SANTEN PHARMACEUTICAL CO., LTD.

ANNUAL REPORT 2005 YEAR ENDED MARCH 31, 2005

Looking ahead

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.

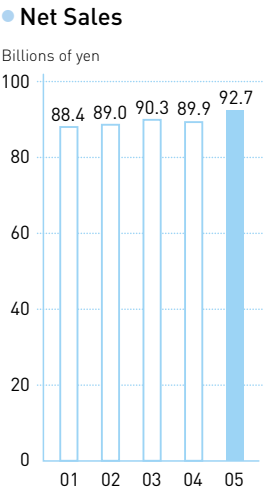
Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's businesses, competitive pressures, changes in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

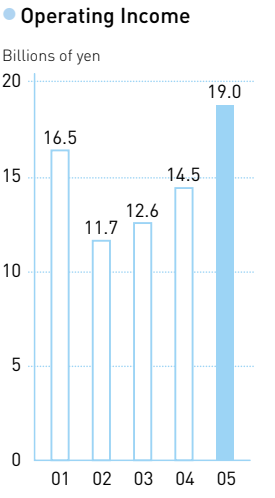
Financial Highlights

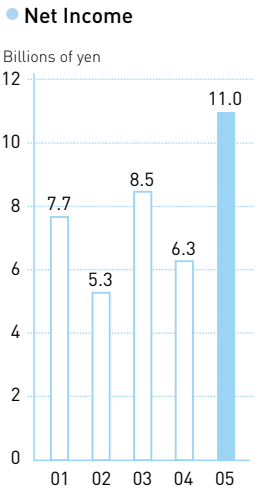
Santen Pharmaceutical Co., Ltd. and Subsidiaries
Years ended March 31, 2005 and 2004

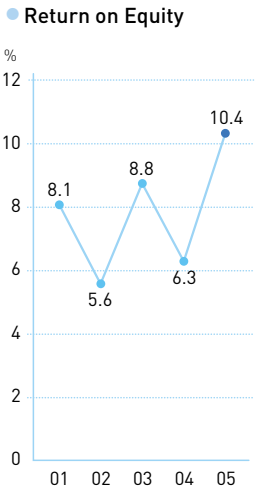
	Millions of yen		%Change	Thousands of U.S. dollars
	2005	2004	2005/2004	**2005**
For the year:				
Net sales	**¥ 92,696**	¥ 89,858	3.2%	**$ 863,175**
Operating income	**18,982**	14,524	30.7	**176,761**
Net income	**11,023**	6,321	74.4	**102,642**
R&D expenditures	**12,620**	11,853	6.5	**117,511**
Capital expenditures	**4,907**	3,226	52.1	**45,690**
Depreciation and amortization	**4,750**	4,521	5.1	**44,229**
Per share data (yen and U.S. dollars):				
Net income-basic	**¥ 125.85**	¥ 71.65	75.6%	**$ 1.17**
Net income-diluted	**125.71**	71.64	75.5	**1.17**
Cash dividends	**50.00**	40.00	25.0	**0.47**
At year-end:				
Total assets	**¥ 139,980**	¥ 150,238	(6.8)%	**$ 1,303,472**
Total shareholders' equity	**108,240**	103,500	4.6	**1,007,913**
Return on equity (ROE)	**10.4%**	6.3%	—	—
Number of employees	**2,308**	2,335	—	—

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate prevailing on March 31, 2005 of ¥107.39 to U.S.$1.
2. Figures in parentheses indicate a decrease.









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

President's Message

I am very pleased to report the performance of Santen Pharmaceutical Co., Ltd. for the year ended March 31, 2005, the second year of our 2003-2005 Medium-term Management Plan. This Annual Report provides shareholders and other stakeholders a summary of our ongoing efforts and results related to the three-year Plan.

Takakazu Morita, President and Chief Executive Officer

Outperformed the 2003-2005 Medium-term Management Plan

During the year under review, the Japanese prescription ophthalmic pharmaceuticals market experienced an average reduction in drug prices of 2.7%. We nevertheless accomplished growth in both revenue and earnings, with net sales of ¥92,696 million, up 3.2% from the previous year, operating income of ¥18,982 million, up 30.7%, and net income of ¥11,023 million, up 74.4%. We have attained our profit targets for the 2003-2005 Medium-term Management Plan one year ahead of schedule. While this was due in part to growth in the anti-allergy segment caused by extraordinarily high airborne pollen counts in Japan, I am very encouraged by our achievements and the results of our ongoing efforts to improve operational efficiency and profitability. We will continue our efforts to further enhance operational efficiency and accelerate the pace of clinical development, thus taking on the challenge of achieving higher goals ahead.

In the Japanese prescription ophthalmic market, we continued to focus on our key growth areas which are corneal and conjunctival disorders, glaucoma, and allergies. In the glaucoma segment, we achieved expected results for *Rescula Eye Drops* (generic name: unoprostone isopropyl), for which sales commenced in October 2004. Overseas, we recorded a profit before R&D expenditures in our U.S. ophthalmics pharmaceuticals business, signaling a major step in improving profitability. In Europe and Asia, we succeeded in expanding sales.

In over-the-counter (OTC) eye drops, we made further progress in controlling inventories and improving the efficiency of sales and marketing expenses. In medical devices, we concentrated resources on intraocular lenses.

In the area of anti-rheumatic pharmaceuticals, we started sales of *Metolate* (methotrexate) in July 2004 and worked to attain rapid market penetration.

With respect to R&D, we are aggressively involved in clinical trials centering on ophthalmics, and are making good progress in the development of our key candidates (two glaucoma treatments, one corneal disorders treatment, and one rheumatoid arthritis treatment).

Increased Dividends

Returning profits to shareholders through cash dividends is an important management goal for Santen. We actively seek to return profits commensurate with performance, and improve capital efficiency while maintaining flexibility and soundness of corporate finance. In line with this policy, a year-end dividend of ¥30 per share was approved at the 93rd Annual General Meeting of Shareholders held on June 24, 2005. Combined with the interim cash dividend already paid out, the annual dividend per share came to ¥50.

Progress Made in the 2003-2005 Medium-term Management Plan

To establish the foundations for our next phase of growth while ensuring a sufficient earnings power, we have been implementing the Medium-term Management Plan with three key objectives of improving profitability, strengthening research and development, and reinforcing our organizational strength. The Plan is scheduled for completion in March 2006.

1. Improve Profitability

In order to improve profitability in our U.S. ophthalmic business, we entered into a sales partnership with Johnson & Johnson Vision Care, Inc. (JJVCI) in December 2003. JJVCI subsequently commenced sales of Santen's ophthalmic anti-infective *Quixin* (brand name in Japan: *Cravit*), glaucoma treatment *Betimol* and ophthalmic anti-allergy *Alamast* (*Alegysal*) in February 2004. This resulted in a significant reduction in selling expenses in our U.S. business and enabled us to report a profit before R&D expenditures in 2004.

During the year, we completed the conversion to the *Dimple Bottle*, a new container for prescription ophthalmics first introduced in 2002. Developed for the convenience of patients, the *Dimple Bottle* allows easy identification, administration and monitoring of solution volume, and has received high acclaim from both patients and medical professionals for its distinctive features. Moreover, the *Dimple Bottle* was also designed to improve production efficiency, and the conversion has led to further reduced manufacturing costs.

In our non-manufacturing operations, we effectively cut annual costs by standardizing and downsizing our sales offices. This conversion into satellite offices also offset the increase in the number of locations. We are also continuing to improve efficiencies in other areas such as purchasing and administrative operations.

At the same time, we endeavored to maintain and strengthen our domestic sales base, which represents Santen's main profit center. We conducted a pilot study to test a new approach in our ophthalmics business designed to enhance the quality of our medical representative (MR) activities. The study confirmed improvements both in customer satisfaction and in the number of prescriptions. In the past, we based our

sales plans on a survey of clinical needs by institution. However, under this new approach, we will respond to growing diversification in the needs of ophthalmology through information and service tailored to individual ophthalmologists. In the fiscal year ending March 31, 2006, we plan to expand this initiative nationwide to strengthen our sales capabilities.

To increase the efficiency of our MR activities, we shortened the travel time to client institutions by establishing satellite offices and by using mobile computers. In addition, the Santen Activity Improved Navigator (SAIN), our sales force automation system, has significantly reduced the time required for analyzing data and formulating sales plans.

2. Strengthen R&D

Clinical trials proceeded either on or ahead of schedule for the prostaglandin compound DE-085 (generic name: tafluprost) and the angiotensin Ⅱ receptor antagonist DE-092 (olmesartan), both glaucoma drug candidates expected to drive our future growth. Successful progress was also made on the compound DE-089 (diquafosol tetrasodium) for corneal and conjunctival disorder associated with dry eye, and the compound DE-096 (undetermined) for rheumatoid arthritis. Concerning DE-096, we have initiated preparations for clinical trials with an eye to expanding applications as a treatment of retinal disorders.

3. Reinforce Organizational Strength

We have been reinforcing our corporate governance system to further enhance the objectivity and transparency of our management. We expanded our Board of Directors from five members to a total of eight members by adding an internal director and two outside directors. We recently reorganized our committees in July 2005 and established a Corporate Strategy Committee and a Nominating Committee in addition to an Executive Compensation Committee to further enhance and strengthen corporate governance. We are maintaining the same system of corporate auditors in the current year.

With respect to employees, we have continued the Santen Innovation Project (SIP), where operational reforms were implemented by middle management, the core of our operational personnel.

Outlook for the Next Fiscal Year and Prospects for Dynamic Growth

Even though we achieved the profit targets of the Medium-term Management Plan a year ahead of schedule, we remain committed to the three basic objectives of the Plan for the fiscal year ending March 31, 2006. We will strive to reach even higher levels of consolidated net sales and income than the financial targets set forth in the Medium-term Management Plan, targeting net sales of ¥97,500 million, an increase of 5.2% from the previous year, operating income of ¥20,800 million, up 9.6%, and net income of ¥12,500 million, up 13.4%. We intend to achieve a 10% return on equity (ROE) as originally targeted.

Another management focus during the current year is to formulate the next Medium-term Management Plan. The focus of the current Plan is to improve profitability through greater efficiency. In our next Plan we will continue our efforts to enhance operational efficiency but our primary focus will be to accelerate growth through the launch of key new products currently under development.

We expect to benefit from the overall market growth in the areas of glaucoma, retina, and corneal and conjunctival disorders including dry eye. The combination of current unmet medical needs and an increase in the number of patients associated with the aging population will help drive market growth in these areas.

While Japanese drug prices and medical fees are scheduled for revision in the year ending March 31, 2007, we will strive to maintain planned profits for the current fiscal year and prepare for decisive growth in the future. On behalf of the members of the Board, I would like to extend my sincere appreciation for your continued support.

