

A Message from Takakazu Morita, Chairman and CEO

~Building for the Future~

In the fiscal year ended March 31, 2007, Santen announced its 2006–2010 Medium-term Management Plan and, during the first year of the plan, founded a base for future development.

The Japanese prescription ophthalmic pharmaceutical market, Santen's major market, experienced an industry-wide average 5.5% drug price reduction in 2006. Nevertheless, Santen's sales increased 2.1% year over year to ¥100.5 billion and net income rose 1.0% to ¥13.1 billion. Operating income decreased 2.8% to ¥20.4 billion as a result of the investment in selling expenses for future growth.

In R&D, we successfully advanced four new drug candidates to the next stage of development.

Implementing the Medium-term Management Plan

Our long-term vision is to become a global company by fiscal 2015. Our Medium-term Management Plan, which was announced in July 2006, outlines the basic policies and specific measures for the first phase of Santen's global development. During this first phase from 2006–2010 we will continue our efforts to increase sales of our existing core products and will aggressively invest in R&D. We will focus on building a globally competitive product development pipeline that will allow us to accelerate global growth in the second phase starting in 2011. We believe that the successful completion of these phases will help us become a global company.

During the Medium-term Management Plan, we will concentrate our R&D efforts in the areas where we have competitive research capabilities and will focus on developing new products targeting glaucoma, retinal diseases and corneal disorders where medical demand is expected to continue to be high. Santen's drug discovery activities are structured to maximize the capabilities of our in-house resources and the resources of various partners. Santen conducts in-house drug discovery, and also develops strategic in-licensed products and works with other companies in joint research of compounds utilizing Santen's expertise. This so-called "Network-based drug discovery" results in more efficient and effective use of Santen's R&D resources.

Becoming a Global Company

To become a global company, we must move beyond our solid presence in domestic markets and expand our businesses outside Japan for further growth. In our Medium-term Management Plan, Santen aims to leverage our strengths to expand our existing businesses in China, Northern and Eastern Europe, and Russia.

In Northern and Eastern Europe and Russia, Santen plans to increase market presence through the sales of our current products and the launch of new products. In the fast-growing Chinese market, we are shifting to local manufacture and direct sales of Santen products. In the United States, we are focusing on clinical and business development. Through this range of activities, we will endeavor to build our presence on a global basis.

Improving Quality of Life

Santen works to improve the quality of life of patients and their loved ones in ophthalmology and other areas of expertise where we can utilize our strengths. We strive to be a company that contributes to society through its business activities by providing outstanding products and services. We also engage in beneficial social and environmental activities including donations and support to many ophthalmology-related organizations.

We will do our utmost to accomplish the Medium-term Management Plan for building a route toward global expansion



and will continue to work to insure that Santen is trusted by patients and their loved ones, and society as a whole.

Emphasizing the Return to Shareholders

A year-end dividend of ¥35 per share was approved at the 95th Annual General Meeting of Shareholders, held on June 26, 2007. Combined with the interim dividend, the annual dividend for the year ended March 31, 2007, was ¥65 per share. The dividend on equity (DOE), which is calculated by multiplying return on equity (ROE) times the payout ratio, was 4.4%. In the Medium-term Management Plan, we set a target DOE ratio of 5.0% in fiscal year 2010 and outlined our basic policy to return profits to shareholders, while maintaining capital efficiency and keeping a sound and flexible financial position that will allow us to pursue product acquisition, licensing and alliance activities. The return of profits to shareholders is an important management goal and we now expect to achieve the 5.0% DOE target in fiscal year 2007; this figure corresponds to a payout ratio of approximately 50%.

Also approved at the Annual General Meeting of Shareholders was the introduction of Abusive Takeover Defense Measures. The measures are designed to secure the information and time necessary for shareholders to make appropriate decisions in case of a large-scale acquisition of Santen's shares. The measures are not meant to block all takeover proposals.

During the next fiscal year, Santen will steadily implement

the Medium-term Management Plan to meet the expectations of stakeholders and maximize corporate value and the common interests of shareholders. Your continuing support will be highly appreciated.

August 2007

Takakazu Morita

Chairman and Chief Executive Officer