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Report and Analysis of Operating Results and Financial Condition

OPERATING RESULTS

● Net Sales

Santen's activities essentially encompass the pharmaceutical and other businesses. At 98.0%, the vast majority of sales come from the pharmaceuticals segment. In fiscal 2010, ended March 31, 2011, sales from the pharmaceuticals segment edged down 0.4% compared with the previous year, to ¥108,576 million. Excluding temporary income from license agreements, results in this segment were up 3.0% year on year. Sales from the other businesses segment climbed 45.5%, to ¥2,236 million. On this basis, total net sales for the fiscal year under review edged up 0.2%, to ¥110,812 million.

Pharmaceuticals Business

Prescription Pharmaceuticals

Santen's prescription pharmaceuticals are divided into three categories: ophthalmics, anti-rheumatics and other pharmaceuticals. While revenues from ophthalmics increased year on year, sales from anti-rheumatics and other pharmaceuticals (including payments derived from technology-sharing agreements as well as contract work and manufacturing) decreased. As a result, prescription pharmaceutical sales increased slightly, to ¥103,853 million, representing 93.7% of consolidated net sales.

(Ophthalmics)

Despite the impact of National Health Insurance (NHI) drug price revisions, domestic sales of prescription ophthalmic pharmaceuticals improved 4.0%, to ¥75,585 million. This was largely attributable to successful promotional campaigns in Japan to provide individual medical facilities with scientific information tailored to their specific and changing needs.

Overseas, prescription ophthalmic pharmaceutical revenues were up 7.1%, to ¥15,211 million, after conversion to yen. In Europe, our concentration on promotional campaigns centered on providing medical and other information saw *Taflofan* (sold as *Tapros* in Japan), a new glaucoma and ocular hypertension treatment, increase its market share in Germany and other areas of Europe. In Asia, market penetration of the Company's products also progressed mainly in China and Korea. This was again attributable to successful promotional campaigns.

As a result, total prescription ophthalmic pharmaceutical sales increased 4.5%, to ¥90,797 million.

(Anti-Rheumatics)

Rimatil, *Azulfidine EN* and *Metolate* are highly recommended in the *Manual on the Medical Treatment of Rheumatoid Arthritis and Medical Treatment Guidelines Based on EBM*, compiled by a study group of the Ministry of Health, Labour and Welfare of Japan and published by the Japan Rheumatism Foundation. Despite this strong recommendation, sales of anti-rheumatics declined slightly, to ¥9,834 million, due largely to the impact of NHI drug price revisions.

(Other Pharmaceuticals)

Sales of other pharmaceuticals contracted 54.2%, to ¥3,222 million. This was largely attributable to the year-on-year decline in one-time milestone payments included in revenues from technology-sharing agreements.

OTC Pharmaceuticals

In ophthalmic products for tired eyes, blurred vision and eye refreshment, the Company's promotional campaigns focused on *Sante Medical 10*, *Sante 40i* and *Sante FX V Plus*. Despite these endeavors, sales of OTC pharmaceuticals fell 10.1%, to ¥4,723 million, due mainly to lower demand in Japan and the impact of increased competition.

Other Businesses

Medical Devices

As a result of focusing initiatives on promotional campaigns for the *Eternity* foldable intraocular lens, which is made of a glistening-free hydrophobic acrylic optical material, sales of medical devices increased 46.3%, to ¥2,225 million.

Others

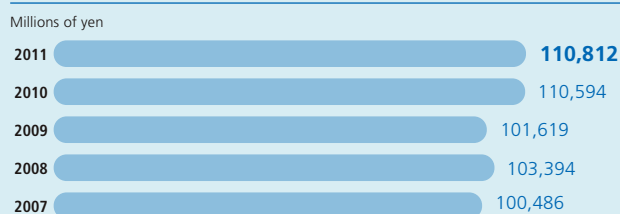
Other sales totaling ¥11 million come from the cleaning of antiodust and sterilized clothing operations of consolidated subsidiary Claire Co., Ltd.

Net Sales by Business Segment

	Millions of yen		%
	2011	2010	
Pharmaceuticals Business	¥108,576	¥109,057	(0.4)
Prescription pharmaceuticals	103,853	103,806	0.0
Ophthalmics	90,797	86,867	4.5
Anti-rheumatics	9,834	9,908	(0.7)
Other pharmaceuticals	3,222	7,031	(54.2)
OTC pharmaceuticals	4,723	5,251	(10.1)
Other Businesses	2,236	1,537	45.5
Medical devices	2,225	1,521	46.3
Others	11	16	(30.8)
Total	¥110,812	¥110,594	0.2

Note: Net sales for each segment refer to sales to outside customers.

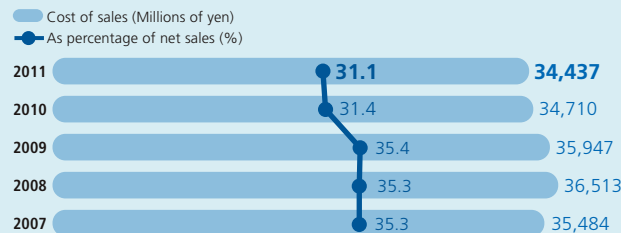
Net Sales



● Cost of Sales

Cost of sales declined 0.8%, to ¥34,437 million. The cost of sales as a percentage of net sales improved 0.3 of a percentage point, to 31.1%. This was despite the impact of NHI drug price revisions in Japan.

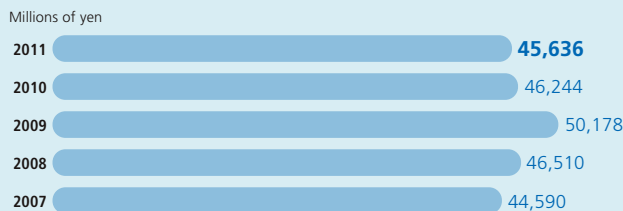
Cost of Sales and As Percentage of Net Sales



● Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 1.3%, to ¥45,636 million, which included a 6.4% decline in R&D expenditures, to ¥13,221 million.

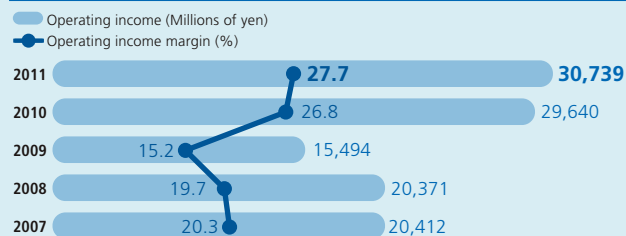
Selling, General and Administrative Expenses



● Operating Income

Operating income was up 3.7%, to ¥30,739 million. The operating income margin was 27.7%, up from 26.8% in the previous fiscal year. Operating income after excluding payments from technology-sharing agreements climbed 18.9%, to ¥28,306 million. The operating income margin calculated on the same basis improved from 22.7% in fiscal 2009 to 26.1% in the fiscal year under review.

Operating Income and Operating Income Margin



● Other Income and Expenses

Net other income for the fiscal year ended March 31, 2011 was ¥335 million.

Other income was up ¥109 million, to ¥1,026 million. Despite the absence of the ¥74 million gain on sale of investment securities recorded as other income in the previous fiscal year, this was largely attributable to increases in dividend income of insurance as well as other interest and dividend income.

Other expenses narrowed ¥1,256 million, to ¥691 million. While Santen incurred other expenses totaling ¥135 million due to office relocation and ¥109 million following the application of the accounting standard relating to asset retirement obligations, the improvement in other expenses was mainly due to the absence of equity in losses of affiliates, loss on sale of investment securities and loss on impairment of fixed assets totaling ¥564 million, ¥197 million and ¥397 million, respectively, recorded in the previous fiscal year, as well as decreases in exchange losses, net and write-down of investment securities.

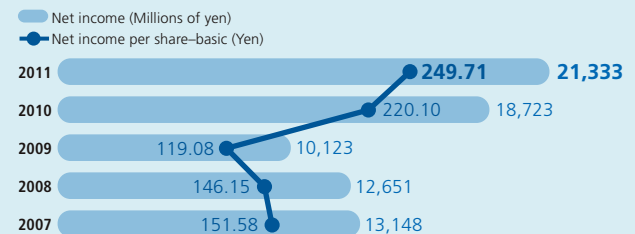
● Income Taxes

Income taxes totaled ¥9,741 million. The effective tax rate declined to 31.3% compared with 34.6% for the previous fiscal year.

● Net Income

Net income was up 13.9%, to ¥21,333 million. The ratio of net income to net sales was 19.3%, up from 16.9% in the previous fiscal year. Basic net income per share was ¥249.71 compared with ¥220.10 in the previous fiscal year, and diluted net income per share was ¥249.42, up from ¥219.85 in the previous fiscal year.

Net Income and Net Income per Share—Basic



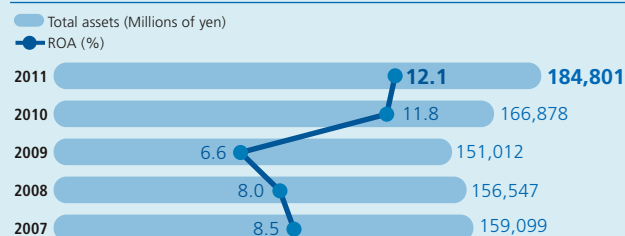
FINANCIAL CONDITION

Assets

As of March 31, 2011, total assets were at ¥184,801 million, up ¥17,923 million, or 10.7%, compared with the previous fiscal year-end. This was mainly due to an increase in cash and cash equivalents, trade receivables and short-term securities. Return on total assets (ROA) was 12.1%, up from 11.8% in the previous fiscal year.

Total current assets were ¥137,668 million, and the ratio of total current assets to total assets rose from 71.2% as of the previous fiscal year-end to 74.5% as of March 31, 2011. Within fixed assets of ¥47,133 million, net property, plant and equipment totaled ¥24,957 million, and total investments and other assets amounted to ¥22,176 million.

Total Assets and ROA



Liabilities

Total liabilities as of March 31, 2011, were ¥28,397 million, down ¥878 million, or 3.0%, compared with the previous fiscal year-end. This was largely attributable to the decrease in income taxes payable.

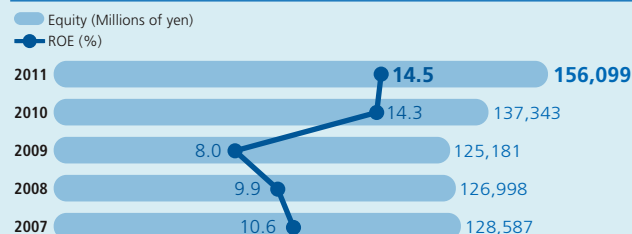
Total current liabilities were ¥24,105 million, and total non-current liabilities were ¥4,292 million. Interest-bearing debt was ¥152 million, a decline of ¥466 million, or 69.5%, compared with the previous fiscal year-end.

Net Assets

Net assets amounted to ¥156,404 million, up ¥18,801 million, or 13.7%, compared with the previous fiscal year-end, principally reflecting higher retained earnings.

The equity ratio improved from 82.3% to 84.5%. Equity per share was ¥1,793.15, an increase of ¥179.07, or 11.1%, compared with the end of the previous fiscal year. Return on equity (ROE) increased to 14.5%, up from 14.3%.

Equity and ROE



Capital and Liquidity

Santen strives to maintain a healthy balance sheet and to ensure an appropriate level of liquidity and sufficient resources to fund its business activities.

Cash and cash equivalents as of the end of the fiscal year under review amounted to ¥72,482 million, up ¥8,133 million, or 12.6%, compared with the previous fiscal year-end. Net cash provided by operating activities was ¥17,768 million, of which ¥7,676 million was used in investing activities and ¥1,570 million in financing activities.