Takakazu Morita
President and Chief Executive Officer

August 2005

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

Maximizing Growth Potential

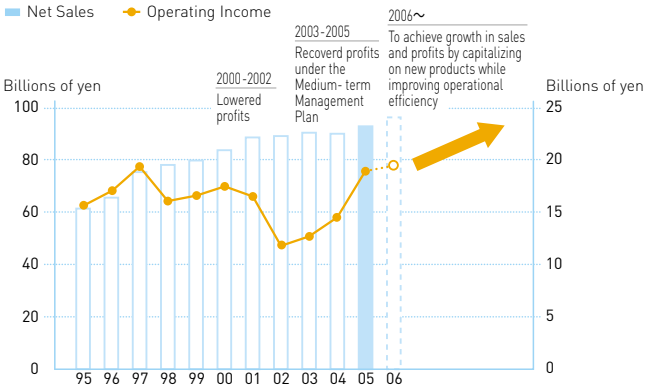
In the year under review, which marks the second year of the 2003-2005 Medium-term Management Plan, we have attained our financial targets a year ahead of schedule, surpassing our profit targets of ¥18 billion in operating income and ¥10 billion in net income. This was the result of successfully moving forward with the three basic objectives of the Plan—restoration of profitability, strengthening of R&D, and reinforcement of organizational strength—at a pace that exceeded our initial projections.

Please explain the circumstances that led to the launch of the 2003-2005 Medium-term Management Plan and its key points.

Santen maintained double-digit annual growth during the 1990s. We introduced pioneering drugs into the prescription ophthalmics market in Japan, and innovation in Japanese ophthalmology went hand in hand with Santen's growth. In the year ended March 1996, our return on equity (ROE) reached 19% on a non-consolidated basis, making us one of the most profitable companies in the Japanese prescription pharmaceutical industry.

Since then, the Japanese market has been affected by the national policy to curb medical costs which led to a difficult period for new drug development. As many Japanese pharmaceuticals companies began building their own sales networks abroad, Santen established a U.S. subsidiary in 1993 to begin research and development activities. In 1997, we acquired a European company in order to conduct local R&D for prescription ophthalmic pharmaceuticals and to enter the Northern European market and secure our first overseas production base. Then in 2000, we launched the full-scale operation of our international business by initiating direct sales of our products in the United States.

Net Sales and Operating Income



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

While our products boasted advantages over existing drugs, we experienced significant challenges in developing our business in the intensely competitive U.S. market, the world's largest, and incurred a considerable loss. Operating income, which had at one point reached ¥20 billion, dropped to ¥11.7 billion in 2002, and the company's stock price fell from its peak of over ¥3,000 to less than ¥1,000. We developed our Medium-term Management Plan to overcome this situation.

Our current Medium-term Management Plan consists of three basic objectives: restoration of profitability, strengthening R&D, and reinforcement of organizational strength. We aim to continue to work on these three objectives in a balanced and committed effort to reform our earnings structure and bolster R&D. By doing so, we will steadily establish a solid base for medium- to long-term growth.

What have been the areas of focus for improving profitability?

We focused on three key areas. First, we sought an early recovery in the profitability of our U.S. ophthalmics business, which had been reporting losses of approximately ¥2 billion to ¥3 billion each year since 2000. Second, we took action to cut costs through business process reengineering (BPR). And third, we sought to maintain and enhance our No. 1 position in the Japanese prescription ophthalmic pharmaceuticals market, which represents our largest source of earnings. We have concurrently implemented corresponding measures for these three tasks.

What is the current state of the U.S. business?

We entered into a sales partnership with Johnson & Johnson Vision Care, Inc. (JJVCI) in December 2003, and transferred the sales activities of our U.S. subsidiary Santen Inc. to this company in February 2004. As a result, we succeeded in significantly reducing selling expenses in our U.S. business and reported a profit before R&D expense for the year under review.

How about cost reduction, the second key in improving profitability?

In the area of cost reduction, our target was to cut manufacturing and distribution costs by approximately ¥1.5 billion, with an additional ¥500 million reduction in SG&A expenses. For our R&D expenditures, which tend to increase in line with enhancements in the development pipeline, we endeavored to efficiently allocate our resources by prioritizing candidates for development and by pursuing both in-house development and joint development with other companies.

Tell us about your accomplishments in reducing costs in the year under review.

First, with regard to manufacturing, we introduced the *Dimple Bottle*, an innovative container for prescription ophthalmic pharmaceuticals, and we completed the conversion of all related products to the new bottle in the year under review, as originally planned. Along with optimized production processes, our cost reduction exceeded our target of ¥1.5 billion in just two years.

▲ *Dimple Bottle*

We also reduced SG&A expenses by more than ¥300 million. This was achieved by switching our conventional sales offices to satellite offices and centralizing our sales support operations. We previously had approximately 60 sales offices nationwide, which were relocated closer to medical institutions, and increased the number to approximately 90 offices. Through standardization of the satellite offices and other measures, we managed to raise cost efficiency across the entire sales network. At the same time, we concentrated sales assistants in seven offices and established a call center at our head office to improve the efficiency of responding to queries from medical professionals, thereby achieving overall improvements in convenience and cost reduction. To further reduce SG&A expense we introduced electronic purchasing for our maintenance, repair and operations (MRO) items.

Please outline the role of the Business Process Reengineering Division

The Business Process Reengineering Division was established in April 2004 utilizing state-of-the-art information technology on a cross-divisional basis. For example, the Division has designed and proposed BPR in the Product Supply Division for the planning of manufacturing, the optimal management of production facilities and the enhanced efficiency of distribution functions. These plans are currently being implemented by the Product Supply Division in close collaboration with the Business Process Reengineering Division.

Furthermore, in order to achieve greater efficiency in head office and administrative functions, we are aggressively pursuing BPR through such measures as electronic documentation. The Business Process Reengineering Division will continue to seek ways to offer support across divisions.

What are your thoughts on efficient R&D investment?

As an example, the development of rheumatoid arthritis treatments requires considerable cost, and Santen is also currently placing top priority on developing ophthalmologic drugs centered on treatment for glaucoma, corneal and conjunctival disorder, and retinal disorder. Thus in November 2004, we licensed Japanese development rights to anti-APO-1 antibody, a promising candidate for treating rheumatoid diseases, to Argenes, Inc., a drug development venture led by the St. Marianna University School of Medicine. We are working to optimize R&D expenditures through such new measures.

What are your plans for strengthening financial conditions?

As I have mentioned, our U.S. ophthalmic pharmaceuticals business is now positioned to generate profits, and thus I believe we have cleared a major hurdle to restore profitability. As part of our next move, we worked on the measures to strengthen our financial condition during the year.

We made an early repayment of part of our debt to ¥6.6 billion, attaining below 0.1 for our debt-to-equity ratio. In addition, we have cleared the way for streamlining our assets through the retirement of repurchased stock, and through a new retirement benefit scheme which combines lump-sum severance plan, cash balance and defined contribution pension plan. Under the new scheme, we established a retirement benefit trust to cover the lump-sum severance portion.

As a result we attained 10.4% return on equity (ROE) for the year under review, meeting our target of 10% under the Medium-term Management Plan. Given the strength of our balance sheet, I believe that future improvements in ROE and return on assets (ROA) will have to come from sales growth and improved operating expense control.

With respect to our costs, there is room for improvement in the areas of production and administration. I also believe we can improve our cost-to-sales ratio in order to further strengthen our financial position. Although our product mix and production process differ from other major Japanese pharmaceuticals companies, and US companies have a significant advantage of higher prices which helps lower their cost-to-sales ratio, our cost-to-sales ratio is relatively high at 35% to 36%, when compared to lower than 30% for Japanese companies and lower than 20% for some top-ranking overseas ophthlmics companies. The combination of cost reduction programs already in progress and the launch of new drugs currently in development will help us to improve our cost-to-sales ratio in the near future.

As Head of Europe and the United States, what are your business strategies for these regions?

Clinical trials of DE-085 (generic name: tafluprost) and DE-092 (olmesartan), both glaucoma drug candidates, are well underway. As we are planning to launch them in not only Japan but also overseas where the glaucoma treatment market is expanding, I expect that they will make important contributions to both sales and profits.

In the United States, while we are in a marketing partnership with JJVCI for our existing products, we are also planning sales of new drugs for glaucoma during the next Medium-term Management Plan. We must first assess the competitiveness of our new products in the U.S. market and then choose the best marketing course from a variety of options.

Currently, our European business is centered on branded generics, mainly in northern European countries. With respect to sales networks, we have direct sales in northern and eastern Europe, Russia and Germany, but do not have our own network in countries such as the United Kingdom, France, Italy and Spain. Future sales of our new drugs in Europe will require an optimal combination of direct sales and partnerships, with due consideration of regional characteristics and market size, as we transition into a business focused on new drugs targeting the entire European market.

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

For the Future...

To continuously launch new products, we have set our 2003-2005 Medium-term Management Plan goal of having three compounds in the later stage of Phase Ⅱ, and we have achieved this goal a year ahead of our initial projections. Even I have been surprised by this accomplishment.

Please explain the vision and strategy of the Research and Development Division.

Our vision is to continuously discover and develop innovative pharmaceuticals and services that address unmet medical needs and contribute to improving patients' quality of life (QOL). We are realizing this vision as outlined in our Medium-term Management Plan by implementing the following action plan:

1. Redirecting our R&D resources to focus on developing treatments for large unmet medical needs. We continually assess the current benefits of our technology relative to our competitors', and allocate resources to areas where we have a competitive edge.
2. Concentrating our resources on the development of prescription ophthalmics, the core business and strength of Santen. We are also enhancing our clinical development pipeline to steadily introduce new products to the market.
3. Increasing the productivity of our R&D investments in the fields of rheumatoid and osteoarthritis by either out-licensing late stage development or seeking co-development arrangements.
4. Beating the competition requires an accelerated R&D process. We aim to complete preclinical studies within eighteen months and clinical trials within five years, for a total of six years and a half years. This is extremely fast-paced compared to our competitors.

How did you manage to accelerate the R&D process?

To complete clinical trials within five years, it is important to shorten the transition period between phases. To accelerate projects, we first developed a comprehensive plan that identified and defined clinical development processes, benchmarks, and critical steps. We then shifted additional resources to the clinical affairs group and developed parallel contingency plans to minimize areas of risk. One of the top priority action items resulting from this process was to proactively improve the clinical trial infrastructure in Japan. We have hired Site Management Organizations (SMOs) to improve the ability of independent physicians to conduct clinical trials, supplementing university hospitals. In many cases, we established the clinical trial system in cooperation with independent physicians.

Please outline the development status of major products in the year ended March 31, 2005.

