SANTEN PHARMACEUTICAL CO., LTD.

Building for the Future

Annual Report 2007

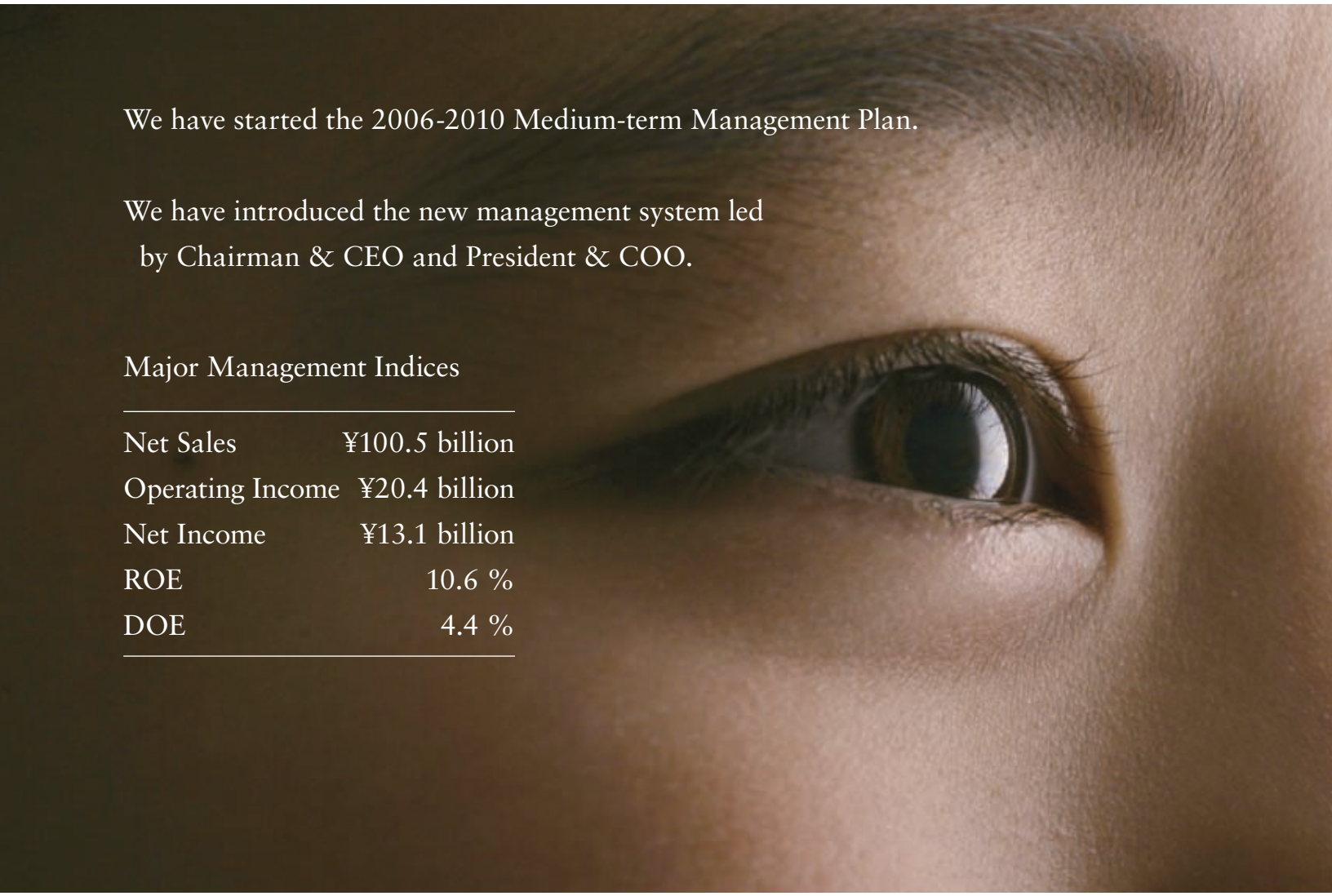
Year Ended March 31, 2007

PROFILE

Santen Pharmaceutical Co., Ltd. specializes in the research, development, manufacturing and marketing of ophthalmic and anti-rheumatic pharmaceuticals to protect and improve people's eyesight and health. We have created innovative pharmaceuticals for all types of ophthalmic disorders and provide information tailored to clinical needs. As a result, we lead Japan's market for prescription ophthalmics, which represent nearly 80 percent of our net sales. With marketing and development bases in Japan, the United States and Europe, backed by first-rate R&D capabilities, we aim to increase our corporate value as a global company that delivers unique products worldwide.

Deeply aware of the sanctity of human life, we apply our unique capabilities and technologies in our areas of expertise to contribute to the health and quality of life of patients and their loved ones, and society as a whole.

Highlights (Year ended March 31, 2007)



We have started the 2006-2010 Medium-term Management Plan.

We have introduced the new management system led by Chairman & CEO and President & COO.

Major Management Indices

Net Sales	¥100.5 billion
Operating Income	¥20.4 billion
Net Income	¥13.1 billion
ROE	10.6 %
DOE	4.4 %

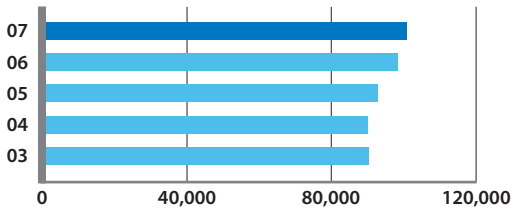
Contents

Consolidated Financial Highlights

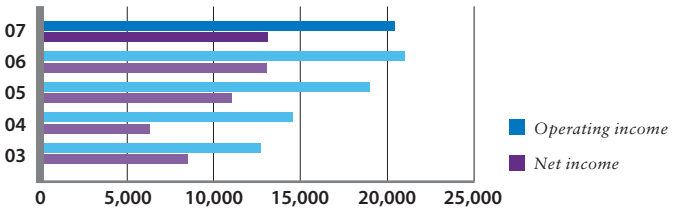
	Millions of yen		Change	Thousands of U.S. dollars
	2007	2006	2007/2006	**2007**
For the year:				
Net sales	**¥ 100,486**	¥ 98,398	2.1%	**$ 851,213**
Operating income	**20,412**	20,995	(2.8)	**172,913**
Net income	**13,148**	13,023	1.0	**111,373**
R&D expenditures	**13,663**	13,971	(2.2)	**115,740**
Capital expenditures	**3,556**	2,106	68.9	**30,116**
Depreciation and amortization	**4,761**	4,824	(1.3)	**40,334**
Per share data (yen and U.S. dollars):				
Net income-basic	**¥ 151.58**	¥ 150.26	0.9%	**$ 1.28**
Net income-diluted	**151.31**	150.01	0.9	**1.28**
Equity	**1,481.83**	1,368.27	8.3	**12.55**
Cash dividends, applicable to period	**65.00**	60.00	8.3	**0.55**
At year-end:				
Total assets	**¥ 159,099**	¥ 150,458	5.7%	**$ 1,347,725**
Long-term debt	**5,446**	5,614	(3.0)	**46,133**
Total shareholders' equity	**128,587**	118,637	8.4	**1,089,248**
Return on equity (ROE) (%)	**10.6**	11.5		
Number of employees	**2,409**	2,312		

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate of ¥118.05 to U.S.$1 prevailing on March 31, 2007.
2. See Notes 2. 13) and 11 of Notes to Consolidated Financial Statements in respect of per share data.
3. Figures in parentheses indicate a decrease.

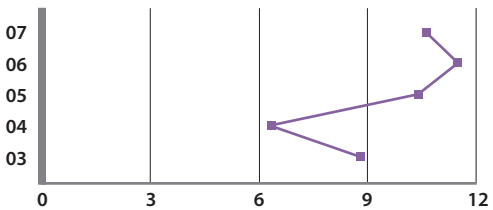
Net Sales
(Millions of yen)



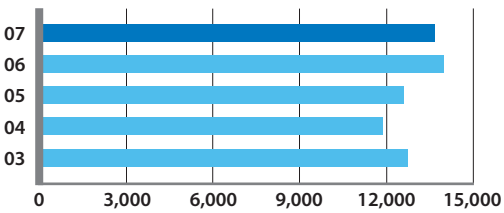
Operating Income and Net Income
(Millions of yen)



Return on Equity (ROE)
(%)



R&D Expenditures
(Millions of yen)



Key Highlights (Year ended March 31, 2007)

April 2006

May 9

Joint development of ROCK inhibitor for glaucoma and ocular hypertension drug candidate

Ube Industries, Ltd. and Santen announced that they have 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.

*ROCK:ROCK (Rho-kinase) is an enzyme to phosphorylate cytoskeletal regulatory proteins and plays important roles in cytoskeletal regulation.

*See more at *http://www.santen.com/news/20060509_01.jsp*

June 27

Started a new management structure headed by a Chairman & CEO and a President & COO

July 25

Announced 2006-2010 Medium-term Management Plan

Santen formulated 2006-2010 Medium-term Management Plan. 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.

*Read details in Features on Page 8

July 31

Filed for approval for the domestic manufacturing and marketing of its glaucoma and ocular hypertension drug candidate DE-085 (INN: Tafluprost)

DE-085 is a novel prostaglandin drug candidate jointly developed by Santen and Asahi Glass Co., Ltd., to reduce intraocular pressure in primary open angle glaucoma and ocular hypertension. Santen pharmaceutically and clinically develops active pharmaceutical ingredients produced by Asahi Glass Co., Ltd.

