



SANTEN PHARMACEUTICAL CO.,LTD.

# Data Book

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**Half Year Ended September 30, 2006**

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## 2006-2010 Medium-term Management Plan

### Santen's Global Development: Creating New Drug Candidates and Generating Growth in Promising Regions by Leveraging Strength

As a step to become a leading global ophthalmic company in the coming decade, Santen will actively address the following goals during the 2006-2010 Medium-term Management Plan.

#### [Long-term Vision]

- World-class company
- Leader in the ophthalmic and anti-rheumatic fields
- R&D-oriented pharmaceutical company specializing in ophthalmology and other areas where we can leverage our strengths

#### [Outline of 2006-2010 Medium-term Management Plan]

##### Medium-term Policies

"Santen's Global Development: Creating new drug candidates and generating growth in promising regions by leveraging strength"

1. Enhance the global strategic product pipeline through internal discovery and development, joint development projects and in-licensing efforts
2. Generate growth mainly in Japan, Northern/Eastern Europe, Russia and China. Focus U.S. activities on clinical and business development
3. Strengthen manufacturing bases
4. Strengthen human resources and organizational capabilities on a global basis

##### Financial Targets

	FY2010
Net sales	115 billion yen +
Operating income	32 billion yen +
Net income	22 billion yen +
Return on Equity	13%+
R&D expense	16 billion yen

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# Financial highlights

[Consolidated]

Financial summary

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	% Change	3/2007 Forecast	% Change
Net sales	45,084	92,696	49,785	98,397	51,380	3.2	100,500	2.1
Operating income	9,539	18,982	12,081	20,995	12,105	0.2	20,700	-1.4
Ordinary income	9,532	18,837	12,302	21,507	12,247	-0.4	20,900	-2.8
Net income	4,878	11,022	7,100	13,022	7,747	9.1	13,200	1.4
Dividends per share (yen)	20	50	25	60	30	-	60	-
DOE (%)	3.3	4.0	3.8	4.4	4.2	-	-	-

Balance sheets summary

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	% Change
Total assets	147,148	139,979	145,563	150,458	154,205	5.9
Net assets	105,347	108,239	113,576	118,637	124,804	9.9
Interest-bearing debts	12,478	6,882	6,748	5,614	5,530	-18.1

Financial indexes

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	% Change	3/2007 Forecast	% Change
EPS (yen)	55.47	125.85	81.96	150.26	89.34	9.0	152.19	1.3
BPS(yen)	1,197.86	1,249.32	1,310.69	1,368.27	1,438.24	9.7	-	-
Debt equity ratio (times)	0.11	0.06	0.06	0.05	0.04	-	-	-
PER (times)	17.9	18.3	17.9	18.8	16.8	-	-	-
PBR (times)	1.65	1.84	2.24	2.07	2.09	-	-	-
ROE (%)	9.3	10.4	12.8	11.5	12.7	-	-	-
ROA (%)	6.6	7.6	9.9	9.0	10.2	-	-	-
* Free cash flows (millions of yen)	2,087	1,713	10,140	18,772	4,098	-59.6	-	-
* EBITDA (millions of yen)	10,580	23,367	13,627	25,258	14,828	8.8	-	-

\*Free cash flows = (Cash flows from operating activities) - (Capital expenditures)

Not adjusting increase/decrease in trade receivables for fiscal years ending on holidays.

\*EBITDA = (Income before income taxes) + (Interest expense) + (Depreciation and amortization)

Other figures

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	% Change	3/2007 Forecast	% Change
R&D expenses (millions of yen)	5,868	12,619	5,971	13,971	6,332	6.0	13,600	-2.7
Capital expenditures (millions of yen)	1,085	1,674	753	1,420	1,558	106.9	2,790	96.5
Depreciation and amortization (millions of yen)	1,813	3,696	1,642	3,343	1,545	-5.9	3,230	-3.4
Number of employees	2,359	2,308	2,356	2,312	2,361	-	-	-

[Non-consolidated]

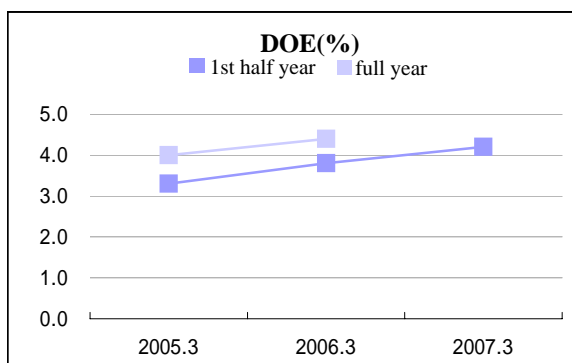
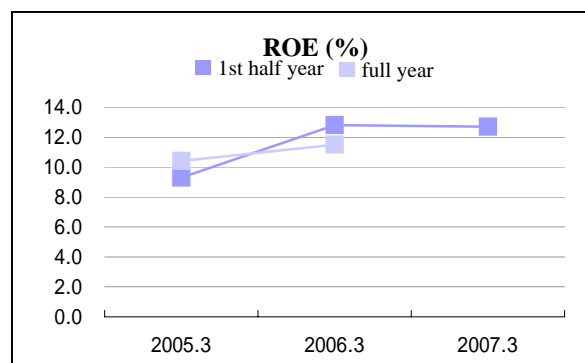
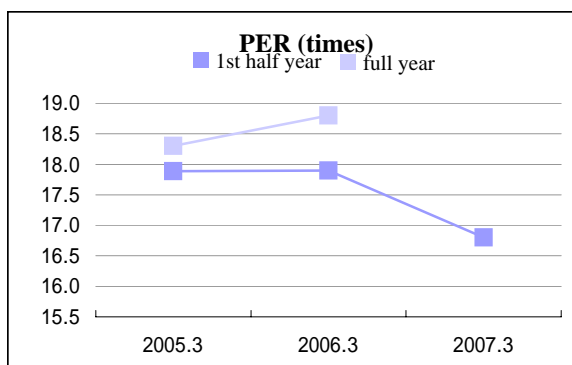
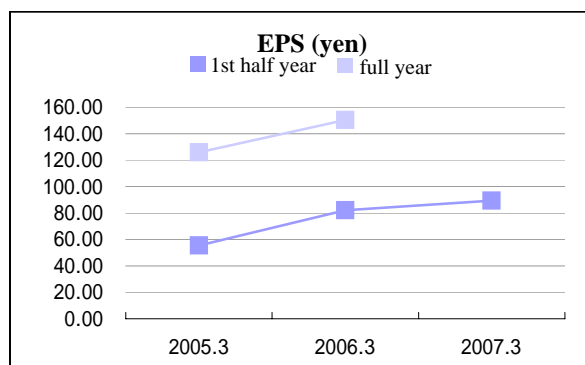
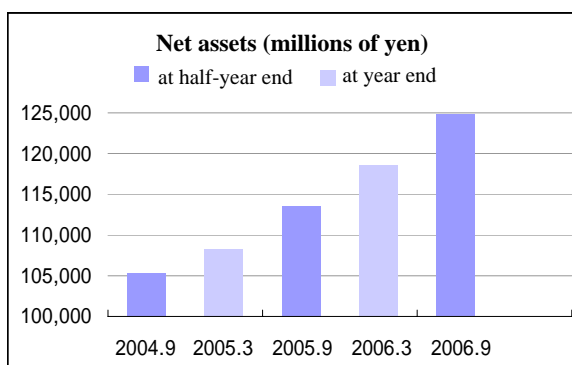
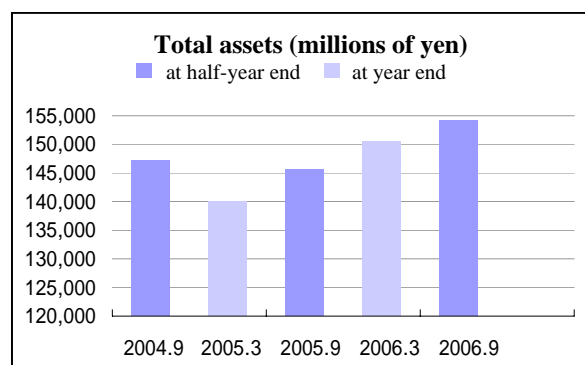
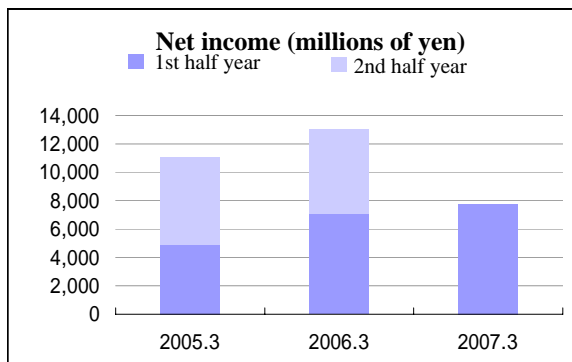
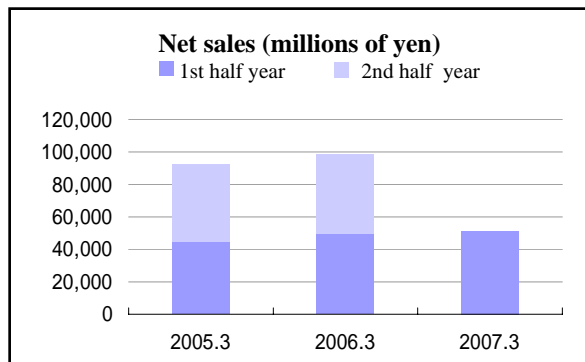
Financial summary

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	% Change	3/2007 Forecast	% Change
Net sales	41,897	86,340	46,234	90,840	47,050	1.8	92,100	1.4
Operating income	9,776	19,692	11,972	20,644	11,712	-2.2	20,300	-1.7
Ordinary income	10,221	20,266	12,318	21,376	12,137	-1.5	21,000	-1.8
Net income	6,008	12,602	7,291	13,118	7,619	4.5	13,300	1.4

\*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.

