

A Message from the President and CEO



Report of Business Results and the Future Vision

Four Consecutive Years of Increased Revenues and Record Net Sales

In fiscal 2007, Santen recorded a 2.9% growth in net sales, to ¥103.3 billion, representing the achievement of four consecutive years of rising revenues and the highest net sales in the Company's history.

In Japan, we continued our program of promotional activities, including providing individual hospitals and clinics with scientific information tailored to their specific and changing needs and campaigns to generate broader understanding of dry eye conditions. These activities contributed to growth in sales in Japan, especially in the area of treatments for corneal

disorders. Domestic prescription ophthalmic pharmaceutical sales were up 1.5% year on year, an increase of ¥1.0 billion. Overseas prescription ophthalmic pharmaceutical sales rose 20.5%, an increase of ¥2.2 billion, supported primarily by growth in European markets.

Significance of Fiscal 2008 in the 2006–2010 Medium-term Management Plan

Performance targets for fiscal 2010, the final year of the 2006–2010 Medium-term Management Plan, are set at net sales of ¥115 billion, operating income of ¥32 billion, net income of ¥22 billion and return on equity (ROE) of 13%.

We will steadily implement the principal strategies set out in the Medium-term Management Plan to generate future growth.

Fiscal 2008 is the mid-point of the Medium-term Management Plan and as such is pivotal for Santen. It will reflect the value of measures implemented during the previous two fiscal years, and key events in fiscal 2008 will lead to future growth that will help Santen achieve its medium-term performance targets for fiscal 2010.

In particular, the approval and subsequent launch in Japan and Europe of DE-085 (Tafluprost) for glaucoma and ocular hypertension will contribute to rapidly maximize product value. Continuation of the awareness campaign for dry-eye related disease that was started in fiscal 2007, should maximize sales potential for the corneal and conjunctival epithelial disorder treatment *Hyalein* (sodium hyaluronate). We also expect to see rapid popularization of *Eternity* foldable intraocular lenses. Each of these will be powerful drivers supporting the achievement of the current plan's targets.

Santen's primary focus in its R&D efforts at present is to steadily propel the global strategic products DE-104 and DE-101 (Rivoglitazone) through development. Our Medium-term Management Plan also emphasizes effectively using in-house resources to pursue opportunities for alliances and in-licensing in areas where we can leverage our strengths. In May 2008, we in-licensed DE-109 (Sirolimus) for development as a new drug candidate in the area of retinal disorder treatments.

Targeting Continued Revenue Growth in Fiscal 2008

Regarding performance estimates for fiscal 2008, we anticipate sales of our domestic prescription pharmaceuticals will be affected by National Health Insurance (NHI) drug price reductions in the mid-3% range, compared with a forecast industry average of 5.2%. We nevertheless expect to achieve an increase of approximately ¥0.6 billion in net sales, to ¥104 billion.

While sales will be affected by the upcoming drug price revisions, measures such as changing product mix and rationalizing manufacturing costs should allow us to keep cost of goods at a roughly steady ratio to net sales.

We will control overall selling, general and administrative expenses and focus our spending on strategic expenses in the areas that will help us achieve our medium-term targets.

R&D expenditures will increase by ¥6.5 billion in fiscal 2008. This reflects an increase in the total amount set aside for ongoing R&D expenditures and also includes the one-time payment related to the in-licensing agreement for DE-109 (Sirolimus) for development and marketing in the area of retinal disorders.

Consequently, we expect operating income in fiscal 2008 to total ¥15.1 billion and net income to be ¥9.8 billion.

Forecast results for fiscal 2008 include a decline in profits as a consequence of the one-time in-licensing payment outlined above, but we are entirely confident that this investment will contribute soundly to the Company's medium- to long-term growth. We also believe that the principal strategies set out in the Medium-term Management Plan will generate increased profits and growth from fiscal 2009, ending March 31, 2010, onwards. Your continuing support is highly appreciated.

August 2008



Akira Kurokawa
President and Chief Executive Officer