Cash Flows

Net cash provided by operating activities was ¥17,768 million, which mainly resulted from income before income taxes of ¥31,074 million and income taxes paid of ¥11,952 million.

Net cash used in investing activities was ¥7,676 million, mainly attributable to purchase of short-term investments of ¥5,873 million and purchase of investment securities totaling ¥4,296 million.

Net cash used in financing activities was ¥1,570 million. The major cash inflow was proceeds from the retirement of treasury stock by way of third-party allocation of ¥5,641 million. The principal cash outflow was dividends paid of ¥6,808 million.

As a result, cash and cash equivalents as of the end of the fiscal year amounted to ¥72,482 million, an increase of ¥8,133 million compared with the previous fiscal year-end.

Cash Flows Summary

	Millions of yen		
	2011	2010	Change
Cash flows from operating activities	¥17,768	¥26,110	¥ (8,342)
Cash flows from investing activities	(7,676)	(829)	(6,847)
Cash flows from financing activities	(1,570)	(6,753)	5,183
Cash and cash equivalents at end of year	¥72,482	¥64,349	¥ 8,133

Note: Figures in parentheses indicate a decrease.

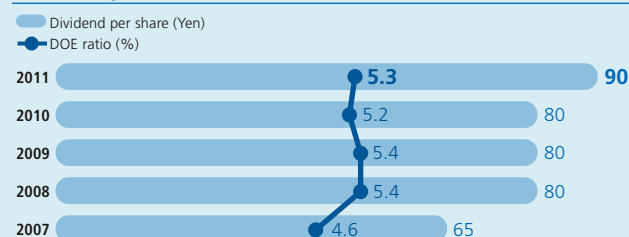
Distribution of Profits

Santen views returns to shareholders as one of its most important management goals and has instituted the following fundamental policies for the distribution of profits:

- We will implement an appropriate dividend policy based on the Company's operating results while taking into consideration the need to secure sufficient internal reserves to fund R&D and the implementation of growth strategies for the purposes of enhancing capital efficiency and expanding corporate value.
- We will strive to increase the level of dividends in line with such factors as the Company's demand for funds and the Company's financial position.
- We will consider the repurchase and retirement of treasury stock as a flexible method of providing a return to shareholders.

To maintain a stable level of dividends, we target a dividend on equity (DOE) ratio, which combines the dividend payout ratio and ROE. Taking into consideration returns to shareholders through dividends and the improvement of capital efficiency, for fiscal 2010—the final year of the Company's Medium-Term Management Plan—our DOE target was set at 5.0%. On this basis, the annual dividend per share was ¥90, an increase of ¥10 per share compared with the previous fiscal year, resulting in a DOE ratio of 5.3%.

Dividend per Share and DOE Ratio



Risks Related to Our Business

Forward-looking Information and Factors that Might Affect Future Results

Any statements that we make, 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. Our business, as well as each product we develop and market, is subject to various risks and uncertainties beyond our control. Therefore, these forward-looking statements might differ substantially from actual results. Risks and uncertainties that could affect the Company's future results and financial condition include, but are not limited to, the factors described below.

● External Factors

Regulatory Controls

Our prescription pharmaceutical business is subject to government regulatory controls regarding healthcare programs and drug prices in Japan and other countries. Although our current operating and / or financial projections were made in full consideration of drug price revisions in Japan to the best extent possible, those revisions that may take place beyond the scope of our anticipated projections or other revisions in healthcare programs might also affect our operating and / or financial results. In other countries and markets where we manufacture and sell our products, we continue to face a variety of regulatory controls over prices of prescription pharmaceuticals and government pressure for drug price reduction.

Social and Economic Conditions and Changes in the Law

Santen's future results might be affected by political and economic changes in key markets worldwide in which we operate. Our anticipated performance and financial condition might also be affected by changes in applicable accounting principles, and laws and regulations concerning taxes, the Product Liability Law, the Antitrust Law, environmental laws and regulations and other factors.

Foreign Exchange

Overseas sales and expenses, as well as the assets of overseas subsidiaries, affect our sales, profits and financial conditions depending on foreign exchange rate fluctuations. Overseas sales for the fiscal year ended March 31, 2011 accounted for 16.5% of our consolidated net sales.

● Competitive Factors

Generic Products

The sale of generic products both in and outside Japan has the potential of impacting the Company's performance.

Other companies have already released generic products in Japan for such items as *Hyalein* and *Cravit*. Looking ahead, the impact from generic products is projected to grow.

● Dependency on Specific Products and Business Partners

Dependency on Mainstay Products

Total sales of *Hyalein* and *Cravit* accounted for 30% of Santen's consolidated net sales for the fiscal year ended March 31, 2011. Should any sales suspension or a decline in sales occur due to any unanticipated negative influences, such as potential product defects or newly discovered side effects, our business results and financial performance might be negatively affected.

Dependency on In-Licensed Products

Many products that the Santen Group sells are licensed by other companies. We hold exclusive rights to manufacture and sell ophthalmic formulations such as *Cravit*, *Detantol*, *Tapros* and *Diquas*. We also have sales rights in Japan for *Timoptol*, *Timoptol XE* and *Livostin*, and exclusive sales rights in Japan for *Cosopt*, *Azulfidine EN* and *Rescula*. Should changes be made in the terms and conditions after the expiration of such contracts or should the agreements not be renewed, our business performance might be affected.

Dependency on Specific Business Partners

In the U.S., we have a distribution agreement with VISTAKON Pharmaceuticals, LLC for certain prescription ophthalmics. In the event that VISTAKON cannot achieve sufficient sales of such products we consigned, our financial results might be affected.

We depend on specific business partners for the supply of certain raw materials such as the active pharmaceutical ingredient for *Cravit* and containers for our OTC pharmaceuticals. If supply of these materials is interrupted or discontinued for any reason, our pharmaceutical production might be adversely affected. Should it subsequently affect the supply of our products and cause any interruption or discontinuance, it would adversely affect our business performance.

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

● R&D Activities

Uncertainties in New Product Development

Years are required to bring new drugs from initial R&D to final approval and marketing. Various uncertainties exist at every stage in the development process that could sidetrack a new product, such as discontinuance of development or rejection after the application is filed. It is difficult for us to accurately predict when new products, new indications or formulations under development will reach the approval stage and be ready for launch. 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 that does not indicate significant differences in relation to competitor products, safety and efficacy concerns and unexpected side effects—which might lead to discontinued development or delayed product release and thereby negatively affect 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, is critical for the future growth of Santen. Every year we invest significantly in R&D, and there is a possibility that future investments will not result in sales of new products sufficient to provide an adequate return.

Issues of Alliances

Forecasts for new pharmaceuticals include various assumptions of alliances in development and / or sales. Actual results of these alliances might affect our overall sales and financial condition.

● Other Factors

Production Interruptions or Delays

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

Cancellation of Sales and Product Withdrawals

If sales of certain products are cancelled, or if we withdraw products due to product quality defects, unexpected side effects, tampering or other causes, our overall financial results might be negatively affected.

Litigation

Our main business involves the production and sales of prescription pharmaceuticals. The nature of our business makes us vulnerable to litigation related to patents, the Product Liability Law, violation of the Antitrust Law and consumer-related and environmental lawsuits. If such legal actions take place, the proceedings might affect our overall performance and financial condition. Currently, we are involved in no litigation that substantially impacts the management of the Company.

Eleven-year Summary of Selected Financial Data

Years ended March 31

	2001	2002	2003	2004
For the year:				
Net sales	¥ 88,449	¥ 88,966	¥ 90,253	¥ 89,858
Cost of sales	33,385	32,701	32,272	31,859
Selling, general and administrative expenses	38,546	44,475	45,284	43,475
Operating income	16,518	11,790	12,697	14,524
Interest expense	430	465	480	366
Income before income taxes	15,521	12,679	9,947	13,775
Income taxes	7,807	7,373	1,444	7,454
Net income	7,714	5,306	8,503	6,321
Capital expenditures	4,943	6,586	7,046	3,226
Depreciation and amortization	5,683	5,334	4,311	4,521
R&D expenditures	10,511	12,187	12,719	11,853
Per share data (yen and U.S. dollars):				
Net income – basic	¥ 81.32	¥ 57.34	¥ 93.67	¥ 71.65
Net income – diluted	75.01	53.07	85.97	71.64
Equity	1,022.99	1,048.51	1,104.21	1,176.83
Cash dividends, applicable to period	20.00	20.00	20.00	40.00
Cash flows:				
Net cash provided by operating activities	¥ 6,832	¥ 6,941	¥ 15,808	¥ 23,196
Net cash (used in) provided by investing activities	(3,172)	(6,374)	(9,951)	5,246
Net cash used in financing activities	(7,193)	(5,684)	(6,507)	(12,122)
Interest coverage ratio (times)	16.8	14.9	34.5	70.6
Debt to cash flow ratio (%)	367.3	352.5	145.8	54.7
At year-end:				
Total current assets	¥ 88,025	¥ 86,064	¥ 83,431	¥ 91,231
Net property, plant and equipment	36,684	42,159	40,850	37,237
Total assets	153,243	152,103	147,148	150,238
Long-term debt	25,482	24,467	23,047	12,686
Equity	94,834	95,101	97,126	103,500
Return on equity (ROE) (%)	8.1	5.6	8.8	6.3
Return on total assets (ROA) (%)	5.1	3.5	5.7	4.3
Equity ratio (%)	61.9	62.5	66.0	68.9
Equity ratio on stock price basis (%)	134.3	86.6	68.7	101.8
Price earnings ratio (PER) (times)	27.3	25.3	12.3	24.3
Dividend on equity (DOE) (%)	2.0	1.9	1.9	3.5
Issued shares (thousands)	92,721	90,704	90,704	87,963
Number of employees	2,167	2,463	2,500	2,335

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate of ¥83.15 to U.S.\$1.00, the exchange rate prevailing on March 31, 2011.
2. See Notes 2, 13) and 11 of Notes to Consolidated Financial Statements in respect of per share data.
3. Equity comprises shareholders' equity and accumulated other comprehensive income.