*See more at *http://www.santen.com/news/20060801.jsp*

October 10

Launched new OTC eye drops *Sante Medical 10*
Focused on visual fatigue relief in response to 90% of the eye drop user's needs

Santen launched the new OTC eye drop *Sante Medical 10* on October 10, 2006. *Sante Medical 10* contains 10 active ingredients formulated to relieve visual fatigue for overworked eyes.

*See more at *http://www.santen.com/news/20060925.jsp*

November 17

Launched *Sante AL Cool Ⅱ*
Relieve itchy, red eyes suffering from allergies with cool refreshment

Santen launched *Sante AL Cool Ⅱ*, a reformulated eye drop of fomer *Sante AL Cool* on November 17, 2006. *Sante AL Cool Ⅱ* contains a well-balanced combination of active ingredients effective for itchy and red eyes associated with allergies.

*See more at *http://www.santen.com/news/20061113.jsp*

January 30

Started "Pollen" information service through mobile phone

Santen started the new information services of "forecasting flying pollen" through the mobile phones in Japan, named "Muzu Kayu Mobile Pollen Information Centre" during the season of hay fever.

Note: This news appears only in Japanese at the company Web site.

March 2007

A Message from Takakazu Morita, Chairman and CEO
～Building for the Future～

In the fiscal year ended March 31, 2007, Santen announced its 2006–2010 Medium-term Management Plan and, during the first year of the plan, founded a base for future development.

The Japanese prescription ophthalmic pharmaceutical market, Santen's major market, experienced an industry-wide average 5.5% drug price reduction in 2006. Nevertheless, Santen's sales increased 2.1% year over year to ¥100.5 billion and net income rose 1.0% to ¥13.1 billion. Operating income decreased 2.8% to ¥20.4 billion as a result of the investment in selling expenses for future growth.

In R&D, we successfully advanced four new drug candidates to the next stage of development.

Implementing the Medium-term Management Plan

Our long-term vision is to become a global company by fiscal 2015. Our Medium-term Management Plan, which was announced in July 2006, outlines the basic policies and specific measures for the first phase of Santen's global development. During this first phase from 2006–2010 we will continue our efforts to increase sales of our existing core products and will aggressively invest in R&D. We will focus on building a globally competitive product development pipeline that will allow us to accelerate global growth in the second phase starting in 2011. We believe that the successful completion of these phases will help us become a global company.

During the Medium-term Management Plan, we will concentrate our R&D efforts in the areas where we have competitive research capabilities and will focus on developing new products targeting glaucoma, retinal diseases and corneal disorders where medical demand is expected to continue to be high. Santen's drug discovery activities are structured to maximize the capabilities of our in-house resources and the resources of various partners. Santen conducts in-house drug discovery, and also develops strategic in-licensed products and works with other companies in joint research of compounds utilizing Santen's expertise. This so-called "Network-based drug discovery" results in more efficient and effective use of Santen's R&D resources.

Becoming a Global Company

To become a global company, we must move beyond our solid presence in domestic markets and expand our businesses outside Japan for further growth. In our Medium-term Management Plan, Santen aims to leverage our strengths to expand our existing businesses in China, Northern and Eastern Europe, and Russia.

In Northern and Eastern Europe and Russia, Santen plans to increase market presence through the sales of our current products and the launch of new products. In the fast-growing Chinese market, we are shifting to local manufacture and direct sales of Santen products. In the United States, we are focusing on clinical and business development. Through this range of activities, we will endeavor to build our presence on a global basis.

Improving Quality of Life

Santen works to improve the quality of life of patients and their loved ones in ophthalmology and other areas of expertise where we can utilize our strengths. We strive to be a company that contributes to society through its business activities by providing outstanding products and services. We also engage in beneficial social and environmental activities including donations and support to many ophthalmology-related organizations.

We will do our utmost to accomplish the Medium-term Management Plan for building a route toward global expansion

and will continue to work to insure that Santen is trusted by patients and their loved ones, and society as a whole.

Emphasizing the Return to Shareholders

A year-end dividend of ¥35 per share was approved at the 95th Annual General Meeting of Shareholders, held on June 26, 2007. Combined with the interim dividend, the annual dividend for the year ended March 31, 2007, was ¥65 per share. The dividend on equity (DOE), which is calculated by multiplying return on equity (ROE) times the payout ratio, was 4.4%. In the Medium-term Management Plan, we set a target DOE ratio of 5.0% in fiscal year 2010 and outlined our basic policy to return profits to shareholders, while maintaining capital efficiency and keeping a sound and flexible financial position that will allow us to pursue product acquisition, licensing and alliance activities. The return of profits to shareholders is an important management goal and we now expect to achieve the 5.0% DOE target in fiscal year 2007; this figure corresponds to a payout ratio of approximately 50%.

Also approved at the Annual General Meeting of Shareholders was the introduction of Abusive Takeover Defense Measures. The measures are designed to secure the information and time necessary for shareholders to make appropriate decisions in case of a large-scale acquisition of Santen's shares. The measures are not meant to block all takeover proposals.

During the next fiscal year, Santen will steadily implement the Medium-term Management Plan to meet the expectations of stakeholders and maximize corporate value and the common interests of shareholders. Your continuing support will be highly appreciated.

August 2007

Takakazu Morita
Chairman and Chief Executive Officer

A Message from Akira Kurokawa, President and COO ～Report of Business Results and the Future Vision～

Net sales for the year ended March 31, 2007 advanced 2.1% year over year to ¥100.5 billion. Operating income declined 2.8% to ¥20.4 billion. Net income rose 1.0% to ¥13.1 billion. Return on equity (ROE) was 10.6%.

Solid Foundation in Domestic Markets

Santen maintained its No.1 share in its core market—the Japanese prescription ophthalmic market. However, the future business environment will likely be challenging due to competitive overseas products entering the Japanese market, which will intensify market competition. In this business environment, domestic prescription ophthalmic sales were ¥71.3 billion, approximately level with the previous year. Although sales were affected by a reduction in drug prices, our increased sales efforts in providing pertinent medical information to healthcare professionals contributed to maintaining our sales performance.

Sales of *Hyalein*, which is effective in relieving corneal and conjunctival epithelial disorders associated with conditions such as dry eye (inadequate ocular hydration), grew steadily as a result of medical educational activities focused on corneal diseases. Sales of *Hyalein* rose 3.3% to ¥16.3 billion. We continued medical and pharmaceutical information activities in the anti-allergy ophthalmics area as well, increasing sales of *Livostin* 8.0% to ¥4.3 billion. In the glaucoma segment, we concentrated efforts on marketing *Rescula* and other products in the market. Total sales of *Rescula*, *Detantol*, *Timoptol XE* and *Timoptol* decreased 1.2% to ¥14.5 billion due to the impact of other branded products and a drug price cut. Sales of anti-infective ophthalmics *Cravit* and *Tarivid* also fell 4.9% year over year to ¥15.3 billion as a result of reduced prices and increased competition.

The disease modifying anti-rheumatic market shrank from a year earlier due to the influence of a drug price reductions. *Rimatil*, *Azulfidine EN* and *Metolate* were selected as "Grade A—Highly Recommended" drugs in accordance with the Guidelines for the Management of Rheumatoid Arthritis announced by the Japan College of Rheumatology in 2004 and steadily penetrated into the market. As a result, sales of anti-rheumatics increased 3.7% to ¥9.4 billion.

Presence in Overseas Markets

Increasing our presence in overseas markets is one of our management priorities.

Europe—including Northern and Eastern Europe and Russia—is a large market contributing to more than half of Santen's overseas sales. For the year ended March 31, 2007, we strengthened MR activities in Germany and Eastern Europe, and increased sales. We will continue to drive penetration of our current products and reinforce the development of a product portfolio tailored to the needs of each region. As a part of this effort, Santen applied for marketing approval for a glaucoma and ocular hypertension drug candidate DE-085 (Tafluprost) in Europe in April 2007.

We recognize the Asian market is highly promising. Especially in fast-growing China, we anticipate continuing double-digit growth in the prescription ophthalmic market due to the aging

population and an increase in the number of insured people. Santen has maintained the top share in large hospital markets of large cities in China. To further strengthen our business base and competitiveness, we plan to begin local manufacturing and establish a direct sales organization in China. During the year ended March 31, 2007, we started construction of a new plant in Suzhou, Jiangsu Province, and expect to start production in 2009. In South Korea, the Santen brand has already been highly recognized by patients and medical professionals due to trust-based relationships. Sales have also surged as a result of aggressive marketing activities commemorating the 10th anniversary of the release of *Hyalein* during the year under review.

In the United States, Santen is focused on clinical and business development. We are conducting clinical trials for DE-101 for corneal and conjunctival epithelial disorders associated with conditions such as dry eye and DE-104 for glaucoma and ocular hypertension.

Outlook for the Year Ending March 31, 2008

In the fiscal year ending March 31, 2008, the domestic markets will face increasingly intensified competition due to the launch of competitor products. Santen will further reinforce product distribution and promotion activities to maintain and improve Santen's presence and continue to strengthen its sales structure. We will also strive to increase sales of drugs for corneal disorders and other products through awareness campaigns for dry eye–related diseases.

In overseas markets, Santen will reinforce value-added promotional activities for our current products in China, Northern and Eastern Europe and Russia. In the Russian market, we intend to launch the anti-infective ophthalmic *Oftaquix* (sold as *Cravit* in Japan).

In R&D, we will accelerate development of our global strategic products*—DE-101 and DE-104, and will also continue development of other new product candidates.