### Consolidated Financial summary (Graph)



# Consolidated Information

## Consolidated income statements

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	Change over previous half year (%)
<b>Net sales</b>	<b>45,084</b>	<b>92,696</b>	<b>49,785</b>	<b>98,397</b>	<b>51,380</b>	<b>3.2</b>
Cost of sales	16,327	33,709	17,449	34,534	18,080	3.6
(Percentage of net sales)	36.2%	36.4%	35.0%	35.1%	35.2%	
<b>Gross profit</b>	<b>28,757</b>	<b>58,986</b>	<b>32,336</b>	<b>63,863</b>	<b>33,300</b>	<b>3.0</b>
(Percentage of net sales)	63.8%	63.6%	65.0%	64.9%	64.8%	
Selling, general and administrative expenses	19,217	40,003	20,254	42,868	21,194	4.6
(Percentage of net sales)	42.6%	43.1%	40.7%	43.6%	41.2%	
R&D expenses	5,868	12,619	5,971	13,971	6,332	6.0
(Percentage of net sales)	13.0%	13.6%	12.0%	14.2%	12.3%	
<b>Operating income</b>	<b>9,539</b>	<b>18,982</b>	<b>12,081</b>	<b>20,995</b>	<b>12,105</b>	<b>0.2</b>
(Percentage of net sales)	21.2%	20.5%	24.3%	21.3%	23.6%	
Non-operating income	478	803	440	1,024	453	2.8
Non-operating expenses	484	948	219	511	311	41.7
<b>Ordinary income</b>	<b>9,532</b>	<b>18,837</b>	<b>12,302</b>	<b>21,507</b>	<b>12,247</b>	<b>-0.4</b>
(Percentage of net sales)	21.1%	20.3%	24.7%	21.9%	23.8%	
Extraordinary gain	345	1,137	13	53	250	1,720.0
Extraordinary loss	1,561	1,538	1,084	1,219	26	-97.5
<b>Income before income taxes</b>	<b>8,316</b>	<b>18,436</b>	<b>11,232</b>	<b>20,341</b>	<b>12,471</b>	<b>11.0</b>
(Percentage of net sales)	18.4%	19.9%	22.6%	20.7%	24.3%	
Income taxes - current	3,088	6,446	4,620	7,999	4,489	-2.8
Income taxes - deferred	350	966	-489	-679	234	-
<b>Net income</b>	<b>4,878</b>	<b>11,022</b>	<b>7,100</b>	<b>13,022</b>	<b>7,747</b>	<b>9.1</b>
(Percentage of net sales)	10.8%	11.9%	14.3%	13.2%	15.1%	

### Exchange rates

(Yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006
Exchange rate: US dollar	109.44	113.29	109.79	113.42	115.25
Euro	132.51	132.40	136.15	137.77	144.56

### Major change in net sales

[Prescription pharmaceuticals]

Domestic:

Sales for prescription ophthalmics increased by 95 million yen, or 0.3%, from the corresponding period of the previous year due to the favorable sales growth for Corneal disease treatments and no adjustment of the trade inventory from previous term, despite the lower airborne pollen count in Anti-allergy ophthalmics. On the other hand, sales of Anti-glaucoma and Anti-infective decreased due to the impact of reduction of NHI prices and the competitive products.

Sales for Anti-rheumatic drugs increased by 191 million yen, or 4.3%, from the corresponding period of the previous year due to the steady penetration to the market.

Overseas:

Sales increased by 1,200 million yen, or 24.1%, from the corresponding period of the previous year due to the continuing diffusion promotion of provision of medical information in Europe, especially North and East Europe and Germany.

[OTC pharmaceuticals]

Sales decreased by 20 million yen, or -0.7%, from the corresponding period of the previous year despite the continuing sales promotion from the previous term.

[Other]

Sales increased by 186 million yen, or 16.7%, from the corresponding period of the previous year due to the increase in the contract manufacturing of Anti-infective ophthalmics for the U.S.

### Selling, general and administrative expenses

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	Change over previous half year (%)
Personnel expenses	5,315	11,109	5,553	11,195	5,733	3.2
Sales promotion expenses	1,366	3,057	1,651	3,662	1,772	7.3
Royalty expenses	1,075	2,113	1,089	2,058	1,186	8.9
Advertising expenses	1,052	1,616	952	1,623	1,105	16.0
R&D expenses	5,868	12,619	5,971	13,971	6,332	6.0

### Non-operating income and expenses

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	Change over previous half year (%)
Interest and dividend income	140	249	139	261	200	43.3
Gains on distribution of investment limited partnership	-	-	-	135	-	-
Interest expense	101	182	41	93	34	-17.1
Amortization expenses of goodwill	158	322	163	330	173	6.2

### Extraordinary gain and loss

(Millions of yen)

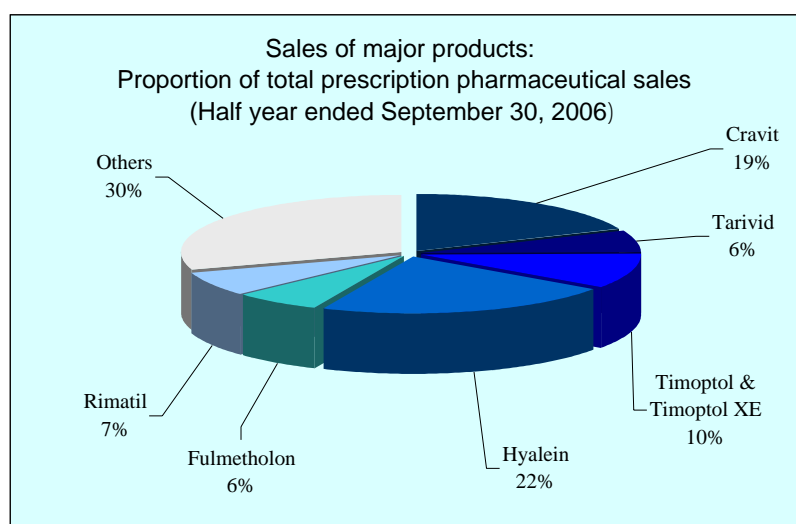
Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006
Gain on sale of fixed assets	342	340	0	3	250
Gain and loss on change of retirement benefit scheme	-	316	-	-	-
Gain on establishment of retirement benefit trust	-	210	-	-	-
Gain on prior period adjustment	-	265	-	-	-
Loss on valuation of investment securities	47	50	-	-	-
Loss on disposal of fixed assets	71	102	31	126	10
Restructuring change for U.S. business	547	440	-	-	-
Loss on impairment of fixed assets	823	823	909	909	-

# Sales details

## Sales of major prescription pharmaceuticals

Therapeutic category	Generic name/formulation	Brand name	Region	Launched
Bacterial conjunctivitis	levofloxacin/ophthalmic solution	<b>Cravit</b>	Japan	Apr-00
	ofloxacin/ophthalmic solution	<b>Tarivid</b>	Japan	Sep-87
	timolol maleate/ophthalmic solution	<b>Timoptol</b>	Japan	Sep-81
Glaucoma	timolol maleate/ long-acting ophthalmic solution	<b>Timoptol XE</b>	Japan	Nov-99
	dipivefrine hydrochloride	<b>Pivalephrine</b>	Japan	Dec-88
	bunazosin hydrochloride	<b>Detantol</b>	Japan	Sep-01
	Isopropyl Unoprostone	<b>Rescula</b>	Japan	Oct-94
	levocabastine hydrochloride/ ophthalmic solution	<b>Livostin</b>	Japan	Jan-01
Allergy	pemrolast potassium/ophthalmic solution	<b>Alegysal</b>	Japan	Apr-95
Corneal disease	sodium hyaluronate/ophthalmic solution	<b>Hyalein</b>	Japan	Jun-95
Inflammation	fluorometholone/ophthalmic solution	<b>Flumetholon</b>	Japan	Oct-75
Early-stage senile cataract	pirenoxine/ophthalmic solution	<b>Kary Uni</b>	Japan	Jul-92
Adjuvant for ophthalmic operations	sodium hyaluronate/ adjuvant for ophthalmic operations	<b>Opegan Hi</b>	Japan	Jan-95
Perfusate/lotion	oxiglutatione/ophthalmic perfusate and lotion	<b>BSS PLUS</b>	Japan	Jan-92
Rheumatoid arthritis	bucillamine/tablet	<b>Rimatil</b>	Japan	Sep-87
	salazosulfapyridine/enteric coated tablet	<b>Azulfidine EN</b>	Japan	Dec-95

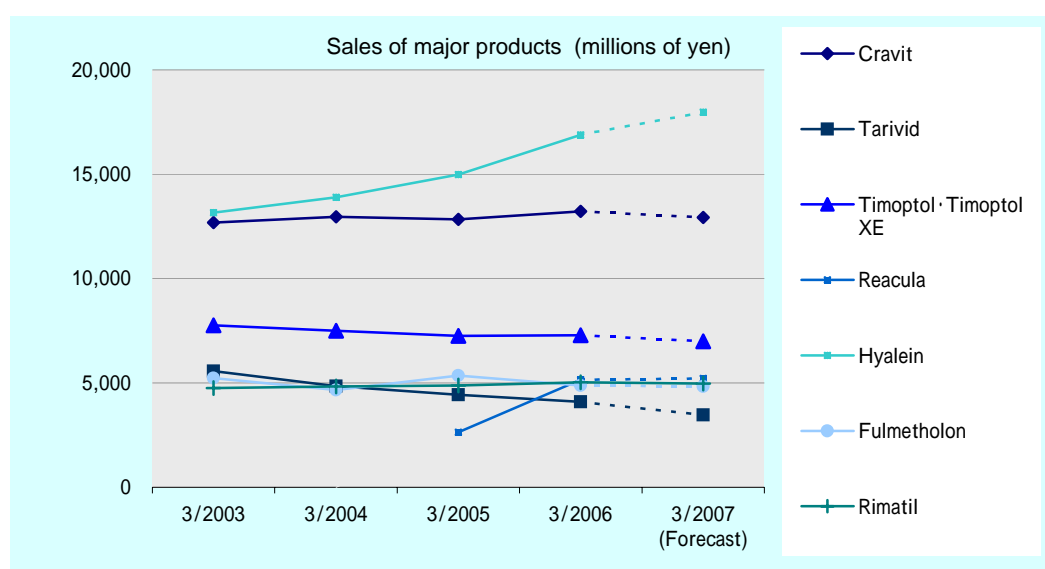
Rescula: This product, which was launched in October 1994, is to be sold by Santen Pharmaceutical Co., Ltd in October 2004.





