

Santen Pharmaceutical Co., Ltd.

**Financial Performance and Outlook
Half Year Ended September 30, 2006**

November 2, 2006

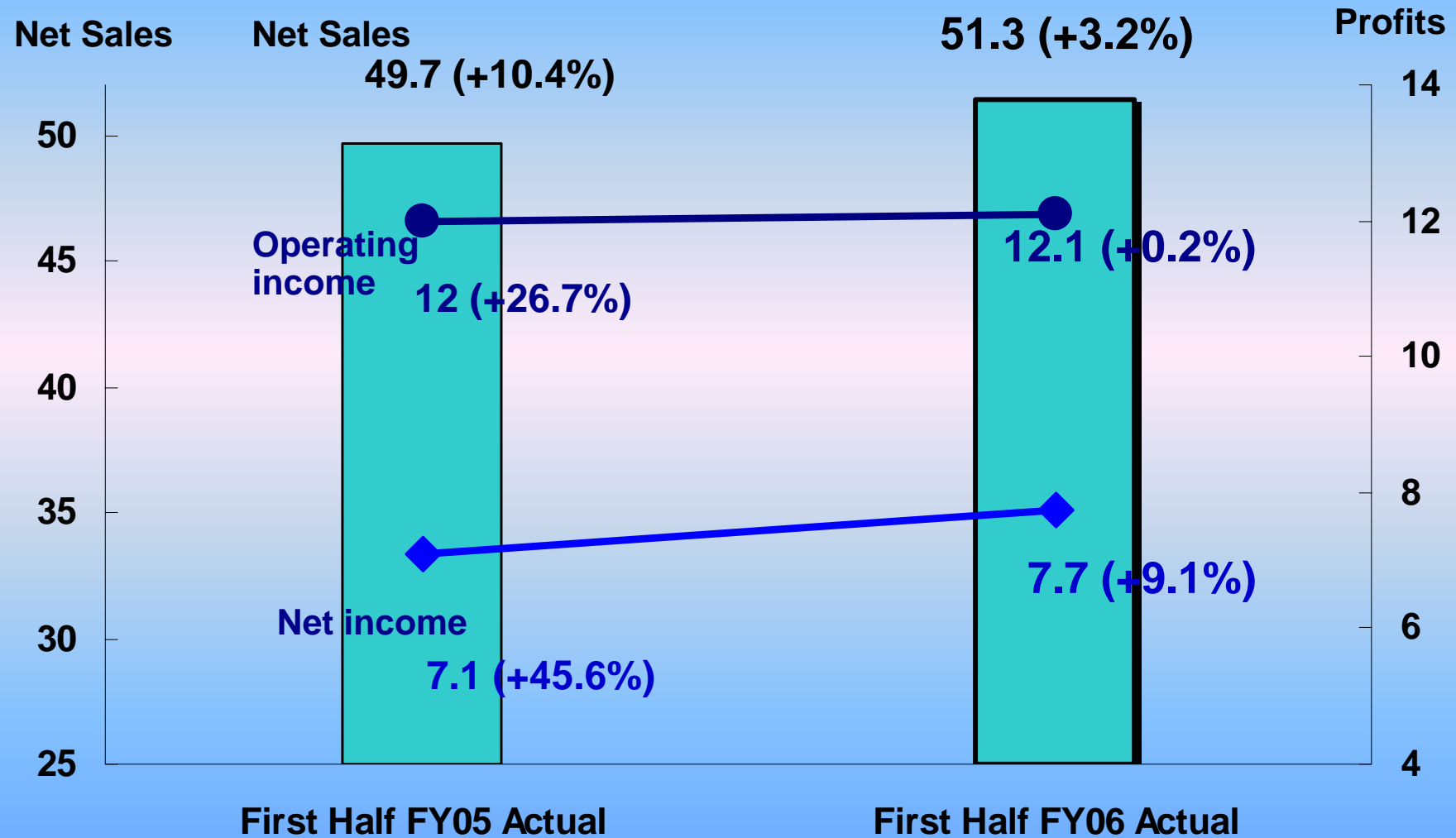
**Takakazu Morita
Chairman and CEO**

Highlights of the First Half FY2006

- 1. In spite of NHI drug price reductions, Santen achieved the net sales of 51.3 billion yen, a 3.2% increase from the first half of FY2005**
- 2. Operating profit was 12.1 billion yen, a 0.2% increase from the first half of FY2005**
- 3. Net income was 7.7 billion yen, a 9.1% increase from the first half of FY2005**
- 4. In R&D, four new drug candidates proceeded to next stages: DE-085, DE-089, DE-101 and DE-099**
- 5. Takakazu Morita was appointed Chairman & CEO, and Akira Kurokawa as President & COO, effective June 27**
- 6. Santen announced its 2006-2010 Medium-term Management Plan on July 25**

First Half FY2006 Consolidated Sales and Profits

Unit: Billions of yen
Percentage shows change from previous year



Net Sales of First Half FY2006

(Unit: Billion of yen)

	Japan		Overseas		Total	
	billion yen	% change from previous year	billion yen	% change from previous year	billion yen	% change from previous year
Prescription Pharmaceuticals	40.9	0.7%	6.2	24.1%	47.1	3.3%
Ophthalmic	36.1	0.3%	6.0	22.8%	42.0	2.9%
Anti-rheumatic	4.7	4.3%	0.2	-	4.9	6.0%
Others	0.1	2.2%	0.0	-	0.2	7.5%
OTC eye drops	2.7	-1.0%	0.0	-	2.8	-0.7%
Medical device	0.3	-19.3%	0.0	-	0.3	-18.3%
Others	0.3	-29.3%	1.0	38.7%	1.3	16.7%
Total	44.1	0.2%	7.2	26.1%	51.4	3.2%

Net Sales of First Half FY2006

1. Japan

■ Prescription Pharmaceuticals:

[Market] Contracted due to NHI drug price reduction

[Santen] Achieved net sales of 36.06 billion yen, a slight increase of 0.3% from the first half FY2005, by value-added promotional activities reflecting each medical institution's varied needs

■ Anti-rheumatic Drugs:

[Market] DMARDs market contracted due to NHI drug price reduction

[Santen] Achieved net sales of 4.69 billion yen, a 6.0% increase from the first half FY2005 by further market penetration of our three products