DE-085(tafluprost) is a novel prostaglandin being studied for the treatment of glaucoma. We are concurrently conducting three Phase Ⅲ clinical trials for this drug candidate. One pivotal trial will compare tafluprost to the leading drug on the market for glaucoma. The second trial involves clinical data collection from the perspective of evidence-based medicine to address the advantages of our drug and ensure successful application. The third trial is a long-term study required for regulatory approval. We expect to be able to file a New Drug Application (NDA) in Japan two to three months earlier than our initial projections. We are also conducting global Phase Ⅲ clinical trials of tafluprost and intend to seek regulatory approval in Europe.

DE-092 (olmesartan) is being evaluated in the treatment of glaucoma and ocular hypertension. Olmesartan is currently being studied in a dose-finding Phase Ⅱ trial in both Japan and the United States. Due to our global approach that emphasizes data sharing between regions, we have been able to accelerate the overall development schedule to start Phase Ⅲ trials in 2006.

DE-089 (diquafosol tetrasodium) is similarly ahead of the original clinical development schedule by completing the shift from the first half to second stage of Phase Ⅱ in four months. Diquafosol is being evaluated for the treatment of corneal disorders, including dry eye.

DE-096 is a tumor necrosis factor alpha (TNF-α) inhibitor. We intend to evaluate DE-096 in the treatment of both rheumatoid arthritis and retinal disorders. For this compound, we have already completed early stage Phase Ⅱ

trials, filed an investigational new drug application (IND) for rheumatoid arthritis and begun administration to patients. As for the treatment of retinal disorders, we are preparing for early stage Phase Ⅱ trials.

Tell us about the globalization of clinical development.

During the past three years, we have conducted several glaucoma clinical trials in Japan, the United States and Europe. The progress made on tafluprost and olmesartan demonstrates that our global approach, initiated several years ago, is now paying dividends. We have made a concerted effort to harmonize clinical protocols across regions whenever possible, thereby allowing us to leverage data obtained in one region of the world to support regulatory approval in another region. Moreover, global clinical development has reduced costs and accelerated timelines. Over the next several years, we will extend this global approach to several promising retinal compounds that are expected to enter clinical trials.

Please explain the status of candidate compounds being prepared for clinical trials.

At present, we have three candidates scheduled to begin clinical trials in 2006 or 2007. We will also strive to in-license at least one novel ophthalmic pharmaceutical product within this time period that could begin clinical studies within a year or so after signing the licensing contract.

Looking further ahead, our early stage pipeline appears very promising. There are three compounds in the later phase of drug discovery that could advance to clinical trials in 2007.

Even if we assume the majority of candidate compounds drop out during the development process by 2011, we could potentially introduce one new drug every year.

Please share your views on the future direction of R&D.

Santen has typically obtained new products from three main sources. The first source is in-house drug discovery. The second source involves the reformulation or adaptation of existing systemic drugs for ophthalmic use, while the third is via in-licensing or acquisition of new products. Currently, there is a 3-to-2 ratio between the compounds we have in-licensed versus those originating from drug discovery. However, due to the strength of our early stage pipeline, we expect to reverse this ratio during the course of our next Medium-term Management Plan.

Many anterior segment conditions such as seasonal allergies or minor eye infections are acute in nature. For these therapeutic areas, we believe that in-licensing new compounds or modifying systemic drugs for ophthalmic use is the most cost-effective strategy, because this practice won't interfere with their major therapeutic domain in many cases. In this regard, we are successfully advancing in-licensing compounds.

In contrast, there are large unmet medical needs in posterior segment vitreoretinal conditions and glaucoma. Concerning their treatments, the market is expanding with a growing number of glaucoma patients partly resulting from aging population, thus making drug development very competitive and in-licensing more difficult. A superior drug for these conditions could accelerate the market growth on a global scale. Companies are typically not willing to out-license drugs in these therapeutic areas. Since in-licensing is difficult, we have been strengthening our internal drug discovery capability in addition to looking into opportunities for joint efforts.

We also intend to reinforce our genome-related research to seek out new therapeutic drug targets. With better target identification, we hope to increase our probability of success and increase R&D efficiency. We also have an effort underway to identify biomarkers and surrogate endpoints for clinical diseases. By developing biomarkers and incorporating them into early stage screening and testing, we may identify promising compounds earlier and make faster decisions on whether or not to proceed with research.

In summary, we plan on expanding our drug discovery programs, both internally and jointly with other companies. In the years ahead, we will endeavor to gain a competitive edge in drug discovery, while pursuing cross-licensing and other opportunities.

Prescription Pharmaceuticals in Development

As of July 2005

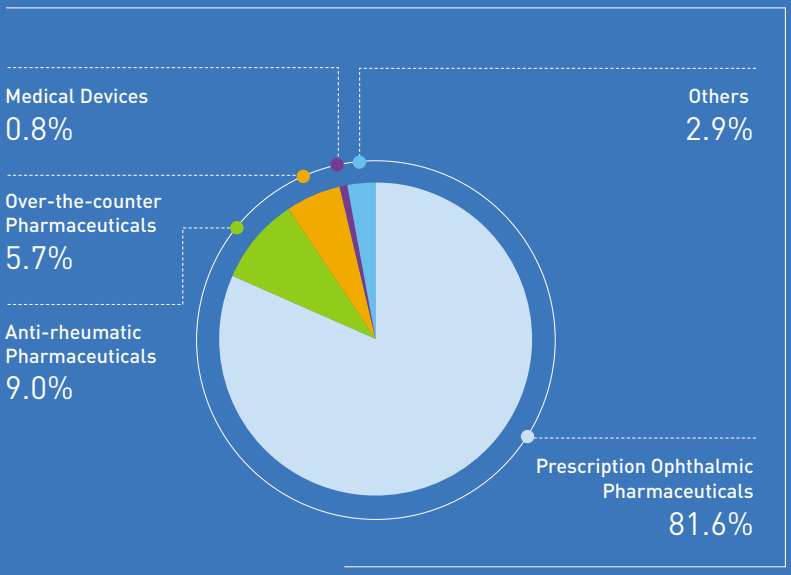
Generic name	Brand Name/ Development Code	Indication	Region	Phase I	Phase II	Phase III	NDA Filed	Approved	Characteristics
Levofloxacin 1.5%	*Iquix*	Bacterial corneal ulcer	USA					●	Antibacterial ophthalmic solution containing the active ingredient fluoroquinolone three times higher than current product (*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		● ●				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	Treatment for corneal and conjunctival disorders, including 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.
(Undetermined)	DE-096	Rheumatoid arthritis Diabetic macular edema	Japan		● ● *1				An oral TNF inhibitor. Anti-rheumatic effect comparable to injectable biological agents has been observed in basic research. In addition to rheumatoid arthritis, its efficacy against diabetic macular edema was newly confirmed by basic research, and is currently being developed as a treatment for both diseases.
Gefarnate	DE-099	Treatment for corneal and conjunctival disorders, including dry eye	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.

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.

● **Sales by Business** (Year ended March 31, 2005) Net Sales: ¥92,696 Million



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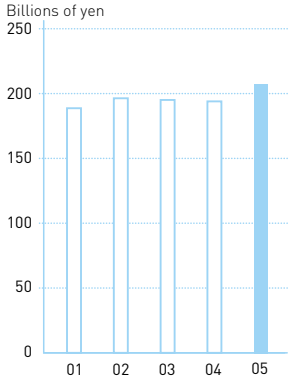
Business Area	Description of Business	Market Share; Market Position
Prescription Pharmaceuticals — Ophthalmic Pharmaceuticals	• Santen enjoys its position as the leader of the Japanese prescription ophthalmics market. We deploy some 400 medical representatives (MRs), the largest number in the industry, 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.	39.6% ; Number One[1]
Prescription Pharmaceuticals — Anti-rheumatic Pharmaceuticals	• In Japan, we offer *Rimatil* and *Azulfidine EN*, physicians' disease modifying anti-rheumatic drugs (DMARDs) of choice for treating rheumatoid arthritis.	42.9% ; 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 and phacoemulsification machines.	—

Notes: 1. Market share and market position in Japan for the year ended March 31, 2005. 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, 2005. Unauthorized Copy Prohibited.

2. Market share and market position in the Japanese OTC eye drop market for the year ended March 31, 2005. Source: Santen Pharmaceutical Co., Ltd.

Prescription Pharmaceuticals | Ophthalmic Pharmaceuticals

Prescription Ophthalmics Market in Japan



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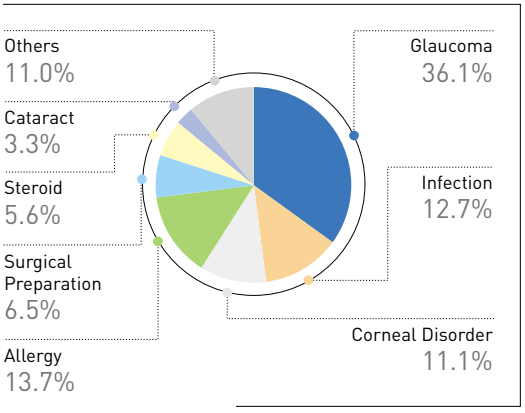
Source: Santen based on IMS data
Period : 2001-2005; Unauthorized Copy Prohibited

Japanese Prescription Ophthalmics Market by Therapeutic Field (Year ended March 31, 2005)



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Source: Santen analysis based on IMS data
Period: 2005; Unauthorized Copy Prohibited

JAPAN

In the year ended March 31, 2005, the overall Japanese prescription ophthalmic market was affected by an average 2.7% drop in drug prices, due to the revision of National Health Insurance (NHI) drug prices implemented in April 2004. Sales nevertheless rose year-on-year, due to the diminished effects of an increase in contributions for elderly health insurance and co-payments of insured workers that led to a return to past levels in the number of doctor visits. The expansion of the anti-allergy market, caused by a rise in the airborne pollen count, also contributed to sales growth.

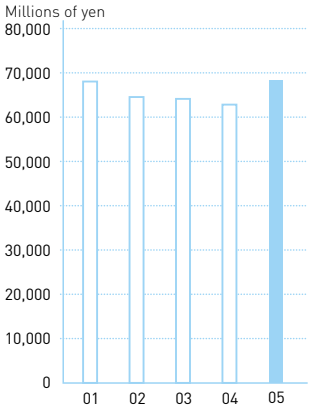
Within this market environment, Santen continued to concentrate resources on its key growth fields—corneal and conjunctival disorders, glaucoma and allergy with a view to maintaining and improving our domestic earnings base.

During the year under review, we reinforced promotional activities such as the provision of pharmaceutical information that reflects the emerging needs of healthcare professionals. To this end, we leveraged the Santen Activity Improved Navigator (SAIN), the sales force automation system for medical representatives (MRs) which we established in 2003. In addition, we continued to plan and organize seminars and lectures for healthcare professionals. As a result, overall sales of prescription ophthalmic pharmaceuticals in Japan reached ¥68,383 million, up 9.0% from the previous year.