Millions of yen							Thousands of U.S. dollars	
2005	2006	2007	2008	2009	2010	2011	2011	
¥ 92,696	¥ 98,398	¥ 100,486	¥ 103,394	¥ 101,619	¥ 110,594	¥110,812	\$1,332,678	
33,710	34,535	35,484	36,513	35,947	34,710	34,437	414,155	
40,004	42,868	44,590	46,510	50,178	46,244	45,636	548,847	
18,982	20,995	20,412	20,371	15,494	29,640	30,739	369,676	
182	94	91	97	65	53	36	439	
18,436	20,342	21,039	20,483	15,824	28,610	31,074	373,722	
7,413	7,319	7,891	7,832	5,701	9,887	9,741	117,151	
11,023	13,023	13,148	12,651	10,123	18,723	21,333	256,571	
4,907	2,106	3,556	3,151	2,953	1,315	1,651	19,855	
4,750	4,824	4,761	4,593	4,210	3,421	2,976	35,794	
12,620	13,971	13,663	12,942	18,458	14,123	13,221	159,005	
¥ 125.85	¥ 150.26	¥ 151.58	¥ 146.15	¥ 119.08	¥ 220.10	¥ 249.71	\$ 3.00	
125.71	150.01	151.31	145.94	118.97	219.85	249.42	3.00	
1,249.32	1,368.27	1,481.83	1,494.48	1,472.32	1,614.08	1,793.15	21.57	
50.00	60.00	65.00	80.00	80.00	80.00	90.00	1.08	
¥ 6,619	¥ 20,879	¥ 14,959	¥ 15,468	¥ 11,849	¥ 26,110	¥ 17,768	\$ 213,701	
(2,907)	(1,330)	(5,846)	(2,083)	(5,619)	(829)	(7,676)	(92,327)	
(12,712)	(5,900)	(5,691)	(11,415)	(11,373)	(6,753)	(1,570)	(18,883)	
36.1	218.7	164.3	163.6	165.5	558.1	488.5		
104.0	26.9	36.4	34.1	5.5	2.5	1.1		
¥ 82,735	¥ 93,893	¥ 100,820	¥ 102,754	¥ 101,053	¥ 118,832	¥137,668	\$1,655,664	
32,676	30,395	30,485	29,849	28,665	26,574	24,957	300,140	
139,980	150,458	159,099	156,547	151,012	166,878	184,801	2,222,508	
6,882	5,614	5,446	5,278	154	75	152	1,828	
108,240	118,637	128,587	126,998	125,181	137,343	156,099	1,877,311	
10.4	11.5	10.6	9.9	8.0	14.3	14.5		
7.6	9.0	8.5	8.0	6.6	11.8	12.1		
77.3	78.9	80.8	81.1	82.9	82.3	84.5		
142.3	163.0	165.3	126.2	154.3	143.1	156.2		
18.3	18.8	20.0	15.9	23.0	12.7	13.3		
4.1	4.6	4.6	5.4	5.4	5.2	5.3		
86,659	86,751	86,825	86,867	86,916	86,992	87,053		
2,308	2,312	2,409	2,483	2,690	2,756	2,867		

Consolidated Balance Sheets

Santen Pharmaceutical Co., Ltd. and Subsidiaries
As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2010	2011
ASSETS			
Current assets:			
Cash and cash equivalents (Note 4)	¥ 72,482	¥ 64,349	\$ 871,705
Short-term investments (Notes 4 and 5)	6,409	1,327	77,078
Trade receivables (Note 4):			
Notes	984	792	11,833
Accounts	37,997	34,476	456,969
Allowance for doubtful receivables	(2)	(1)	(20)
Net trade receivables	38,979	35,267	468,782
Inventories (Note 6)	14,704	13,624	176,841
Deferred tax assets (Note 14)	1,987	2,166	23,893
Other current assets	3,107	2,099	37,365
Total current assets	137,668	118,832	1,655,664
Property, plant and equipment (Notes 7 and 8):			
Land	8,216	8,418	98,815
Buildings and structures	40,720	41,569	489,712
Machinery and equipment	11,050	11,039	132,895
Tools, furniture and vehicles	11,041	10,962	132,781
Lease assets	234	133	2,813
Construction in progress	186	43	2,240
Total	71,447	72,164	859,256
Accumulated depreciation and impairment loss	(46,490)	(45,590)	(559,116)
Net property, plant and equipment	24,957	26,574	300,140
Investments and other assets:			
Investments in affiliates (Note 4)	16	16	188
Investment securities (Notes 4 and 5)	12,126	12,223	145,836
Intangible assets	991	1,231	11,923
Deferred tax assets (Note 14)	7,538	6,703	90,657
Other assets	1,505	1,299	18,100
Total investments and other assets	22,176	21,472	266,704
Total assets	¥184,801	¥ 166,878	\$2,222,508

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2010	2011
Current liabilities:			
Short-term borrowings (Notes 4 and 9)	¥ —	¥ 543	\$ —
Trade accounts payable (Note 4)	6,031	5,600	72,537
Other payables (Note 4)	8,444	7,937	101,556
Accrued expenses	3,614	3,354	43,465
Income taxes payable (Notes 4 and 14)	4,631	6,618	55,697
Other current liabilities	1,385	1,235	16,651
Total current liabilities	24,105	25,287	289,906
Non-current liabilities:			
Long-term debt (Note 9)	152	75	1,828
Retirement and severance benefits (Note 10)	3,266	2,911	39,283
Retirement and severance benefits for directors and corporate auditors (Note 10)	454	456	5,458
Deferred tax liabilities (Note 14)	21	15	249
Asset retirement obligation	160	—	1,928
Other liabilities	239	531	2,869
Total non-current liabilities	4,292	3,988	51,615
Contingent liabilities (Note 15)			
Total liabilities	28,397	29,275	341,521
Net assets (Note 11):			
Shareholders' equity:			
Common stock (Note 12):			
Authorized – 220,000,000 shares (220,000,000 shares in 2010)			
Issued – 87,053,103 shares (86,992,503 shares in 2010)	6,615	6,539	79,550
Capital surplus (Note 12)	7,969	7,234	95,836
Retained earnings	147,578	133,053	1,774,845
Treasury stock, at cost:			
464 shares in 2011 and 1,902,026 shares in 2010	(2)	(4,958)	(22)
Total shareholders' equity	162,160	141,868	1,950,209
Accumulated other comprehensive income:			
Unrealized (losses) gains on securities, net of taxes (Note 5)	(443)	136	(5,333)
Foreign currency translation adjustments	(5,618)	(4,661)	(67,565)
Total accumulated other comprehensive income	(6,061)	(4,525)	(72,898)
Stock subscription rights (Note 12)	305	260	3,676
Total net assets	156,404	137,603	1,880,987
Total liabilities and net assets	¥184,801	¥ 166,878	\$2,222,508

Consolidated Statements of Income and Comprehensive Income

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2011	2010	2009	2011
Net sales	¥110,812	¥ 110,594	¥ 101,619	\$1,332,678
Cost of sales	34,437	34,710	35,947	414,155
Gross profit	76,375	75,884	65,672	918,523
Selling, general and administrative expenses	45,636	46,244	50,178	548,847
Operating income	30,739	29,640	15,494	369,676
Other income (expenses):				
Interest and dividend income	521	418	549	6,273
Dividends income of insurance	137	128	104	1,643
Exchange gains (losses), net	(123)	(383)	185	(1,474)
Interest expense	(36)	(53)	(65)	(439)
Equity in losses of affiliates	—	(564)	(679)	—
Gain on sale of investment securities	—	74	—	—
Loss on sale of investment securities	—	(197)	(37)	—
Write-down of investment securities (Note 5)	(150)	(254)	—	(1,809)
Office transfer expenses of U.S. subsidiaries	(135)	—	—	(1,618)
Loss on adjustment for change of accounting standard for asset retirement obligations	(109)	—	—	(1,306)
Loss on impairment of fixed assets (Note 8)	—	(397)	—	—
Other, net	230	198	273	2,776
Income before income taxes	31,074	28,610	15,824	373,722
Income taxes (Note 14):				
Current	9,970	10,687	8,269	119,907
Deferred	(229)	(800)	(2,568)	(2,756)
	9,741	9,887	5,701	117,151
Income before minority interests	21,333	18,723	10,123	256,571
Net income	21,333	18,723	10,123	256,571
Income before minority interests	21,333	18,723	10,123	256,571
Other comprehensive income:				
Unrealized gains (losses) on securities, net of taxes	(579)	383	(2,520)	(6,974)
Foreign currency translation adjustments	(957)	(280)	(2,707)	(11,513)
Other comprehensive income	(1,536)	103	(5,227)	(18,487)
Total comprehensive income	19,797	18,826	4,896	238,084
Total comprehensive income attributable to:				
Owners of the parent	¥19,797	¥18,826	¥4,896	\$238,084
Minority interests	—	—	—	—

Per share data:	Yen			U.S. dollars (Note 3)
	2011	2010	2009	2011
Net income – basic	¥ 249.71	¥ 220.10	¥ 119.08	\$ 3.00
Net income – diluted	249.42	219.85	118.97	3.00
Cash dividends, applicable to the period	90.00	80.00	80.00	1.08

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2011, 2010 and 2009

	Millions of yen						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on securities, net of taxes	Foreign currency translation adjustments	Stock subscription rights
Balance at March 31, 2008	¥ 6,419	¥ 7,114	¥ 117,787	¥ (4,921)	¥ 2,273	¥ (1,674)	¥ 120
Effect of changes in accounting policies applied to foreign subsidiaries			210				
Changes during the fiscal year:							
Exercise of stock options	38	38					
Cash dividends			(6,800)				
Net income			10,123				
Repurchase of treasury stock, net				(15)			
Disposal of treasury stock		0		2			
Effect of applying the equity method of accounts			(186)				
Other, net					(2,520)	(2,707)	68
Balance at March 31, 2009	¥ 6,457	¥ 7,152	¥ 121,134	¥ (4,934)	¥ (247)	¥ (4,381)	¥ 188
Exercise of stock options	82	82					
Cash dividends			(6,804)				
Net income			18,723				
Repurchase of treasury stock, net				(24)			
Disposal of treasury stock		0		0			
Other, net					383	(280)	72
Balance at March 31, 2010	¥ 6,539	¥ 7,234	¥ 133,053	¥ (4,958)	¥ 136	¥ (4,661)	¥ 260
Exercise of stock options	76	76					
Cash dividends			(6,808)				
Net income			21,333				
Repurchase of treasury stock, net				(26)			
Disposal of treasury stock		659		4,982			
Other, net					(579)	(957)	45
Balance at March 31, 2011	¥ 6,615	¥ 7,969	¥ 147,578	¥ (2)	¥ (443)	¥ (5,618)	¥ 305

	Thousands of U.S. dollars (Note 3)						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on securities, net of taxes	Foreign currency translation adjustments	Stock subscription rights
Balance at March 31, 2010	\$78,636	\$86,997	\$1,600,157	\$(59,632)	\$ 1,640	\$(56,052)	\$3,132
Exercise of stock options	914	913					
Cash dividends			(81,883)				
Net income			256,571				
Repurchase of treasury stock, net				(310)			
Disposal of treasury stock		7,926		59,920			
Other, net					(6,973)	(11,513)	544
Balance at March 31, 2011	\$79,550	\$95,836	\$1,774,845	\$ (22)	\$(5,333)	\$(67,565)	\$3,676

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2011	2010	2009	2011
Cash flows from operating activities:				
Income before income taxes	¥31,074	¥ 28,610	¥ 15,824	\$ 373,722
Depreciation and amortization	2,976	3,421	4,210	35,794
Loss on impairment of fixed assets (Note 8)	—	397	—	—
Increase in retirement and severance benefits	359	517	554	4,319
Interest and dividend income	(521)	(418)	(549)	(6,273)
Interest expense	36	53	65	439
Equity in losses of affiliates	—	564	679	—
(Increase) decrease in trade receivables	(3,893)	699	(916)	(46,818)
Increase in inventories	(1,299)	(1,438)	(1,334)	(15,629)
Increase (decrease) in trade accounts payable	522	(248)	509	6,278
Other, net	(11)	1,873	759	(135)
Subtotal	29,243	34,030	19,801	351,697
Interest and dividend income received	513	419	551	6,175
Interest expense paid	(36)	(47)	(72)	(437)
Income taxes paid	(11,952)	(8,292)	(8,431)	(143,734)
Net cash provided by operating activities	17,768	26,110	11,849	213,701
Cash flows from investing activities:				
Capital expenditures	(1,651)	(1,315)	(2,953)	(19,855)
Proceeds from sale of property, plant and equipment	188	3	3	2,262
Purchase of investment securities	(4,296)	(1,028)	(2,081)	(51,669)
Proceeds from sale of investment securities	20	309	463	242
Purchase of short-term investments	(5,873)	(5,836)	(4,421)	(70,631)
Proceeds from sale of short-term investments	3,922	7,036	3,359	47,172
Increase in loans receivable	(1)	(49)	(300)	(10)
Proceeds from collection of loans receivable	—	49	311	—
Other, net	15	2	0	162
Net cash used in investing activities	(7,676)	(829)	(5,619)	(92,327)
Cash flows from financing activities:				
Proceeds from short-term borrowings	259	548	546	3,112
Repayment of short-term borrowings	(776)	(521)	—	(9,337)
Repayment of long-term debt	—	(110)	(5,168)	—
Repurchase of treasury stock	(26)	(24)	(15)	(310)
Disposal of treasury stock	5,641	0	2	67,846
Dividends paid	(6,808)	(6,804)	(6,799)	(81,876)
Other, net	140	158	61	1,682
Net cash used in financing activities	(1,570)	(6,753)	(11,373)	(18,883)
Effect of exchange rate changes on cash and cash equivalents	(389)	(136)	(570)	(4,676)
Net increase (decrease) in cash and cash equivalents	8,133	18,392	(5,713)	97,815
Cash and cash equivalents at beginning of year	64,349	45,957	51,670	773,890
Cash and cash equivalents at end of year	¥72,482	¥ 64,349	¥ 45,957	\$ 871,705

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Santen Pharmaceutical Co., Ltd. and Subsidiaries

1 Basis of Presentation of Consolidated Financial Statements

The consolidated financial statements of Santen Pharmaceutical Co., Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act 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 consolidated overseas subsidiaries have been prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, as required under "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" issued by the Accounting Standards Board of Japan ("ASBJ"). In this case, adjustments for the following six items are required in the consolidation process so that their impact on net income are accounted for in accordance with Japanese GAAP unless the impact is not material.