I believe the above measures will not only cover the fiscal year ending March 31, 2008, which is the second year of the current Medium-term Management Plan, but will also form the foundation of growth during the last three years of the Plan. By aggressively promoting these measures, we intend to progress steadily to achieve our Plan targets.

* Global strategic products: New drug candidates based on a new mechanism of action, from which we can expect higher sales than current products. Plans are to sell these products in Japan, the United States and Europe.

August 2007

Akira Kurokawa
President and Chief Operating Officer

Feature

Building Toward a Global Company

Santen creates a significant variety of new drug candidates and generates growth in promising regions by leveraging its strengths.

Santen announced the 2006-2010 Medium-term Management Plan in July 2006. The plan aims to create a significant variety of new global strategic drug candidates and generate growth in promising regions by leveraging our strengths. We have positioned this plan as the first phase toward our long-term vision to become a global company by 2015.

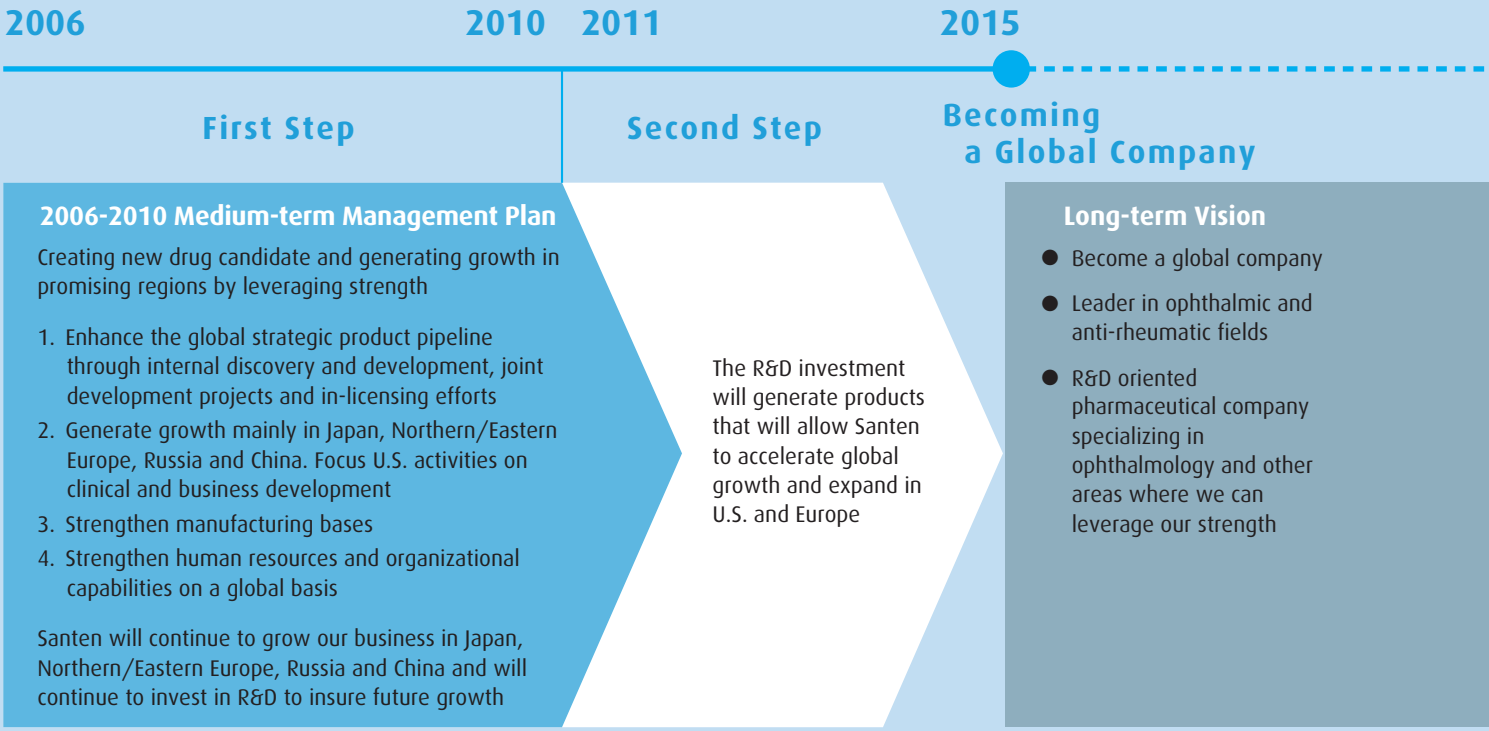
For the final year of the new plan, 2010, we have set minimum performance targets of ¥115 billion in net sales, operating income of ¥32 billion, net income of ¥22 billion and an ROE of 13%. We plan stable and continuous returns to our shareholders during this period.

R&D expenses for the plan period are estimated at ¥16 billion annually. We will seek approvals for new drug candidates in our development pipeline, thereby securing our revenue base. By using an effective drug discovery approach, we will develop and enhance our internationally competitive pipeline allowing Santen to accelerate global growth in the second phase beginning in 2011.

Enhance the Global Strategic Product Pipeline and Accelerate R&D

Santen categorizes new drugs as global strategic products or global products. Global strategic products are drug candidates with a novel mechanism of action that have potential to generate higher sales than existing products. Our plan includes selling global strategic products in Japan, the United States and Europe. Global products are drug candidates that are an improvement of existing mechanisms and for which the anticipated sales are on par with existing products. We generally plan to sell global products in Japan and certain overseas markets.

One of our important management initiatives is to accelerate the research and development process of global strategic products and global products and launch these drug candidates as soon as possible. Therefore, we have focused our R&D efforts on the core therapeutic areas of glaucoma, retinal and corneal disorders including dry eye. (Please see Medium-term Policy 1. on page 10.)



Generating Growth in Promising Regions where We Can Leverage Our Strengths

Currently, Santen holds a 40% share in the Japanese prescription ophthalmic market—our core market. However, the market environment is expected to change due to the entry of competitive products into the market. To further improve our robust market position, we must concentrate management resources on core therapeutic areas.

In the highly promising glaucoma market, we will introduce new products to maximize value as early as possible. In the field of corneal disorders, we plan to launch new products with simultaneous disease-awareness campaigns targeting patients. Moreover, we will further reinforce our presence in the market by launching new intraocular lenses. (Please see Medium-term Policy 2: Business Strategies in Japan on page 12.)

The Japanese prescription ophthalmic market has matured and is projected to achieve approximately 2% annual growth until 2010. Growth is greater in the overseas prescription ophthalmic markets, where the growth rate is 10% or more in China and Russia, 7% in the United States and 6% in Europe.

Thus, to achieve higher growth and become a global company, Santen must not limit operations to Japan, where its strength is already maximized, but expand to overseas markets with higher growth potential. The Medium-term Management Plan focuses on regions where growth is promising and Santen has already established a commercial presence. Strategies will be implemented and measures tailored to each region. (Please see Medium-term Policy 2: Business Strategies in Northern/Eastern Europe and Russia; Business Strategies in China; and Business Strategies in the United States on page 12.)

Reinforcing the Organization and Human Resources is a Key Priority

To achieve the targets of the Medium-term Management Plan and become a global company, we must develop our employees and put them in appropriate positions thereby optimizing their efforts and maximizing the collective capabilities of the staff. We manage our organization in view of three aspects—R&D, manufacturing and strategic marketing. In addition, we will reinforce our manufacturing base by integrating manufacturing functions globally. (Please see Medium-term Policy 3: Strengthen manufacturing bases and Medium-term Policy 4: Strengthen human resources and organization on page 14.)

Medium-term Policy 1: Enhance Global Strategic Pipeline

Santen's consistent R&D strategy is to focus efforts on areas where there are significant unmet medical needs, where our strengths can be fully utilized and where there is significant growth potential. Specifically, such fields include glaucoma, retinal disorders and corneal disorders (dry eye). Developing new products in these fields represents the underlying foundation of our growth strategies.

The global strategic products currently under development are as follows:

● **DE-101 (Generic name: Rivoglitazone)**
【Corneal and conjunctival epithelial disorders associated with dry eye】
DE-101 is an eye drop that effectively improves conditions caused by corneal and conjunctival epithelial disorders including dry eye. With a novel mechanism of action that differs from any drugs currently on the market or under development, DE-101 works directly on the corneal and conjunctival epithelial cells. Santen and DAIICHI SANKYO COMPANY, LIMITED, entered into a contract for exclusive global development and manufacturing. Currently, the Phase Ⅱ clinical trial for this drug is underway in the United States.

● **DE-104 (ROCK inhibitor)**
【Glaucoma and ocular hypertension】
DE-104 has a mechanism of action which differs from that of existing drugs and works directly on trabecular cells to facilitate the outflow of the aqueous humor and powerfully reduce ocular pressure. This drug is being developed through a collaboration between Santen and UBE INDUSTRIES, LTD. Currently, the Phase I clinical trial is underway in the United States.

During the period of this Medium-term Management Plan, we plan to file applications for or launch the following new drug candidates mainly in Japan.

● **DE-085 (Generic name: Tafluprost)**
【Glaucoma and ocular hypertension】
DE-085, which facilitates the outflow of the aqueous humor from the uveal and scleral channels, exhibits a powerful and stable effect for alleviating ocular hypertension. In July 2006, we filed for manufacturing approval in Japan and, in April 2007, we filed for marketing approval in Europe. In the United States, we will decide whether to apply for approval based on discussions of future operations.

