

[Disclaimer: The following is meant to be an accurate translation from the original Financial Report of Santen Pharmaceutical Co., Ltd., written in Japanese, and is prepared for the information disclosure to the Tokyo Stock Exchange. However, in the case of any discrepancy between the English translation and the Japanese original, the latter shall prevail.]

SANTEN PHARMACEUTICAL CO., LTD. (August 3, 2010)

Code: 4536

URL <http://www.santen.com>

First Quarter Financial Results for the Fiscal Year Ending March 31, 2011

Akira Kurokawa, President and Chief Executive Officer

Contact: Satoshi Harada, Corporate Officer

Administration Division Tel: 06-6321-7007

(Figures are rounded down to the nearest million yen)

1. Consolidated Performance for the three months ended June 30, 2010

(1) Operating results	Three months ended June 30, 2010	Three months ended June 30, 2009	% change 2011/2010
Net sales (millions of yen)	26,212	29,302	(10.5%)
Operating income (millions of yen)	6,637	10,308	(35.6%)
Ordinary income (millions of yen)	7,147	10,477	(31.8%)
Net income (millions of yen)	4,578	6,548	(30.1%)
Net income per share (yen)	53.79	77.00	
Diluted net income per share (yen)	53.72	76.91	

(2) Financial condition

	June 30, 2010	March 31, 2010
Total assets (millions of yen)	159,810	166,878
Net assets (millions of yen)	137,442	137,603
Equity ratio	85.8%	82.3%
Net assets per share (yen)	1,611.67	1,614.08

2. Dividends

	Year to March 2011	(Forecasts) Year to March 2011	Year to March 2010
First quarter dividends per share (yen)	0.00	—	0.00
Second quarter dividends per share (yen)	—	40.00	40.00
Third quarter dividends per share (yen)	—	0.00	0.00
End-of-period dividends per share (yen)	—	40.00	40.00
Annual dividends per share (yen)	—	80.00	80.00

3. Consolidated Forecasts of results for the year ending March 31, 2011

	First half year	Full year	(Full year) % change 2011/2010
Net sales (millions of yen)	54,300	108,500	(1.9%)
Operating income (millions of yen)	13,800	26,300	(11.3%)
Ordinary income (millions of yen)	14,200	27,000	(9.6%)
Net income (millions of yen)	9,400	17,500	(6.5%)
Net income per share (yen)	110.50	205.72	

4. Others

(1) No change on consolidated subsidiaries

(2) No alternative methods have been adopted in accounting policy

(3) Change in accounting policy

[i] Two changes have been made in the revision of accounting standards.

[ii] No other change has been made.

(4) Number of shares outstanding (common stock)

[i] Number of shares outstanding at the end of period (including treasury stock)

June 30, 2010 : 87,026,503

March 31, 2010 : 86,992,503

[ii] Number of treasury stock at the end of period

June 30, 2010 : 1,908,567

March 31, 2010 : 1,902,026

[iii] Average number of outstanding shares (during the three months ended June 30)

First quarter ended June 30, 2010 : 85,118,088

First quarter ended June 30, 2009 : 85,043,333

(Caution)

Forecasts in this report are based on the currently available information. Actual results may differ materially depending on a number of factors including adverse economic conditions, delays in new products launch, currency exchange rate, legislative and regulatory developments.

Quarterly consolidated balance sheets

(Millions of yen)

	June 30, 2010	March 31, 2010
Assets		
Current assets		
Cash and deposits	49,581	56,677
Notes and accounts receivable-trade	37,737	35,268
Short-term investment securities	8,998	8,998
Merchandise and finished goods	11,083	11,210
Work in process	517	425
Raw materials and supplies	2,107	1,987
Deferred tax assets	1,309	2,166
Other	2,101	2,098
Allowance for doubtful receivables	(1)	(0)
Total current assets	113,435	118,832
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	40,909	41,569
Accumulated depreciation and impairment loss	(26,579)	(26,946)
Buildings and structures, net	14,329	14,622
Machinery, equipment and vehicles	11,022	11,137
Accumulated depreciation and impairment loss	(9,165)	(9,142)
Machinery, equipment and vehicles, net	1,857	1,994
Land	8,226	8,418
Lease assets	124	133
Accumulated depreciation and impairment loss	(35)	(35)
Lease assets, net	89	97
Construction in progress	40	43
Other	10,752	10,862
Accumulated depreciation and impairment loss	(9,430)	(9,464)
Other, net	1,321	1,397
Total property, plant and equipment	25,863	26,574
Intangible assets		
Software	1,103	1,158
Other	50	72
Total intangible assets	1,154	1,231
Investments and other assets		
Investment securities	10,956	12,239
Deferred tax assets	6,893	6,702
Other	1,506	1,299
Total investments and other assets	19,356	20,240
Total noncurrent assets	46,375	48,046
Total assets	159,810	166,878