- (a) Goodwill not subject to amortization
- (b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit and loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
- (e) Retrospective treatment of a change in accounting policies
- (f) Accounting for net income attributable to minority interests

The consolidated financial statements have been restructured and translated into English (with certain expanded disclosures) from the consolidated financial statements of 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 Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in these consolidated financial statements.

2 Summary of Significant Accounting Policies

1) Principles of consolidation

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

Investment in an unconsolidated subsidiary is accounted for using the equity method.

Investment in an affiliated company is stated at cost due to immateriality.

2) Use of estimates

The preparation of the consolidated financial statements in conformity with Japanese GAAP 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 Notes 4 and 5)

The Company and its domestic subsidiary have adopted the "Accounting Standard for Financial Instruments" which was issued and revised 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 (losses), net of related taxes reported as a separate component of net assets.

Realized gains and losses on sales of such securities are determined by 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 anticipated to recover.

4) Derivative instruments (see Note 4)

Derivatives are initially measured at fair value and are subsequently remeasured to fair value at each reporting date. Apart from those derivatives designated as qualifying hedging instruments, all changes in carrying value are recognized in profit. The Company utilizes derivatives for hedging the exposure risk arising from fluctuation in foreign currency exchange rates and interest rates and does not enter into derivatives for trading or speculative purposes. Derivatives that are designated as qualifying hedging instruments are accounted for using deferred hedge accounting. Recognition of gains or losses resulting from changes in fair values of derivative financial instruments are deferred until the related losses or gains on the hedged items are realized if derivative financial instruments are used as hedges and meet certain hedging criteria. 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.

Notes to Consolidated Financial Statements

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 risk exposure 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. With respect to interest rate swaps under the special method, the evaluation of hedge effectiveness is omitted.

5) Allowance for doubtful receivables

Allowance for doubtful receivables is provided principally at an amount determined based on the historical experience of bad debts and the estimated uncollectible amounts based on the specific analysis of receivables with default possibility.

6) Inventories (see Note 6)

Inventories of the Company and its domestic subsidiary are stated at the lower of average cost or net realizable value under the "Accounting Standard for Measurement of Inventories" which was issued by ASBJ.

Inventories of consolidated foreign subsidiaries are principally stated at the lower of first-in, first-out cost or net realizable value.

7) Property, plant and equipment (excluding lease assets)

Property, plant and equipment is stated at cost. For the Company and its domestic subsidiary, 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 using the declining-balance method. 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 its domestic subsidiary. For all overseas subsidiaries, depreciation is computed over the estimated useful lives of the assets using the straight-line method.

The principal estimated useful lives are as follows:

Buildings and structures	31 to 50 years
Machinery and equipment	7 to 8 years
Tools, furniture and vehicles	4 to 10 years

8) Leases (see Note 7)

Finance leases, except for certain immaterial leases, are capitalized and depreciated over the leased property's estimated useful lives or lease terms, in accordance with the "Accounting Standard for Lease Transactions" and the "Guidance on Accounting Standard for Lease Transactions" which were issued by ASBJ. As permitted under the accounting standard, the Company and its domestic subsidiary account for finance leases commencing prior to April 1, 2008 which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information.

9) Impairment of fixed assets (see Note 8)

In accordance with the "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 comparing 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.

10) Retirement and severance benefits (see Note 10)

Employees of the Company and certain 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 Companies have adopted the "Accounting Standard for Retirement Benefits" which was issued by the Business Accounting Council. In accordance with this standard, the allowance for retirement benefits for employees is provided based on the estimated retirement benefit obligation and the plan 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.

The Company has a retirement benefit scheme, which is a combination of lump-sum severance plan, cash balance and defined contribution pension plan. The Company also has a retirement benefits trust.

A certain overseas subsidiary has a retirement benefit scheme which is a combination of a cash balance and defined contribution pension plan, and other overseas subsidiaries have defined contribution pension plan. The amounts contributed under the plans are charged to 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 according to internal regulations.

11) 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 its domestic subsidiary have adopted the "Accounting Standard for Foreign Currency Transactions" which was issued by the Business Accounting Council in Japan.

Financial statements of overseas subsidiaries are translated into 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 net assets.

12) 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 the estimated useful lives of five years.

13) 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 for the years ended March 31, 2011, 2010 and 2009 was 85,433 thousand, 85,065 thousand and 85,011 thousand.

The diluted net income per share assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. The average number of shares used in the computation for the years ended March 31, 2011, 2010 and 2009 was 85,534 thousand, 85,162 thousand and 85,089 thousand.

Cash dividends per share shown in the accompanying Consolidated Statements of Income and Comprehensive Income are the amounts applicable to the respective years.

14) Income taxes (see Note 14)

Income taxes are accounted for by 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 carry forwards. 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.

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 ¥83.15 to U.S.\$1.00, the exchange rate prevailing on March 31, 2011. 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 Financial Instruments

The Companies have adopted the "Accounting Standard for Financial Instruments" and the "Guideline on Disclosures about Fair Value of Financial Instruments."

15) 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.

16) Changes in accounting policies

Effective April 1, 2010, the Company and its domestic subsidiary adopted the "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No.18 issued on March 31, 2008) and the "Guidance on Accounting Standards for Assets Retirement Obligations" (ASBJ Guidance No.21 issued on March 31, 2008). As a result of adopting these standards, operating income decreased by ¥12 million (\$148 thousand) and income before income taxes decreased by ¥120 million (\$1,454 thousand) for the year ended March 31, 2011.

Effective March 31, 2011, the Company adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25 issued on June 30, 2010) and the "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 revised on June 30, 2010).

As a result of the adoption of these standards, the Company has presented the consolidated statements of income and comprehensive income in the consolidated financial statements for the year ended March 31, 2011.

The consolidated balance sheet as of March 31, 2010 has been modified to conform with the new presentation rules of 2011. In addition, the Company has presented the consolidated statements of income and comprehensive income and the consolidated statements of changes in net assets for the years ended March 31, 2010 and 2009 as well as that for the year ended March 31, 2011.

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, 2011.

Notes to Consolidated Financial Statements

Information on Financial instruments for the year ended March 31, 2011 and 2010 is as follows:

(1) Policies for financing activities

The Companies principally use, highly liquid and safe financial instruments in financing activities. The Companies basically rely on their own resources to finance operations and use derivative financial instruments only to hedge foreign exchange rate risk for foreign currency denominated assets and liabilities and do not use derivative financial instrument for speculative purposes.

(2) Risk management

Trade receivables are exposed to customer credit risk. To manage this risk, the Company performs due date and credit limit controls in accordance with the Companies' credit management rules and periodically assesses the financial reliability of each customer taking into account the customer's financial position and other factors.

Bonds in Short-term investments are exposed to the credit risk of the issuing institution. The Company invests only in high-rated bonds.

Investment securities are exposed to market risk, most of which are stocks of companies with which the Company has business relationships. The Company periodically reviews the fair market values of these securities and report on them at the Company's board meeting.

Trade accounts payable, other payables and income taxes payable (the "operating payables") are due within one year.

Bank loans in Short-term borrowings and Long-term debt do not occur regularly. The Companies use them as short-term funding for business necessities according to the situation.

Operating payables and the bank loans are exposed to liquidity risk. The Company manages the risk by monitoring the monthly cash flows of each group company.

To reduce credit risk, the Company uses derivative instruments according to its policies for hedging, including rules for authorization levels, transaction volumes and entering into transactions only with highly rated banks.

The book value and fair value of the financial instruments on the consolidated balance sheet at March 31, 2011 and 2010 were as follows:

	Millions of yen					
	2011			2010		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and cash equivalents	¥72,482	¥72,482	¥ (0)	¥ 64,349	¥ 64,348	¥ (1)
Trade receivables	38,981	38,981	—	35,268	35,268	—
Short-term investments and Investment securities:						
Time deposits	2,075	2,075	—	1,327	1,327	—
Maturities of investments	5,373	5,360	(13)	—	—	—
Other securities	10,941	10,941	—	11,907	11,907	—
Short-term borrowings	—	—	—	(543)	(543)	—
Trade accounts payable	(6,031)	(6,031)	—	(5,600)	(5,600)	—
Other payables	(8,444)	(8,444)	—	(7,937)	(7,937)	—
Income taxes payable	(4,631)	(4,631)	—	(6,618)	(6,618)	—
Derivatives	—	—	—	—	—	—

	Thousands of U.S. dollars		
	2011		
	Book value	Fair value	Difference
Cash and cash equivalents	\$ 871,705	\$ 871,699	\$ (6)
Trade receivables	468,802	468,802	—
Short-term investments and Investment securities:			
Time deposits	24,960	24,960	—
Maturities of investments	64,622	64,457	(165)
Other securities	131,584	131,584	—
Short-term borrowings	—	—	—
Trade accounts payable	(72,537)	(72,537)	—
Other payables	(101,556)	(101,556)	—
Income taxes payable	(55,697)	(55,697)	—
Derivatives	—	—	—

- Notes: 1. Instruments with no fair market value are excluded in the table above.
2. Figures in parentheses indicate a liability or a decrease.
3. The following methods and assumptions were used to estimate fair value:
Cash and Trade receivables
— As these assets are settled in a short period of time, the fair value approximates book value.
Cash equivalents
— The fair values of held-to-maturity debt securities included in Cash and cash equivalents are based on the quoted market prices or the price provided by corresponding financial institutions.

Short-term investments and Investment securities

– The fair values of listed stocks is based on year-end quoted stock market prices and that of bonds is based on the quoted market prices or the price provided by corresponding financial institutions.

– The fair value of time deposits approximates the book value.

Short-term borrowings, Trade accounts payable, Other payables and Income taxes payable

– As these liabilities are settled in a short period, fair value approximates book value.

Derivatives

– There are no outstanding transactions at March 31, 2011 and 2010.

4. Financial Instruments with no fair market value as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Other securities:			
Unlisted securities	¥ 138	¥ 307	\$1,663
Investment limited partnerships	23	25	273
	¥161	¥ 332	\$1,936

These instruments are excluded from investment securities in the table above since there are no fair market values available for these instruments.