The number of patients with ophthalmic disorders is expected to continue to rise over the mid- to long-term in step with the aging population. On the other hand, market expansion has led competitors to develop their own plans for introducing new products and to strengthen their sales efforts.

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

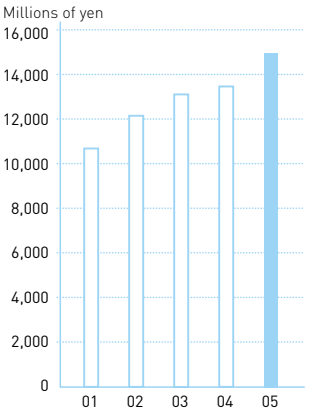
Sales of Prescription Ophthalmic Pharmaceuticals in Japan



Santen will continue to sharpen its competitiveness while maintaining and expanding earnings in key growth areas. We are committed to projects that are renewing our ophthalmic business in Japan by providing information that meets the needs of individual ophthalmologists and by building a solid platform from which new drugs can be launched.

▲ About 200 ophthalmologists attending Santen's lecture meeting in commemoration of the fifth anniversary of the anti-infective *Cravit* (July 2005)

Sales of *Hyalein*



Corneal Disorder Treatments

With respect to treatments for corneal and conjunctival epithelium disorders caused by dry eye and other factors, the Japanese market has grown at an average annual rate of approximately 10% for the last few years. Santen has been at the forefront of this expansion, with a commanding market share of approximately 80%.

The number of dry eye patients in Japan alone is estimated at more than eight million, and a recent survey of office workers showed that about one in three suffers from dry eye. The prevalence is expected to continue rising with the spread of personal computers, increasing contact lens use, and an aging population.

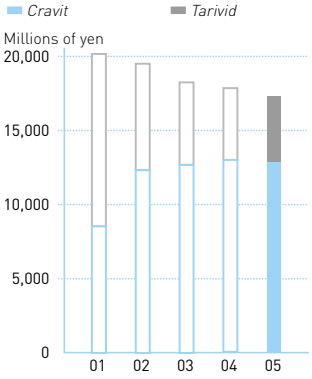
In the year ended March 31, 2005, domestic sales of our mainstay *Hyalein* reached ¥14,231 million, up 6.1% from the previous year, due to its recognized contribution to enhancing patients' quality of life (QOL) and to activities designed to raise healthcare professionals' awareness about dry eye.

Hyalein is a highly water-retentive ophthalmic solution that increases tear film stability. It relieves corneal and conjunctival epithelium disorders caused by dry eye and other factors. With the growing recognition of dry eye as a disorder, Santen will continue to provide healthcare professionals with information on its diagnosis and treatment, and thereby achieve greater sales for *Hyalein*.

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

Anti-Infective Ophthalmics

● Sales of *Cravit* and *Tarivid*



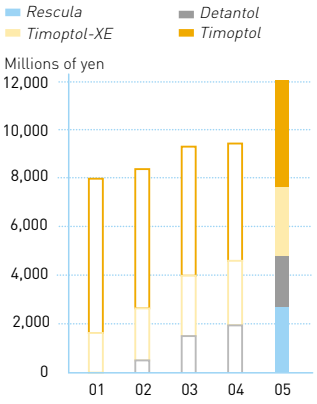
Negative growth rates in the anti-infective ophthalmic market over the past several years have been primarily due to such factors as declining doctor visits in the wake of medical cost-cutting policies. In the year ended March 31, 2005, the market shrank by 1.4% from the previous fiscal year.

Santen holds a commanding market share of approximately 80% of the anti-infective ophthalmic market based on a product line that includes *Cravit* and *Tarivid*, both of which are characterized by potent, broad-spectrum activity and an excellent ability to penetrate ophthalmic tissue. In the year under review, Santen's sales of anti-infective ophthalmics were affected by the launch of a new competing product and reduced NHI drug prices. Sales of *Cravit* were ¥12,667 million, down 1.5% year-on-year, and sales of *Tarivid* were ¥3,679 million, down 12.7%. Combined sales of *Cravit* and *Tarivid* were ¥16,346 million, down 4.3% from the previous year.

Santen will strive to maintain its share of the anti-infective ophthalmic market against the competition by highlighting *Cravit's* clinical effectiveness, backed by scientific data, and by providing more information on ocular infections to further solidify *Cravit's* position as the drug of first choice to treat ocular infections.

Glaucoma Treatment Drugs

● Sales of *Rescula*, *Detantol*, *Timoptol EX* and *Timoptol*



Glaucoma treatments account for 36% of prescription ophthalmics in Japan, representing the largest segment of this market, a segment which has rapidly grown due in part to the aging population. In the year ended March 31, 2005, the glaucoma market grew 4.5% to ¥74,900 million, driven by the increasing number of patients and rising sales of high-priced treatments.

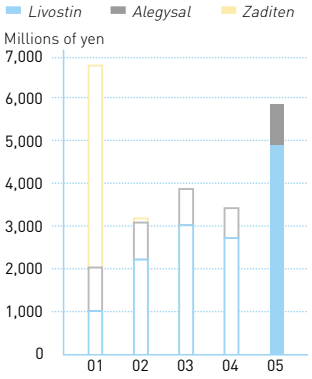
Santen continued to provide the latest information on glaucoma and recommended treatments to establish a strong presence in advance of the launch of new drugs starting in 2008, including a prostaglandin for treating glaucoma.

Santen in-licensed *Rescula* from R-Tech Ueno, Ltd. and began its sales in October 2004. With this product being added to the line-up, total sales of our four glaucoma treatments including *Detantol*, *Timoptol EX* and *Timoptol* were ¥12,052 million, up 28.0% from the previous year.

According to an epidemiological survey by the Japan Glaucoma Society released in December 2002, approximately one in 17 people aged 40 and older in Japan have glaucoma. Sixty percent suffer from normal tension glaucoma. We will therefore target normal tension glaucoma in the current year ending March 31, 2006, and emphasize the effectiveness of *Rescula* and *Detantol* as optimal treatments by citing the ample clinical data for *Rescula*. We will endeavor to contribute to improving the quality of life of glaucoma patients and to meet the treatment needs of healthcare professionals.

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 distribution agreement for the product.

Anti-Allergy Ophthalmics

In the year ended March 31, 2005, the anti-allergy ophthalmic market reversed the negative growth rate that had continued up to the previous fiscal year and achieved year-on-year growth of 36.0%. This was primarily due to the high airborne pollen count in Japan, one of the causes of allergic conjunctivitis.

Santen continued to provide ocular allergy and product information to segments other than ophthalmology, including otolaryngology, in addition to promoting *Livostin* by specifically addressing its ability to relieve itching.

As a result, sales of *Livostin* were ¥4,917 million, up 80.2% from the previous year, enabling us to capture the top market share just four years after *Livostin's* launch. Sales of *Alegysal* were ¥908 million, up 44.5%, bringing total sales of *Livostin* and *Alegysal* to ¥5,825 million, up 71.3% year-on-year. Santen's share of the anti-allergy ophthalmic market increased to 22.4%, up 1.7 percentage points from the previous year.

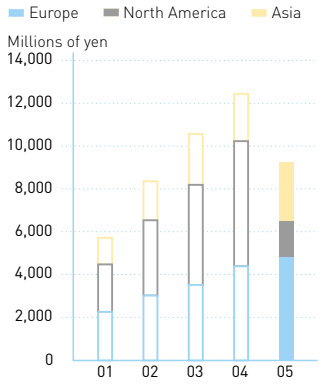
Looking ahead in the anti-allergy ophthalmic market for the current year ending March 31, 2006, the airborne pollen count is expected to subside below average annual levels in Japan. Santen will continue to actively promote *Livostin*, focusing on its ability to improve both year-round and seasonal allergies in order to further expand our sales of anti-allergy ophthalmics and boost market share. We also anticipate the addition of ciclosporin to our product line, which is a treatment for vernal keratoconjunctivitis* featuring a new mechanism of action, starting in the current fiscal year. This will give Santen a wide range of treatments for such ocular allergic conditions as allergic conjunctivitis and vernal keratoconjunctivitis. We are firmly determined to accelerate the expansion of our presence in this segment.

* Vernal keratoconjunctivitis is a severe, refractory ocular disease often seen in people aged 20 or younger. While anti-allergy drugs are used to treat the disease, an estimated 4,000 patients in Japan suffer from a condition above moderate severity and do not respond well to existing drugs.

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

Overseas sales of prescription ophthalmic pharmaceuticals for the year ended March 31, 2005 were ¥7,241 million, down 19.8% from the previous year. While sales grew in Europe and Asia, they declined in the United States.

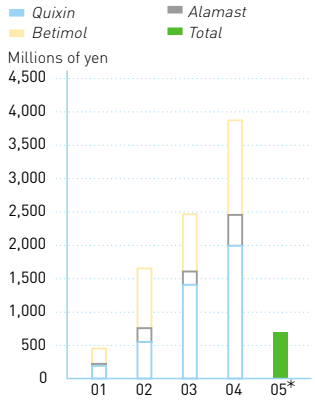
Overseas Sales*



*Overseas sales include prescription ophthalmics and other products.

▲ Santen booth at the American Academy of Ophthalmology meeting in New Orleans (October 2004)

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



*Sales in and thereafter February 2004, when the marketing channels were changed, represent combined sales of three products to JJVCI.

UNITED STATES

The ophthalmic pharmaceuticals market in the United States, the largest in the world, continues to show strong market growth, primarily due to the rising number of patients with age-related eye diseases such as glaucoma and age-related macular degeneration (AMD) resulting from the aging of the baby boomer population.

Sales of Santen's U.S. ophthalmic business were ¥1,703 million, down 70.7% from the previous year, due largely to our distribution and supply agreement of December 2003 with Johnson & Johnson Vision Care, Inc. (JJVCI) and the resulting transition in marketing channels from direct operation to JJVCI. The effects of increased trade inventory at the end of the previous year also led to the decrease. On the other hand, operating income before R&D expenses moved into the black, as a result of reduced operating expenses. In addition, the trade inventory levels have shown a marked improvement since September 2004 and have reached appropriate levels.

Santen's total sales of anti-infective ophthalmic *Quixin* (*Cravit* in Japan), glaucoma treatment *Betimol* and anti-allergy ophthalmic *Alamast* (*Alegysal* in Japan) to JJVCI for the year under review were ¥781 million, down 79.7% year-on-year. In the current year ending March 31, 2006, promotion of these three products will continue through our partnership with JJVCI.

We also continued to actively participate in major ophthalmic conventions in the United States. At every opportunity, we worked to provide product information to ophthalmologists attending these events from around the world and to communicate our message of "*A Clear Vision for Life*," which embodies our goal of contributing to the quality of life of people through the development and supply of prescription ophthalmic pharmaceuticals that match the needs of patients and healthcare professionals.