■ OTC Eye Drops:

[Market] Contracted due to mild allergy season

[Santen] Focused on the eye strain, blurred vision and cooling effect segments. Net sales were 2.73 billion yen, a 1.0% decline from the first half FY2005

■ Medical Device:

[Market] A flattening trend with increase in the number of cataract surgery cases and intensified competition

[Santen] Net sales of 260 million yen, down 19.3% from the first half FY2005. Focused on preparations for the planned new product launch

2. Overseas:

[Market] Growing trend

[Santen] Santen continues to be strong in Northern/Eastern Europe and Germany. Sales in the United States stabilized after distribution stock levels normalized last year. In Asia, sales continues to be positive in China and South Korea.

Major New Drug Candidates

(as of November 2006; underline shows progress from May 2006)

Generic name / development code	Indication	Category/Mechanism	Status	NDA
1) Tafluprost DE-085 (original)	Glaucoma and ocular hypertension	Prostanoid FP receptor agonist. Promotes uveoscleral outflow	<u>Japan: applied Jul 06</u> Europe: preparing for application	Europe: Q4 FY06
2) Diquafosol tetrasodium DE-089 (in-licensed)	Dry eye	P2Y ₂ receptor agonist. Stimulates tear secretion	<u>Japan: P3</u>	Q3 FY08
3) Olmesartan DE-092 (in-licensed)	Glaucoma and ocular hypertension	Angiotensin II AT ₁ receptor antagonist. Promotes uveoscleral outflow	Japan, US & Europe: suspended	-
4) <i>Undetermined</i> DE-096 (original)	Rheumatoid arthritis and Diabetes Macular Edema	Inhibits production of TNF-alpha	Japan: P2a	-
5) Rivoglitazone DE-101 (in-licensed)	Dry eye	Corneal and conjunctival epithelial disorder	<u>US: P1</u>	-
6) Gefarnate DE-099 (original)	Dry eye	Corneal and conjunctival epithelial disorder	<u>Japan: preparing for P2</u>	-
7) Posterior IOL MD-14 (original)	Vision correction of aphakic eyes	Acrylic IOL	<u>Japan: approved Oct 06</u> US: preparing for application	-