(Millions of yen)

	June 30, 2010	March 31, 2010
<u>Liabilities</u>		
Current liabilities		
Notes and accounts payable -trade	5,278	5,600
Short-term borrowings	544	543
Other payables	7,247	7,936
Income taxes payable	1,217	6,618
Provision for bonuses	1,325	2,687
Other	2,664	1,901
Total current liabilities	18,279	25,286
Noncurrent liabilities		
Retirement and severance benefits for employee	3,045	2,910
Retirement and severance benefits for directors and auditors	430	456
Asset retirement obligations	158	—
Other	453	621
Total noncurrent liabilities	4,088	3,988
Total liabilities	22,367	29,275
Net assets		
<u>Shareholders' equity</u>		
Common stock	6,581	6,538
Capital surplus	7,276	7,233
Retained earnings	134,227	133,053
Treasury stock, at cost	(4,977)	(4,958)
Total shareholders' equity	143,108	141,866
Accumulated gains on evaluation and translation		
Unrealized gains on securities, net of taxes	(627)	136
Foreign currency translation adjustments	(5,298)	(4,660)
Total accumulated gains on evaluation and translation	(5,926)	(4,524)
Stock subscription rights	260	260
Total net assets	137,442	137,603
Total liabilities and net assets	159,810	166,878

Quarterly consolidated statements of income

(Millions of yen)

	Three months ended June 30, 2009	Three months ended June 30, 2010
Net sales	29,302	26,212
Cost of sales	8,585	8,540
Gross profit	20,716	17,672
Selling, general and administrative expenses	10,408	11,034
Operating income	10,308	6,637
Non-operating income		
Interest income	11	8
Dividend income	150	222
Dividends income of life insurance	128	117
Exchange gains	—	52
Other	92	127
Total non-operating income	382	528
Non-operating expenses		
Interest expense	10	12
Exchange losses	83	—
Equity in losses of affiliates	108	—
Other	12	5
Total non-operating expenses	214	18
Ordinary income	10,477	7,147
Extraordinary income		
Gain on sale of fixed assets	—	5
Total extraordinary income	—	5
Extraordinary loss		
Loss on sales of noncurrent assets	7	3
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	108
Total extraordinary losses	7	111
Income before income taxes	10,469	7,040
Income taxes - current	3,107	1,231
Income taxes - deferred	813	1,230
Total income taxes	3,921	2,462
Income before minority interests	—	4,578
Net income	6,548	4,578

Quarterly consolidated statements of cash flows

(Millions of yen)

	Three months ended June 30, 2009	Three months ended June 30, 2010
<u>Cash flows from operating activities:</u>		
Income before income taxes	10,469	7,040
Depreciation and amortization	850	739
Increase in retirement and severance benefits	126	135
Interest and dividend income	(161)	(230)
Interest expense	10	12
Equity in losses of affiliates	108	—
(Increase) decrease in notes and accounts receivable-trade	18	(2,611)
Increase in inventories	(441)	(211)
Decrease in notes and accounts payable-trade	(939)	(375)
Other, net	165	(1,595)
Subtotal	10,205	2,902
Interest and dividend income received	159	230
Interest expense paid	(5)	(10)
Income taxes paid	(4,083)	(6,505)
Net cash (used in) provided by operating activities	6,276	(3,382)
<u>Cash flows from investing activities:</u>		
Increase in fixed deposits	—	(495)
Proceeds from withdrawal of fixed deposits	1,044	674
Capital expenditures	(323)	(307)
Proceeds from sale of fixed assets	—	185
Purchase of investment securities	(1,001)	(1)
Proceeds from sale of investment securities	—	1
Other	15	0
Net cash provided by (used in) investing activities	(264)	56
<u>Cash flows from financing activities:</u>		
Repayment of long-term loans payable	(42)	—
Dividends paid	(3,230)	(3,276)
Other, net	57	63
Net cash used in financing activities	(3,214)	(3,213)
Effect of exchange rate changes on cash and cash equivalents	85	(298)
Net (decrease) increase in cash and cash equivalents	2,882	(6,837)
Cash and cash equivalents at beginning of period	45,956	64,348
Cash and cash equivalents at end of period	48,838	57,511