(Millions of yen)

Half year/year to								Brand name
9/2004	3/2005	9/2005	3/2006	9/2006	% Change	3/2007 Forecast	% Change	
7,013	12,833	7,082	13,227	7,227	2.0	12,930	-2.2	Cravit
2,518	4,429	2,325	4,100	2,037	-12.4	3,460	-15.6	Tarivid
2,287	4,415	2,190	4,210	1,975	-9.8	3,790	-10.0	Timoptol
1,410	2,837	1,546	3,072	1,615	4.5	3,210	4.5	Timoptol XE
211	394	173	324	149	-14.0	270	-16.7	Pivalephrine
1,098	2,155	1,132	2,226	1,158	2.3	2,330	4.7	Detantol
-	2,645	2,621	5,152	2,590	-1.2	5,210	1.2	Rescula
1,424	4,917	1,478	3,984	1,656	12.1	4,470	12.2	Livostin
377	954	333	749	359	7.9	740	-1.2	Alegysal
7,499	14,987	8,387	16,879	9,022	7.6	17,980	6.5	Hyalein
2,566	5,354	2,446	4,879	2,466	0.8	4,830	-1.0	Flumetholon
1,676	3,220	1,703	3,341	1,760	3.3	3,460	3.6	Kary Uni
1,156	2,374	1,402	2,746	1,421	1.3	2,890	5.2	Opegan Hi
658	1,274	676	1,316	658	-2.5	1,290	-2.0	BSS PLUS
2,505	4,811	2,576	5,033	2,608	1.3	4,970	-1.3	Rimatil
1,687	3,376	1,883	3,717	1,957	4.0	3,860	3.8	Azulfidine EN



Sales for JJVCI

(Millions of yen)

Half year/year to							
9/2004	3/2005	9/2005	3/2006	9/2006	% Change	3/2007 Forecast	% Change
188	781	383	1,149	492	28.4	950	-17.3

\*Prescription ophthalmic pharmaceuticals for U.S.A.(Quixin,Betimol and Alamast) changes a sales transfer in February, 2004.

\*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.

# Sales details

Sales by division

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	% Change	3/2007 Forecast
Prescription pharmaceuticals	40,601	84,298	45,561	90,251	47,051	3.3	91,790
Ophthalmic	36,233	75,624	40,832	80,922	42,036	2.9	82,100
Anti-rheumatic drugs	4,215	8,353	4,588	9,041	4,863	6.0	9,400
Other prescription pharmaceuticals	152	319	141	287	151	7.5	280
OTC pharmaceuticals	2,593	5,277	2,777	5,247	2,757	-0.7	5,300
Medical devices	435	754	332	638	271	-18.3	600
Others	1,454	2,366	1,114	2,260	1,300	16.7	2,800
Total net sales	45,084	92,696	49,785	98,397	51,380	3.2	100,500

[Domestic]

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	% Change	3/2007 Forecast
Prescription pharmaceuticals	36,964	76,895	40,584	80,308	40,873	0.7	80,840
Ophthalmic	32,688	68,383	35,966	71,215	36,061	0.3	71,400
Anti-rheumatic drugs	4,150	8,244	4,501	8,869	4,692	4.3	9,180
Other prescription pharmaceuticals	126	267	116	223	119	2.2	220
OTC pharmaceuticals	2,583	5,260	2,766	5,227	2,739	-1.0	5,270
Medical devices	416	726	322	618	260	-19.3	580
Others	316	562	360	629	255	-29.3	660
Total domestic sales	40,281	83,446	44,034	86,784	44,129	0.2	87,360
(Percentage of total net sales)	89.3%	90.0%	88.4%	88.2%	85.9%	-	86.9%

[Overseas]

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	% Change	3/2007 Forecast
Prescription pharmaceuticals	3,636	7,402	4,977	9,942	6,177	24.1	10,940
Ophthalmic	3,545	7,241	4,866	9,706	5,974	22.8	10,670
Anti-rheumatic drugs	65	108	86	172	170	96.8	210
Other prescription pharmaceuticals	26	52	24	64	32	32.3	50
OTC pharmaceuticals	9	16	10	20	17	63.0	20
Medical devices	19	27	9	19	10	13.4	20
Others	1,137	1,803	753	1,631	1,045	38.7	2,130
Total overseas sales	4,802	9,250	5,751	11,613	7,251	26.1	13,130
(Percentage of total net sales)	10.7%	10.0%	11.6%	11.8%	14.1%	-	13.1%

\*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.

# Breakdown by geographic segment



## Breakdown by geographic segment

	Half year/year to	9/2004		3/2005		9/2005		3/2006		9/2006	
		Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Net sales by geographic segment	Japan	41,669	92.4	85,837	92.6	45,797	92.0	89,881	91.3	46,421	90.3
	Europe	3,057	6.8	6,374	6.9	3,782	7.6	8,155	8.3	4,622	9.0
	Others	358	0.8	484	0.5	206	0.4	360	0.4	336	0.7
	Total	45,084	100.0	92,696	100.0	49,785	100.0	98,397	100.0	51,380	100.0
Operating expenses by geographic segment	Japan	30,925		64,216		33,193		68,244		34,606	
	Europe	3,877		8,148		4,350		9,192		4,895	
	Others	1,880		3,798		1,843		3,927		1,845	
	Total	36,683		76,162		39,388		81,364		41,347	
	Corporate and eliminations	-1,138		-2,448		-1,684		-3,961		-2,072	
Consolidated total	35,545		73,713		37,703		77,402		39,275		
Operating income by geographic segment	Japan	11,004		22,169		13,054		22,623		12,458	
	Europe	-16		-149		275		951		600	
	Others	-307		-743		-237		-708		-257	
	Total	10,680		21,276		13,092		22,866		12,801	
	Corporate and eliminations	-1,140		-2,294		-1,010		-1,871		-695	
Consolidated total	9,539		18,982		12,081		20,995		12,105		

Europe: Finland, Germany and Sweden

Others: U.S.A., China, Korea and Taiwan

**Note:** Sales of prescription ophthalmics in the U.S.A. are included in sales in Europe.

## Overseas sales

	Half year/year to	9/2004		3/2005		9/2005		3/2006		9/2006	
		Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Europe		2,369	49.3	4,794	51.8	3,045	52.9	6,089	52.4	3,379	46.6
North America		858	17.9	1,703	18.4	695	12.1	1,915	16.5	1,193	16.5
Others		1,575	32.8	2,752	29.8	2,009	35.0	3,608	31.1	2,678	36.9
Total		4,802	100.0	9,250	100.0	5,751	100.0	11,613	100.0	7,251	100.0

Europe: Finland, Russia, Sweden, Germany and Norway

North America: U.S.A. and Canada

Others: Asian countries

**Note:** Overseas sales represent sales generated in countries or regions other than Japan by Santen Pharmaceutical Co., Ltd. and its subsidiaries.

# Consolidated balance sheets

## Assets

At half-year/year end	9/2004		3/2005		9/2005		3/2006		9/2006	
	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)
<b>Current assets</b>	<b>89,905</b>	<b>61.1</b>	<b>82,735</b>	<b>59.1</b>	<b>89,348</b>	<b>61.4</b>	<b>93,892</b>	<b>62.4</b>	<b>97,913</b>	<b>63.5</b>
Cash and deposits	33,068		23,948		30,221		34,583		32,777	
Notes and accounts receivable-trade	33,440		35,625		35,371		34,423		37,527	
Marketable securities	9,309		9,046		10,388		11,201		15,206	
Inventories	9,167		9,826		9,293		9,837		8,821	
Deferred tax assets	1,841		1,625		1,608		1,651		1,514	
Other current assets	3,094		2,681		2,469		2,196		2,066	
Allowance for doubtful receivables	-15		-18		-4		-1		-0	
<b>Fixed assets</b>	<b>57,242</b>	<b>38.9</b>	<b>57,244</b>	<b>40.9</b>	<b>56,214</b>	<b>38.6</b>	<b>56,552</b>	<b>37.6</b>	<b>56,270</b>	<b>36.5</b>
Tangible assets	35,653	24.2	32,676	23.3	31,179	21.4	30,395	20.2	30,579	19.8
Buildings and structures	19,809		18,826		17,782		17,119		16,544	
Machinery, equipment and vehicles	1,729		2,114		2,023		2,021		1,958	
Land	9,893		9,486		9,062		9,063		8,839	
Construction in progress	1,986		181		321		274		1,272	
Other tangibles	2,234		2,067		1,989		1,916		1,964	
Intangible assets	3,461	2.4	3,318	2.4	2,959	2.0	2,951	2.0	2,787	1.8
Goodwill	1,153		1,015		855		709		564	
Software	1,034		1,182		1,024		1,035		943	
Consolidation adjustments	8		6		4		2		0	
Other intangibles	1,265		1,113		1,075		1,204		1,279	
Investments and other assets	18,126	12.3	21,250	15.2	22,075	15.2	23,205	15.4	22,903	14.9
Investment securities	12,001		14,313		15,737		17,715		18,398	
Deferred tax assets	1,991		1,051		960		379		-	
Other assets	4,136		5,885		5,377		5,109		4,504	
Allowance for doubtful receivables	-3		-		-		-		-	
<b>Deferred assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>0.0</b>	<b>21</b>	<b>0.0</b>
<b>Total assets</b>	<b>147,148</b>	<b>100.0</b>	<b>139,979</b>	<b>100.0</b>	<b>145,563</b>	<b>100.0</b>	<b>150,458</b>	<b>100.0</b>	<b>154,205</b>	<b>100.0</b>

Major changes at September 30, 2006 from March 31, 2006

<b>Notes and accounts receivables-trade:</b>	Due to the increase of sales.
<b>Marketable securities:</b>	Due to the purchase of short-term bonds of 3,000 million yen.
<b>Inventories:</b>	Due to the decrease of merchandise and products.