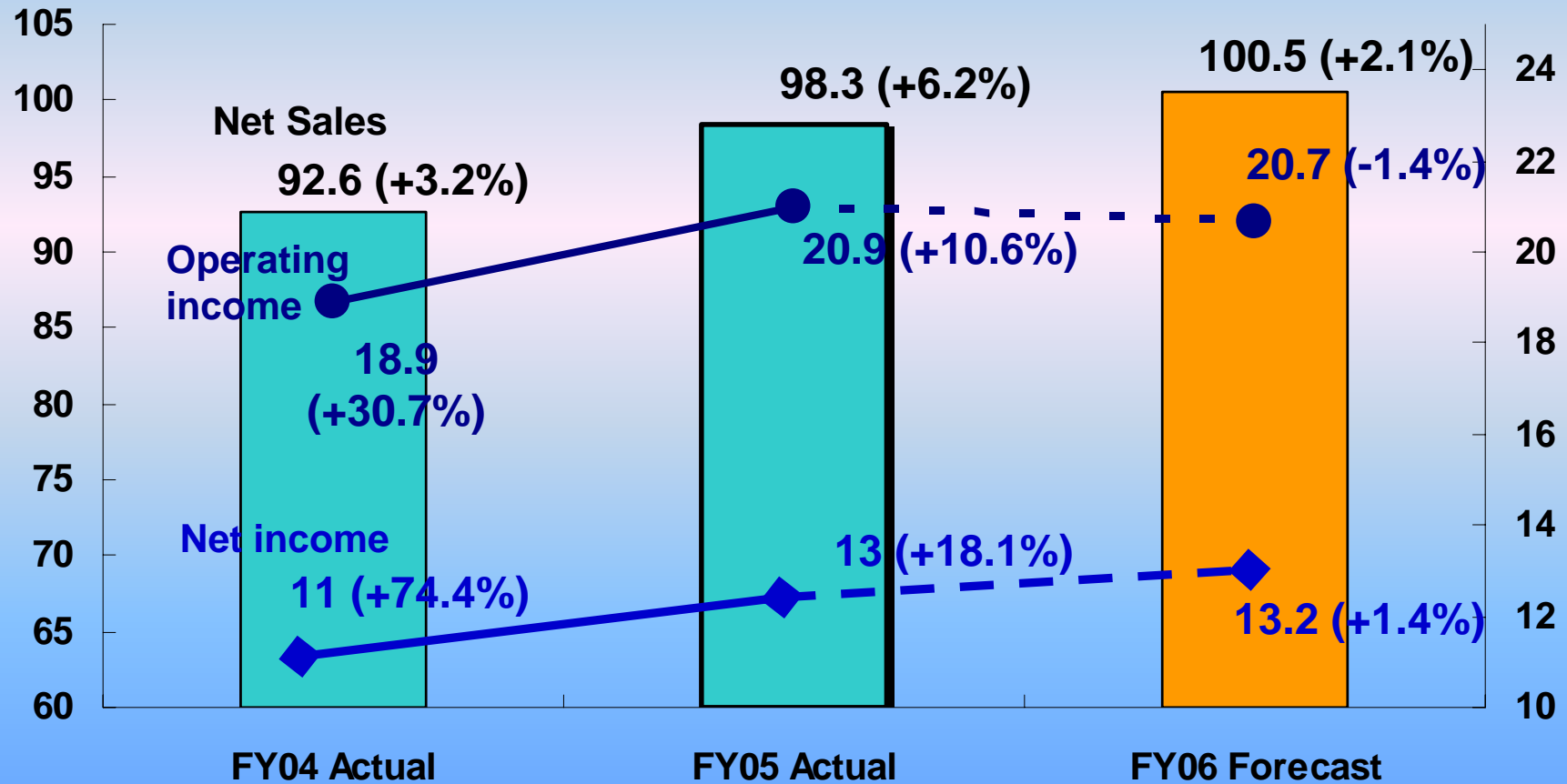
Forecast of FY2006

Unit: Billions of yen

Percentage shows change from previous year

Net Sales

Profits



Forecast and Goals of FY2006

1. Japan

NHI drug price reductions and competitors' new product launches are expected to continue. Santen strives to secure sales and profits by strengthening its competitiveness in our target segments and by defense against competitors.

