

A Message from Akira Kurokawa, President and COO ~Report of Business Results and the Future Vision~

Net sales for the year ended March 31, 2007 advanced 2.1% year over year to ¥100.5 billion. Operating income declined 2.8% to ¥20.4 billion. Net income rose 1.0% to ¥13.1 billion. Return on equity (ROE) was 10.6%.

Solid Foundation in Domestic Markets

Santen maintained its No.1 share in its core market—the Japanese prescription ophthalmic market. However, the future business environment will likely be challenging due to competitive overseas products entering the Japanese market, which will intensify market competition. In this business environment, domestic prescription ophthalmic sales were ¥71.3 billion, approximately level with the previous year. Although sales were affected by a reduction in drug prices, our increased sales efforts in providing pertinent medical information to healthcare professionals contributed to maintaining our sales performance.

Sales of *Hyalein*, which is effective in relieving corneal and conjunctival epithelial disorders associated with conditions such as dry eye (inadequate ocular hydration), grew steadily as a result of medical educational activities focused on corneal diseases. Sales of *Hyalein* rose 3.3% to ¥16.3 billion. We continued medical and pharmaceutical information activities in the anti-allergy ophthalmics area as well, increasing sales of *Livostin* 8.0% to ¥4.3 billion. In the glaucoma segment, we concentrated efforts on marketing *Rescula* and other products in the market. Total sales of *Rescula*, *Detantol*, *Timoptol XE* and *Timoptol* decreased 1.2% to ¥14.5 billion due to the impact of other branded products and a drug price cut. Sales of anti-infective ophthalmics *Cravit* and *Tarivid* also fell 4.9% year over year to ¥15.3 billion as a result of reduced prices and increased competition.

The disease modifying anti-rheumatic market shrank from a year earlier due to the influence of a drug price reductions. *Rimatil*, *Azulfidine EN* and *Metolate* were selected as “Grade A—Highly Recommended” drugs in accordance with the Guidelines for the Management of Rheumatoid Arthritis announced by the Japan College of Rheumatology in 2004 and steadily penetrated into the market. As a result, sales of anti-rheumatics increased 3.7% to ¥9.4 billion.

Presence in Overseas Markets

Increasing our presence in overseas markets is one of our management priorities.

Europe—including Northern and Eastern Europe and Russia—is a large market contributing to more than half of Santen’s overseas sales. For the year ended March 31, 2007, we strengthened MR activities in Germany and Eastern Europe, and increased sales. We will continue to drive penetration of our current products and reinforce the development of a product portfolio tailored to the needs of each region. As a part of this effort, Santen applied for marketing approval for a glaucoma and ocular hypertension drug candidate DE-085 (Tafluprost) in Europe in April 2007.

We recognize the Asian market is highly promising. Especially in fast-growing China, we anticipate continuing double-digit growth in the prescription ophthalmic market due to the aging



population and an increase in the number of insured people. Santen has maintained the top share in large hospital markets of large cities in China. To further strengthen our business base and competitiveness, we plan to begin local manufacturing and establish a direct sales organization in China. During the year ended March 31, 2007, we started construction of a new plant in Suzhou, Jiangsu Province, and expect to start production in 2009. In South Korea, the Santen brand has already been highly recognized by patients and medical professionals due to trust-based relationships. Sales have also surged as a result of aggressive marketing activities commemorating the 10th anniversary of the release of *Hyalain* during the year under review.

In the United States, Santen is focused on clinical and business development. We are conducting clinical trials for DE-101 for corneal and conjunctival epithelial disorders associated with conditions such as dry eye and DE-104 for glaucoma and ocular hypertension.

Outlook for the Year Ending March 31, 2008

In the fiscal year ending March 31, 2008, the domestic markets will face increasingly intensified competition due to the launch of competitor products. Santen will further reinforce product distribution and promotion activities to maintain and improve Santen's presence and continue to strengthen its sales structure. We will also strive to increase sales of drugs for corneal disorders

and other products through awareness campaigns for dry eye-related diseases.

In overseas markets, Santen will reinforce value-added promotional activities for our current products in China, Northern and Eastern Europe and Russia. In the Russian market, we intend to launch the anti-infective ophthalmic *Oftaquix* (sold as *Cravit* in Japan).

In R&D, we will accelerate development of our global strategic products*—DE-101 and DE-104, and will also continue development of other new product candidates.

I believe the above measures will not only cover the fiscal year ending March 31, 2008, which is the second year of the current Medium-term Management Plan, but will also form the foundation of growth during the last three years of the Plan. By aggressively promoting these measures, we intend to progress steadily to achieve our Plan targets.

* Global strategic products: New drug candidates based on a new mechanism of action, from which we can expect higher sales than current products. Plans are to sell these products in Japan, the United States and Europe.

August 2007

A handwritten signature in black ink that reads "A. Kurokawa".

Akira Kurokawa
President and Chief Operating Officer