Our U.S. business will be enhanced by our new drug candidate pipeline and reinforced strategic marketing activities focused on achieving our goal of business expansion in the world's largest ophthalmic pharmaceutical market.

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

▲ The XXII Congress of the European Society of Cataract and Refractive Surgeons held in Paris, France (September 2004)

▲ Santen Oy in Tampere, Finland

▲ Laboratory at Santen Oy

EUROPE

The ophthalmic pharmaceutical market in Europe has been growing at a rate of roughly 5% to 12% annually, and is expected to maintain similar growth in the future. Factors behind this 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 AMD field. However, the market environment is becoming increasingly challenging as several national governments continue to enforce medical cost-cutting plans, such as encouraging the use of generic drugs.

The diverse healthcare structure of the European market is characterized by differing healthcare and medical insurance systems with varied prescription drug costs among countries, making it difficult to pursue a single pan-European strategy.

In Santen's European business, our Finnish subsidiary Santen Oy conducts marketing and clinical development in Northern and Eastern Europe and Russia, as well as the manufacturing and contract manufacturing of pharmaceuticals. In the year ended March 31, 2005, our local subsidiaries increased market share in Germany, Sweden and Finland. In 2002, we launched the anti-infective ophthalmic *Oftaquix* (*Cravit* in Japan) in Europe, which is currently sold in seven countries including Finland, Sweden and Germany. We have established our competitive edge as a reliable partner for ophthalmologists in the specialized market of post-surgery infections. In Germany, we have launched new products for dry eye and other ocular disorders. As a result, sales in Europe were ¥4,794 million, up 9.7% from the previous year.

We are currently selling successfully our ophthalmic branded generic line in Europe. We intend to take advantage of new product launches, including glaucoma treatment DE-085 (generic name: tafluprost), which is expected to gain approval in 2007 or 2008, to thus begin to transform our business by expanding sales based on new, proprietary drugs. We are going to promote these new drugs by using the most effective means available, including the use of direct marketing channels or distribution agreements, and by carefully considering the unique characteristics of each region and country. The current year ending March 31, 2006 will be a year of preparation for future launches of our new products. We will review costs to improve earnings and ensure a successful launch of DE-085.

▲ Signing ceremony for the China Ophthalmology Scholarship Program held in Beijing (December 2004)

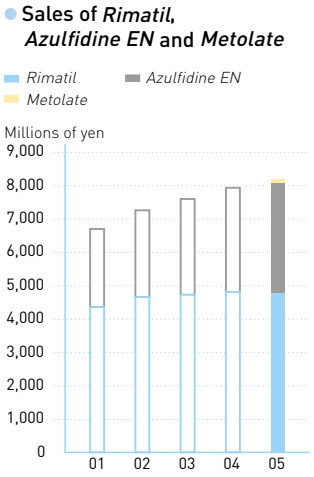
ASIA

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

The Chinese market is particularly volatile, with rapid changes in drug price policy and fierce competition from local rivals. This market has shown double-digit growth, and Santen recognizes it as a priority. Aggressive marketing in China is focused on the key products, including the anti-infective drug *Tarivid* and the corneal disorder treatment *Hyalein*, and persistent efforts to provide academic information have paid off. Korea is another important market, and our reinforced promotional activities in this region have contributed to improved earnings. Despite negative growth rates in the anti-infective ophthalmic market, sales of *Cravit* remained strong. *Tarivid* also secured sales comparable to previous year's levels.

As a result, sales in the Asian market for the year ended March 31, 2005 were ¥2,752 million, up 25.3% from the previous year. In the current year ending March 31, 2006, we plan to increase sales in line with market growth in China and Korea.

Prescription Pharmaceuticals | Anti-Rheumatic Pharmaceuticals



▲ Santen runs a booth at the 49th meeting of the Japan College of Rheumatology (April 2005)

Rheumatoid arthritis is a chronic disease in which tissue inflammation occurs in joints, destroys bone and results in gradual joint deformation. The estimated number of rheumatoid arthritis patients in Japan is approximately 700,000. In the year ended March 31, 2005, the market for disease-modifying anti-rheumatic drugs (DMARDs*) in Japan grew 5% to ¥23,300 million, due to factors such as the rising number of patients in an aging population and the expanding sales of high-priced drugs. Since 2003, new drugs such as tumor necrosis factor (TNF) inhibitors have been introduced, creating a new category of rheumatoid arthritis treatments.

Santen has gained the top position in the DMARD market with *Rimatil*, *Azulfidine EN* and *Metolate*. The Guidelines for the Management of Rheumatoid Arthritis released by the Japan College of Rheumatology in April 2004 states that DMARDs delay progressive joint damage when administered from the onset of the disease and are effective in improving the quality of life for patients. The guidelines designate *Rimatil*, *Azulfidine EN* and *Metolate* as "Recommendation Grade A," that is, drugs with a highly recommendable therapeutic structure.

Sales of Santen's anti-rheumatic pharmaceuticals for the year ended March 31, 2005 were ¥8,353 million, up 4.8% from the previous year. This was the result of increased sales of *Rimatil* and *Azulfidine EN* due to their rapid effectiveness following administration and the addition of *Metolate* to the product lineup.

In the current year ending March 31, 2006, we will recommend treatment for rheumatoid arthritis, depending on its stage and severity, communicating the effectiveness of *Rimatil*, *Azulfidine EN* and *Metolate*, as recommended in the Guidelines for the Management of Rheumatoid Arthritis. By doing so, Santen plans to further expand its presence in the DMARD market.

* Disease-modifying anti-rheumatic drugs (DMARDs): General term for drugs that demonstrate an anti-rheumatic effect by correcting immune abnormalities of rheumatoid arthritis, thereby calming the inflammation.

▲ *Azulfidine EN*

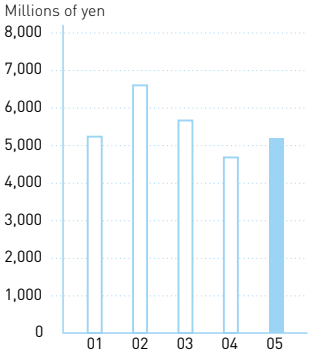
▲ *Rimatil*

▲ *Metolate*

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 brand in Japan, and *Sante 40*, which provides effective relief from blurred vision. Santen's strength in the OTC pharmaceuticals market is due to the high-quality sales support capabilities and the communication skills of its sales and marketing staff. The Company also benefits from a product lineup designed to help people maintain and improve their ophthalmic health based on its advanced technology in eye drop development and formulation.

In the year ended March 31, 2005, the OTC eye drops market expanded year-on-year, invigorated by the introduction of new products in the contact lens and cooling effects segments, with the added contribution from an increase in the ocular allergy segment caused by the high airborne pollen count.

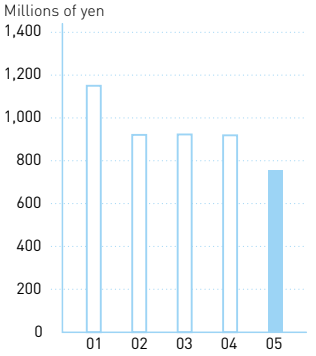
During the year under review, we continued working on sales promotions mainly related to eye drops for eye strain, blurred vision and cooling effects. Growth in eye drops for allergies due to the high pollen count and the culmination of our continued efforts at achieving appropriate levels of trade inventory resulted in sales of ¥5,277 million, up 13.0% year-on-year.

Amid continuing price competition in this field, Santen will consistently develop high value-added products that enjoy strong consumer demand. In the current year ending March 31, 2006, we will tackle business reforms to improve future profitability, including the advancement of marketing efficiency and reinforcement of planning capabilities of the head office.

▲ TV commercial for *Sante FX Neo* aired beginning April 2005

Medical Devices

Sales of Medical Devices



Santen's medical device business specializes in the field of cataract surgery centered on intraocular lenses (IOLs). With the goal of being 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.

ClariFlex, a foldable IOL launched in March 2003 that can potentially reduce the incidence of secondary cataract, demonstrated strong sales, increasing 20.5% year-on-year. However, sales of other IOLs and our phacoemulsification machines showed a decline, and we discontinued the sale of surgical instruments in December 2004. As a result, sales of medical devices for the year ended March 31, 2005 were ¥754 million, down 17.5% from the previous year.

In recent years, demand has concentrated on foldable IOLs that can be inserted through a small incision. Advanced Vision Science, Inc. (AVS), our U.S. subsidiary, is currently developing a unique new foldable IOL (development code: MD-14). In August 2004, Santen applied for approval of this lens in Japan, and we are currently conducting clinical trials in the United States.

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

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."

Placing Priority on Our Involvement with Society

Seeing our corporate mission as protecting the health of eyes throughout the world, Santen conducts a variety of activities. We sponsor public-interest projects to prevent blindness, provide funding for disaster victims, and give donations and support to charitable organizations. In Japan, we support the Eye Bank Association and the Japan National Society for the Prevention of Blindness, and we also have donated funds to the U.S.-based Helen Keller International for over 10 years. In the U.S., we regularly contribute to Prevent Blindness America and other vision-related charitable organizations.

In China, we have set up the Santen China Ophthalmologist Scholarship Program. Through this program, since 1997, we have continued to support training of ophthalmologists in a variety of ways, including grants in aid. In Korea, we have established a fund jointly with The Korean Ophthalmologic Society to help young Korean ophthalmologists receive training at Japanese medical institutions.

Handing the Earth to the Next Generation in the Best State Possible

In March 2002, Santen established the Environmental Committee, chaired by a director responsible for social and environmental activities, as the top decision-making group for company-wide participation. This committee develops the directions and principles for our environmental activities. The committee was restructured as the Environmental Safety Committee in September 2004 to include a new function for reviewing occupational safety and health activities. Based on principles established by the committee, our operational sites in Japan—the Head Office, sales offices, the Research and Development Center, the Pharmaceutical Development Center, the Noto, Shiga and Osaka plants, and Santen Distribution Co., Ltd.—implemented measures to meet their assigned targets and plans.

We also recognize the environmental management system as an important tool for promoting our environmental efforts and all of our plants in Japan have received ISO 14001 certification, the international standard for environmental management. Each plant works to reduce its environmental impact and sets annual goals for reducing the consumption of electrical power and water, recycling plastics, paper and other materials, and reducing industrial waste. For our non-manufacturing operations, we established our own environmental management system based on ISO 14001 and have implemented activities and audited environmental efforts since 2001. In the near future, we aim to promote environmental efforts and occupational safety activities of our overseas subsidiaries.

To help our stakeholders better understand our environmental efforts, we have annually issued *Environmental Reports* since 2002. These reports are also available on our website.

In the *Environmental Report 2005*, we explain our position on environmental protection, our Environmental Policy and guidelines, our environmental management system and activities at each plant and office. The report also summarizes our expenditures related to environmental protection and the results of our efforts.