5. The maturity profile of the anticipated future contractual cash flows in relation to the Companies' financial assets at March 31, 2011 and 2010 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2011		2010		2011	
	Due within one year	Due after one year	Due within one year	Due after one year	Due within one year	Due after one year
Cash and cash equivalents	¥ 72,482	¥ —	¥ 64,349	¥ —	\$ 871,705	\$ —
Trade receivables	38,981	—	35,268	—	468,802	—
Short-term investments and investment securities:						
Time deposits	2,075	—	1,327	—	24,960	—
Maturities of investments	4,300	1,021	—	—	51,714	12,279
Other securities	—	—	—	—	—	—
	¥117,838	¥1,021	¥ 100,944	¥ —	\$1,417,181	\$12,279

6. See Note 9 of Notes to Consolidated Financial Statements in respect to maturities of long-term debt at March 31, 2011 and 2010.

5 Short-term Investments and Investment Securities

The following was a summary of maturities of investments at market value at March 31, 2011 and 2010:

	Millions of yen					
	2011			2010		
	Book value	Fare value	Difference	Book value	Fare value	Difference
Securities with fare values exceeding book values:						
Corporate bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Securities with fare values not exceeding book values:						
Corporate bonds	5,373	5,360	(13)	—	—	—
	¥5,373	¥5,360	¥(13)	¥ —	¥ —	¥ —

	Thousands of U.S. dollars		
	2011		
	Book value	Fare value	Difference
Securities with fare values exceeding book values:			
Corporate bonds	\$ —	\$ —	\$ —
Securities with fare values not exceeding book values:			
Corporate bonds	64,622	64,457	(165)
	\$64,622	\$64,457	\$(165)

Notes to Consolidated Financial Statements

The following was a summary of other securities at market value at March 31, 2011 and 2010:

	Millions of yen					
	2011			2010		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥ 4,057	¥ 4,567	¥ 510	¥ 4,044	¥ 4,866	¥ 822
Securities with book values not exceeding acquisition costs:						
Equity securities	7,629	6,374	(1,255)	7,629	7,041	(588)
	¥ 11,686	¥ 10,941	¥ (745)	¥ 11,673	¥ 11,907	¥ 234

	Thousands of U.S. dollars		
	2011		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	\$ 48,793	\$ 54,924	\$ 6,131
Securities with book values not exceeding acquisition costs:			
Equity securities	91,745	76,660	(15,085)
	\$ 140,538	\$ 131,584	\$ (8,954)

The market prices in the table above do not include the unlisted securities. The book value of the unlisted securities at March 31, 2011 and 2010 were ¥146 million (\$1,748 thousand) and ¥316 million respectively.

Impairment loss on investment securities was ¥150 million (\$1,809 thousand) and ¥254 million for the years ended March 31, 2011 and 2010.

If the year-end value of an investment security has declined by more than 50% of its acquisition cost, an impairment loss is recognized. When the year-end value has declined by less than 50% but more than 30%, an impairment loss is recognized if there is no possibility that the security will recover its value.

6 Inventories

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Merchandise and finished goods	¥ 11,784	¥ 11,211	\$ 141,726
Work in process	450	425	5,412
Raw materials and supplies	2,470	1,988	29,703
	¥ 14,704	¥ 13,624	\$ 176,841

7 Leases

Finance leases, commenced prior to April 1, 2008, which did not transfer ownership of the leased assets to the lessees, are accounted for as operating leases.

Finance leases

The equivalent purchase amount, accumulated depreciation and future minimum lease payments on an "as if capitalized" basis at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Machinery and equipment:			
Equivalent purchase amount	¥ —	¥ 1,038	\$ —
Equivalent accumulated depreciation amount	—	952	—
Equivalent balance at year-end	—	86	—
Tools, furniture and vehicles:			
Equivalent purchase amount	126	262	1,516
Equivalent accumulated depreciation amount	114	202	1,368
Equivalent balance at year-end	12	60	148
Total:			
Equivalent purchase amount	126	1,299	1,516
Equivalent accumulated depreciation amount	114	1,153	1,368
Equivalent balance at year-end	¥ 12	¥ 146	\$ 148
Future minimum lease payments:			
Due within one year	¥ 13	¥ 141	\$ 161
Due after one year	—	14	—
	¥ 13	¥ 155	\$ 161

Lease payments, equivalent depreciation and equivalent interest expense for the three years ended March 31, 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Lease payments	¥ 143	¥ 432	¥ 865	\$ 1,717
Equivalent depreciation	¥ 133	¥ 410	¥ 821	\$ 1,603
Equivalent interest expense	¥ 1	¥ 6	¥ 18	\$ 17

Operating leases

Future minimum rents under non-cancellable operating leases at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥ 209	¥ 171	\$ 2,509
Due after one year	306	174	3,686
	¥ 515	¥ 345	\$ 6,195

Notes to Consolidated Financial Statements

8 Impairment of Fixed Assets

The Company and its domestic subsidiary account for impairment of fixed assets in accordance with the "Accounting Standard for Impairment of Fixed Assets."

The Company and its domestic subsidiary review the recorded value of their property, plant and equipment and intangible assets to determine if the future cash flows from these properties will be sufficient to support the asset's covering values.

Impairment loss recognized for the three years ended March 31, 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Land	¥ —	¥ 249	¥ —	\$ —
Buildings and structures	—	147	—	—
Others	—	1	—	—
	¥ —	¥ 397	¥ —	\$ —

For the year ended March 31, 2010, the Company recorded impairment loss of ¥284 million relating to land, buildings and structures and others for the closed dormitory which is held for sale. The fair value of the land, buildings and structures and others was based on the selling price. The Company also recorded impairment

loss of ¥113 million relating to land of the distribution center since it is not expected to be used and the carrying value exceeded the recoverable amount. The fair value of the land of the distribution center was based on the disposal value.

9 Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2010 consisted of bank loans executed by Santen Pharmaceutical (China) Co., Ltd.

The weighted average interest rate of short-term borrowings as of March 31, 2010 was 5.1%.

Long-term debt at March 31, 2011 and 2010 consisted of lease obligation.

The aggregate annual maturities of long-term debt at March 31, 2011 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥ 36	\$ 434
2014	28	339
2015	25	296
2016	43	523
2017 and thereafter	20	236
	¥152	\$1,828

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

In March 2011, the Company entered into a commitment line contract with six domestic banks. The maximum aggregate credit facility available to the Company was ¥16,000 million (\$192,423 thousand). The credit facility had not been used as of March 31, 2011.

10 Retirement and Severance Benefits

As discussed in Note 2. 10), the Company has a retirement benefit scheme, which is a combination of lump-sum severance plan, cash balance and defined contribution pension plan. The Company also has a retirement benefit trust. A certain overseas subsidiary also has a retirement benefit scheme, which is a combination of cash balance

and defined contribution pension plan and other overseas subsidiaries have defined contribution pension plan. The Company has an unfunded retirement benefit plan for directors and corporate auditors. The amounts required under the plan have been fully accrued based on internal regulations.

The following table set forth the details of the benefit obligation, plan assets and funded status of the Companies at March 31, 2011 and 2010.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
For employees:			
Benefit obligation at end of year	¥(14,187)	¥ (14,001)	\$(170,626)
Fair value of plan assets at end of year	9,795	9,573	117,800
Funded status (benefit obligation in excess of plan assets)	(4,392)	(4,428)	(52,826)
Unrecognized actuarial loss	1,126	1,517	13,543
For directors and corporate auditors:			
Accrued retirement benefit	(454)	(456)	(5,458)
Retirement and severance benefits recognized in the consolidated balance sheets	¥ (3,720)	¥ (3,367)	\$ (44,741)

Retirement and severance costs of the Companies included the following components for the three years ended March 31, 2011.

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
For employees:				
Service cost	¥ 921	¥ 956	¥ 805	\$11,075
Interest cost	276	257	246	3,318
Expected return on plan assets	(195)	(145)	(189)	(2,340)
Recognized actuarial loss	169	179	209	2,028
Contribution to defined contribution pension plan	791	813	830	9,517
Net periodic benefit cost	¥1,962	¥ 2,060	¥ 1,901	\$23,598
For directors and corporate auditors:				
Accrual for retirement benefit	¥ 38	¥ 16	¥ 18	\$ 453

Assumptions used in the accounting for retirement and severance benefits for the three years ended March 31, 2011 were as follows:

	2011	2010	2009
Method of attributing benefit to period of service	Straight-line basis	Straight-line basis	Straight-line basis
Discount rate	mainly, 2.00%	mainly, 2.00%	mainly, 2.00%
Expected return on plan assets	mainly, 2.00%	mainly, 2.00%	mainly, 2.00%
Amortization period for actuarial losses*	mainly, 14 years	mainly, 14 years	mainly, 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.

The domestic subsidiary and the overseas subsidiary have a lump-sum severance plan and 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.

Notes to Consolidated Financial Statements

11 Net Assets

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law ("The Law"), in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend and the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets and amounted to ¥1,551 million (\$18,658 thousand) and ¥1,551 million as of March 31, 2011 and 2010, respectively.

Cash dividends charged to retained earnings during the three years ended March 31, 2011 represent dividends paid out during the periods. The accompanying consolidated financial statements do not include any provision for the year end dividend of ¥50 (\$0.60) per share, aggregating ¥4,353 million (\$52,347 thousand) which was approved at the Company's shareholders' meeting on June 22, 2011 in respect of the year ended March 31, 2011.

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 stock options are fully exercisable after two years and expires ten years from the date of grant.

Stock options existing as of March 31, 2011 were as follows:

Stock options granted	2010	2009	2008	2007
Persons granted	Directors and corporate officers: 10	Directors and corporate officers: 12	Directors and corporate officers: 12	Directors and corporate officers: 12
Number of shares	Common Stock 120,500	Common Stock 168,400	Common Stock 161,700	Common Stock 99,300
Date of grant	July 6, 2010	July 3, 2009	July 2, 2008	July 3, 2007
Vesting conditions	No provisions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions	No provisions
Exercise period	From June 25, 2012 to June 23, 2020	From June 27, 2011 to June 24, 2019	From June 28, 2010 to June 25, 2018	From June 27, 2009 to June 26, 2017

Stock options granted	2006	2005	2004	2003
Persons granted	Directors and corporate officers: 15	Directors and corporate officers: 15	Directors and corporate officers: 11	Directors and corporate officers: 12
Number of shares	Common Stock 102,700	Common Stock 129,200	Common Stock 78,200	Common Stock 137,600
Date of grant	July 4, 2006	July 4, 2005	July 5, 2004	July 4, 2003
Vesting conditions	No provisions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions	No provisions
Exercise period	From June 28, 2008 to June 24, 2016	From June 25, 2007 to June 23, 2015	From June 26, 2006 to June 24, 2014	From June 27, 2005 to June 25, 2013

Stock options granted	2002	2001	2000
Persons granted	Directors and corporate officers: 14	Directors and corporate officers: 14	Directors and corporate officers: 16
Number of shares	Common Stock 92,000	Common Stock 55,000	Common Stock 60,000
Date of grant	July 5, 2002	July 9, 2001	July 10, 2000
Vesting conditions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions
Exercise period	From June 27, 2004 to June 25, 2012	From June 29, 2003 to June 27, 2011	From June 30, 2002 to June 28, 2010

Number, movement and price of stock options for the year ended March 31, 2011 were as follows:

Before vesting options (Number of shares):

Stock options granted	2010	2009	2008	2007	2006	2005
Balance at April 1, 2010	—	—	—	—	—	—
Granted	120,500	—	—	—	—	—
Vested	120,500	—	—	—	—	—
Balance at March 31, 2011	—	—	—	—	—	—

Stock options granted	2004	2003	2002	2001	2000
Balance at April 1, 2010	—	—	—	—	—
Granted	—	—	—	—	—
Vested	—	—	—	—	—
Balance at March 31, 2011	—	—	—	—	—

After vesting options (Number of shares):

Stock options granted	2010	2009	2008	2007	2006	2005
Balance at April 1, 2010	—	168,400	161,700	99,300	102,700	122,700
Vested	120,500	—	—	—	—	—
Exercised	—	—	800	—	5,300	5,200
Balance at March 31, 2011	120,500	168,400	160,900	99,300	97,400	117,500

Stock options granted	2004	2003	2002	2001	2000
Balance at April 1, 2010	44,000	35,800	23,000	29,600	32,600
Vested	—	—	—	—	—
Exercised	4,400	—	—	24,900	20,000
Cancelled	—	—	—	—	12,600
Balance at March 31, 2011	39,600	35,800	23,000	4,700	—

Price information (Yen):

Stock options granted	2010	2009	2008	2007	2006	2005
Option price	3,170	2,920	2,734	3,050	2,715	2,480
Weighted-average stock price	—	—	3,055	—	3,083	3,087
Fair value at grant date*	403.71	427.73	423.16	609.45	579.05	—

Stock options granted	2004	2003	2002	2001	2000
Option price	1,743	1,176	1,326	2,299	2,705
Weighted-average stock price	2,920	—	—	3,000	2,925
Fair value at grant date*	—	—	—	—	—

* Omitted due to stock options which had been granted before the Law became effective on May 1, 2006.