Liabilities and net assets

Half year/year to	9/2004		3/2005		9/2005		3/2006		9/2006	
	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)
<b>Current liabilities</b>	<b>22,014</b>	<b>15.0</b>	<b>22,221</b>	<b>15.9</b>	<b>23,205</b>	<b>16.0</b>	<b>24,110</b>	<b>16.0</b>	<b>21,609</b>	<b>14.0</b>
Notes and accounts payable -trade	5,201		6,122		5,238		5,630		5,038	
Current portion of long-term debt	416		268		768		168		168	
Other payables	8,756		8,577		8,715		9,308		8,395	
Income taxes payable	3,173		3,413		4,729		4,946		4,590	
Consumption taxes payable	477		475		488		468		469	
Reserve for bonuses	2,149		2,481		2,301		2,483		2,184	
Other reserves	235		199		112		81		73	
Other current liabilities	1,604		682		850		1,023		690	
<b>Noncurrent liabilities</b>	<b>19,785</b>	<b>13.4</b>	<b>9,518</b>	<b>6.8</b>	<b>8,781</b>	<b>6.0</b>	<b>7,710</b>	<b>5.1</b>	<b>7,791</b>	<b>5.1</b>
Long-term debt	12,062		6,614		5,980		5,446		5,362	
Other payables -long-term	87		636		368		381		116	
Retirement and severance benefits for employee	5,697		1,455		1,763		1,243		1,307	
Retirement and severance benefits for directors and auditors	399		402		453		462		504	
Deffered tax liabilities	25		23		21		20		177	
Other liabilities	1,513		386		194		155		322	
<b>Total liabilities</b>	<b>41,800</b>	<b>28.4</b>	<b>31,740</b>	<b>22.7</b>	<b>31,986</b>	<b>22.0</b>	<b>31,820</b>	<b>21.1</b>	<b>29,401</b>	<b>19.1</b>
<b>Shareholders' equity</b>	<b>107,169</b>	<b>72.8</b>	<b>109,017</b>	<b>77.8</b>	<b>113,538</b>	<b>78.0</b>	<b>117,377</b>	<b>78.0</b>	<b>122,133</b>	<b>79.2</b>
Common stock	6,227	4.2	6,247	4.5	6,272	4.3	6,319	4.2	6,343	4.1
Capital surplus reserves	6,922	4.7	6,942	4.9	6,967	4.8	7,014	4.7	7,038	4.6
Retained earnings	94,063	63.9	95,901	68.5	100,378	69.0	104,133	69.2	108,846	70.6
Treasury stock at cost	-44	-0.0	-74	-0.1	-79	-0.1	-90	-0.1	-94	-0.1
<b>Valuation and translation adjustments</b>	<b>-1,821</b>	<b>-1.2</b>	<b>-777</b>	<b>-0.5</b>	<b>38</b>	<b>0.0</b>	<b>1,260</b>	<b>0.9</b>	<b>2,611</b>	<b>1.7</b>
Unrealized holding gains on securities	1,256	0.9	2,048	1.5	2,922	2.0	3,995	2.7	4,643	3.0
Deffered hedging gain or loss	-	-	-	-	-	-	-	-	-1	-0.0
Foreign currency translation adjustments	-3,078	-2.1	-2,826	-2.0	-2,883	-2.0	-2,735	-1.8	-2,030	-1.3
<b>Stock acquisition rights</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59</b>	<b>0.0</b>
<b>Total net aseets</b>	<b>105,347</b>	<b>71.6</b>	<b>108,239</b>	<b>77.3</b>	<b>113,576</b>	<b>78.0</b>	<b>118,637</b>	<b>78.9</b>	<b>124,804</b>	<b>80.9</b>
<b>Total liabilities and net aseets</b>	<b>147,148</b>	<b>100.0</b>	<b>139,979</b>	<b>100.0</b>	<b>145,563</b>	<b>100.0</b>	<b>150,458</b>	<b>100.0</b>	<b>154,205</b>	<b>100.0</b>

Major changes at September 30, 2006 from March 31, 2006

**Other payables:** Due to the change of payment method of rebate.

# Consolidated statements of cash flows

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006
<b>I. Cash flows from operating activities:</b>					
Income before income taxes	8,316	18,436	11,232	20,341	12,471
Depreciation and amortization	2,163	4,749	2,354	4,824	2,323
Loss on impairment of fixed assets	823	823	909	909	-
Increase/decrease in retirement and severance benefits	366	-2,550	308	-212	63
Interest and dividend income	-140	-249	-139	-261	-200
Gains on insurance received	-104	-114	-34	-74	-45
Interest expense	101	182	41	93	34
Increase/decrease in trade receivables	-966	-3,082	347	1,407	-2,904
Increase/decrease in inventories	1,145	594	514	-18	1,125
Increase/decrease in trade accounts payable	169	1,065	-879	-495	-629
Other, net	-331	-2,262	-385	570	-1,783
Subtotal	11,542	17,592	14,270	27,085	10,455
Interest and dividend income received	142	246	133	265	199
Interest expense paid	-102	-183	-42	-95	-34
Insurance received	183	198	60	129	82
Income taxes paid	-8,129	-11,235	-3,320	-6,507	-4,835
Net cash provided by operating activities	3,637	6,619	11,101	20,878	5,866
<b>II. Cash flows from investing activities:</b>					
Increase in fixed deposits	-967	-1,548	-407	-803	-263
Decrease in fixed deposits	1,453	2,904	279	1,041	107
Payments for acquisition of marketable securities	-999	-4,499	-	-	-
Proceeds from sale of marketable securities	-	4,817	499	504	-
Payments for acquisition of fixed assets	-1,550	-4,906	-961	-2,106	-1,768
Proceeds from sale of fixed assets	542	2,488	0	29	599
Purchase of investment securities	-1,542	-3,229	-3	-57	-596
Proceeds from sale of investment securities	600	1,059	20	20	-
Other, net	6	7	1	41	-10
Net cash provided by investing activities	-2,057	-2,907	-571	-1,330	-1,932
<b>III. Cash flows from financing activities:</b>					
Repayment of long-term debt	-208	-5,804	-134	-1,268	-84
Purchase of treasury stock	-4	-2,582	-5	-15	-5
Proceeds from sale of treasury stock	0	0	0	0	0
Dividends paid	-2,637	-4,393	-2,594	-4,759	-3,031
Other, net	28	68	49	143	47
Net cash provided by financing activities	-2,821	-12,711	-2,684	-5,900	-3,072
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	<b>43</b>	<b>-42</b>	<b>22</b>	<b>75</b>	<b>176</b>
<b>V. Net increase/decrease in cash and cash equivalents</b>	<b>-1,197</b>	<b>-9,042</b>	<b>7,867</b>	<b>13,723</b>	<b>1,037</b>
<b>VI. Cash and cash equivalent at beginning of year</b>	<b>41,422</b>	<b>41,422</b>	<b>32,380</b>	<b>32,380</b>	<b>46,104</b>
<b>. Cash and cash equivalent at end of year</b>	<b>40,225</b>	<b>32,380</b>	<b>40,248</b>	<b>46,104</b>	<b>47,142</b>

# Capital expenditures and number of employees



## Capital expenditures

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	3/2007 Forecast
Consolidated	1,085	1,674	753	1,420	1,558	2,790
Non-consolidated	749	1,178	645	1,232	845	1,750

Note: Includes investment in manufacturing facilities to be spent on a lease contract basis.

[Major items]

- Remodeling of existing production facilities
- Replacing of machinery for research and development

## Depreciation and amortization

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	3/2007 Forecast
Manufacturing cost	764	1,613	751	1,546	716	1,480
Selling, general and administrative expenses	374	740	349	626	284	590
R&D expenses	655	1,312	534	1,157	538	1,140
Others	18	30	6	12	6	30
Consolidated total	1,813	3,696	1,642	3,343	1,545	3,230
Non-consolidated	1,484	3,005	1,317	2,674	1,209	2,570

## Lease expenses

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	3/2007 Forecast
Consolidated	461	1,012	546	1,104	530	1,070
Manufacturing cost	398	891	488	994	468	940
Non-consolidated	461	1,012	546	1,104	530	1,070