Santen believes strong corporate governance is essential for maximizing corporate value. We therefore seek to establish a governance system that ensures sound and transparent management as we strive to improve business performance.

Board of Directors

As of August 2005, our Board of Directors consists of eight directors, five internal and three outside. The Santen Board of Directors is intentionally small to facilitate thorough discussions and swift decision-making. In addition, Santen shortened the office term of directors to one year, which not only provides for flexibility in appointment and dismissal—and thus immediate response to change in the business environment—but also clarifies the responsibilities of each director during a given fiscal year.

The Board of Directors met 15 times during the year ended March 31, 2005, and made decisions on issues including the Santen Group's management policies and strategies, business plans, and the acquisition and disposal of important assets, as well as key organizational and personnel changes. In addition, the Board of Directors supervised and directed the execution of business at Santen and its subsidiaries.

Board of Corporate Auditors

As of August 2005, our Board of Corporate Auditors consists of four members, one internal and three outside. The Board of Corporate Auditors met eight times during the year ended March 31, 2005. Corporate auditors establish audit policies and plans, attend Board of Directors and other important meetings, and audit the management performance of directors by examining the business and financial condition of the Head Office, major offices, and subsidiaries. In addition, the Board of Corporate Auditors met with independent accounting auditors five times during the year under review to receive reports on the results and methods of the independent audit.

The Board of Corporate Auditors regularly reports the result of its audits to the Board of Directors, and submitted their annual report to the Board of Directors on May 7, 2005.

There are no relationships between outside auditors and Santen that represent conflicts of interest.

Compensation for Directors and Auditors

▸ Compensation for Directors and Corporate Auditors

Compensation paid to directors and corporate auditors during the year ended March 31, 2005 totaled ¥255 million, distributed as follows:

1. Compensation paid to directors	¥ 97 million
2. Compensation paid to corporate auditors	¥ 50 million
3. Employee salary (including bonuses) paid to directors who also work as general employees	¥ 34 million
4. Bonus to directors out of retained earnings from the previous year	¥ 21 million
5. Retirement benefits for directors as approved at the shareholders meeting	¥ 53 million

Santen also provided executives with subscription rights of 120,000 shares under Article 280-19 of the old Commercial Code and 1,666 units of stock acquisition rights under Articles 280-20 and 280-21 of the current Commercial Code. A total of 21,000 shares of subscription rights and 95 units of acquisition rights have already been exercised.

Name, affiliation and audit period for certified public accountants(CPA) responsible for executing operations

CPA responsible for audit		Affiliation
Designated employee	Masahiro Mekada	KPMG AZSA & Co.
Operating employee	Yoshishige Umeda	

The audit period is less than seven years and has therefore been omitted.

Assistants involved in auditing operations are selected based on the accounting firm's standards, and are primarily CPAs and assistant CPAs, with the added support of systems experts and others.

▸ Compensation for Independent Auditor

The following compensation was paid to KPMG AZSA & Co, the auditing firm.

Compensation for auditing attestation as contracted	¥ 20 million
Compensation for operations exclusive of auditing	¥ 3 million

Committees

Santen established the Executive Compensation Committee to plan, revise, and make decisions related to policies and systems for executive compensation as a deliberative arm of the Board of Directors, and the Management Advisory Committee, comprised of executives and external members, to advise the president and to study and discuss issues that may have a significant medium-term impact on the company.

The Executive Compensation Committee has three members—the president, a managing director and an outside director—who determine policies for the compensation of executives, plan and review the executive compensation system, supervise impartial resolution of compensation issues, and ensure the fair implementation of the system. This committee met four times during the year. In April 1999, we implemented a performance-based executive compensation system that clearly links company objectives and executive compensation.

The Management Advisory Committee had five members—the president, a managing director, a corporate officer and two members from outside Santen—who discuss actions that might have a significant medium-term impact on the company. This committee met 12 times during the year to deliberate on the directions and strategies for achieving the 2003-2005

Medium-Term Management Plan, among other matters.

The management structure was reconfigured in 2005 in order to strengthen Santen's corporate governance and improve the transparency, objectiveness, and soundness of management. We established the following three committees, each comprising both internal and outside directors.

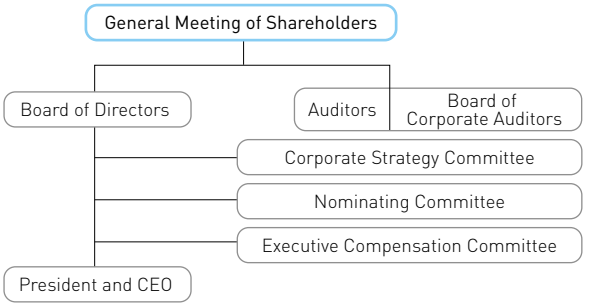
The new **Nominating Committee** establishes the standards for selecting director candidates, clarifies the decision-making process, holds deliberations based on the decisions, and nominates members for the Board of Directors. We also dissolved the Management Advisory Committee, and restructured its functions into the new **Corporate Strategy Committee** which was created to deliberate on major strategic issues.

The **Executive Compensation Committee** remains unchanged.

Our committees differ from those under the "Committee System" within the revised Commercial Code of Japan.

Santen Internal Governance System

Organization as of July 2005



Corporate Officer System

We introduced the Corporate Officer System in July 1999 to strengthen management and to improve the quality and speed of decision-making.

In 2004, the presidents of Santen Oy in Finland and Santen Inc. in the United States were appointed as corporate officers. In addition, we appointed a corporate officer in charge of businesses in Europe and the U.S. who receives reports and monitors the status of business operations of the respective regions.

Strengthening Compliance

Structure

We firmly believe business in the pharmaceutical industry must be conducted under the highest ethical standards. Therefore, in December 1999, we created the Santen Corporate Ethics Mission and established compliance guidelines for business activities. In order to strengthen and ensure thorough compliance by directors and employees, we set up a new organizational structure and internal help line. Furthermore, in 2002, we established the Compliance Promotion Committee, chaired by a corporate officer, and started the Santen Compliance Program, which includes regular training, seminars and internal regulations. The committee plays a pivotal role in developing compliance policies, action plans, preventive measures, and countermeasures for violations.

Opening Outside Help Line

One measure for strengthening our compliance program was the opening of an external help line in September 2003. An external attorney with no vested interest in Santen is available to provide consultation and receive reports from employees on possible legal violations. This service is designed to prevent compliance violations and is available to all employees, from directors to employees on short-term contracts and temporary workers.

Training

Each and every employee must be aware of compliance requirements. To this end, Santen's Compliance Group under the Corporate Development and Administration Division is in charge of conducting regular training for new employees, temporary workers, and new managers.

During the year under review, we trained all Japanese employees on compliance with the personal information protection law. We utilize a case-study method to help managers exercise appropriate discretion in the application of compliance standards. In addition, the Sales and Marketing Division of Prescription Pharmaceuticals conducts training for sales and marketing staff on the promotion code and fair competition.

For the fiscal year ending March 31, 2006, we plan to utilize a computer-based e-learning system to instill basic knowledge on compliance.

Others

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

Board of Directors, Corporate Auditors and Corporate Officers

As of July 2005

Back row from left: Ichiro Otokozawa, Akira Kurokawa, Kosei Furukawa, Isao Muramatsu, Noboru Kotani
Front row from left: Masahiro Mita, Takakazu Morita, Katsuhiro Waga

Board of Directors

Takakazu Morita
President and Chief Executive Officer

Masahiro Mita, M.D., Ph.D.
Managing Director
Corporate and Regulatory Affairs

Katsuhiro Waga
Member of the Board
Community & Environment Relations

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

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

Kosei Furukawa*
Member of the Board

Isao Muramatsu*
Member of the Board

Noboru Kotani*
Member of the Board

Corporate Auditors

Shushi Sakamoto
Standing Corporate Auditor

Yukinori Mizumoto
Standing Corporate Auditor

Koji Hori**
Corporate Auditor

Tadao Kagono**
Corporate Auditor

* Outside Director
** External Corporate Auditor

From left: Sadatoshi Furukado, Kenji Iwamoto, Toshiaki Nishihata, Masamichi Sato, Kenji Morishima

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

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

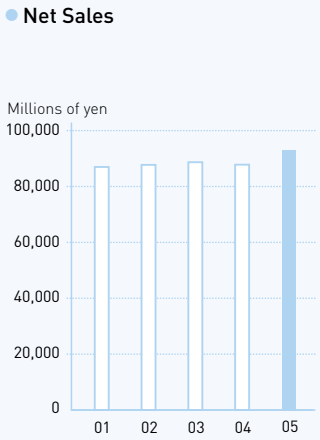
Sadatoshi Furukado
Corporate Officer
Head of Prescription Pharmaceuticals Sales Department

Kenji Morishima
Corporate Officer
Head of Product Supply Division

Financial Section

CONTENTS

Operating Results



Net Sales

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

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

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

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

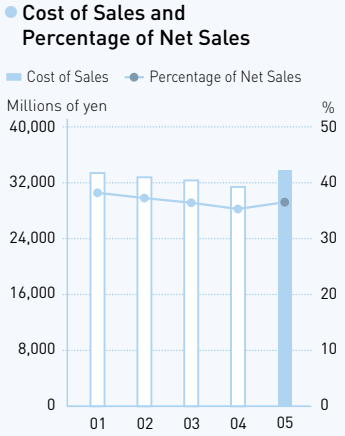
Sales of medical devices decreased by ¥160 million, or 17.5%, from the previous year to ¥755 million, as intensifying competition led to a decline in sales of intraocular lenses and phacoemulsification machines, and discontinuation of sales of surgical instruments as of December 31, 2004.

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

Net Sales by Business Segment Millions of yen

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

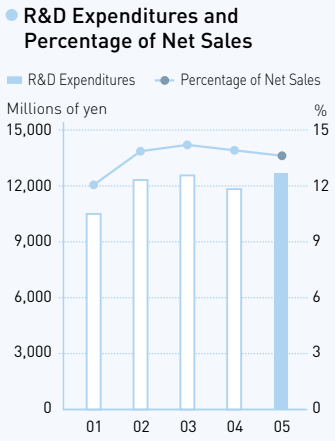
Note: Figures in parentheses indicate a decrease.