On June 22, 2011, the Company's shareholders' meeting approved that the Company's stock subscription rights for allotment as stock options to directors and corporate officers of the Company. These stock subscription rights are exercisable from June 24, 2013 to June 22, 2021. The maximum number of stock subscription rights that can be exercised is 168,400 common shares.

Notes to Consolidated Financial Statements

13 Research and Development Expenditures

Research and development expenditures charged to income as incurred for the years ended March 31, 2011, 2010 and 2009 were ¥13,221 million (\$159,005 thousand), ¥14,123 and ¥18,458 million, respectively.

14 Income Taxes

The Company and its domestic subsidiary are subject to a number of taxes based on earnings which, in the aggregate, resulted in an average normal tax rate of approximately 40.4% for the three years ended March 31, 2011. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The reasons for the effective rates for the years ended March 31, 2011, 2010 and 2009 differ from the normal tax rates were as follows:

	2011	2010	2009
Normal tax rate	40.4 %	40.4 %	40.4 %
Expenses not deductible for tax purposes	0.7	0.9	1.5
Equity in losses of affiliates	—	(1.2)	1.7
Lower tax rates of subsidiaries	(0.5)	(0.1)	1.3
Tax credit for research and development expenses	(4.3)	(4.4)	(8.0)
Change in valuation allowance allocated to income tax expenses	(5.2)	(1.4)	(1.5)
Others	0.2	0.4	0.6
Effective tax rate	31.3 %	34.6 %	36.0 %

The tax effects of temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2011 and 2010 were presented below:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Tax loss carryforwards	¥ 3,148	¥ 4,211	\$ 37,863
Retirement and severance benefits	2,860	2,718	34,398
Deferred assets for tax purposes	1,998	2,387	24,024
Accrued expenses	1,170	1,146	14,076
Depreciation and amortization	925	964	11,127
Accrued enterprise taxes	386	520	4,639
Net unrealized holding losses on securities	301	—	3,621
Loss on impairment of fixed assets	189	432	2,268
Retirement and severance benefits for directors and corporate auditors	184	185	2,207
Loss on impairment of golf membership rights	66	210	796
Loss on valuation of securities	65	107	779
Loss on valuation of inventories	59	211	713
Other	1,258	1,011	15,129
Subtotal	12,609	14,102	151,640
Valuation allowance	(3,013)	(5,041)	(36,233)
Total gross deferred tax assets	9,596	9,061	115,407
Deferred tax liabilities:			
Net unrealized holding gains on securities	(1)	(94)	(16)
Reserve for special depreciation	(56)	(84)	(674)
Other	(35)	(29)	(416)
Total gross deferred tax liabilities	(92)	(207)	(1,106)
Net deferred tax assets	¥ 9,504	¥ 8,854	\$ 114,301

Net deferred tax assets at March 31, 2011 and 2010 were reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Current assets – deferred tax assets	¥ 1,987	¥ 2,166	\$ 23,893
Investments and other assets – deferred tax assets	7,538	6,703	90,657
Noncurrent liabilities – deferred tax liabilities	(21)	(15)	(249)
Net deferred tax assets	¥ 9,504	¥ 8,854	\$ 114,301

15 Contingent Liabilities

The Company has provided guarantees to financial institutions covering employee loans. As of March 31, 2011, the total amount of outstanding guarantees was ¥232 million (\$2,795 thousand).

16 Segment Information

General information about reportable segments

The determination of the Companies' operating segment is based on the organization units for which information is reported to the Company's chief operating decision making body, the Board of Directors. The Board of Directors review the internal report in order to assess performance and allocate resources. "Pharmaceuticals" is the Companies' only one reportable segment which includes manufacturing and distribution of prescription and OTC pharmaceuticals.

Basis of measurement about reported segment profit or loss, segment assets, segment liabilities and other material items

The accounting policies for the reportable segments are basically the same as those described in Note 2, Summary of Significant Accounting Policies. Performance is measured based on segment operating profit. Transfer pricing between reportable segments are set on arm's length basis.

Information about reported segment profit (loss), segment assets, segment liabilities and other material items were as follows:

For the year ended March 31, 2009	Millions of yen				
	Pharmaceuticals	Other	Total	Adjustments	Consolidated
Net sales:					
External customers	¥100,970	¥ 649	¥101,619	¥ —	¥101,619
Intersegment	—	111	111	(111)	—
Total	100,970	760	101,730	(111)	101,619
Segment profit (loss)	17,241	(1,747)	15,494	—	15,494
Segment assets	86,332	1,142	87,474	63,538	151,012
Other items:					
Depreciation and amortization	4,059	151	4,210	—	4,210
Investment in equity-method affiliates	564	—	564	—	564
Increase in property, plant and equipment and intangible assets	¥ 3,091	¥ 70	¥ 3,161	¥ —	¥ 3,161

Notes to Consolidated Financial Statements

For the year ended March 31, 2010	Millions of yen				
	Pharmaceuticals	Other	Total	Adjustments	Consolidated
Net sales:					
External customers	¥109,057	¥1,537	¥110,594	¥ —	¥110,594
Intersegment	—	119	119	(119)	—
Total	109,057	1,656	110,713	(119)	110,594
Segment profit (loss)	29,859	(219)	29,640	—	29,640
Segment assets	84,732	1,464	86,196	80,682	166,878
Other items:					
Depreciation and amortization	3,310	111	3,421	—	3,421
Increase in property, plant and equipment and intangible assets	¥ 1,423	¥ 44	¥ 1,467	¥ —	¥ 1,467

For the year ended March 31, 2011	Millions of yen				
	Pharmaceuticals	Other	Total	Adjustments	Consolidated
Net sales:					
External customers	¥108,576	¥2,236	¥110,812	¥ —	¥110,812
Intersegment	—	122	122	(122)	—
Total	108,576	2,358	110,934	(122)	110,812
Segment profit	30,518	221	30,739	—	30,739
Segment assets	90,067	1,814	91,881	92,920	184,801
Other items:					
Depreciation and amortization	2,901	75	2,976	—	2,976
Increase in property, plant and equipment and intangible assets	¥ 2,143	¥ 44	¥ 2,187	¥ —	¥ 2,187

For the year ended March 31, 2011	Thousands of U.S. dollars				
	Pharmaceuticals	Other	Total	Adjustments	Consolidated
Net sales:					
External customers	\$1,305,784	\$26,894	\$1,332,678	\$ —	\$1,332,678
Intersegment	—	1,470	1,470	(1,470)	—
Total	1,305,784	28,364	1,334,148	(1,470)	1,332,678
Segment profit	367,015	2,661	369,676	—	369,676
Segment assets	1,083,194	21,814	1,105,008	1,117,500	2,222,508
Other items:					
Depreciation and amortization	34,893	901	35,794	—	35,794
Increase in property, plant and equipment and intangible assets	\$ 25,770	\$ 534	\$ 26,304	\$ —	\$ 26,304

Notes: 1. "Other" mainly includes the medical device business segments.

2. "Segment profit" is reconciled for operating income described in the Consolidated Statements of Income and Comprehensive Income.

3. "Adjustments" represents unallocated corporate assets which principally include surplus operating capital (cash and cash equivalents, short-term investments and investment securities) and deferred tax assets.

4. "Depreciation and amortization" and "Increase in property, plant and equipment and intangible assets" include long-term prepaid expenses and its amortization.

Effective April 1, 2010, the Company adopted the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17 issued on March 27, 2009) and the "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information"(ASBJ Guidance No.20 issued on March 21, 2008).

Information about products and services were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Pharmaceuticals:				
Prescription pharmaceuticals:				
Ophthalmic	¥ 90,797	¥ 86,867	¥ 84,488	\$1,091,967
Anti-rheumatic pharmaceuticals	9,834	9,908	9,742	118,268
Other prescription pharmaceuticals	3,222	7,031	1,516	38,745
OTC pharmaceuticals	4,723	5,251	5,225	56,804
Other:				
Medical devices	2,225	1,521	624	26,758
Other	11	16	24	136
Total	¥110,812	¥110,594	¥101,619	\$1,332,678

Information about geographic areas were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Net sales:				
Japan	¥ 92,549	¥ 89,585	¥ 88,620	\$1,113,045
Europe	8,517	8,714	8,311	102,429
North America	3,070	6,715	938	36,917
Asia	6,668	5,576	3,748	80,190
Other	8	4	2	97
Total	¥110,812	¥110,594	¥101,619	\$1,332,678
Property, plant and equipment:				
Japan	¥ 20,939	¥ 22,218	¥ 24,062	\$ 251,820
Europe	1,962	1,973	2,092	23,596
North America	478	529	601	5,748
Asia	1,578	1,854	1,910	18,976
Total	¥ 24,957	¥ 26,574	¥ 28,665	\$ 300,140

Notes to Consolidated Financial Statements

Information about major customers were as follows:

	Millions of yen			Thousands of U.S. dollars	Related business segment
	2011	2010	2009	2011	
Suzuken Co., Ltd.	¥21,465	¥21,024	¥20,932	\$258,156	Pharmaceuticals
Mediceo Corporation*	20,712	19,555	19,477	249,093	Pharmaceuticals
Toho Pharmaceutical Co., Ltd.	11,567	11,097	10,601	139,112	Pharmaceuticals

* Mediceo Corporation changed its name. As of March 31, 2009, its name was Mediceo Paltac Holdings Co., Ltd.

Information about loss on impairment of fixed assets by reportable segment were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Pharmaceuticals	¥—	¥397	¥—	\$—
Other	—	—	—	—
Total	¥—	¥397	¥—	\$—

Internal Control Report

1 FRAMEWORK OF INTERNAL CONTROL OVER FINANCIAL REPORTING

I, as President and CEO of Santen pharmaceutical Co., Ltd. (the Company), am responsible for the design and operation of internal controls over financial reporting (“ICOFR”) and establishing and maintaining an ICOFR based on the framework of ICOFR in Japan in accordance with “On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Report (Business Accounting Council (Council Opinions), February 15, 2007)”.

