.3
The Master Trust Bank of Japan, Ltd.	4,807	5.5
Mita Sangyo Co., Ltd.	4,756	5.4
Nippon Life Insurance Company	3,051	3.5
The Tokio Marine and Fire Insurance Co., Ltd.	2,668	3.0
UFJ Bank Limited	2,358	2.7
The Bank of Tokyo-Mitsubishi, Ltd.	2,358	2.7
Trust & Custody Services Bank, Ltd.	2,077	2.4
Royal Trust Corp. of Canada Lending Account	1,691	1.9

Stock Price Range Osaka Securities Exchange (monthly basis)



* Stock price data shows values after adjustment for share splits.
* TOPIX: Tokyo stock price index

Trading Volume Osaka Securities Exchange (monthly basis)



Yearly High and Low Prices

	2000	2001	2002	2003	2004
High (yen)	2,800	2,410	1,635	1,435	1,943
Low (yen)	1,659	1,330	990	1,099	1,362

Note: Calendar years. Stock prices for 2004 are for the period to the end of July.

SANTEN PHARMACEUTICAL CO., LTD.

http://www.santen.co.jp

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Iquix, Oftaquix, Cravit, Tarivid and *Quixin* (Daiichi Pharmaceutical Co., Ltd.); *Azulfidine* (Pfizer Inc.); *Alegysal* (Mitsubishi Pharma Corporation); *ClariFlex* (Advanced Medical Optics Inc.); *Zaditen* (Novartis AG); *Detantol* (Eisai Co., Ltd.); *Timoptol* (Merck & Co., Inc.); *Livostin* (Johnson & Johnson); and *Rescula* (R-Tech Ueno).

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