2. Overseas

Santen aims to improve its position in the growing markets through reinforcement of value-added promotional activities.

3. R&D

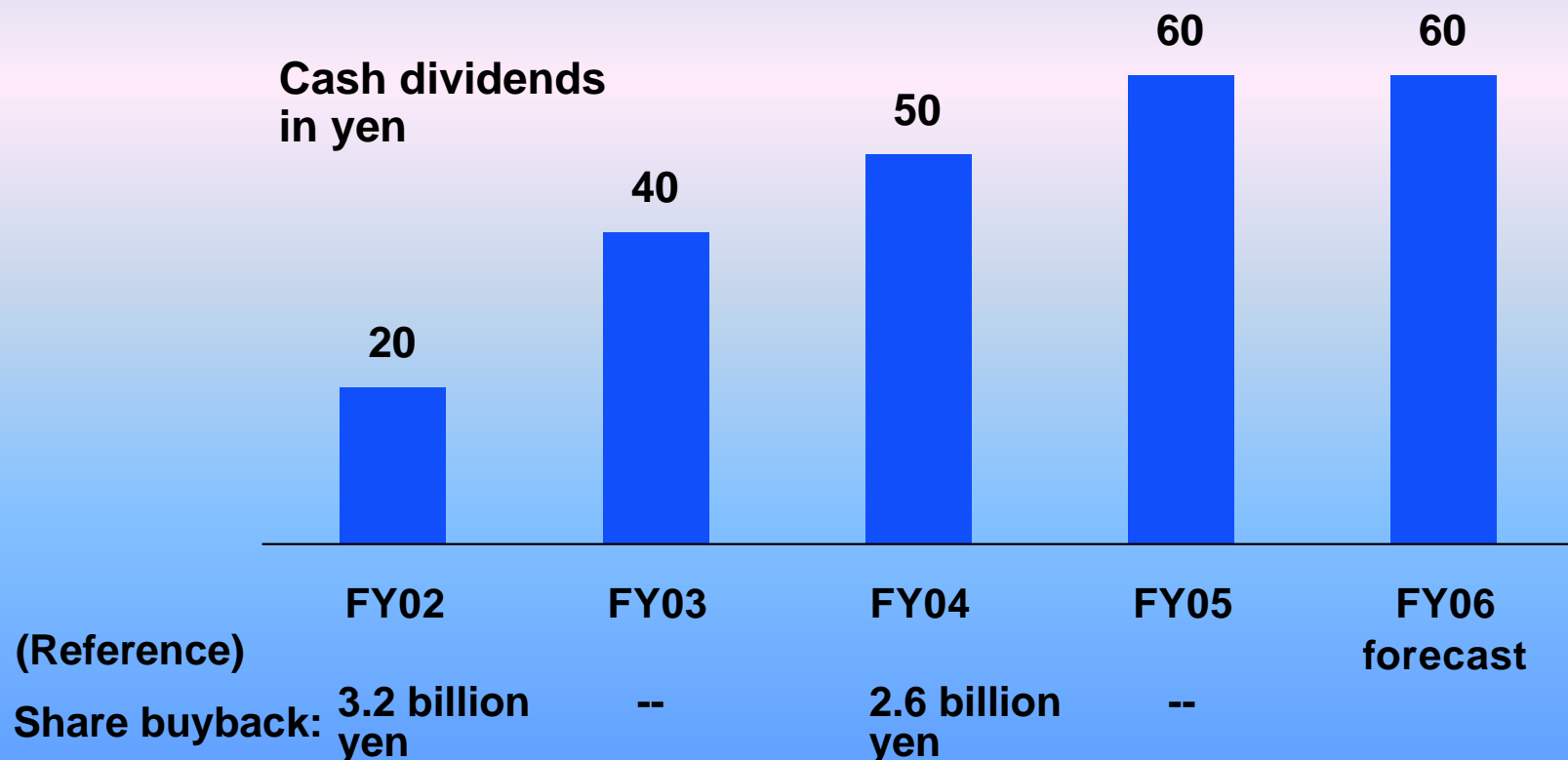
Leveraging our accelerated R&D processes, Santen works to enhance its new product pipeline by in-house drug discovery, collaboration with external sources and in-licensing.