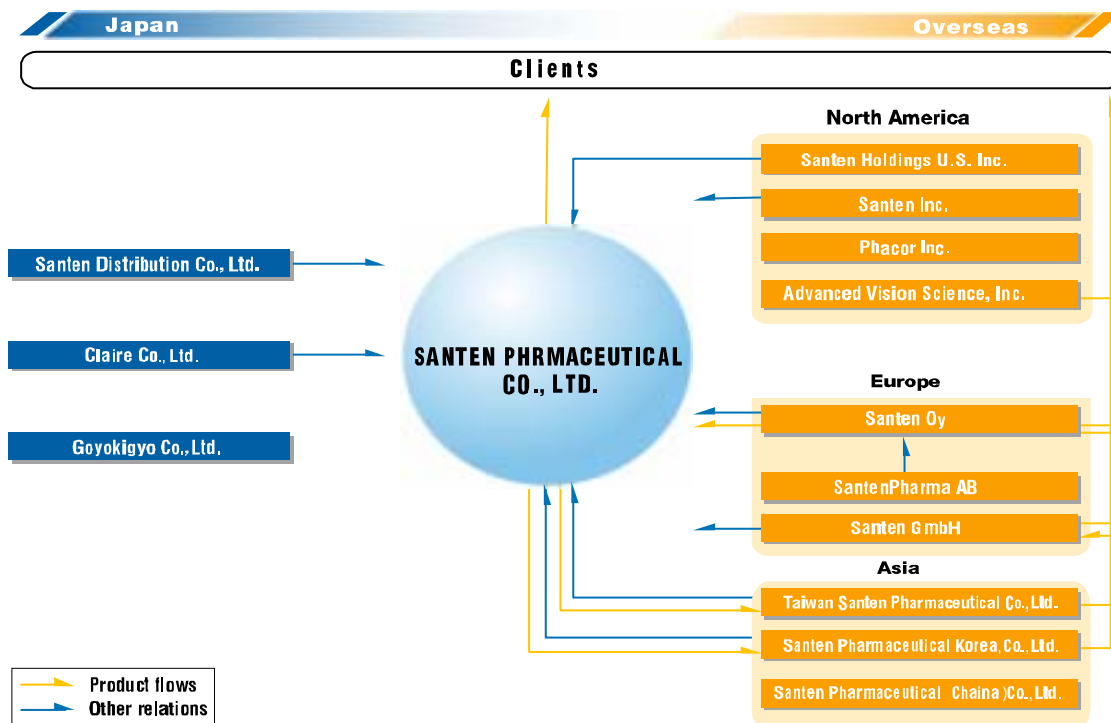
## Number of employees

At half-year/year end	9/2003	3/2004	9/2004	3/2005	9/2005
Consolidated	2,359	2,308	2,356	2,312	2,361
Sales division	851	790	796	785	822
Production division	851	827	826	787	752
R&D division	469	460	472	483	528
Corporate or back-office division	188	231	262	257	259
Non-consolidated	1,719	1,691	1,730	1,695	1,764

\*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.

# Affiliated companies

Santen group



## Consolidated subsidiaries [Domestic]

Santen Distribution Co., Ltd.					
Main business	-Liquidation proceeding-				
Location	Osaka, Japan	Paid-in capital	4 million yen	Equity owned	100%

Claire Co., Ltd.					
Main business	Cleaning of antidust and sterilized clothing				
Location	Shiga, Japan	Paid-in capital	90 million yen	Equity owned	100%

Goyokigyo Co., Ltd.					
Main business	-				
Location	Osaka, Japan	Paid-in capital	90 million yen	Equity owned	100%



**[Overseas]**

<b>Santen Holdings U.S., Inc.</b>					
Main business	Holding company for North American businesses				
Location	California, U.S.A.	Paid-in capital	24,784 thousand US\$	Equity owned	100%
<b>Santen Inc.</b>					
Main business	Clinical development of pharmaceuticals				
Location	California, U.S.A.	Paid-in capital	8,765 thousand US\$	Equity owned	100%*
<b>Phacor Inc.</b>					
Main business	-				
Location	California, U.S.A.	Paid-in capital	10 thousand US\$	Equity owned	100%*
<b>Advanced Vision Science, Inc.</b>					
Main business	Research and development of medical devices				
Location	California, U.S.A.	Paid-in capital	10 thousand US\$	Equity owned	100%*
<b>Santen Oy</b>					
Main business	Development, production and marketing of pharmaceuticals				
Location	Tampere, Finland	Paid-in capital	20,000 thousand euros	Equity owned	100%
<b>SantenPharma AB</b>					
Principal activities	Marketing support of pharmaceuticals				
Location	Stockholm, Sweden	Paid-in capital	500 thousand S.KR	Equity owned	100%
<b>Santen GmbH</b>					
Main business	Marketing of pharmaceuticals and business development				
Location	Germaring, Germany	Paid-in capital	25 thousand euros	Equity owned	100%
<b>Taiwan Santen Pharmaceutical Co., Ltd.</b>					
Main business	Import and marketing of pharmaceuticals				
Recurring income	Taipei, Taiwan	Paid-in capital	42,000 thousand Taiwan dollars	Equity owned	100%
<b>Santen Pharmaceutical Korea, Co., Ltd.</b>					
Main business	Import and marketing of pharmaceuticals				
Location	Seoul, Korea	Paid-in capital	1,500,000 thousand won	Equity owned	100%
<b>Santen Pharmaceutical (China) Co., Ltd.</b>					
Main business	-				
Location	Suzhou, China	Paid-in capital	805 million yen	Equity owned	100%

\* Indirect investment through Santen Holdings U.S. Inc.

## Non-consolidated Information

# Non-consolidated income statements

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	Change over previous first-half year (%)
<b>Net sales</b>	<b>41,897</b>	<b>86,340</b>	<b>46,234</b>	<b>90,840</b>	<b>47,050</b>	<b>1.8</b>
Cost of sales (Percentage of net sales)	14,430 34.4%	29,964 34.7%	15,673 33.9%	30,798 33.9%	16,015 34.0%	2.2
<b>Gross profit</b> (Percentage of net sales)	<b>27,467</b> 65.5%	<b>56,376</b> 65.3%	<b>30,560</b> 66.1%	<b>60,042</b> 66.1%	<b>31,034</b> 66.0%	<b>1.5</b>
Selling, general and administrative expenses (Percentage of net sales)	17,690 42.2%	36,684 42.5%	18,587 40.2%	39,397 43.4%	19,322 41.1%	4.0
R&D expenses (Percentage of net sales)	6,195 14.7%	13,302 15.4%	6,288 13.6%	14,553 16.0%	6,705 14.3%	6.6
<b>Operating income</b> (Percentage of net sales)	<b>9,776</b> 23.3%	<b>19,692</b> 22.8%	<b>11,972</b> 25.9%	<b>20,644</b> 22.7%	<b>11,712</b> 24.9%	<b>-2.2</b>
Non-operating income	539	809	394	888	468	18.8
Non-operating expenses	94	234	48	156	43	-10.2
<b>Ordinary income</b> (Percentage of net sales)	<b>10,221</b> 24.3%	<b>20,266</b> 23.5%	<b>12,318</b> 26.6%	<b>21,376</b> 23.5%	<b>12,137</b> 25.8%	<b>-1.5</b>
Extraordinary gain	237	766	14	41	250	1,686.6
Extraordinary loss	1,006	1,080	940	1,035	66	-92.9
<b>Income before income taxes</b> (Percentage of net sales)	<b>9,452</b> 22.5%	<b>19,952</b> 23.1%	<b>11,392</b> 24.6%	<b>20,382</b> 22.4%	<b>12,321</b> 26.2%	<b>8.2</b>
Income taxes - current	3,058	6,362	4,604	7,987	4,481	-2.7
Income taxes - deferred	386	987	-503	-723	220	-
<b>Net income</b> (Percentage of net sales)	<b>6,008</b> 14.3%	<b>12,602</b> 14.6%	<b>7,291</b> 15.8%	<b>13,118</b> 14.4%	<b>7,619</b> 16.2%	<b>4.5</b>

### Selling, general and administrative expenses

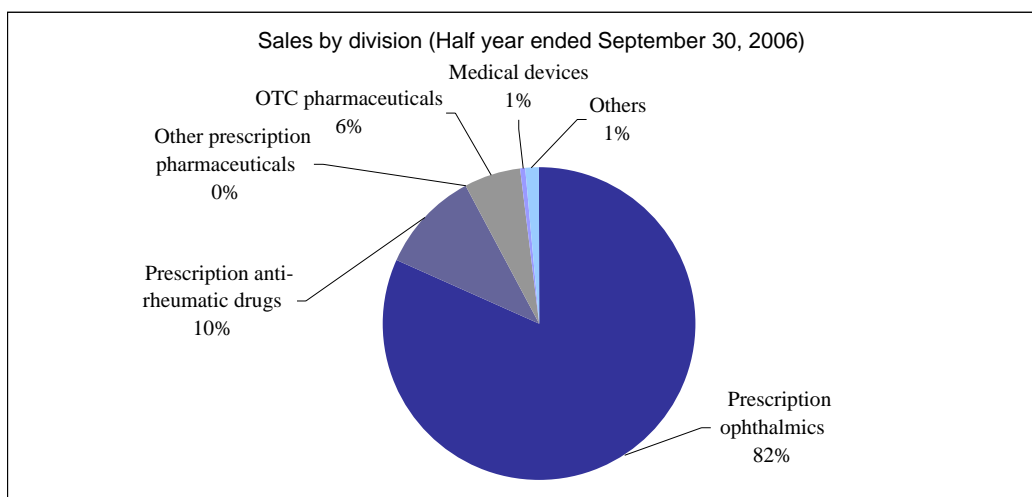
(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	Change over previous first-half year (%)
Personnel expenses	4,364	9,149	4,606	9,240	4,663	1.3
Sales promotion expenses	1,008	2,345	1,319	2,952	1,397	5.9
Royalty expenses	1,055	1,941	987	1,862	1,048	6.2
Advertising expenses	1,006	1,457	894	1,469	1,042	16.5
R&D expenses	6,195	13,302	6,288	14,553	6,705	6.6

Sales by division

(Millions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006	Change over previous first-half year (%)	3/2007 Forecast
Prescription pharmaceuticals	38,405	79,380	42,430	83,586	43,335	2.1	84,710
Ophthalmic	34,170	70,987	37,825	74,520	38,464	1.7	75,300
Anti-rheumatic drugs	4,215	8,353	4,588	9,041	4,863	6.0	9,400
Other prescription pharmaceuticals	19	40	17	24	7	-57.5	10
OTC pharmaceuticals	2,593	5,277	2,777	5,247	2,757	-0.7	5,300
Medical devices	416	726	322	618	260	-19.3	580
Others	482	955	703	1,387	696	-1.0	1,510
Total net sales	41,897	86,340	46,234	90,840	47,050	1.8	92,100



Sales of merchandises and products

(Millions of yen)

	9/2004	3/2005	9/2005	3/2006	9/2006	Change over previous first-half year (%)	3/2007 Forecast
Sales of products	32,199	61,979	32,652	63,223	33,468	2.5	63,850
Sales of merchandises	9,696	24,360	13,581	27,616	13,580	0.0	28,240
Total	41,897	86,340	46,234	90,840	47,050	-0.4	92,100
Sales of products ratio(%)	76.9	71.8	70.6	69.6	71.1	-	69.3

\*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.