● **DE-089 (Generic name: Diquafosol tetrasodium)**
【Corneal and conjunctival epithelial disorders associated with dry eye】
DE-089 is a drug to treat corneal and conjunctival epithelial disorders mainly caused by dry eye by facilitating the secretion of components of lacrimal fluid and water out of the corneal and conjunctival epithelia. The use of DE-089 with existing drugs is also possible. Currently, the Phase Ⅲ clinical trial for this drug is underway in Japan.

● **MD-14 (Intraocular lenses)**
【Foldable intraocular lens using acrylic materials with a high refractive index】
MD-14 is an intraocular lens developed by Advanced Vision Science, Inc., one of Santen's U.S. subsidiaries. We obtained the manufacturing and marketing approval in Japan in October 2006. In the United States, preparation for application is underway.

In this way, Santen is gradually developing and commercializing various new drug candidates. To expedite R&D and enhance the probability of commercialization, Santen adopts the following three methods for drug development.

The first method is to identify chemical compounds through in-house drug discovery. The second method, called "network-based drug discovery," is a collaborative research method that links Santen's accumulated knowledge and expertise with advanced external technologies. The third method is strategic licensing and introducing chemical compounds owned by other companies.

For each development candidate, Santen prepares backup compounds to strengthen our global portfolio and to maximize the chances of success for commercialization.

Research workers at the Nara Research Center and Development Center and Santen Oy

Clinical Trials

When safety and efficacy of candidate compounds are determined in preclinical studies, they undergo the following clinical trials. After completing the Phase Ⅲ clinical trials, a new drug application (NDA) is filed for marketing approval.

- **Phase I**
  Tests to check drug safety with a small number of healthy volunteers.
- **Phase Ⅱ**
  Tests to determine dosage and administration method with a small number of patients.
- **Phase Ⅲ**
  Tests to confirm safety and efficacy by comparing to existing drugs and placebo with a large number of patients.

Pipeline of prescription pharmaceuticals (Clinical studies)

As of July 31, 2007

Generic name	Brand name/ dev. code	Indication	Region	Phase Ⅰ	Phase Ⅱ	Phase Ⅲ	NDA Filed	Approved	Launched	Characteristics
Levofloxacin (0.5%)	Cravit	Bacterial conjunctivitis	Japan					April-2000		Fluoroquinolone antibacterial agent. Levofloxacin + prednisolone A is a combination treatment with steroids.
	Quixin		USA					November-2000		
	Oftaquix		Europe					May-2002		
Levofloxacin + prednisolone A	DE-094	Infectious keratitis	USA							
Tafluprost	DE-085	Glaucoma/ Ocular hypertension	Japan				July-2006			Please see Page 10.
			Europe				April-2007			
			USA							
Diquafosol tetrasodium	DE-089	Corneal and conjunctival epithelial disorder associated with dry eye	Japan							Please see Page 10.
Olmesartan	DE-092	Glaucoma/ Ocular hypertension	Japan	Pilot study						The angiotensin Ⅱ receptor antagonist. In Japan, Europe and the USA, the Phase Ⅱ studies did not demonstrate clear dose-response relationship, and therefore we decided to suspend clinical studies. We are now conducting the Phase Ⅱ pilot study with different formulation.
			USA/ Europe	Pilot study						
Lomerizine HCL	DE-090	Glaucoma	Japan							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.
(Undetermined)	DE-096	Rheumatoid arthritis	Japan							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.
		Diabetes macular edema	Japan							
Gefarnate	DE-099	Corneal and conjunctival epithelial disorder associated with dry eye	Japan							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.
Rivoglitazone	DE-101	Corneal and conjunctival epithelial disorder associated with dry eye	USA							Please see Page 10.
(Undetermined)	DE-102	Diabetes macular edema	Japan	(Phase Ⅰ/Ⅱa)						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).
(Undetermined)	DE-104	Glaucoma/ Ocular hypertension	USA							Please see Page 10.
(Undetermined)	DE-103	Allergic conjunctivitis	Japan							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.

Medium-term Policy 2:
Generate Growth in Japan, Northern/Eastern Europe, Russia and China. Focus Activities on Clinical and Business Development in the United States

During the Medium-term Management Plan, Santen will concentrate its management resources in regions such as Japan, Northern/Eastern Europe, Russia and China, where it already has a business presence and its strengths can be used to achieve steady growth.

① Business Strategies in Japan

▶ Priority strategy

Maximize the product value of new products for glaucoma and corneal disorders, and new intraocular lenses, while also generating growth through promotion of existing products.

Under the current Medium-term Management Plan, we will strive to further increase our share in the Japanese prescription ophthalmic market—our core market—by introducing new products and expanding sales of existing products based on the solid promotional platform established through the 2003-2005 Medium-term Management Plan.

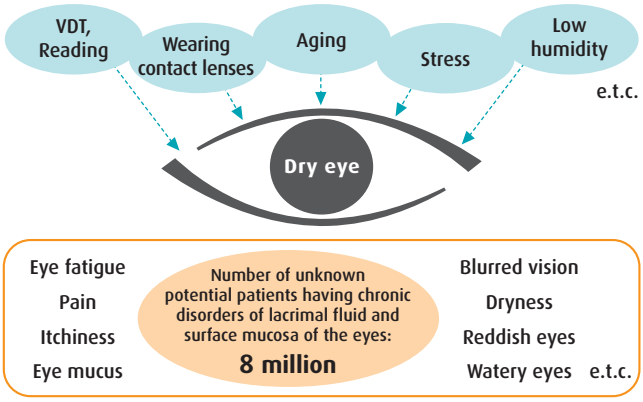
In fiscal 2006, we filed applications for approval to manufacture and market the glaucoma and ocular hypertension treatment drug DE-085 (Generic name: Tafluprost). In fiscal 2007, we started full-scale preparations for the launch of this product including pre-marketing to expedite market penetration and maximize product value as soon as possible after its release in fiscal 2008.

In early fiscal 2007, Santen implemented dry eye–related disease awareness activities for corneal disorders in certain regions. By promoting self-checkups and educational activities via newspapers and other media, we believe Santen's presence in the field of dry eye has been further strengthened. In the future, we will expand the regions for such activities and implement larger-scale educational efforts which we anticipate will further increase sales of *Hyalein*, that now boasts the top share in this field. *Hyalein* stabilizes the tear layer, has a moisturizing effect and treats corneal and conjunctival epithelial disorders.

The development of several new products in the field of dry eye is also underway.

In October 2006, Santen acquired approval to manufacture and market MD-14 intraocular lenses in Japan. MD-14 is a foldable hydrophobic acrylic lens with a high refractive index. We are preparing to market in Japan in fiscal 2007.

Causes and symptoms of dry eye



Note: Visual Display Terminals (VDTs) refer to screens and display units of personal computers, TV games and mobile phones.

② Business Strategies in Northern/Eastern Europe and Russia

▶ Priority strategy

Maximize the product value of *Oftaquix* and existing products.

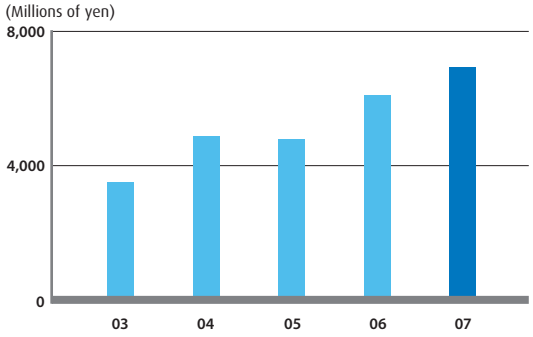
Santen began activities in Europe with clinical development in 1994. In 1997, we acquired an ophthalmic company in Finland, establishing our presence in Northern Europe, Eastern Europe and Russia. Under the 2003–2005 Medium-term Management Plan, we expanded sales of existing products, which raised awareness of the Santen brand and fueled a sales increase. In Northern Europe, Eastern Europe and Russia, the glaucoma and corneal disorder fields are important in the current plan period. As a new drug candidate for glaucoma, we filed application for approval to market DE-085 for glaucoma and ocular hypertension in April 2007.

In each country, Santen will continually reinforce promotional activities for existing products, further strengthening the Santen brand. In Russia, where the prescription ophthalmic market has

expanded rapidly, we will launch the anti-infective ophthalmic *Oftaquix* (sold as *Cravit* in Japan) in fiscal 2007. We will use the opportunity of this launch to leverage our presence in Russia.

The Nordic Congress of Ophthalmology (NOK) held in Copenhagen, Denmark, in June 2006

Transition of sales in Europe



③ Business Strategies in China

▶ Priority strategy

Improve competitiveness and growth by shifting to operations through a local manufacturing and sales subsidiary.

In China, which features tremendous and rapid economic advances, the prescription ophthalmic market will continue to see double-digit growth leveraged by both the aging society and the increasing number of insured people. A significant supporting factor of such growth is large hospitals. Although they account for only 20% of the total number of medical facilities, large hospitals account for approximately 80% of total sales. Santen has established an excellent brand image featuring high quality in large hospitals in the metropolitan areas of China, resulting in a large share of the market.

In 2006, Santen established Santen Pharmaceutical (China) in Suzhou, Jiangsu Province, integrating the entire process from manufacturing through marketing locally, which we believe is vital to maintain a top share and enhance competitiveness in the promising Chinese market. Santen's manufacturing facility in China is scheduled for completion in 2007, and operations will begin in 2009. In addition, for the subsidiary to conduct sales activities independently, we began the education and local employment of MRs in 2007. Through sales activities providing medical information, we strive to have an increasing number of people choose our mainstay products such as *Cravit* and *Hyalein* as first-choice drugs.