Cost of Sales

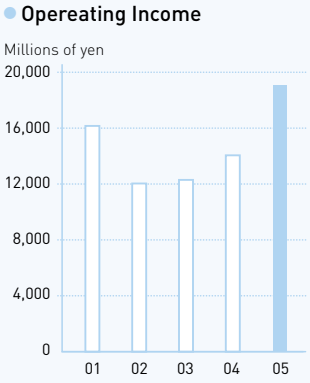
Cost of sales for the year grew by ¥1,851 million, or 5.8%, from the previous year to ¥33,710 million. The ratio of cost of sales to net sales rose by 1.0 percentage point to 36.4% from 35.4%. Despite such positive factors as increased manufacturing output and the rationalization of costs, the ratio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

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



Selling, General and Administrative Expenses

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



Operating Income

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

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

Other Income and Expenses

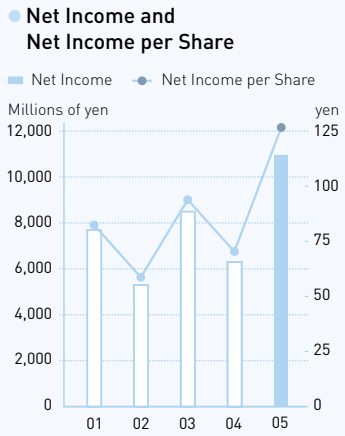
Net other expenses for the year totaled ¥546 million, a decline of ¥203 million, or 27.1%, compared with the previous year.

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

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

Income Taxes

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



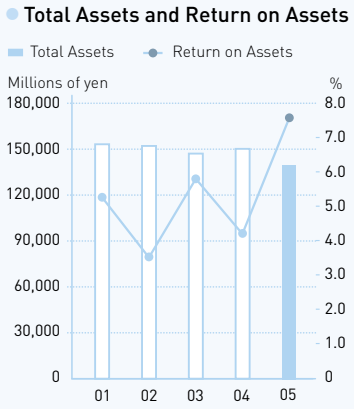
Net Income

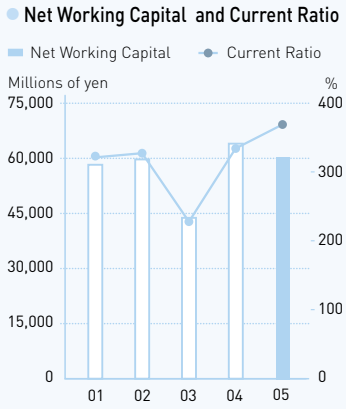
Net income expanded significantly by ¥4,702 million, or 74.4%, from the previous year to ¥11,023 million, enabling us to attain our profit target under the Medium-term Management Plan a year ahead of schedule. The ratio of net income to net sales improved by 4.9 percentage points to 11.9% from 7.0% in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

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

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

Financial Condition





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

Assets

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

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

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

Liabilities

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

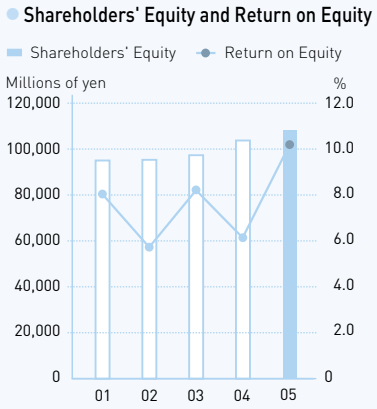
Current liabilities fell by ¥4,932 million, or 18.2%, to ¥22,222 million. This was primarily due to a decline of ¥4,719 million, or 58.0%, in income taxes payable, compared to the previous fiscal year, during which income taxes payable at year-end had significantly increased due to the small amount of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

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

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

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

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



Shareholders' Equity

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

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

Capital and Liquidity

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

Cash Flows

Cash Flows Summary

Millions of yen

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

Note: Figures in parentheses indicate a decrease.

Cash Flows from Operating Activities

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

Cash Flows from Investing Activities

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

Cash Flows from Financing Activities

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

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

Forward-Looking Information and Factors That May Affect Future Results

Oral and written statements that we make in our annual report and through other public vehicles, other than historical facts, contain forward-looking information based on our business plans and assumptions at the time of disclosure. Such forward-looking information includes, but is not limited to, our expected growth strategies, projected operating results, market forecasts and anticipated timing for developing, obtaining approval and bringing products to market. These forward-looking statements represent our best estimates based on our awareness of market conditions and may differ substantially from actual results. Our business, as well as each product we develop and market, is subject to various risks and uncertainties beyond our control.

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

External Factors

Regulatory Controls

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

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

Social and Economic Conditions and Changes in the Law

Santen's future results may be affected by political and economic changes in worldwide markets where we operate. Our anticipated performance and financial conditions may also be affected by changes in applicable accounting principles, and laws and regulations concerning taxes, product liability, antitrust, environmental controls and other factors.

Foreign Exchange

Overseas sales and expenses, as well as assets of overseas subsidiaries, affect our sales, profits and financial conditions depending on foreign exchange fluctuations. Overseas sales for the year ended March 31, 2005 accounted for 10.0% of our consolidated net sales.

Competition

Effects of Generic Pharmaceuticals

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

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

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

Competition from Other Branded Products

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

Dependency on Specific Products and Business Partners

Dependency on Mainstay Products

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

Dependency on In-licensed Products

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

Dependency on Specific Business Partners

As of February 16, 2004, we entered into an exclusive distribution agreement with Johnson & Johnson Vision Care, Inc. (JJVCI) in the U.S. In the event that JJVCI cannot achieve sufficient sales per our agreement, our financial results may be affected.

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

The percentage of our business executed with the top 10 wholesalers in Japan reached 70% of our consolidated net sales. If our wholesale partners experience bankruptcy leading to lending loss, we may be adversely affected.

Research and Development Activities

Uncertainty in New Product Development

Years are required to bring new drugs from initial research and development to final approval and marketing. Factors exist at every stage along the way that can sidetrack a new product and either delay or prevent it from reaching the marketplace. It is difficult for us to accurately predict when new products, indications, or formulations under development will reach the approval stage and be ready for launching.

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

Potentially Insufficient Returns on R&D Investment

The creation and development of new pharmaceuticals, as well as the development of new indications and formulations, are critical for the future growth of Santen. Every year, we significantly invest in research and development, and there is a possibility future investments will not result in sufficient sales of new products.

Issues of Alliances

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

Other Factors

Production Interruptions or Delays

The interruption or delay of production activities due to natural disasters or other catastrophes such as fire, may affect our financial performance and conditions. Certain products are only manufactured at one location. If a specific plant is forced to stop production, supply of some products may be negatively impacted.

Cancellation of Sales and Product Withdrawals

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

Litigation

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

Nine-year Summary of Selected Financial Data

Years ended March 31

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

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate prevailing on March 31, 2005 of ¥107.39 to U.S.$1.
2. See Notes 2. 14) and 11 of Notes to Consolidated Financial Statements in respect of per share data.
3. Net sales in the fiscal years ended March 31, 2005, 2004, 2003, 2002 and 2001 include royalty income which was presented as "Other, net" in "Other income (expenses)" through the fiscal year ended March 31, 2000.

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

Consolidated Balance Sheets

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

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

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Income

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

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

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

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

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

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

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

See accompanying notes to consolidated financial statements.

1 Basis of Presentation of Consolidated Financial Statements

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

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

2 Summary of Significant Accounting Policies

1) Principles of consolidation

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

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

2) Use of estimates

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

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

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

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

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

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

4) Derivative instruments (see Note 5)

Derivative instruments are stated at fair value, and accounted for using deferred hedge accounting. Deferred hedge accounting requires unrealized gains or losses to be deferred as assets or liabilities. Foreign exchange contracts that meet the criteria are accounted for under the allocation method. The allocation method requires recognized foreign currency receivables or payables to be translated using the corresponding foreign exchange contract rates. Interest rate swaps that meet the criteria are accounted for under the special method, as regulated in the accounting standard, as if the interest rates under interest rate swaps were originally applied to underlying borrowings. The Company has also developed a hedging policy to control various aspects of derivative instruments including authorization levels and transaction volumes. Based on this policy, the Company hedges the exposure risk arising from fluctuations in foreign currency exchange rates, interest rates, and prices of securities. The Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows from hedged items and corresponding changes in hedging derivative instruments.

5) Allowance for doubtful receivables

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

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

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

The principal estimated useful lives are as follows:

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

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

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

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

11) Retirement and severance benefits (see Note 10)
Employees of the Company and all domestic subsidiaries are generally entitled to lump-sum severance and, in certain cases, annuity payments on retirement, based on current rates of pay, length of service and certain other factors.

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

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

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

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

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

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

The Company and all domestic subsidiaries have adopted "Accounting Standard for Foreign Currency Transactions" which was issued by the Business Accounting Council in Japan.

Financial statements of overseas subsidiaries are translated into Japanese yen at year-end rates for all assets and liabilities and at weighted average rates for income and expense accounts. Adjustments resulting from the translation of financial statements are reflected under the caption, "Foreign currency translation adjustments", in shareholders' equity.

13) Research and development and computer software (see Note 13)
Research and development expenditures are charged to income when incurred.

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

14) Net income and dividends per share (see Note 11)
The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation is 87,390 thousand, 87,931 thousand and 90,452 thousand for the years ended March 31, 2005, 2004 and 2003, respectively.

The diluted net income per share assumes full conversion of outstanding convertible bonds at the beginning of the year (or at the time of issuance, if after the beginning of the year), and full exercise of outstanding warrants at the end of the year. The average number of shares used in the computation is 87,485 thousand, 87,942 thousand and 99,635 thousand for the years ended March 31, 2005, 2004 and 2003, respectively.

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

15) Income taxes (see Note 14)
Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating loss carry forwards and foreign tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

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

3 Translation into United States Dollars

The accompanying consolidated financial statements are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥107.39=US$1, the approximate exchange rate prevailing on March 31, 2005. The translation should not be construed as a representation that the Japanese yen have been, could have been, or could in the future be converted into United States dollars at that rate or any other rate.

4 Short-term Investments and Investment Securities

The following is a summary of held-to-maturity debt securities and other securities with a market value at March 31, 2005 and 2004:

Millions of yen

	2005				2004			
	Held-to-maturity debt securities				Held-to-maturity debt securities			
	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Bonds and debentures	**¥1,000**	**¥ 12**	**¥ —**	**¥ 1,012**	¥1,500	¥ 13	¥ (1)	¥1,512

	Millions of yen							
	2005				2004			
	Other securities				Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	**¥ 8,789**	**¥ 3,576**	**¥ (114)**	**¥ 12,251**	¥ 6,058	¥ 2,525	¥ (58)	¥ 8,525
Other securities	**—**	**—**	**—**	**—**	947	9	(81)	875
	¥ 8,789	**¥ 3,576**	**¥ (114)**	**¥ 12,251**	¥ 7,005	¥ 2,534	¥ (139)	¥ 9,400

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

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

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

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

5 Derivative Instruments

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

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

The interest rate swap contracts outstanding at March 31, 2005 and 2004 are as follows:

		Millions of yen					
		2005			2004		
	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

6 Inventories

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

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

7 Leases

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

Finance leases:

Equivalent purchase amount, accumulated depreciation and future minimum lease payments on an "as if capitalized" basis at March 31, 2005 and 2004 are as follows:

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

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

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

Operating leases:

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

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

8 Impairment of assets

The Company and all domestic subsidiaries review the recorded value of their property, plant and equipment and intangible assets to determine if the future cash flows to be derived from these properties will be sufficient to recover the remaining recorded asset values. The Company and all domestic subsidiaries account for impairment of assets in accordance with the Financial Accounting Standard on Accounting for Impairment of Assets. The Company and all domestic subsidiaries recognized an impairment loss of ¥823 million ($7,665 thousand) during the year ended March 31, 2005 related to write-down of the carrying value of land, building, machinery and other intangibles. Main impairment loss of ¥773 million ($ 7,202 thousand) relates to a rental building and land in Nara prefecture that at the 1st half closing was to be sold and was subsequently sold in October 2004.