Segment information

■ Segment information

Three months ended June 30, 2010

(Millions of yen)

	<Reporting segment> Pharmaceuticals	Other (Note 1)	Total	Adjustment	Consolidated total (Note 2)
Net sales:					
External costumers	25,759	453	26,212	—	26,212
Intersegment	—	32	32	(32)	—
Total	25,759	485	26,245	(32)	26,212
Segment income (loss)	6,730	(93)	6,637	—	6,637

Notes: 1. Other segment mainly includes medical equipments.

2. Segment income (loss) was adjusted to agree with operating income in quarterly consolidated statements of income.

■ Sales of major pharmaceuticals

(Millions of yen)

Brand name Generic name/formulation	Therapeutic category	Three months ended June 30, 2009 Actual	Six months ended September 30, 2009 Actual	Year ended March 31, 2010 Actual	Three months ended June 30, 2010 Actual	Six months ending September 30, 2010 Forecasts	Year ending March 31, 2011 Forecasts
Prescription pharmaceuticals		27,643 14.8 %	55,598 12.9 %	103,806 8.4 %	24,773 (10.4) %	50,399 (9.4) %	100,332 (3.3) %
Cravit levofloxacin/ophthalmic solution	Bacterial conjunctivitis	3,100 (4.7) %	6,639 (5.3) %	12,240 (1.6) %	3,284 5.9 %	6,712 1.1 %	12,702 3.8 %
Tarivid ofloxacin/ophthalmic solution	Bacterial conjunctivitis	756 2.0 %	1,441 (0.7) %	2,423 (2.6) %	606 (19.8) %	1,333 (7.5) %	2,456 1.3 %
Tapros tafluprost/ophthalmic solution	Glaucoma	856 — %	1,984 — %	4,687 342.8 %	1,631 90.3 %	4,082 105.7 %	8,254 76.1 %
Timoptol timolol maleate/ophthalmic solution	Glaucoma	766 (10.5) %	1,513 (13.1) %	2,832 (11.9) %	624 (18.5) %	1,010 (33.2) %	2,045 (27.8) %
Timoptol XE timolol maleate/ long-acting ophthalmic solution	Glaucoma	901 1.5 %	1,788 (1.9) %	3,475 (0.0) %	848 (5.9) %	1,345 (24.7) %	2,724 (21.6) %
Detantol bunazosin hydrochloride	Glaucoma	575 (4.2) %	1,127 (4.6) %	2,168 (5.1) %	549 (4.5) %	1,114 (1.2) %	2,255 4.0 %
Rescula isopropyl unoprostone	Glaucoma	1,013 (14.1) %	1,981 (14.2) %	3,669 (16.3) %	770 (24.0) %	1,505 (24.0) %	3,049 (16.9) %
Livostin levocabastine hydrochloride/ ophthalmic solution	Allergy	565 (12.7) %	1,272 (8.5) %	3,229 (24.9) %	511 (9.6) %	1,350 6.2 %	3,287 1.8 %
Hyalain sodium hyaluronate/ophthalmic solution	Corneal disease	5,403 7.0 %	10,978 4.2 %	21,219 5.9 %	5,212 (3.5) %	10,506 (4.3) %	20,717 (2.4) %
Flumetholon fluorometholone/ophthalmic solution	Inflammation	1,124 0.4 %	2,307 0.2 %	4,432 (5.1) %	1,051 (6.6) %	2,169 (6.0) %	4,345 (2.0) %
Kary Uni pirenoxine/ophthalmic solution	Early-stage senile cataract	940 3.9 %	1,933 4.4 %	3,728 4.4 %	934 (0.6) %	1,936 0.1 %	3,784 1.5 %
Opegan Hi sodium hyaluronate/ adjuvant for ophthalmic operations	Adjuvant for ophthalmic operations	875 9.3 %	1,767 8.1 %	3,431 6.0 %	830 (5.1) %	1,617 (8.5) %	3,154 (8.1) %
Rimatil bucillamine/tablet	Rheumatoid arthritis	1,155 (3.6) %	2,281 (2.5) %	4,352 (4.1) %	1,055 (8.6) %	2,023 (11.3) %	3,971 (8.8) %
Azulfidine EN salazosulfapyridine/enteric coated tablet	Rheumatoid arthritis	1,095 (0.1) %	2,182 1.5 %	4,216 0.7 %	1,082 (1.2) %	2,023 (7.3) %	4,041 (4.2) %
OTC pharmaceuticals		1,298 0.7 %	2,792 2.6 %	5,251 0.5 %	986 (24.0) %	2,803 0.4 %	5,365 2.2 %