Rendering of the plant in Suzhou at its completion

④ Business Strategies in the United States

▶ Priority strategy

Focus on clinical and business development.

In the United States, Santen conducts marketing activities for existing products under a sales partnership with Johnson & Johnson Vision Care, Inc. (JJVCI). We intend to maintain this sales channel. The United States is also one of our important bases for clinical development—a vital part of the process to develop new drugs. Currently, clinical development for DE-101 to treat corneal and conjunctival epithelial disorders including dry eye and DE-104 to treat glaucoma and ocular hypertension are underway as planned.

Medium-term Policy 3: Strengthen Manufacturing Bases

▶ Priority strategy

Reorganize manufacturing lines for higher efficiency.

Santen is reorganizing manufacturing lines in Japan, Finland and China on a global basis to reinforce manufacturing capabilities on a medium- to long-term perspective. Specifically, we are addressing the following three areas:

- Enhance the efficiency of manufacturing lines by adopting a manufacturing method tailored for each area. Continually reduce costs based on our global site planning covering the Suzhou plant operation, which is scheduled to begin production in 2009.
- Develop strong, autonomous production facilities. Build a highly productive plant that can ensure the capacity to supply overseas markets through such measures as shortening lead times while maintaining and improving product quality.
- Focus on strategic manufacturing planning and technology development. Enhance strategic management methods and technology to improve product quality and reinforce the effectiveness of new products.

During the term of this Medium-term Management Plan, we will establish three linked and cooperative manufacturing bases in Japan, Finland and China to enhance the efficiency of our global-scale manufacturing activities.

Staff at the Noto Plant, Japan

Medium-term Policy 4: Strengthen Human Resources and Organization at the Global Level

▶ Priority strategy

Develop human resources and reinforce and reorganize our system and structure.

It takes high-caliber human resources and an efficient, functional system to achieve Medium-term goals and a long-term vision. Santen is promoting a human resources education program through which an appropriate position and responsibilities are allocated to each employee according to his/her ability and potential. As a systematic reform initiative, we seek optimal decision-making and operating processes to achieve our goals.

Based on data collected and organized in 2006 from each person's specific aptitude and skills, we will formulate a specific plan to further train employees in 2007. We will develop employees who are capable of global and strategic business decisions and assign them to the appropriate positions.

We manage to optimize our organization in three areas—R&D, manufacturing and strategic marketing. In addition to independent decision making in each sector, we need to strengthen cross-functional collaboration in the future in order to approach to solve the management issues, quickly and flexibly.

Santen aggressively promotes effective employee education and systematic reform to reinforce human resource capabilities and organizational performance. We believe that creating a systematically functional organization will contribute to becoming a global company.

Meeting between an MR and a doctor

Training MRs

Status of Medium-term Management Plan

	FY2006 achievements	FY2007 plans	FY2008-10 plans
1. Enhance global strategic pipeline			
1-1. Development of global strategic product candidates	DE-101: Proceeded to Phase IIa DE-104: Proceeded to Phase I DE-085: Applied in Japan & EU* MD-14: Approved* DE-089: In Phase III* * To be applied and launched mainly in Japan.	Apply for approval of IOL injector*	DE-101: Phase III in FY09 DE-089: Apply for approval in FY08*
2. Generate growth in Japan, Northern/Eastern Europe, Russia and China. Focus activities on clinical and business development in the United States			
2-1. Japan: Successful launch of new glaucoma, corneal and IOL products and early maximization of their product value			
Glaucoma (new product)	Started DE-085 launch preparation	DE-085 full-scale preparation including pre-marketing	DE-085 launch expected in FY08; early maximization of product value
(existing products)	Increased sales	Continue	
Cornea (new product)			DE-089 launch expected in FY10
(existing product)	Formulated *Hyalein* disease-awareness strategy	Conduct disease-awareness campaigns	Increase prescription
IOL	Formulated MD-14 sales strategy	Preparation and start of sales	
2-2. Northern/Eastern Europe and Russia: Maximize value of *Oftaquix* and existing products; Launch DE-085			
Maximize value of new and existing products	Reinforced promotions for existing products	Continue promotions; launch *Oftaquix* in Russia	
	DE-085 applied April 2007	Formulate DE-085 launch plan	
2-3. China: Strengthen business base and competitiveness by starting of local production and establishing direct sales organization			
Establish direct sales organization	Hired and trained sales force	Increase prescription by academic information provision	Start sales
2-4. U.S.: Focus on clinical development and business development			
3. Strengthen manufacturing bases (Strengthen manufacturing bases by reorganizing production lines and sites in Japan, Finland and China)			
3-1. Promote efficiency by reorganizing production lines	Formulated a reorganization plan Started China plant construction	Complete China plant construction	Complete line reorganization Start manufacturing in China
4. Strengthen human resources and organization at the global level (Develop human resources; reorganizations)			
4-1. Develop core human resources	Assessed human resources	Formulate human resources development plan	Implement the plan
4-2. Develop organizational capabilities		Enhance planning and business development	Enhance global organization

Review of Operations

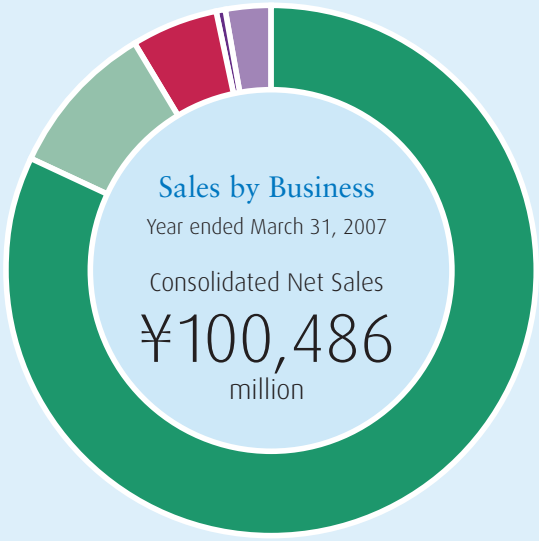
Prescription Ophthalmic Pharmaceuticals
81.8%

Anti-Rheumatic Pharmaceuticals
9.3%

Over-the-Counter Pharmaceuticals
5.3%

Medical Devices
0.5%

Others
3.1%

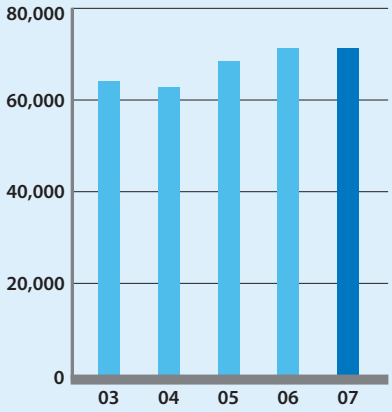


Business Area		Description of Business	Market Share; Market Position
Prescription Pharmaceuticals	Ophthalmic Pharmaceuticals	• Santen enjoys its position as the leader of the Japanese prescription ophthalmics market. We deploy apporoximately 400 medical representatives (MRs), the largest number in the industry, and our product lineup covers a broad array of ophthalmic disorders. • Overseas, Santen markets levofloxacin ophthalmic solution (brand names: *Quixin*, *Oftaquix* and *Cravit*) and other products through a sales network in the United States, Europe and Asia.	39.7%; Number One[1]
	Anti-Rheumatic Pharmaceuticals	• In Japan, we offer *Rimatil* and *Azulfidine EN*, physicians' disease modifying anti-rheumatic drugs (DMARDs) of choice for treating rheumatoid arthritis.	46.3%; Number One[1]
Over-the-Counter (OTC) Pharmaceuticals		• Our OTC pharmaceuticals business consists of market-leading eye drop brands in Japan such as *Sante FX Neo*, the *Sante 40* series and the *Sante de U* series.	Approx. 20%; Number Two[2]
Medical Devices		• In Japan, Santen handles medical devices used in cataract surgery, including intraocular lenses.	—

Notes: 1. Market share and market position in Japan for the year ended March 31, 2007. The share and position for anti-rheumatic pharmaceuticals represent those in the disease modifying anti-rheumatic drugs (DMARDs) segment.
Source: Santen analysis based on IMS data. Copyright IMS Japan KK, 2007. All rights reserved.
2. Market share and market position in the Japanese OTC eye drop market for the year ended March 31, 2007. Source: Santen Pharmaceutical Co., Ltd.

Prescription Pharmaceuticals
Ophthalmic Pharmaceuticals

Sales of Prescription Ophthalmic Pharmaceuticals in Japan
(Millions of yen)



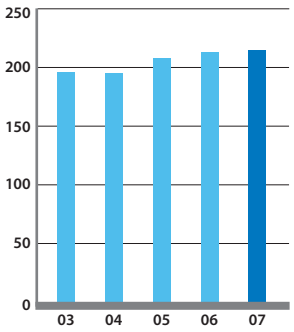
Japan

The Japanese prescription ophthalmic pharmaceuticals market slightly expanded in the year ended March 31, 2007. This expansion was supported by advances in the market for treatments of glaucoma and corneal and conjunctival epithelial disorders, which offset the adverse effect of an industrial average 5.5% of the National Health Insurance drug price reduction.