Internal control aims at achieving the objectives to a reasonable extent with the organized and integrated function of individual component as a whole. Therefore ICOFR does not provide an absolute assurance for preventing and detecting all errors to consolidated financial statements.

2 ASSESSMENT SCOPE, TIMING AND PROCEDURES

Basis of Presenting Internal Control Report

The report on ICOFR of the consolidated financial statements of the Company (“Internal Control Report”) is prepared on the basis of generally accepted assessment standards of internal control over financial reporting in Japan (“Assessment Standards”) and is compiled from the Internal Control Report prepared by the Company as required by the Financial Instruments and Exchange Law of Japan (“Law”).

The Assessment Standards require management to assess ICOFR, which consists of the internal controls over the consolidated financial statements included in the Annual Securities Report filed under the Law and the internal control over disclosure information and others included in the Annual Securities Report that materially affects the reliability of the financial statements.

The scope of management’s assessment of ICOFR in this annual report is different from the scope required by the Assessment Standards. Management assessment of ICOFR in this annual report covers the ICOFR with respect to the accompanying consolidated financial statements only. In addition, as explained in Note 1 on the basis of presentation of consolidated financial statements, the accompanying consolidated financial statements are reclassified and modified from the consolidated financial statements prepared for the purpose of the Law. Supplementary information is also added to the consolidated financial statements. The process of making reclassifications and modifications and the addition of certain information is for the convenience of readers outside Japan. Management voluntarily includes the process in its assessment of ICOFR, even though it is outside the scope of the Assessment Standards.

Scope of Assessment

Management’s assessment of ICOFR was conducted as of March 31, 2011 in accordance with the Assessment Standards.

In evaluating internal controls, management first assessed internal controls that have a material impact on overall consolidated financial reporting (“company-level controls”) and, based on the results, selected business process to be assessed. For assessment of process level controls management analyzed the selected business processes, identify a key control that would have a material impact on the reliability of financial reporting, and assessed effectiveness of internal controls through assessing design and operation of the key controls.

Management assessed the effectiveness of the ICOFR applicable for the Company and its subsidiaries, to extent necessary in light of their degree of impact on the reliability of financial reporting. Management determined materiality for reliability of financial reporting in light of their degree of quantitative and qualitative impact on financial reporting. From the results of the company-level controls assessment of the Company and two subsidiaries, management determined a reasonable scope for process level controls to be assessed.

Management selected the Pharmaceuticals business unit of the Company as the significant business unit for assessing process level controls, as its sales was more than 80% of the previous fiscal year’s consolidated net sales. The process related to net sales, account receivables and inventories from the Pharmaceuticals business unit of the Company was selected for process level control assessment as they have significant relation to the business objectives of the Company. Apart from selected significant business units, including other business units, processes whose accounts were determined to have a high risk of misstatement and involves significant use of management estimate and projection, and processes whose businesses or operations included high risk transactions were additionally selected for controls assessment.

3 RESULTS OF ASSESSMENT

Based on our assessment procedures noted above, I concluded the Company’s internal control over financial reporting was effective as of March 31, 2011.

4 SUPPLEMENTARY INFORMATION

No subsequent events have arisen that has caused to materially effect our evaluation of the effectiveness on the internal control over financial reporting as of March 31, 2011.

5 OTHER

None.



Akira Kurokawa
President & CEO

June 22, 2011

Independent Auditors' Report



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

Financial statement audit

We have audited the accompanying consolidated balance sheets of Santen Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income and comprehensive income, changes in net assets and cash flows for each of the three-year in the period ended March 31, 2011, 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 financial position of Santen Pharmaceutical Co., Ltd. and subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the each of the three-year in the period ended March 31, 2011, 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, 2011 are presented solely for convenience of the reader. 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.

Internal control audit

We also have audited the accompanying report on internal control over financial reporting of the consolidated financial statements of Santen Pharmaceutical Co., Ltd. as of March 31, 2011 ("Internal Control Report"). The design and operation of internal control over financial reporting and the preparation of the Internal Control Report are the responsibility of the Company's management. Our responsibility is to independently express an opinion on the Internal Control Report based on our audit. Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Internal Control Report is free of material misstatement. An internal control audit is performed on a test basis and includes evaluating the appropriateness of the scope, procedures and result of the assessment determined and presented by management and the overall Internal Control Report presentation. We believe that our internal control audit provides a reasonable basis for our opinion.

In our opinion, the Internal Control Report referred to above, in which Santen Pharmaceutical Co., Ltd. states that internal control over financial reporting of the consolidated financial statements was effective as of March 31, 2011, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

KPMG AZSA LLC

Osaka, Japan
June 22, 2011

Corporate Information / Stock Information

As of March 31, 2011

Corporate Headquarters Santen Pharmaceutical Co., Ltd.
9-19, Shimoshinjo 3-chome,
Higashiyodogawa-ku,
Osaka 533-8651, Japan
URL: <http://www.santen.com>
Investor relations contact:
TEL: +81-6-6321-7007
FAX: +81-6-6321-8400
E-MAIL: ir@santen.co.jp

Established 1890
Paid-in Capital ¥6,615 million

Number of Shareholders 9,089

Stock Exchange Listings Tokyo and Osaka

Ticker Code 4536

Transfer Agent Mitsubishi UFJ Trust and Banking Corporation
6-3, Fushimi-cho 3-chome, Chuo-ku,
Osaka 541-8502, Japan

Major Offices Sendai, Tokyo, Saitama, Nagoya, Osaka,
Hiroshima and Fukuoka

Manufacturing Plants Noto, Shiga and Osaka

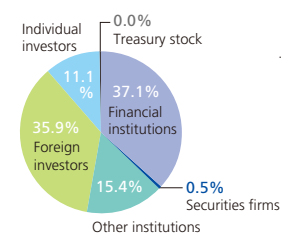
Research Laboratory Nara Research and Development Center

Number of Employees 2,867 (non-consolidated: 1,924)

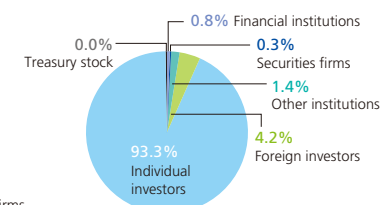
Number of Shares Issued 87,053,103

Breakdown of Shareholding

Breakdown of shareholding



Breakdown of shareholding by number of shares

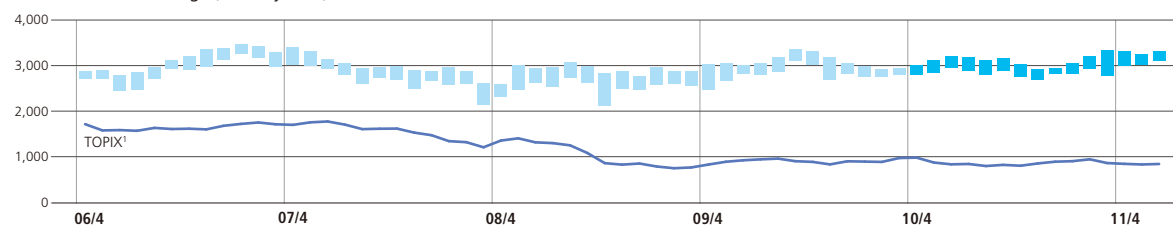


Major Shareholders

Name	Number of shares held (Thousands of shares)	Percentage of investment
Japan Trustee Services Bank, Ltd.	12,440	14.3%
Mita Sangyo Co., Ltd.	4,756	5.5
The Master Trust Bank of Japan, Ltd.	4,302	4.9
Development Bank of Japan Inc.	3,310	3.8
Nippon Life Insurance Company	3,102	3.6
State Street Bank and Trust Company 505223	3,058	3.5
Mellon Bank Treaty Clients Omnibus	2,165	2.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,120	2.4
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	1,984	2.3
Trust and Custody Services Bank, Ltd.	1,977	2.3

Stock Price Range (Yen)

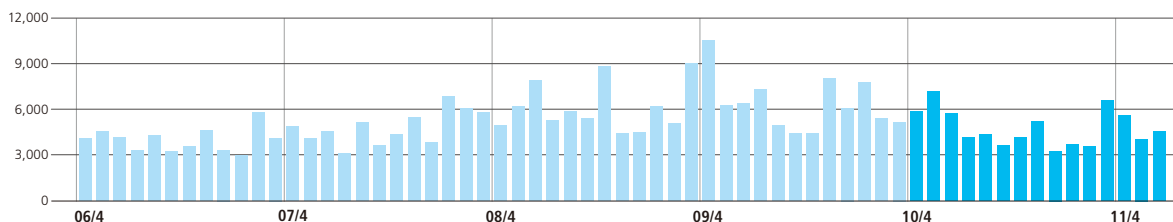
Osaka Securities Exchange (monthly basis)



1. TOPIX: Tokyo stock price index

Trading Volume (Thousands of shares)

Osaka Securities Exchange (monthly basis)



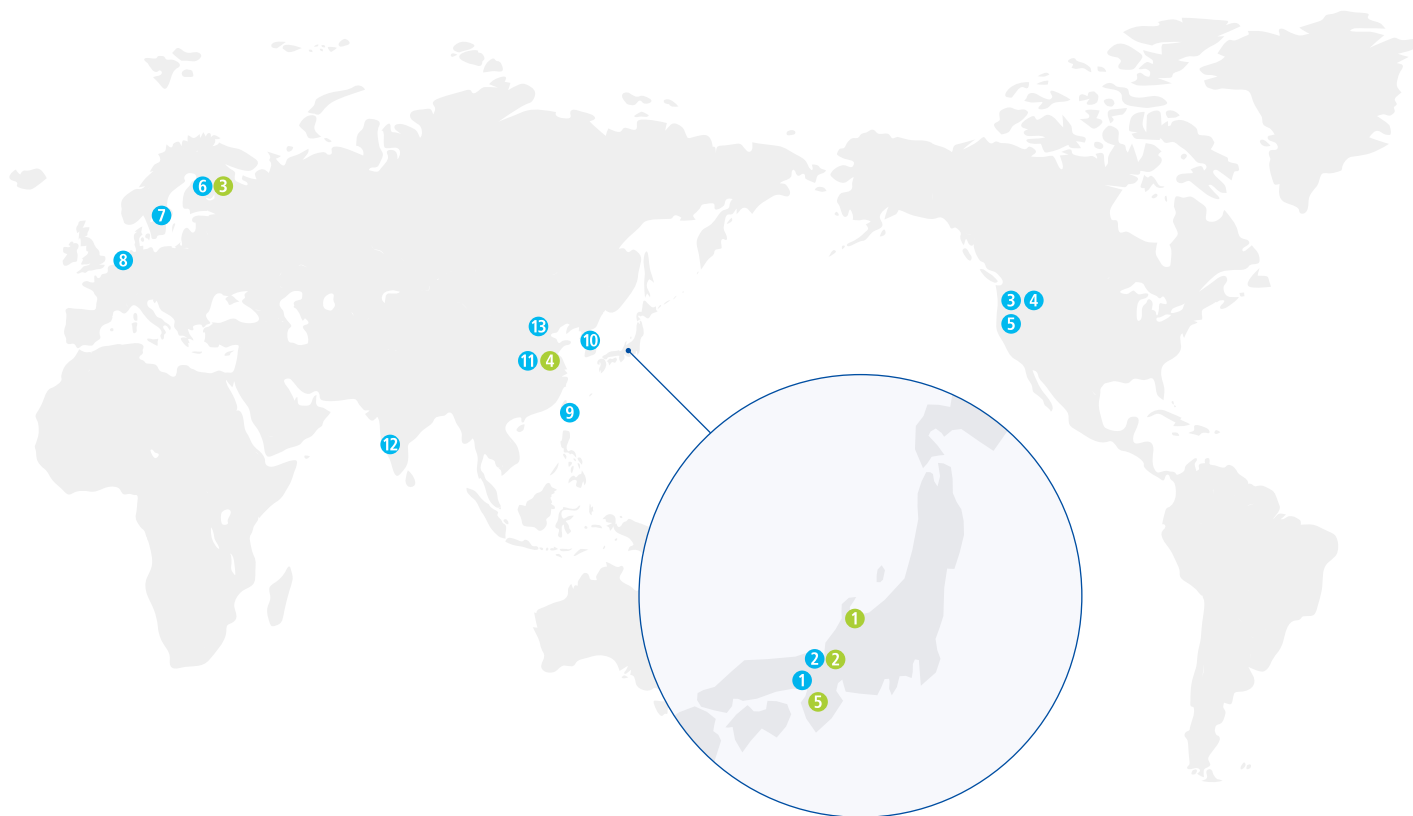
Yearly High and Low Prices

	2007	2008	2009	2010	2011
High (yen)	3,450	3,050	3,340	3,195	3,320
Low (yen)	2,480	2,125	2,460	2,694	2,767

Note: Calendar years. Stock prices for 2011 are for the period to the end of June.