lower: year on year percentage change

Percentages in parentheses indicate a decrease.

*Forecasts in this report are based on the currently available information. Actual results may differ materially depending on a number of factors including adverse economic conditions, etc.

<Reference>

■ Pipeline of prescription pharmaceuticals (Clinical trials)

Generic name	Dev. code	Indication	Original/Licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Levofloxacin (1.5%)	DE-108	Bacterial conjunctivitis	Daiichi Sankyo	Japan				Feb-10		
A fluoroquinolone antibacterial agent with higher-concentration. Filed for manufacturing and marketing approval.										

Generic name	Dev. code	Indication	Original/Licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Tafluprost	DE-085	Glaucoma/ Ocular hypertension	Co-development with Asahi Glass	Japan						Dec-08
				Europe						Jun-08
				U.S.					(Licensed Out)	
				Asia					Mar-10	
Prostaglandin derivative for treatment of glaucoma and ocular hypertension. Commercially launched in Japan in December, 2008. Also launched in Europe such as in Germany, Denmark, etc. and in Asia, Hong Kong and Korea. Phase III clinical trials are currently being conducted in China. Development rights in the U.S. were granted to Merck in April, 2009.										

Generic name	Dev. code	Indication	Original/Licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Diquafosol sodium	DE-089	Dry eye	Inspire Pharm.	Japan						Apr-10
				Asia						
A treatment for dry eye that stimulates the ocular surface to secrete mucin and tear fluid. It has a different mechanism of action from existing treatments. It was approved for manufacturing and marketing in Japan in April, 2010 and is in preparation for commercial launch. Phase III clinical trials are being conducted in China.										

Generic name	Dev. code	Indication	Original/Licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Lomerizine HCl	DE-090	Glaucoma	Schering-Plough	Japan	In preparation					
A new type of glaucoma treatment studied for inhibiting the progression of visual field defects. The only calcium antagonist in development as an oral glaucoma treatment. Compared with NMDA receptor antagonists, fewer systemic side effects are expected, thus having excellent safety. Marketed by Schering-Plough as a migraine treatment.										

Generic name	Dev. code	Indication	Original/Licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Rivoglitazone	DE-101	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	Daiichi Sankyo	U.S.	(Phase I / II)					
				Japan						
Expected to show a potent effect on corneal and conjunctival epithelial disorder mostly associated with dry eye by directly acting on the corneal and conjunctival epithelial cells. It has unique mechanism of action which differs from existing treatments.										

Generic name	Dev. code	Indication	Original/Licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
(Undetermined)	DE-102	Diabetic macular edema	Co-development with Oakwood (U.S.)	Japan	(Phase I / II)					
A steroid microsphere product for a sustained release injection. Animal studies demonstrated sustained efficacy when injected around the affected area. Collaborated with Oakwood Laboratories (U.S.) for technical development in commercial scale.										

Generic name	Dev. code	Indication	Original/Licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
(Undetermined)	DE-104	Glaucoma/ Ocular hypertension	Co-development with Ube Industries	U.S.	(Phase I / II)					
				Japan						
A ROCK inhibitor co-developed with Ube Industries for treatment of glaucoma and ocular hypertension has a different action mechanism from any other existing drugs. Expected to show a strong IOP-reduction by promoting aqueous humor outflow by directly acting on trabecular meshwork cells.										