## Non-consolidated balance sheets

### Assets

At half-year/year end	9/2004		3/2005		9/2005		3/2006		9/2006	
	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)
<b>Current assets</b>	<b>84,763</b>	<b>56.8</b>	<b>78,075</b>	<b>54.7</b>	<b>84,704</b>	<b>57.0</b>	<b>88,004</b>	<b>57.4</b>	<b>91,061</b>	<b>58.1</b>
Cash and deposits	31,413		21,924		28,259		31,655		29,303	
Notes and accounts receivable-trade	31,990		34,572		34,098		33,022		35,897	
Marketable securities	9,309		9,046		10,388		11,201		15,206	
Inventories	7,699		8,328		7,822		8,613		7,497	
Deferred tax assets	1,828		1,609		1,599		1,647		1,511	
Other current assets	2,536		2,612		2,539		1,864		1,645	
Allowance for doubtful receivables	-14		-18		-4		-0		-0	
<b>Fixed assets</b>	<b>64,547</b>	<b>43.2</b>	<b>64,687</b>	<b>45.3</b>	<b>63,976</b>	<b>43.0</b>	<b>65,296</b>	<b>42.6</b>	<b>65,729</b>	<b>41.9</b>
Tangible assets	31,363	21.0	28,459	19.9	27,135	18.2	26,489	17.3	25,910	16.5
Buildings and structures	17,461		16,483		15,493		14,854		14,193	
Machinery, equipment and vehicles	717		981		983		1,058		1,010	
Tools, furnitures and fixtures	1,757		1,611		1,566		1,520		1,561	
Land	9,630		9,227		8,794		8,786		8,555	
Construction in progress	1,797		156		297		269		589	
Intangible assets	2,247	1.5	2,073	1.5	1,873	1.3	1,961	1.3	1,949	1.2
Patents	508		432		356		280		204	
Trademarks	657		596		534		477		419	
Software	960		966		821		828		747	
Other intangibles	120		78		161		374		577	
Investments and other assets	30,936	20.7	34,154	23.9	34,967	23.5	36,845	24.0	37,868	24.2
Investment securities	11,997		14,309		15,733		17,711		18,393	
Investments in subsidiaries and affiliates	13,148		13,148		13,148		13,855		15,211	
Deferred tax assets	1,868		948		868		312		-	
Other assets	3,921		5,748		5,216		4,967		4,264	
<b>Total assets</b>	<b>149,311</b>	<b>100.0</b>	<b>142,762</b>	<b>100.0</b>	<b>148,681</b>	<b>100.0</b>	<b>153,300</b>	<b>100.0</b>	<b>156,791</b>	<b>100.0</b>

### Major changes at September 30, 2006 from March 31, 2006

<b>Notes and accounts</b>	Due to the increase of sales.
<b>Marketable securities:</b>	Due to the purchase of short-term bonds of 3,000 million yen.
<b>Inventories:</b>	Due to the decrease of merchandise and products.

Liabilities and net assets

At half-year/year end	9/2004		3/2005		9/2005		3/2006		9/2006	
	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)	Million yen	Proportion (%)
<b>Current liabilities</b>	<b>20,044</b>	<b>13.4</b>	<b>20,686</b>	<b>14.5</b>	<b>21,714</b>	<b>14.6</b>	<b>22,573</b>	<b>14.7</b>	<b>20,583</b>	<b>13.1</b>
Accounts payable-trade	4,773		5,469		4,813		5,115		4,703	
Current portion of long-term debt	416		268		768		168		168	
Other payables	8,935		8,732		8,649		9,672		8,581	
Income taxes payable	3,120		3,372		4,694		4,910		4,560	
Reserves	2,179		2,237		2,150		2,070		1,977	
Other current liabilities	619		605		638		637		592	
<b>Noncurrent liabilities</b>	<b>19,263</b>	<b>12.9</b>	<b>8,983</b>	<b>6.3</b>	<b>8,289</b>	<b>5.6</b>	<b>7,231</b>	<b>4.7</b>	<b>7,378</b>	<b>4.7</b>
Long-term debt	12,062		6,614		5,980		5,446		5,362	
Retirement and severance benefits for employee	6,067		1,823		1,582		1,520		1,299	
Deferred tax liabilities	-		-		-		-		212	
Other liabilities	1,134		546		726		265		504	
<b>Total liabilities</b>	<b>39,321</b>	<b>26.3</b>	<b>29,670</b>	<b>20.8</b>	<b>30,003</b>	<b>20.2</b>	<b>29,804</b>	<b>19.4</b>	<b>27,961</b>	<b>17.8</b>
<b>Shareholders' equity</b>	<b>108,746</b>	<b>72.9</b>	<b>111,043</b>	<b>77.8</b>	<b>115,755</b>	<b>77.8</b>	<b>119,499</b>	<b>78.0</b>	<b>124,127</b>	<b>79.2</b>
Common stock	6,227	4.2	6,247	4.4	6,272	4.2	6,319	4.1	6,343	4.0
Capital surplus reserves	6,922	4.6	6,942	4.9	6,967	4.7	7,014	4.6	7,038	4.5
Additional paid-in capital	6,922		6,942		6,966		7,013		7,037	
Other capital surplus reserves	0		0		0		0		0	
Retained earnings	95,640	64.1	97,927	68.6	102,595	69.0	106,256	69.3	110,841	70.7
Earning reserve	1,551		1,551		1,551		1,551		1,551	
Reserve for retirement benefit	372		372		372		372		372	
Special depreciation reserve	294		294		301		301		294	
General reserve	84,109		84,109		89,109		89,109		89,109	
Retained earnings carried forward	9,313		11,600		11,261		14,922		19,513	
Treasury stock at cost	-44	-0.0	-74	-0.1	-79	-0.1	-90	-0.0	-94	-0.0
<b>Valuation and translation adjustments</b>	<b>1,256</b>	<b>0.8</b>	<b>2,048</b>	<b>1.4</b>	<b>2,922</b>	<b>2.0</b>	<b>3,995</b>	<b>2.6</b>	<b>4,642</b>	<b>3.0</b>
Unrealized holding gains on securities	1,256	0.8	2,048	1.4	2,922	2.0	3,995	2.6	4,643	3.0
Deferred hedging gain or loss	-	-	-	-	-	-	-	-	-1	-0.0
<b>Stock acquisition rights</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59</b>	<b>0.0</b>
<b>Total net assets</b>	<b>110,002</b>	<b>73.7</b>	<b>113,092</b>	<b>79.2</b>	<b>118,677</b>	<b>79.8</b>	<b>123,495</b>	<b>80.6</b>	<b>128,829</b>	<b>82.2</b>
<b>Total liabilities and net assets</b>	<b>149,311</b>	<b>100.0</b>	<b>142,762</b>	<b>100.0</b>	<b>148,681</b>	<b>100.0</b>	<b>153,300</b>	<b>100.0</b>	<b>156,791</b>	<b>100.0</b>

Major changes at September 30, 2006 from March 31, 2006

**Other payables:** Due to the change of payment method of rebate.

## Reference information

# Research & development

### Pipeline of prescription pharmaceuticals (Clinical studies)

Generic name	Brand name/dev. code	Indication	Original/licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Levofloxacin (0.5%)	Cravit	Bacterial conjunctivitis	Daiichi Pharmaceutical	Japan						Apr-00
	Quixin			USA						Nov-00
	Oftaquix			Europe						May-02
Levofloxacin + prednisolone A	DE-094	Infectious keratitis	Daiichi Pharmaceutical	USA						

Characteristics: Fluoroquinolone antibacterial agent. Levofloxacin + prednisolone A is a combination treatment with steroids.

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				Jul-06		
				Europe			In preparation			
				USA						

Characteristics: Prostaglandin glaucoma treatment for ocular hypertension. In Japan, a comparison study demonstrated its non-inferiority to latanoprost and we filed for manufacturing and marketing approval for glaucoma and ocular hypertension. In Europe, also preparing for NDA filing based on the results of 1) the sub-analysis of the comparison study demonstrated its non-inferiority to latanoprost although it did not demonstrate its non-inferiority to latanoprost for the primary analysis, and 2) another comparison study demonstrated non-inferiority to timolol maleate ophthalmic solution. In the USA, we will decide our future development plan based on the study results and marketability.

Generic name	Dev. code	Indication	Original/licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Diquafosol tetrasodium	DE-089	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	Inspire Pharm.	Japan						

Characteristics: A treatment for corneal and conjunctival epithelial disorder associated with dry eye, etc. that stimulates the ocular surface to secrete tear fluid and moisture. Expected to be used in combination with existing dry eye treatments.

Generic name	Dev. code	Indication	Original/licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Olmesartan	DE-092	Glaucoma/ Ocular hypertension	Sankyo	Japan		Suspended				
				USA/Europe		Suspended				

Characteristics: The angiotensin II receptor antagonist. In Japan, Europe and the USA, the Phase II studies did not demonstrate clear dose-response relationship nor sufficient IOP-lowering effect, and therefore we decided to suspend clinical studies. We will decide whether we resume the clinical studies after conducting another pilot study with different doses and different formulation since the results of the Phase II studies differed from the result of the early Phase II study conducted with different formulation in Japan.

Generic name	Dev. code	Indication	Original/licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Lomerizine HCL	DE-090	Glaucoma	Nippon Organon	Japan						

Characteristics: A new type of oral glaucoma treatment studied for inhibiting the progression of visual field defects. The only calcium antagonist in full-fledged development as a glaucoma treatment. Compared with NMDA receptor antagonists, fewer generalized side effects are expected, thus having excellent safety. Marketed by Nippon Organon as a migraine drug.

Generic name	Dev. code	Indication	Original/licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
(Undetermined)	DE-096	Rheumatoid arthritis	Original	Japan						
		Diabetes Macular Edema		Japan						

Characteristics: An oral TNF inhibitor. Anti-rheumatic effect comparable to injectable biological agents. In addition to RA, the effect on DME was also observed in basic research, and the phase II studies are being conducted with both diseases.