Business Bases






As of August 2011



Corporate Headquarters

		Business	Equity Ownership
① Headquarters	9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku, Osaka 533-8651, Japan TEL: +81-6-6321-7000 FAX: +81-6-6328-5082	Research, development, production, marketing of pharmaceuticals and medical devices	
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	Cleaning of antidust and sterilized clothing	100%
③ Santen Holdings U.S. Inc.	2100 Powell Street, Suite 1600, Emeryville, California 94608, U.S.A.	Holding company for North American businesses and business development	100%
④ Santen Inc.	2100 Powell Street, Suite 1600, Emeryville, California 94608, U.S.A. TEL: +1-415-268-9100 FAX: +1-510-655-5682	Clinical development of pharmaceuticals and business development	100% ¹
⑤ Advanced Vision Science, Inc.	5743 Thornwood Drive, Goleta, California 93117, U.S.A. TEL: +1-805-683-3851 FAX: +1-805-964-3065	Development, production, marketing of medical devices	100% ¹
⑥ Santen Oy	Niittyhaankatu 20, P.O. Box 33, FIN-33721 Tampere, Finland TEL: +358-3-284-8111 FAX: +358-3-318-1900	Development, production, marketing of pharmaceuticals	100%
⑦ SantenPharma AB	Solna torg 3, SE-17145 Solna, Sweden TEL: +46-8-83-4140 FAX: +46-8-83-4145	Marketing support of pharmaceuticals	100%

Plants and Laboratory

<p>1 Noto Plant</p> 	<p>2 Shiga Plant</p> 	<p>3 Tampere Plant</p> 
<p>2-14, Shikinami, Houdatsushimizu-cho, Hakui-gun, Ishikawa 929-1494, Japan TEL: +81-767-29-2666 FAX: +81-767-29-4233</p>	<p>348-3, Aza-suwa, Oaza-shide, Taga-cho, Inukami-gun, Shiga 522-0314, Japan TEL: +81-749-48-2900 FAX: +81-749-48-2901</p>	<p>Niittyhaankatu 20, P.O. Box 33, FIN-33721 Tampere, Finland TEL: +358-3-284-8111 FAX: +358-3-318-1900</p>
<p>4 Suzhou Plant</p> 	<p>5 Nara Research and Development Center</p> 	<p>Note: Osaka Plant details have been omitted due to the planned transfer of its operations to the Shiga Plant by the end of fiscal 2012.</p>
<p>No. 169 Tinglan Road, Suzhou Industrial Park, Jiangsu Province 215026, P.R.C. TEL: +86-512-6295-7500 FAX: +86-512-6295-7800</p>	<p>8916-16, Takayama-cho, Ikoma-shi, Nara 630-0101, Japan TEL: +81-743-79-4501 FAX: +81-743-79-4521</p>	<p>Note: Osaka Plant details have been omitted due to the planned transfer of its operations to the Shiga Plant by the end of fiscal 2012.</p>

		Business	Equity Ownership
<p>8 Santen GmbH</p>	<p>Industriestrasse 1, Germering D-82110, Germany TEL: +49-89-848078-0 FAX: +49-89-848078-60</p>	<p>Marketing of pharmaceuticals, regulatory affairs, scientific marketing and business development</p>	<p>100%</p>
<p>9 Taiwan Santen Pharmaceutical Co., Ltd.</p>	<p>16F, No. 57, Sec. 2, Tun-Hwa South Rd., Taipei, R.O.C. TEL: +886-2-2700-1553 FAX: +886-2-2700-1730</p>	<p>Import and marketing of pharmaceuticals</p>	<p>100%</p>
<p>10 Santen Pharmaceutical Korea Co., Ltd.</p>	<p>3F, Seocho G-WELL Tower, 1678-4, Seocho-dong, Seocho-gu, Seoul 137-070, Korea TEL: +82-2-754-1434 FAX: +82-2-754-2929</p>	<p>Import and marketing of pharmaceuticals</p>	<p>100%</p>
<p>11 Santen Pharmaceutical (China) Co., Ltd.</p>	<p>No. 169 Tinglan Road, Suzhou Industrial Park, Jiangsu Province 215026, P.R.C. TEL: +86-512-6295-7500 FAX: +86-512-6295-7800</p>	<p>Clinical development, production and marketing of pharmaceuticals</p>	<p>100%</p>
<p>12 Santen India Private Limited</p>	<p>Level 9, Raheja Towers, 26-27 Mahatma Gandhi Road, Bangalore 560 001, India TEL: +91-80-4180-0975 FAX: +91-80-4180-0900</p>	<p>Pharmaceutical market research</p>	<p>99.9% 0.1%¹</p>

1. Indirect investment through Santen Holdings U.S. Inc.

Other Office

<p>13 Beijing Representative Office</p>	<p>Suit 1204 to 1206, TOWER W3, Oriental Plaza, No. 1, East Chang An Ave., Dong Cheng District, Beijing 100738, P.R.C. TEL: +86-10-8515-1515 FAX: +86-10-8515-1020</p>
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History

Company History

1890
 Founder Kenkichi Taguchi opens Taguchi Santendo in Kitahama, Osaka

1925
 Operations incorporated as Santendo Co., Ltd.

1935
 Yodogawa Plant established in Higashiyodogawa-ku, Osaka

1944
 Head Office transferred to Yodogawa Plant (current site)

1945
 Company name changed to Santendo Pharmaceutical Co., Ltd.

1958
 Company name changed to current form of Santen Pharmaceutical Co., Ltd.

Santen enters prescription pharmaceutical business

1977
 Stock listed on First Section of Tokyo Stock Exchange and Osaka Securities Exchange

Production system introduced to allow filling of solution into molded containers to make bottle-packed eye drops

1982
 Central Research Laboratories established

1985
 Noto Plant established

1990
 Long-term business vision formulated to mark centenary

1993
 Subsidiary Santen Inc. established in the U.S.

1994
 Subsidiary Santen GmbH established in Germany

1996
 Representative office established in Beijing, China

Nara Research and Development Center and Shiga Plant established

1997
 Finnish ophthalmics pharmaceutical company acquired and Santen Oy established

Subsidiary Taiwan Santen Pharmaceutical Co., Ltd. established

1900

1990

Product History

1890s
 Main product is *Heburin-gan*, a cold medicine



1899
 Launch of *Daigaku Eye Drops*



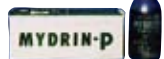
1952
 Launch of *Daigaku Penicillin Eye Drops*

1953
 Launch of *Daigaku Mycillin Eye Drops*

1954
 Launch of *Daigaku Super Eye Drops*

1956
 Launch of *Sante de U*

1962
 Launch of *Mydrin-P*, a mydriatic drug (for pupil dilation)



Launch of *Super Sante* marks first use of plastic eye drop containers in Japan



1963
 Launch of *Thiola*, an original liver detoxification agent



1970
 Launch of antibiotic ophthalmic *Ecolicin*

1975
 Launch of anti-inflammatory ophthalmic *Flumetholon*

1978
 Santen commences sales of medical devices

1981
 Launch of *Timoptol*, a treatment for glaucoma and ocular hypertension

1985
 Launch of *Sante 40 NE*



1986
 Santen commences sales of intraocular lenses

1987
 Launch of anti-rheumatic *Rimatil*



Launch of anti-infective ophthalmic *Tarivid*



1991
 Launch of *Sante FX*



1992
 Launch of *BSS PLUS*, an ophthalmic perfusion and bathing solution

Launch of *Kary Uni*, a treatment for early-stage senile cataracts



1995
 Launch of *Hyalein*, a treatment for corneal and conjunctival epithelial disorders



Launch of anti-allergy ophthalmic *Alegysal*

Launch of anti-rheumatic *Azulfidine EN*



Launch of *Opegan Hi*, an adjuvant for ophthalmic operations

Note: Based on the years when sales were launched by Santen Pharmaceutical.

1998

Medium-term Plan "Hitomi 21" formulated

2000

Subsidiary Santen Pharmaceutical Korea Co., Ltd. established

Representative office established in Guangzhou, China

2001

U.S.-based Advanced Vision Science, Inc. acquired

2002

Introduced Dimple Bottle, an innovative patient-oriented container for ophthalmic solutions

2003

2003–2005 Medium-Term Management Plan formulated

ISO 14001 certification acquired by Noto Plant

Santen Activity Improved Navigator (SAIN) medical information support system developed

2000

1999

Launch of *Timoptol XE*, a treatment for glaucoma and ocular hypertension

Launch of *Sante FX Neo*

2000

Launch of anti-infective ophthalmic *Cravit*



2001

Launch of *Detantol*, a treatment for glaucoma and ocular hypertension



Launch of anti-allergy ophthalmic *Livostin*



2002

Launch of *Sante de U Plus E Alpha*

Launch of *Sante 40*

2003

Launch of *ClariFlex* foldable intraocular lenses

2004

U.S. sales partnership with Johnson & Johnson Vision Care, Inc. (currently: VISTAKON Pharmaceuticals, LLC) started

2005

Representative office established in Shanghai, China

Subsidiary Santen Pharmaceutical (China) Co., Ltd. established

2006

2006–2010 Medium-Term Management Plan formulated

2007

Representative office established in Shenyang, China

Santen Pharmaceutical (China) Co., Ltd. established Suzhou Plant

2008

Completion of pharmaceutical development building and ancillary building at Nara Research and Development Center

2010

2009

Santen Pharmaceutical (China) Co., Ltd. commenced direct marketing

2010

Santen Pharmaceutical Korea Co., Ltd. commenced direct marketing

2011

2011–2013 Medium-Term Management Plan formulated

Subsidiary Santen India Private Limited established in India

2004

Launch of *Rescula*, a treatment for glaucoma and ocular hypertension

Launch of anti-rheumatic *Metolate*

2006

Launch of *Papilock Mini*, a treatment for vernal keratoconjunctivitis

Launch of *Sante Medical 10*



Launch of *Sante AL Cool II*

2007

Launch of *Sante Uruoi Contact a*

2008

Launch of nutritional supplement *Sante Lutax*

Launch of *Sante 40i*



Launch of *Eternity* foldable intraocular lens



Launch of *Tapros*, a treatment for glaucoma and ocular hypertension



2009

Launch of *Sante FX V Plus*



Launch of *Eternity Natural* foldable intraocular lens

2010

Launch of *Cosopt*, a treatment for glaucoma and ocular hypertension

Launch of *Diquas*, a treatment for dry eye