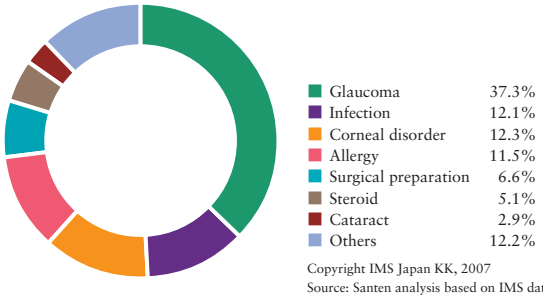
Under these market conditions, Santen continued to concentrate resources on its key growth fields with a view to maintaining and improving our domestic earning base. Sales and marketing activities focused on boosting the market share of select drugs by providing medical information tailored to the changing needs of each medical professional. Overall, sales of prescription ophthalmic pharmaceuticals in Japan totaled ¥71,272 million, an increase of 0.1% compared with the previous year.

In the year ending March 31, 2008, there is no drug price revision scheduled in the Japanese market for prescription ophthalmic pharmaceuticals. However, market competition with new rival products is expected to intensify; therefore, our business environment will be increasingly challenging. In such circumstances, Santen will take measures to defend its market share against competitors' products, conduct activities to raise awareness of dry eye, prepare to launch a new drug for glaucoma treatment and maintain and improve its competitive edge in key growth areas, thereby building a solid platform for future earnings expansion.

Prescription Ophthalmics Market in Japan
(Billions of yen)

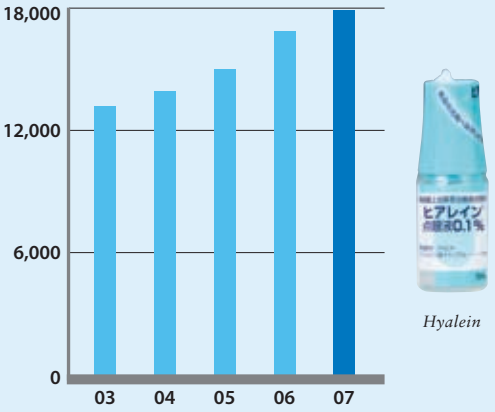


Japanese Prescription Ophthalmics Market by Therapeutic Field
(Year ended March 31, 2007)



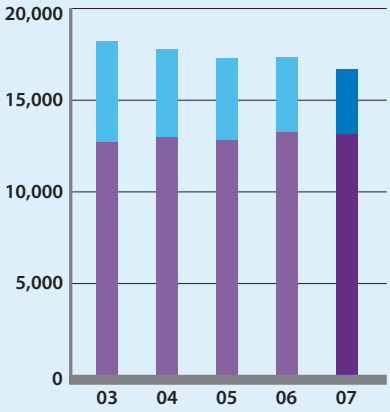
Prescription Pharmaceuticals
Ophthalmic Pharmaceuticals (continued)

Sales of *Hyalein*
(Millions of yen)



Hyalein

Sales of *Cravit* and *Tarivid*
(Millions of yen)



Cravit *Tarivid*

Treatments for Corneal and Conjunctival Epithelial Disorders

The Japanese market for drugs used to treat corneal and conjunctival epithelial disorders associated with dry eye, in which Santen commands about 80% share, grew 3.6% in the year ended March 31, 2007. An estimated 8 million people in Japan suffer from dry eye, and this figure is expected to continue rising with the growing use of personal computers, the increased use of contact lenses and the aging of the population. More physicians are recognizing that dry eye is a condition that requires medical treatment, as it is not just a matter of inadequate ocular hydration but may also inflict damage to the cornea due to the shortage of tear fluid and moisture and a change in their composition. Santen's mainstay drug in this field is *Hyalein*, a highly water-retentive ophthalmic solution that is effective in relieving corneal and conjunctival epithelial disorders associated with conditions such as dry eye. The drug enhances tear film stability and its use is recognized as contributing to a higher quality of life (QOL) for patients. Santen continues to raise awareness of this condition and provides information to healthcare professionals on the diagnosis and treatment of dry eye. Sales of *Hyalein* rose steadily in the year ended March 31, 2007, increasing 3.3% to ¥16,343 million in Japan.

In the year ending March 31, 2008, we will conduct disease awareness campaigns targeting patients to promote medical consultations, thereby expanding the market for treatments of dry eye and enhancing our presence in this field.

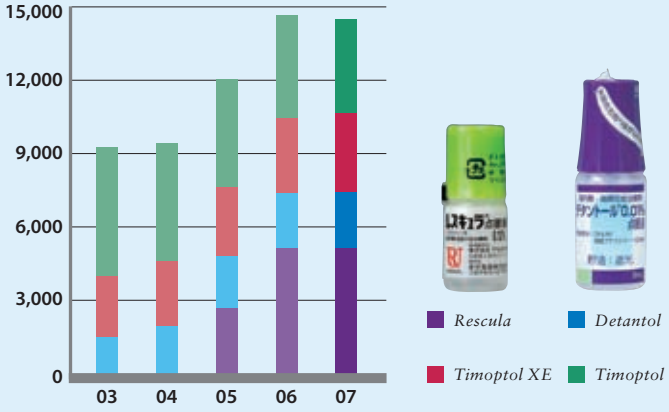
Anti-Infective Ophthalmics

The Japanese market for anti-infective ophthalmics has been roughly flat since the year ended March 31, 2006, after declining in the past few years due to a drop in the number of eye infection consultations caused by medical cost-cutting policies. Santen continues to be the market leader in this segment with a market share of approximately 80% and a product portfolio that includes *Cravit* and *Tarivid*, which both feature strong anti-infective properties, broad spectrum coverage (effective for a wide range of infections), and safe and comfortable intraocular permeation of the solution. These two drugs are widely used to treat common ocular infections such as conjunctivitis and keratitis, and are also used in conjunction with surgical procedures to minimize the risk of surgical infection.

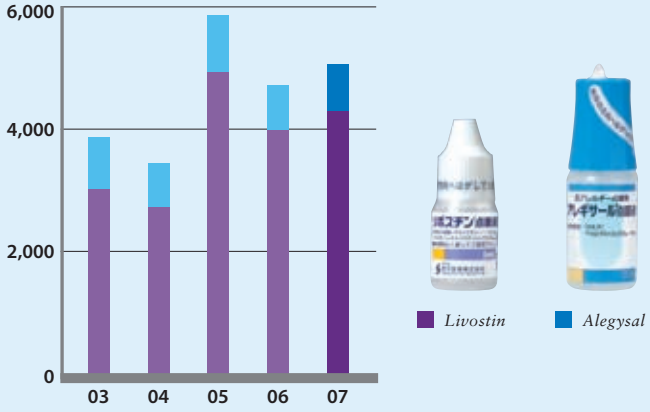
Due to the impact of a drug price reduction and competition with rival drugs, aggregate sales of *Cravit* and *Tarivid* for the year ended March 31, 2007, fell 4.9% to ¥15,318 million.

Santen will defend its dominant share of the anti-infective ophthalmics market by continuing to promote *Cravit*'s clinical efficacy and safety, backed by scientific data, and by providing additional information on infectious ocular diseases to further solidify *Cravit*'s position as the drug of first choice to treat ocular infections.

Sales of *Rescula*, *Detantol*, *Timoptol XE* and *Timoptol*
(Millions of yen)



Sales of *Livostin* and *Alegysal*
(Millions of yen)



Treatments for Glaucoma

Glaucoma treatments are the largest segment of the Japanese prescription ophthalmic pharmaceutical market, accounting for approximately 37% of the total market value. Glaucomatous damage to the optic nerve causes a defect of the visual field, which is a major cause of visual disabilities such as poor eyesight and blindness. Glaucoma is currently believed to be a prime cause of blindness. Moreover, according to recent research, it is thought that there are many undiagnosed patients. Early detection and treatment are increasingly important in dealing with glaucoma. The aging population has resulted in consistent growth in patient numbers in recent years, and the glaucoma treatment market is steadily expanding. However, the impact of the drug price reduction was significant and the growth rate for the glaucoma treatment market in Japan was only 1% for the year under review.

During the year ended March 31, 2007, Santen continued to provide the latest information on glaucoma and treatment recommendations in addition to marketing *Rescula* and other drugs in the market to establish a strong presence in the glaucoma treatment field. Due to the impact of competition with rival drugs and the drug price revision, aggregate sales of the four major treatments—*Rescula*, *Detantol*, *Timoptol XE* and *Timoptol*—decreased 1.2% from a year earlier to ¥14,492 million.

In the year ending March 31, 2008, we will prepare for the launch of DE-085 (generic name: tafluprost), which is in the process of application for manufacturing and marketing regulatory approval and is scheduled to be released in the fiscal year ending March 31, 2009, to ensure that the product value of the new drug can be enhanced quickly.

Anti-Allergy Ophthalmics

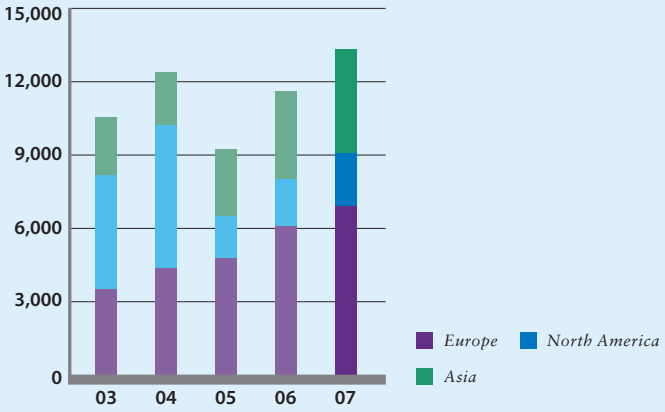
In the year ended March 31, 2007, cedar and cypress pollen counts in Japan (airborne pollen being one of the main causes of allergic conjunctivitis) were at the same low level as the previous year and there was the impact of the drug price revision, resulting in sales for the allergy ophthalmic solution market increasing only 0.3%.