9 Long-term Debt

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

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

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

The aggregate annual maturities of long-term debt at March 31, 2005 are as follows:

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

10 Retirement and Severance Benefits

As discussed in Note 2, 11), the Company has abolished its qualified pension plan and introduced a new retirement benefit scheme, which is a combination of lump-sum severance, cash balance and defined contribution pension plans in January 2005. In addition, the Company has set up an employees' retirement benefit trust in March 2005.

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

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

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

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

Retirement and severance costs of the Companies include the following components for the three years ended March 31, 2005.

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

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

	2005	2004	2003
Method of attributing benefit to period of service	**Straight-line basis**	Straight-line basis	Straight-line basis
Discount rate	**2.00%**	2.00%	2.00%
Expected return on plan assets	**2.00%**	2.00%	3.00%
Amortization period for actuarial losses*	**14 years**	14 years	14 years

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

11 Shareholders' Equity

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

The Code provides that an amount equal to at least 10% of cash payments for appropriation of retained earnings with respect to each fiscal period be appropriated to a legal reserve until the aggregated amount of additional paid-in capital and the legal reserve equals 25% of the stated capital. Additional paid-in capital and the legal reserve may be used to reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. The portion in excess of 25% of the stated capital may be used for dividend distribution. The legal reserve, which is included in retained earnings, amounted to ¥1,551 million ($14,447 thousand) and ¥1,551 million as of March 31, 2005 and 2004, respectively.

Cash dividends charged to retained earnings during the three years ended March 31, 2005 represent dividends paid out during the periods. The accompanying consolidated financial statements do not include any provision for the year end dividend of ¥30 ($0.28) per share, aggregating ¥2,599 million ($24,198 thousand) which was approved at the Company's shareholders' meeting on June 24, 2005 in respect of the year ended March 31, 2005.

Under the Code, the amount available for dividends is based on retained earnings, net of treasury stock, as recorded on the Company's books. At March 31, 2005, retained earnings, net of treasury stock, recorded on the Company's books were ¥96,302 million ($896,749 thousand). Such retained earnings included ¥84,109 million ($783,211 thousand) which is designated as general reserves, but are available for distribution as future dividends subject to approval of the shareholders' meeting and legal reserve requirements. Unrealized holding gains on securities, net of related taxes are not available for distribution as dividends or bonuses to directors and corporate auditors.

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

12 Stock Options

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

Information concerning option activities and balances for the three years ended March 31, 2005 is as follows:

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

On June 24, 2005, the Company's shareholders' meeting approved that the Company's stock acquisition rights as stock options would be allotted to directors and corporate officers of the Company and directors of major overseas subsidiaries. These stock option rights are exercisable from June 25, 2007 to June 23, 2015. The total number of stock acquisition rights is limited in aggregate to 136,000 common shares.

13 Research and Development Expenditures

Research and development expenditures charged to income for the years ended March 31, 2005, 2004 and 2003 amounted to ¥12,620 million ($117,511 thousand), ¥11,853 and ¥12,719 million, respectively.

14 Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on earnings which, in the aggregate, resulted in an average normal tax rates of approximately 40.4%, 42.0% and 42.0% for the years ended March 31, 2005, 2004 and 2003, respectively. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

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

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

The tax effects of temporary differences and tax loss carryforwards that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2005 and 2004 are presented below:

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

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

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

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

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

15 Contingent Liabilities

At March 31, 2005, the Company has provided guarantees to financial institutions covering employee loans totaling ¥562 million ($ 5,231 thousand).

16 Segment Information

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

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

Information by geographic area and overseas sales are as follows:

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

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

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

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

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

Europe:	Finland, Russia, Sweden, Germany and Norway
North America:	United States of America and Canada
Other:	Korea, China and Taiwan

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

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Santen Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Santen Pharmaceutical Co., Ltd. and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

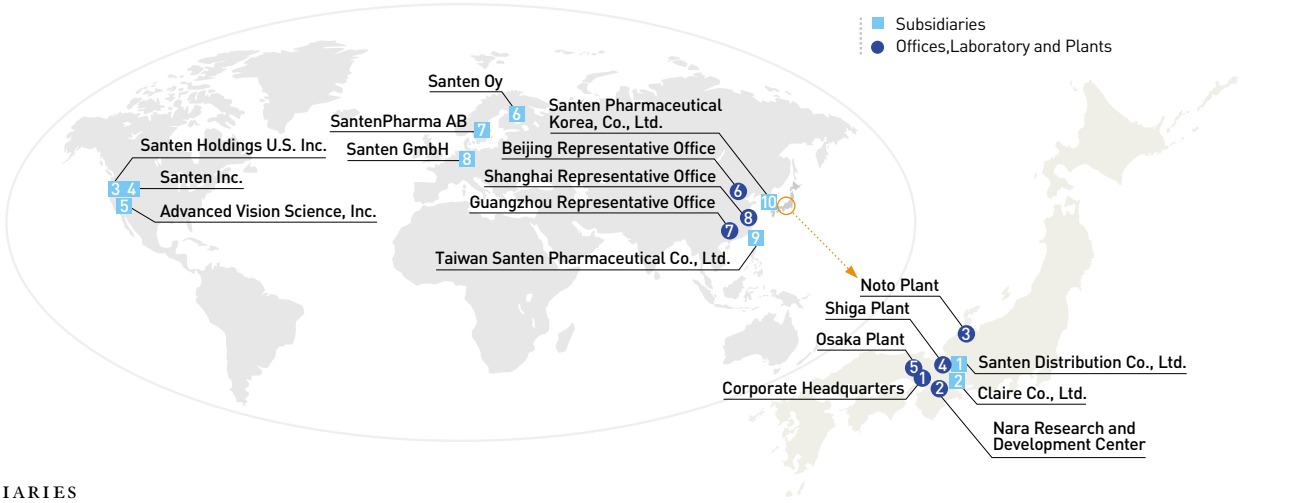
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 24, 2005

Major Subsidiaries and Facilities

As of July, 2005



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

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

❷ 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

❸ Noto Plant
2-14, Shikinami, Houdatsushimizucho, Hakui-gun, Ishikawa 929-1494, Japan
TEL: +81-767-29-2666 FAX: +81-767-29-4233

❹ 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

❺ Osaka Plant
9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku Osaka 533-8651, Japan
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❻ Beijing Representative Office
Room 1015, Beijing Fortune Bldg., No. 5, Dongsanhuan Beilu, Chaoyang District Beijing 100004, China
TEL: +86-10-6590-8535 FAX: +86-10-6590-8537

❼ 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

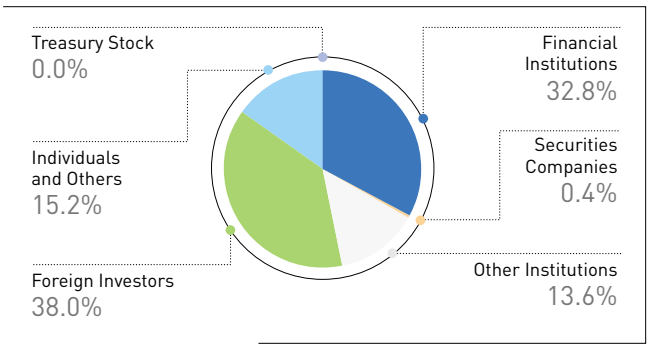
❽ Shanghai Representative Office
1804, Shanghai Ciro's Plaza No.388, West Nanjin Road Shanghai 200003, China
TEL: +86-21-6334-5813 FAX: +86-21-6334-5819

Corporate Information

As of March 31, 2005

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	¥6,247 million
Number of Shareholders	8,509
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	2,308 (non-consolidated: 1,691)
Number of Shares Issued	86,658,703

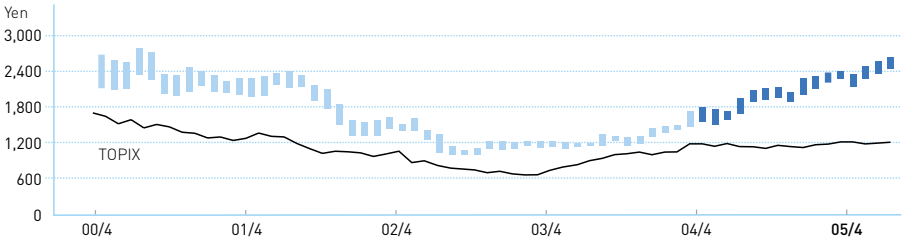
Distribution of Shareholders by Number of Shares Held



Major Shareholders

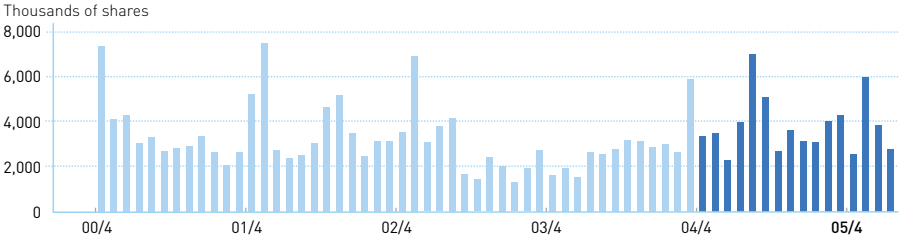
Shareholders	Thousands of Shares	Percentage of Total Voting Rights
Northern Trust Company		
AVFC Sub-account American Clients	7,198	8.3%
Mita Sangyo Co., Ltd.	4,756	5.5
Japan Trustee Service Bank, Ltd.	4,577	5.3
The Master Trust Bank of Japan, Ltd.	4,565	5.3
Nippon Life Insurance Company	2,856	3.3
Northern Trust Company		
AVFC Re U.S. Tax Exempted Pension Funds	2,854	3.3
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2,668	3.1
Trust & Custody Services Bank, Ltd.	2,442	2.8
UFJ Bank Limited	2,148	2.5
The Bank of Tokyo-Mitsubishi, Ltd.	2,148	2.5

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

	2001	2002	2003	2004	2005
High (yen)	2,410	1,635	1,435	2,240	2,635
Low (yen)	1,330	990	1,099	1,362	2,050

Note: Calendar years. Stock prices for 2005 are for the period to the end of July.

SANTEN PHARMACEUTICAL CO., LTD.

http://www.santen.co.jp

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