

Message From Senior Management

Building From a Platform of Record Performance Toward a New Global Enterprise

Record sales and profits in fiscal 2005

We posted record sales and profits in fiscal 2005 (the year ended March 31, 2006). We boosted sales and profits in year-on-year terms through a combination of growth in our prescription pharmaceuticals business and various initiatives designed to increase profitability.

The increasingly aged population in Japan led to an increase in the number of patients receiving treatment which underpinned growth in the Japanese prescription ophthalmics market in fiscal 2005. Revenue growth was led by treatments for glaucoma and corneal disorders. Overseas prescription ophthalmics markets also grew strongly in Europe, the U.S. and Asia.

Based on the market demand for effective therapeutic agents, we expanded our sales of numerous products in Japan, including treatments for glaucoma, corneal disorders, as well as anti-rheumatic drugs. In terms of new products, we received manufacturing and marketing approval in Japan for *PAPILOCK* Mini ophthalmic solution 0.1% for the treatment of vernal keratoconjunctivitis which we launched in January 2006. Our sales in overseas markets also grew steadily, led by operations in Europe and Asia.

In the R&D area we filed an application with the Japanese regulatory authorities in July 2006 to gain manufacturing and marketing approval for DE-085, a treatment for glaucoma and ocular hypertension, which is one of our core therapeutic segments. We also made further progress in initiating clinical trials and expanded our pipeline of drug candidates in other therapeutic segments, including retinal conditions and corneal and conjunctival disorders.

For fiscal 2005, we posted consolidated net sales of ¥98.4 billion, an increase of 6.2% over the previous year. Operating income rose 10.6% in year-on-year terms to ¥21.0 billion, marking a third straight year of double-digit growth. Although continuing investments in R&D and sales expenses led to an increased level of spending in these areas, we were able to achieve a net reduction in the cost-of-sales ratio as a result

of a more profitable product mix, increased production volumes and programs designed to generate cost efficiencies. Net income rose 18.1% to ¥13.0 billion, chiefly reflecting higher operating income along with a lower effective corporate tax rate.

At the 94th Annual General Meeting of Shareholders held on June 27, 2006, we received approval for the payment of a year-end cash dividend of ¥35 per share. Including the interim dividend, this brought total dividends applicable to fiscal 2005 to ¥60 per share, an increase of ¥10 compared with the previous year.

Targets of 2003–2005 Medium-term Management Plan exceeded

Fiscal 2005 was the final year of Santen's 2003–2005 Medium-term Management Plan which aimed to establish the foundation for our next phase of growth while ensuring sufficient earnings power. The three key objectives of the 2003–2005 Medium-term Management Plan were to improve profitability, boost R&D capabilities, and reinforce our organizational strength. Over the plan's three-year period, we made substantial progress in each of these three areas.

In terms of improving profitability, a key achievement was the rapid restoration of profitability at our U.S. operations through the establishment of a sales partnership with Johnson & Johnson Vision Care, Inc. (JJVCI) in the U.S. Elsewhere, our switch to the new *Dimple Bottle* as the container for prescription ophthalmic pharmaceuticals not only improved patient utility and helped to differentiate the Santen brand, but also enabled us to improve manufacturing productivity.

Boosting R&D capabilities was focused on accelerating the development of new products and focusing resources to increase the number and quality of new drug development candidates. In the first area, we managed to reduce the length of the clinical trial phase for major development projects to approximately five years, while also shortening the preclinical

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phase to approximately 18 months. Aiming to fill the clinical development pipeline, we made steady progress in advancing key projects in the core therapeutic areas of glaucoma and corneal disorders and we also succeeded in boosting the number of drug candidates entering the clinical stage.

Strengthening our corporate governance was a major accomplishment in this three-year plan period. We have also focused on human resource development and initiatives to augment the management capabilities of our organization and in each of these areas we have achieved positive results.

As a result of these efforts, our financial performance has improved across the board. Our results in fiscal 2005 exceeded the initial plan targets in terms of sales, operating income, net income and return on equity (defined as net income divided by shareholders' equity).

Embarking on the 2006–2010 Medium-term Management Plan toward a new stage of Santen's development

We have formulated the 2006–2010 Medium-term Management Plan to guide the growth of Santen over the next five years. During the previous Medium-term Management Plan, we were successful in increasing the efficiency with which we manage our overall business. The main goals of the next five-year period are to set the stage for accelerated growth and to develop and expand our operations in specific regions.

Specifically, our aims are to further Santen's global development by creating a strong pipeline of new drug candidates and by actively developing operations in regions where we can maximize our strengths. To this end, we have established four medium-term strategic policies. These are: first, to enhance the global strategic product pipeline through internal discovery and development, joint development projects and in-licensing efforts; second, to generate growth

mainly in Japan, Northern/Eastern Europe, Russia and China while focusing activities in the U.S. market on clinical and business development; third, to strengthen manufacturing bases; and fourth, to strengthen the human resource and organizational capabilities on a global basis. By implementing strategies and initiatives based on these policies in R&D, sales, production, organizational and personnel areas, we aim to achieve solid growth over the five-year planning period.

Under the new senior management, we hope to fulfill the expectations of shareholders and other stakeholders by steadily achieving the aims of our new medium-term management plan. At the same time, Santen continues to be dedicated to making a social contribution by improving the quality of life of patients around the world. In doing so, we believe that we can also maximize corporate value. We sincerely ask for your continued support as we move forward.

September 2006



Takakazu Morita
Chairman and Chief Executive Officer



Akira Kurokawa
President and Chief Operating Officer