Generic name	Dev. code	Indication	Original/licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Gefarnate	DE-099	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	Original	Japan		In preparation				

Characteristics: Treats corneal and conjunctival epithelial disorder mostly associated with dry eye, by stimulating the secretion of mucin and promoting the corneal epithelial migration. Preservative-free eye ointment that can be used in combination with existing drugs.

Generic name (USA)	Dev. code	Indication	Original/in-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.	Sankyo	USA						

Characteristics: It is expected to show a potent effect on corneal and conjunctival epithelial disorders by directly acting on the corneal and conjunctival epithelial cells. It has an action mechanism which differs from any other existing treatment or drug candidate in development. The compound is currently under development by Sankyo as an oral anti-diabetic in the USA.

### Pipeline of prescription pharmaceuticals (In preparation for clinical trials)

Generic name	Brand name	Indication	Original/in-licensor
Bucillamine	Rimatil	Osteoarthritis (additional indication)	Original

Characteristics: Shown to be effective on joint inflammation caused by osteoarthritis.

Generic name	Dev. code	Indication	Original/in-licensor
(Undetermined)	DE-102	Diabetes Macular Edema	Co-development with Oakwood (USA)

Characteristics: A steroid microsphere product for a sustained release injectable drug delivery. Demonstrated sustained efficacy when injected around the affected area. In order to produce sterile microsphere in commercial scale, we collaborate with Oakwood Laboratories (USA).

Generic name	Dev. code	Indication	Original/in-licensor
(Undetermined)	DE-103	Allergic conjunctivitis	Ono

Characteristics: A PDE4 (Phosphodiesterase type 4) inhibitor for allergic conjunctivitis which has a different action mechanism from the existing drugs. Expected to be effective for allergic conjunctivitis through its inhibitory effect against PDE4.

Generic name	Dev. code	Indication	Original/in-licensor
(Undetermined)	DE-104	Glaucoma/ Ocular hypertension	Co-development with Ube Industries

Characteristics: A ROCK inhibitor co-development with Ube Industries for treatment of glaucoma and ocular hypertension which has a different action mechanism from other existing drugs. It is expected to show a strong IOP-reduction by promoting aqueous humor outflow by acting directly on trabecular cells.

### Medical Device

Product under development	Product name	Region
Intraocular lens	MD-14	Japan and USA

Characteristics: Foldable intraocular lens using acrylic material with high refractive index. Developed by U.S. subsidiary Advanced Vision Science, Inc. Approved in October, 2006 in Japan. Preparing for NDA filing in USA.

### License out

Dev. code	Indication	Region	Licensee	Status	in-licensor
DE-098 (Anti-APO-1 antibody)	Rheumatoid arthritis	Japan	Argenes	preparing for clinical trials	Centocor

Characteristics: Joint injection that induces apoptosis in diseased joints of rheumatoid arthritis patients. Bulk pharmaceutical manufacturing process for actual production scale has been established, and drug development is being studied. Santen granted the domestic development rights to Argenes, Inc. The compound had been in-licensed from Centocor. Santen continues to hold the marketing rights in Japan and the overseas marketing and development rights.

### Changes from May 9, 2006

[Progress]

Dev. code	Indication	Status change	Clinical trial, NDA filing, Launch Region
DE-085	Glaucoma/ ocular hypertension	In preparation for NDA filing to filed NDA	Japan
DE-089	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	In preparation for phase III to Phase III	Japan
DE-099	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	Phase I to in preparation for Phase II	Japan
DE-101	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	In preparation for phase I to Phase I	USA

Product under development	Product name	Status change	Clinical trial, NDA filing, Launch Region
Intraocular lens	MD-14	NDA filed to Approved	Japan

# Pharmaceutical market in Japan

## Revision of National Health Insurance (NHI) drug prices

(%)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Industry average	-6.6	-	-6.8	-4.4	-9.7	-	-7.0	-	-6.3	-	-4.2	-	-6.7
Ophthalmic drugs	-1.6	-	-3.5	-1.8	-7.5	-	-6.2	-	-6.0	-	-2.7	-	-5.5
Santen	-0.4	-	-2.6	-1.3	-7.2	-	-5.7	-	-6.0	-	-3.2	-	-5.3

(Compiled by Santen)

Revision of NHI drug prices: In Japan, drug prices are generally revised every two years to reflect their market price. The drugs marketed at lower market prices will bear larger reduction margins at the revision.

## Major healthcare reforms

	1997	Enforcement of the Revised Health Insurance System Law Increased contribution for insured employees (10% to 20%) Revision of the Insurance Law for Seniors Contribution: 500 yen/day for out-patients (up to four times a month) and 1,000 yen/day for in-patients
	2001	Revision of the Insurance Law for Seniors Contribution: fixed rate of 10% for out-patients and in-patients
April	2002	Reimbursed consulting fee for physicians were reduced by 2.7% on average Revision of prescription fee (two points are added for every prescription of generic drugs)
October	2002	Increased contribution for seniors (fixed amount system was abolished for a uniform fixed rate system of 10% contribution)
April	2003	Increased contribution for insured employees (20% to 30%)
April	2006	Revision of the prescription form from the standpoint of attempting environmental considerations of the generic use promotion



**Market shares**

(Billions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006
Prescription ophthalmics	39.4% 100.3	39.6% 207.7	41.5% 107.0	40.9% 213.1	40.9% 105.7
Anti-rheumatic drugs	42.4% 11.7	42.9% 23.3	45.1% 12.0	45.2% 23.8	46.3% 11.7

Notes: - On an NHI drug price basis.

- Lower figures indicate market size.

- Anti-rheumatic drugs exclude immunosuppressants and biologic agents.

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Source: Santen analysis based on IMS data

Period: April 2004-Sept 2006; Unauthorized copy prohibited

**Market shares by therapeutic area - prescription ophthalmics**

(Billions of yen)

Half year/year to	9/2004	3/2005	9/2005	3/2006	9/2006
Anti-glaucoma	16.3% 37.6	20.0% 74.9	23.4% 39.7	23.2% 79.0	22.3% 39.9
Anti-infective	81.2% 14.1	80.3% 26.5	78.4% 14.1	78.3% 26.7	76.7% 13.7
Anti-allergy	23.4% 9.7	22.4% 28.4	25.7% 11.4	24.8% 24.6	27.8% 9.7
Agents for surgeries	39.9% 6.8	41.0% 13.6	42.8% 7.2	42.6% 14.4	42.9% 7.1
Corneal disease treatments	81.2% 11.4	81.0% 23.0	80.7% 12.5	80.7% 25.5	79.5% 13.1
Anti-cataract	56.7% 3.6	57.4% 6.8	59.6% 3.3	60.3% 6.5	61.9% 3.2
Corticosteroids	52.1% 5.6	52.8% 11.5	52.8% 5.8	52.6% 11.2	51.6% 5.5

Notes: - On an NHI drug price basis.

- Lower figures indicate market size.

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Source: Santen analysis based on IMS data

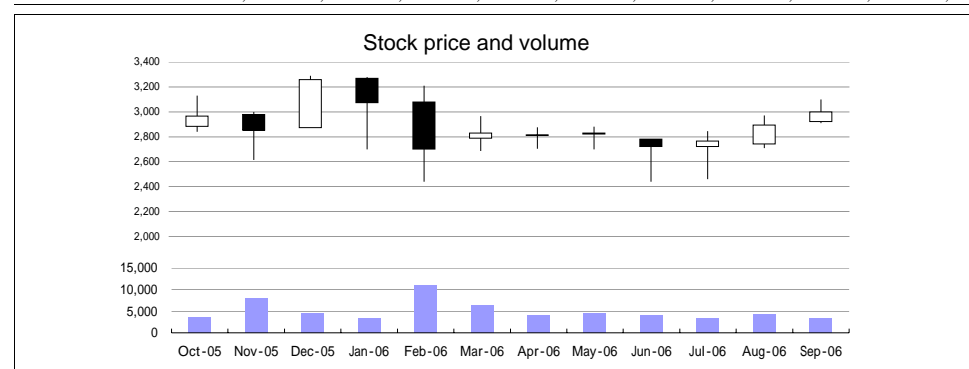
Period: April 2004-Sept 2006; Unauthorized copy prohibited

# Stock information

Stock price (Osaka Securities Exchange 1st market)

(Yen and thousand shares)

	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06
Stock price:												
Open	2,880	2,980	2,870	3,270	3,080	2,785	2,810	2,830	2,780	2,720	2,740	2,920
High	3,130	3,000	3,290	3,280	3,210	2,965	2,875	2,880	2,780	2,845	2,970	3,100
Low	2,840	2,615	2,870	2,700	2,440	2,685	2,705	2,700	2,440	2,460	2,710	2,910
End of month	2,965	2,850	3,260	3,070	2,700	2,830	2,815	2,820	2,720	2,765	2,895	3,000
Volume	3,664	7,979	4,545	3,241	10,887	6,326	4,103	4,537	4,166	3,321	4,276	3,243



## Major shareholders

As of September 30, 2006

Name	Number of shares Held	Percentage of voting rights
	Thousand shares	%
Northern Trust CO.(AVFC) Sub-account American Clients	8,024	9.2
Japan Trustee Service Bank, Ltd.	5,493	6.3
Japan master Trust and Banking Co., Ltd.	5,216	6.0
Mita Sangyo Co., Ltd.	4,756	5.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,296	5.0
Trust and Custody Services Bank, Ltd.	2,794	3.2
The Tokio Marine and Nichido Fire Insurance Co., Ltd.	2,668	3.1
Nippon Life Insurance Company	2,661	3.1
Mitsubishi UFJ Trust and Banking Corporation	1,992	2.3
Mellon Bank, N.A. As Agent For Its Client Mellon Omnibus		
US Pension	1,704	2.0

## Shares and stock option

At half-year/year end	3/2002	3/2003	3/2004	3/2005	3/2006	9/2006
Number of shares outstanding (thousand shares)	90,704	90,704	87,963	86,658	86,751	86,781
Stock option balance (thousand shares)	243	335	472.6	504.3	541	613.7
Granted in June 1998 - 106 thousand shares at 1,540 yen/share	62	62	62	35	27	24
Granted in June 1999 - 66 thousand shares at 2,480 yen/share	66	66	66	66	57.3	57
Granted in June 2000 - 60 thousand shares at 2,705 yen/share	60	60	60	60	58	55
Granted in June 2001 - 55 thousand shares at 2,299 yen/share	55	55	55	55	42.6	39.6
Granted in June 2002 - 92 thousand shares at 1,326 yen/share	-	92	92	72.5	53.7	49
Granted in June 2003 - 137.6 thousand shares at 1,176 yen/share	-	-	137.6	137.6	95	83.3
Granted in June 2004 - 78.2 thousand shares at 1,743 yen/share	-	-	-	78.2	78.2	73.9
Granted in June 2005 - 129.2 thousand shares at 2,480 yen/share	-	-	-	-	129.2	129.2
Granted in June 2006 - 102.7 thousand shares at 2,715 yen/share	-	-	-	-	-	102.7

Note: The company has a stock-based compensation plans under which stock options are granted to directors and corporate officers. The grants are fully exercisable after two years.