4. Profits

Compared to FY2005, profits are expected to slightly decrease due to defense activities against competing products in Japan and increase in selling expense in China and Europe.

Policy for Return to Shareholders

- Performance-based return of profits to shareholders
- Maintain and improve the level of cash dividends, considering the future demand of fund and financial forecasts
- Buyback and retirement of shares as an agile means of improving shareholder value and capital efficiency
- Dividend-on-equity ratio (DOE) of 5% by FY2010



Appendix: 2006-2010 Medium-term Management Plan Policies and Targets

Mid-term Policies

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

1. Enhance the global strategic product pipeline

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 HR and organizational capabilities on a global basis

Targets

11. Gain approval of product candidates currently in the process from preparation of clinical studies to new drug application

12. Drug discovery through competitive and effective methods

13. Effective collaborations through focused licensing

21. Japan

- Successful launch of new glaucoma, corneal and IOL products and early maximization of their product value
- Reinforce promotion for Hyalein and other existing products

22. Northern/Eastern Europe and Russia

- Improve market position by existing products and in-license of European local products

23. China

- Strengthen business base and competitiveness by start of local production; Further improvement of market position

24. U.S.

- Focus on clinical development and business development

31. Formulate and implement plans to reorganize production lines

32. Continue cost reduction

41. Develop human resources

42. Reinforce and integrate organizations

Appendix: 2006-2010 Medium-term Financial Targets

Financial Targets for FY2010

- Net sales: 115 billion yen+ (FY2005-10 CAGR 3%+)
- Operating income: 32 billion yen+ (FY2005-10 CAGR 8%+)
- Net income: 22 billion yen+
- ROE: 13%+
- R&D expense: approx. 16 billion yen

Forward-Looking Statements

- Information given in this announcement and accompanying documentation contains certain forward-looking statements concerning forecasts, projections and plans whose realization is subject to risk and uncertainty from a variety of sources. Actual results may differ significantly from forecasts.
- Business performance and financial condition are subject to the effects of medical regulatory changes made by the governments of Japan and other nations concerning medical insurance, drug pricing and other systems, and to fluctuations in market variables such as interest rates and foreign exchange rates.
- The process of drug research and development from discovery to final approval and sales is long, complex and uncertain. Individual compounds are subject to a multitude of uncertainties, including the termination of clinical development at various stages and the non-approval of products after a regulatory filing has been submitted. Forecasts and projections concerning new products take into account assumptions concerning the development pipelines of other companies and any co-promotion agreements, existing or planned. The success or failure of such agreements could affect business performance and financial condition significantly.
- Business performance and financial conditions could be affected significantly by a substantial drop in sales of a major drug, either currently marketed or expected to be launched, due to termination of sales as a result of factors such as patent expiry and complications, product defects or unforeseen side effects. Santen Pharmaceutical also sells numerous products under sales and/or manufacturing license from other companies. Business performance could be affected significantly by changes in the terms and conditions of agreements and/or the non-renewal of agreements.
- Santen Pharmaceutical is reliant on specific companies for supplies of certain raw materials used in production. Business performance could be affected significantly by the suspension or termination of supplies of such raw materials if such an event were to adversely affect supply capabilities for related final products.