Meanwhile, sales of *Livostin* in the year ended March 31, 2007, increased 8.0% to ¥4,306 million, and sales of *Alegysal* rose 0.5% to ¥681 million. Aggregate sales of the two drugs increased 7.0% to ¥4,987 million. Santen has maintained its top market share of 24.3% through such successful activities as promoting *Livostin* specifically for the fast relief of itching and targeting MR activities at specialists other than ophthalmologists, such as otorhinolaryngologists.

Cedar and cypress pollen counts in the year ending March 31, 2008, are estimated to be level with the previous year. Santen will continue to offer competitive products and expand sales and market share through promotions that emphasize the effectiveness of *Livostin* in providing symptomatic relief of year-round and seasonal allergies.

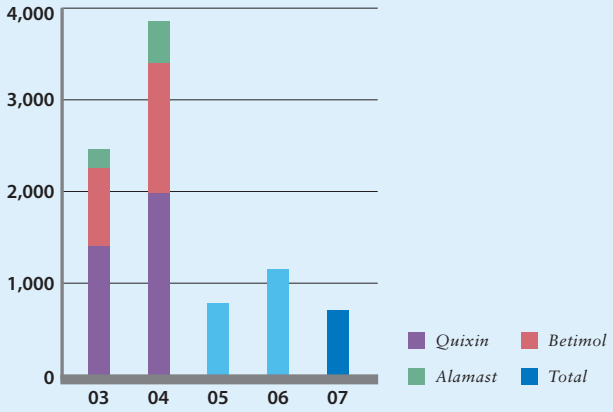
Prescription Pharmaceuticals
Ophthalmic Pharmaceuticals (continued)

Overseas Sales
(Millions of yen)



*Overseas sales include prescription ophthalmics and other products.

Sales of *Quixin*, *Alamast* and *Betimol*
(Millions of yen)



* Sales in and thereafter February 2004, when the marketing channels were changed, represent combined sales of three products to JJVCI.

Overseas Markets

Overseas sales grew substantially in the year ended March 31, 2007, led by Europe and Asia. After conversion into yen, total overseas sales increased 14.8% over the previous year to ¥13,333 million. Of this total, sales of prescription ophthalmic pharmaceuticals were ¥10,880 million, an increase of 12.1% year over year.

United States

The U.S. market, the largest market for prescription ophthalmic pharmaceuticals in the world, continues to expand as the aging of the baby-boom generation drives growth in the number of patients suffering from age-related eye conditions such as glaucoma and macular degeneration (AMD). Competition also continues to intensify in the anti-infective ophthalmics segment.

The 110th American Academy of Ophthalmology (AAO) meeting held in Las Vegas, Nevada, United States, in November 2006

During the year ended March 31, 2007, sales in the United States of three drugs covered by the distribution and supply agreement with Johnson & Johnson Vision Care, Inc. (JJVCI)—the anti-infective ophthalmic *Quixin* (sold as *Cravit* in Japan), the glaucoma treatment *Betimol* and the anti-allergy ophthalmic *Alamast* (sold as *Alegysal* in Japan) decreased 38.8% year over year to ¥702 million. However, due to an increase of contract manufacturing, sales increased 11.2% to ¥2,128 million.

U.S.-based R&D projects are progressing smoothly. Major clinical developments in the United States include DE-101 and DE-104, both of which have been progressing in clinical studies faster than scheduled.

In the year ending March 31, 2008, we will improve the U.S. business channels and environment as an important R&D base for new drug candidates and bolster business development activities.

Europe

In recent years, the market for prescription ophthalmic pharmaceuticals in Europe has maintained annual growth of 5%–10%, due to increasing numbers of patients suffering from glaucoma and dry eye along with solid economic growth in Eastern Europe and Russia. On the other hand, the business environment has become increasingly challenging due to the promotion of generics and other measures to restrict growth in medical expenses adopted by various governments across Europe. Also, European markets differ substantially in terms of health insurance and drug pricing systems by country.

Santen manufactures pharmaceutical products in Finland

European Society of Cataract and Refractive Surgeons (ESCRS) meeting held in London in September 2006

which will be marketed in more than 20 countries in Europe and in the United States. Santen runs sales and marketing operations in 13 countries in Europe, including Northern and Eastern Europe, Russia and Germany. Santen's European Preclinical and Pharmaceutical Research and Development center and the Clinical Research department are located in Finland. In Europe overall the anti-infective ophthalmic *Oftaquix* (sold as *Cravit* in Japan) is currently sold in 20 countries, including Finland, Sweden and Germany. Santen is highly recognized as a reliable partner for healthcare professionals in ophthalmology, including anti-infective ophthalmics for applications such as the treatment of post-operative infections.

During the year ended March 31, 2007, European sales increased 13.6% to ¥6,916 million due to well timed and focused promotion activities.

In the year ending March 31, 2008, promotion activities for existing products will continue and *Oftaquix* will be launched in many new markets including Russia. In April 2007, Santen applied for marketing approval for DE-085 (generic name: tafluprost) in Europe.

Asia

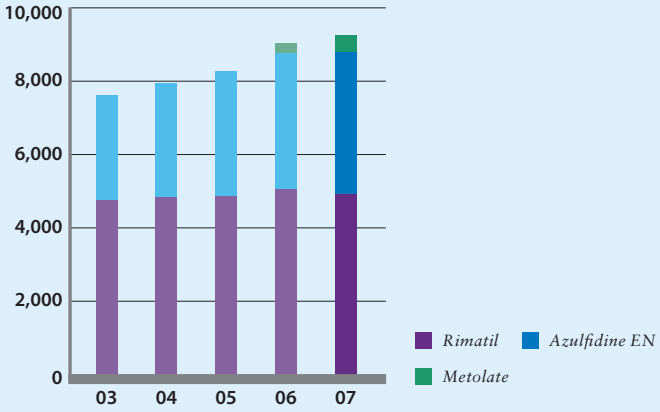
Santen is developing the prescription pharmaceutical business in 10 countries in Asia, including China, South Korea and the member countries of ASEAN. Santen's vision for the Asian market is to become the top drug manufacturer in ophthalmology. To this end, we are striving to build trust-based relationships with patients and medical professionals, thereby contributing to the improvement of ophthalmic treatments in Asia. Currently, Santen primarily exports and sells its products to Asian markets via local sales agencies.

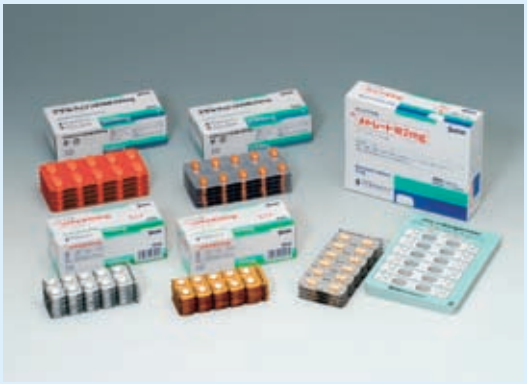
In the year ended March 31, 2007, Santen boosted the supply of scientific information and marketing activities in Asian markets. Sales rose steadily in the main target markets of China and South Korea. As a result, net sales in Asia increased 19.5% to ¥4,246 million.

The Chinese market is expected to expand over the medium to long term, reflecting both population and economic growth. In addition to representative offices in Beijing, Guangzhou and Shanghai, Santen established a new office in Shenyang and has focused on the dissemination of academic medical information in major cities. Santen sells prescription ophthalmic pharmaceuticals such as the anti-infective ophthalmic solution *Cravit* and the corneal and conjunctival epithelial disorder treatment *Hyalein* via local agencies. In September 2005, Santen established a wholly owned subsidiary, Santen Pharmaceutical (China) Co., Ltd., in Suzhou, Jiangsu Province. This subsidiary, which is scheduled to commence operations in 2009, will develop prescription pharmaceuticals, establish plants in the Suzhou industrial district and launch its own sales network to expand the Santen brand in the Chinese market.

Prescription Pharmaceuticals
Anti-Rheumatic Pharmaceuticals

Sales of *Rimatil*, *Azulfidine EN* and *Metolate*
(Millions of yen)





Rheumatoid arthritis is a disease for which the causes are unknown. It is currently understood to be a chronic inflammatory disorder that affects the whole body. It causes pain and swelling associated with inflammation in joints throughout the body. The progressive disease can result in the destruction of bone and cartilage leading to joint deformation. An estimated 700,000 people in Japan are afflicted with the condition. Santen offers *Rimatil*, *Azulfidine EN* and *Metolate* to hospitals and clinics, and has established a top share in the market for disease-modifying anti-rheumatic drugs (DMARDs*).

In the year ended March 31, 2007, the domestic DMARDs market was affected by the drug price cut and shrank 2.3% year over year to ¥23.2 billion. Although sales of *Rimatil*, a mainstay product, declined 2.5%, sales of *Azulfidine EN*, a drug with an early-onset effect, advanced 4.6%, and the continued promotion of *Metolate* steadily increased in the market. As a result, sales of DMARDs rose 3.7% to ¥9,379 million. Santen's share in the Japanese DMARDs market increased from 45.2% in the previous year to 46.3%.