Generic name	Dev. code	Indication	Original/Licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
(Undetermined)	DE-105	Persistent corneal epithelial defects	Original	U.S.						
				Japan						
Expected to accelerate corneal epithelial migration and demonstrate high safety for intractable persistent corneal epithelial defects compared with existing therapy.										

Generic name	Dev. code	Indication	Original/Licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Sirolimus	DE-109	Wet age related macular degeneration(wet AMD)/ Diabetic macular edema(DME)	Original	Japan	(Phase I / II)					
Subconjunctival or intravitreal injection with immunosuppressive effect, anti-angiogenic effect, etc. Santen acquired development, manufacturing and marketing rights of sirolimus from MacuSight in June 2010.										

<Reference>

■ Pipeline of prescription pharmaceuticals (Clinical trials)

Generic name	Dev. code	Indication	Original/Licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
(Undetermined)	DE-110	Corneal and conjunctival epithelial disorder associated with dry eye, etc./ Allergic conjunctivitis	Original	U.S.	In preparation					
<p>A new type of anti-allergic agent with non-steroidal chemical structure. A selective glucocorticoid receptor agonist (SEGRA). Phase II clinical trial is in preparation in the U.S. for the treatment of anterior eye disorder such as corneal and conjunctival epithelial disorder associated with dry eye, etc. and allergic conjunctivitis.</p>										

Generic name	Dev. code	Indication	Original/Licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
(Undetermined)	DE-098 (Anti-APO-1 antibody)	Rheumatoid arthritis	Centocor	Europe	(Phase I / II)					
				Japan	(Phase I / II)					
<p>Joint injection that induces apoptosis in diseased joints of rheumatoid arthritis patients. Bulk pharmaceutical manufacturing process for actual production scale has been established. The compound had been in-licensed from Centocor. Clinical trials are being conducted in Japan and Europe.</p>										

■ Changes from May 11, 2010

Dev. Code	Indication	Stage	Region	Changes
DE-085	Glaucoma/Ocular hypertension	Launched	Europe	Added launched countries

Dev. Code	Indication	Stage	Region	Changes
DE-110	Corneal and conjunctival epithelial disorder associated with dry eye, etc./ Allergic conjunctivitis	Preparing Phase II	U.S.	Phase I completed/ Indication added

■ Capital expenditures

(Millions of yen)

	Three months ended June 30, 2009 Actual	Six months ended September 30, 2009 Actual	Year ended March 31, 2010 Actual	Three months ended June 30, 2010 Actual	Six months ending September 30, 2010 Forecasts	Year ending March 31, 2011 Forecasts
Capital expenditures	202	376	1,228	192	1,610	2,790

■ Depreciation and amortization

(Millions of yen)

	Three months ended June 30, 2009 Actual	Six months ended September 30, 2009 Actual	Year ended March 31, 2010 Actual	Three months ended June 30, 2010 Actual	Six months ending September 30, 2010 Forecasts	Year ending March 31, 2011 Forecasts
Consolidated total	784	1,586	3,202	687	1,450	3,060
Manufacturing cost	407	822	1,701	365	750	1,600
Selling, general and administrative expenses	143	294	556	137	310	640
R&D expenses	232	470	945	185	390	820

■ Lease expenses

(Millions of yen)

	Three months ended June 30, 2009 Actual	Six months ended September 30, 2009 Actual	Year ended March 31, 2010 Actual	Three months ended June 30, 2010 Actual	Six months ending September 30, 2010 Forecasts	Year ending March 31, 2011 Forecasts
Consolidated total	177	334	527	66	100	190
Manufacturing cost	153	287	437	46	80	160

■ R&D expenses

(Millions of yen)

	Three months ended June 30, 2009 Actual	Six months ended September 30, 2009 Actual	Year ended March 31, 2010 Actual	Three months ended June 30, 2010 Actual	Six months ending September 30, 2010 Forecasts	Year ending March 31, 2011 Forecasts
R&D expenses	2,939	6,922	14,123	3,380	6,800	14,100
Net sales ratio	10.0%	11.7%	12.8%	12.9%	12.5%	13.0%

*Forecasts in this report are based on the currently available information. Actual results may differ materially depending on a number of factors including adverse economic conditions, etc.