## Extinguishment of Treasury stock

	3/2002	3/2003	3/2004	3/2005	3/2006	9/2006
An extinguished amount of money(millions of yen)	3,258	-	3,239	2,548	-	-
The number of the extinguished stocks(thousand stocks)	2,027	-	2,741	1,351	-	-

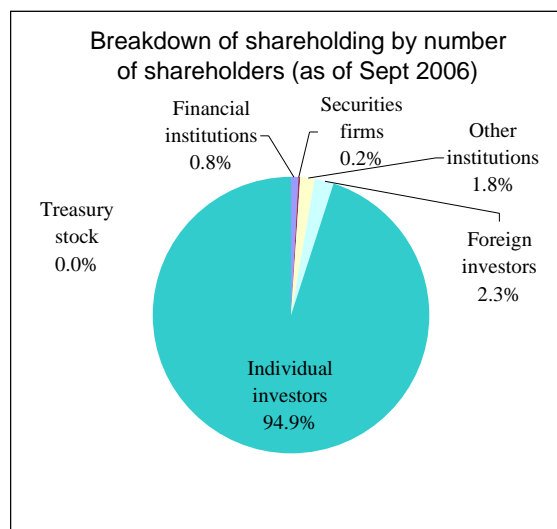
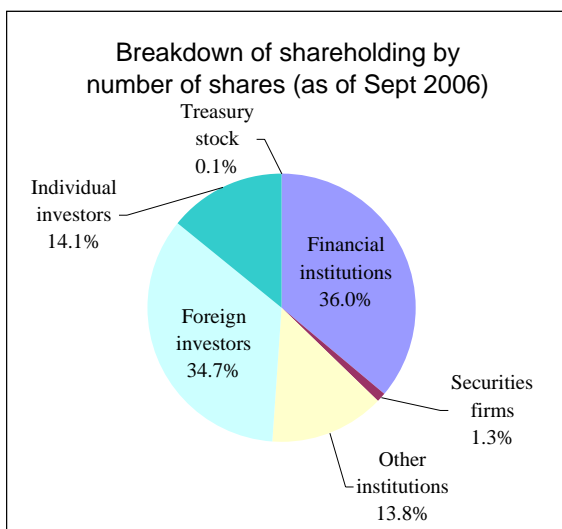
### Breakdown of shareholding by number of shares

At half-year/year end	9/2004		3/2005		9/2005		3/2006		9/2006	
	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)
Financial institutions	31,089	35.3	28,423	32.8	28,597	33.0	29,514	34.0	31,242	36.0
City & regional banks	5,429	6.2	4,636	5.3	4,655	5.4	4,659	5.4	4,646	5.3
Trust banks	16,072	18.2	15,768	18.2	15,790	18.2	16,577	19.1	18,561	21.4
(concerned in trust works)	13,515		13,022		13,290		14,039		16,049	
Life and non-life insurance	9,542	10.8	7,973	9.2	8,021	9.3	8,004	9.2	7,898	9.1
Other financial institutions	46	0.1	45	0.1	129	0.1	274	0.3	135	0.2
Securities firms	330	0.4	346	0.4	747	0.9	865	1.0	1,129	1.3
Other institutions	10,944	12.4	11,788	13.6	11,779	13.6	11,823	13.6	11,989	13.8
Foreign investors	32,154	36.6	32,874	38.0	33,259	38.4	31,519	36.3	30,085	34.7
Individual investors	13,430	15.3	13,187	15.2	12,271	14.1	12,985	15.0	12,286	14.1
Treasury Stock	36	0.0	39	0.0	41	0.0	45	0.1	46	0.1
<b>Total</b>	<b>87,982</b>	<b>100.0</b>	<b>86,658</b>	<b>100.0</b>	<b>86,696</b>	<b>100.0</b>	<b>86,751</b>	<b>100.0</b>	<b>86,781</b>	<b>100.0</b>

Note: Trading unit for Santen shares were reduced to 100 shares from 1,000 shares effective August 1, 2002

### Breakdown of shareholding by number of shareholders

At half-year/year end	9/2004		3/2005		9/2005		3/2006		9/2006	
	Number of shareholders	Proportion (%)	Number of shareholders	Proportion (%)	Number of shareholders	Proportion (%)	Number of shareholders	Proportion (%)	Number of shareholders	Proportion (%)
Financial institutions	86	1.2	91	1.1	99	1.2	107	0.8	97	0.8
City & regional banks	7	0.1	9	0.1	10	0.1	10	0.1	8	0.1
Trust banks	48	0.7	47	0.6	51	0.6	52	0.4	49	0.4
Life and non-life insurance	30	0.4	31	0.4	28	0.4	32	0.2	27	0.2
Other financial institutions	1	0.0	4	0.0	10	0.1	13	0.1	13	0.1
Securities firms	27	0.4	28	0.3	28	0.3	31	0.2	27	0.2
Other institutions	124	1.8	128	1.5	178	2.1	236	1.7	214	1.8
Foreign investors	153	2.2	172	2.0	236	2.8	255	1.9	276	2.3
Individual investors	6,608	94.4	8,089	95.1	7,844	93.6	12,927	95.4	11,348	94.9
Treasury stock	1	0.0	1	0.0	1	0.0	1	0.0	1	0.0
<b>Total</b>	<b>6,999</b>	<b>100.0</b>	<b>8,509</b>	<b>100.0</b>	<b>8,386</b>	<b>100.0</b>	<b>13,557</b>	<b>100.0</b>	<b>11,963</b>	<b>100.0</b>



# News releases

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## News releases during April 2006-September 2006

For details, please refer to our Web site (<http://www.santen.co.jp/en/>).

- | (Date)        | (Summary)  |
|---------------|--|
| <b>2006</b>   |  |
| <b>14-Apr</b> | <b>Announcement of Change of Representative Directors</b><br>At the meeting of the Board of Directors held on June 27, 2006, Takakazu Morita was elected as Representative Director, Chairman and Chief Executive Officer; and Akira Kurokawa as Representative Director, President and Chief Operating Officer. They all assumed their offices.   |
| <b>9-May</b>  | <b>Joint Development of ROCK Inhibitor for Glaucoma and Ocular Hypertension Drug Candidate</b><br>Santen and Ube Industries, Ltd. reached a basic agreement to jointly develop ROCK inhibitor (development code: DE-104) as an agent for glaucoma and ocular hypertension, for which they discovered an application possibility for ophthalmic treatment in joint research. DE-104 is considered to have a different action mechanism from any other existing anti-glaucoma agents. And it is expected to show potent intraocular pressure lowering effect by facilitating aqueous humor outflow from the main route among multiple routes.  |
| <b>9-May</b>  | <b>Santen to Issue Stock Acquisition Rights to the Directors<br/>Santen to Issue Stock Acquisition Rights to the Corporate Officers</b><br>Santen's Board of Directors adopted a resolution to issue rights to subscribe for new shares without consideration to Santen's directors and corporate officers. The resolution was approved at the 94th Annual General Meeting of Shareholders held on June 27, 2006.  |
| <b>25-Jul</b> | <b>2006-2010 Medium-term Management Plan</b><br>Santen formulated its five-year management plan for the period FY2006 to 2010. The basic policies of the Plan are to develop new drug candidates and to generate growth in promising regions by leveraging Santen's strength in global development. As a step to become a leading global ophthalmic company in the coming decade, Santen will actively address the following goals during the medium-term management plan: enhancement of the global strategic product pipeline; growth in Japan as well as in Northern/Eastern Europe, Russia and China; and a focus on clinical and business development in the U.S.   |
| <b>1-Aug</b>  | <b>Santen Files for Manufacturing and Marketing Approval for its Glaucoma and Ocular Hypertension Drug Candidate DE-085 (INN: Tafluprost)</b><br>Santen applied manufacturing and marketing approval for its glaucoma and ocular hypertension treatment DE-085 (INN: Tafluprost) on July 31, 2006. DE-085 is a novel prostaglandin drug candidate being studied for the reduction of intraocular pressure in primary open angle glaucoma and ocular hypertension which is under co-development by Santen and Asahi Glass Co., Ltd. Santen is conducting pharmaceutical and clinical development, while Asahi Glass is responsible for manufacturing development of the active pharmaceutical ingredient. DE-085 demonstrated a potent and stable inter ocular pressure lowering effect by promoting uveoscleral outflow in a Phase studies conducted in Japan. |
| <b>25-Sep</b> | <b>Santen to Launch OTC Eye Drops Sante Medical 10</b><br>Santen launched the new OTC eye drop Sante Medical 10, which focused on visual fatigue relief in response to 90% of the eye drop users needs, on October 10, 2006. Sante Medical 10 contains 10 active ingredients formulated to relieve visual fatigue for overworked eyes, and is highly effective against eye fatigue symptoms by improving the ciliary muscle that controls focus adjustment and by stimulating the eye metabolism.  |