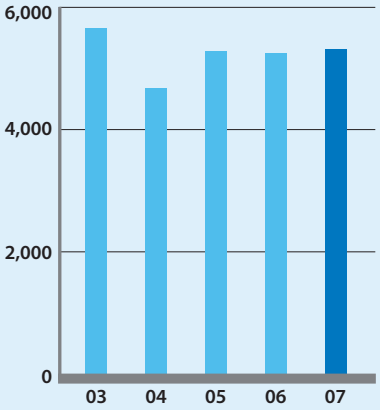
The Guidelines for the Management of Rheumatoid Arthritis, which were announced by the Japan College of Rheumatology in April 2004, state that the use of DMARDs in the early stages of the disease can be effective in delaying the progression of the destruction of joints and preventing their distortion, thus improving patients' quality of life. These guidelines designate *Rimatil*, *Azulfidine EN* and *Metolate* as "Grade A—Highly Recommended," meaning that the drugs are strongly recommended as treatment options. Santen intends to seek further market distribution of the three DMARDs by capitalizing on the effectiveness of these drugs based on the guideline recommendations.

Since 2003, new categories of drugs such as tumor necrosis factor (TNF) inhibitors have been launched in Japan for the treatment of rheumatoid arthritis. Santen is currently developing DE-096, an oral TNF inhibitor, and conducting Phase II clinical trials in Japan.

* Disease-modifying anti-rheumatic drugs (DMARDs) are a class of medicines that are used not only to alleviate symptoms but also to treat the causes of disease. The anti-rheumatic effect works by calming inflammation through the correction of immune abnormalities, which are considered a cause of rheumatoid arthritis.

Over-the-Counter Pharmaceuticals

Sales of OTC Pharmaceuticals
(Millions of yen)



Sante40

Sante FX Neo

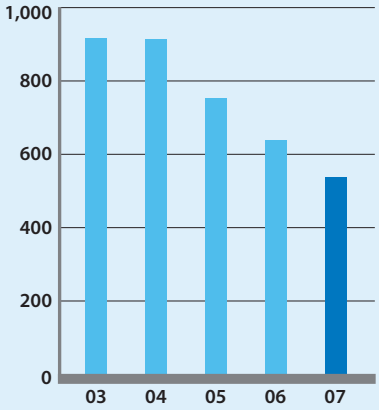
Santen has developed its over-the-counter (OTC) pharmaceutical business in Japan by concentrating on a broad range of eye drops. Its OTC brands include the top-selling *Sante FX Neo* and the *Sante 40* series, which is effective for relieving blurred vision.

The Japanese OTC eye drop market was virtually flat in the year ended March 31, 2007, while market competition intensified. In this severe business environment, Santen continued to focus sales promotion mainly on eye drops for eye fatigue, blurred vision or cool relief for fatigued eyes, including our new product, *Sante Medical 10*, which was launched in October 2006. As a result, sales of OTC pharmaceuticals increased 1.1% year over year to ¥5,308 million.

Going forward, we will continue to maintain our current market share while focusing on sales promotion of new products.

Medical Devices

Sales of Medical Devices
(Millions of yen)



Santen's medical device business specializes mainly in intraocular lenses (IOLs) used in cataract surgery.

The number of cataract procedures performed in Japan increased slightly in the year ended March 31, 2007. However, given the intensifying market competition, sales of IOLs declined and total sales of medical devices fell 15.9% to ¥537 million.

In recent years, demand in the IOL market has shifted toward foldable lenses that can be inserted through a small incision. Advanced Vision Science, Inc., a U.S.-based Santen subsidiary, is developing a new foldable IOL (development code: MD-14) that uses a new high-refractive index optical material. Santen obtained the regulatory approval to manufacture and market this lens in Japan in October 2006, and is preparing for the product launch in the year ending March 31, 2008. A regulatory filing in the United States is pending.

Society and the Environment

A Company That Has Society's Trust

As a company providing medical and pharmaceutical products, Santen is committed to becoming a company trusted by all stakeholders, including healthcare professionals, members of the community, patients and their loved ones.

To define the Company's goals for fulfilling its corporate responsibilities and strengthen the trust within its relationships with society, Santen developed the Santen Corporate Ethics Mission in 1999. The Santen Corporate Ethics Mission consists of a corporate action declaration and a corporate code of conduct, which have been revised in line with changing social conditions.

All the executives and employees of Santen fully understand its content, act accordingly and make decisions based on this shared awareness.

Relationships with Patients and Customers

Santen strives to understand the needs of patients and their loved ones, healthcare professionals and members of the community. With such an approach, we have established strong, trusted relationships with customers through novel products and innovative services.

The Medicine Act requires strict quality control of medical and pharmaceutical products and their post-market safety management; Santen continues to satisfy all of these requirements. In hospitals, clinics and other medical institutions, Santen must provide accurate and timely information to healthcare professionals. Santen employs approximately 400 medical representatives (MRs) nationwide who provide information to healthcare professionals, addressing medical needs quickly and accurately, in an effort to improve patients' quality of life (QOL).

We also receive feedback and advice from patients and members of the community through our Customer Service Center, which was established in 1996. By addressing people's inquiries accurately and sincerely, we promote the appropriate use of medical and pharmaceutical products and conduct specific activities including product improvements reflecting customers' feedback.

Relationship with Society

Santen intends to be a company that contributes to global medical and pharmaceutical advances, while complying with all laws and their underlying spirit, cooperating with society and enhancing harmony within international society.

Santen continuously engages in beneficial social activities including: establishing a joint course of lectures in association with the NARA INSTUTUTE of SCIENCE and TECHNOLOGY, contributing to a scholarship fund to nurture outstanding ophthalmologists in China, funding ophthalmic training in South Korea, and donating to charitable organizations which include Helen Keller International, an international nonprofit organization, the Japan Eye Bank Association and the Japan National Society for the Prevention of Blindness.

Relationship with Employee

To encourage employees to strengthen their expertise and add ever-higher value, Santen believes it is important to respect the human rights and individuality of each employee. Santen has a nondiscriminatory workplace environment and a personnel system that does not tolerate unfair treatment and discrimination due to nationality, race, gender, age, academic background or physical disability. We also respect privacy and take the utmost care in safeguarding employee information. Furthermore, Santen strives to implement occupational health and safety initiatives, support the health of employees, improve educational and training systems for employees, thereby creating an ideal work environment in which employees can optimize their capabilities.

Conservation of the Global Environment

In line with our Basic Environmental Policy formulated in 1998, and the subsequent Environmental Guidelines in 2000, Santen has been aggressively promoting environmental protection through the voluntary activities of its employees.

Specifically, we have established a management system based on ISO14001 certification in all of our domestic offices, thereby promoting companywide efforts to reduce our environmental burden. The actual results of such efforts during the year ended March 31, 2007 included energy saving and the reduction of CO_2 emissions, which will assist in the prevention of global warming.

Moreover, Santen actively promotes the procurement of environmentally friendly products. We identified a need to organize environmental plans and measures to address the entire life cycle of products. Based on such an understanding, Santen formulated green procurement guidelines, which the company will use to raise environmental awareness not only within Santen but also at suppliers.

We are also striving to raise employee awareness through an online in-house information system and promotion of participation in local environmental activities.

Environmental Report

Santen publishes an Environmental Report (in Japanese only) to foster a deeper understanding of its social and environmental initiatives. The same information is also available on the Company's Web site.

Basic Environmental Policy

Under Santen's basic core value, the Santen Group continues to protect, preserve, and improve its environmental quality through various corporate activities. Such efforts, which also respond to international movements to address global environmental problems, are consistent with our common aim to pass down the beautiful mother earth to our offspring. Each company within the Santen Group recognizes its commitment as a member of society.

All the Group companies and their related divisions or departments understand this Basic Environmental Policy (the Policy). They determine their own environmental policy to present specific measures for the Policy, and implement and maintain an environmental management system to realize the Policy.

(Formulated in December 1998 and revised in March 2004)

Environmental Guidelines

1. **Establish and maintain an environmental management system**
   Specify objectives and set targets for environmental activities, continue improvements and enhance effectiveness through environmental audits
2. **Comply with environment-related laws, regulations and ordinances**
   Comply with laws, regulations, ordinances, industrial guidance and our own voluntary standards
3. **Promote the conservation of raw materials, energy saving and recycling**
   Reduce the environmental burden through the conservation of raw materials, energy saving, waste reduction and increased recycling
4. **Educate employees and develop their awareness**
   Familiarize all directors and employees of the Company with environmental issues and measures, educate and enlighten employees, and raise awareness, thereby encouraging volunteer activities
5. **Publicize our environmental policy**
   Disclose our environmental policy to the public as necessary

Corporate Governance

Santen recognizes that it is vital to upgrade and strengthen corporate governance. Thus, Santen is working to raise business performance while maintaining transparent and sound management practices through the development of effective corporate governance systems.

(1) Governance Systems

1. Board of Directors

In addition to various statutory functions, the Board of Directors formulates management policies, strategies and business plans for Santen, makes decisions relating to the acquisition or disposal of major financial assets and important organizational or personnel-related moves, and oversees the execution of business at Santen and its subsidiaries. The Board convenes once a month in principle. As of July 31, 2007, the Board comprised seven members, consisting of three outside directors. The Board of Directors convened 13 times during the year ended March 31, 2007.

2. Board of Corporate Auditors

Santen has adopted a governance system using corporate auditors. The Board of Corporate Auditors consists of four members including outside auditors. Corporate Auditors not only formulate auditing policies and plans, attend the Board of Directors' and other important business meetings, but also oversee the execution of duties by directors through auditing the operational and financial status of Santen's head office, major operating sites and subsidiaries. The Board of Corporate Auditors convened nine times during the year ended March 31, 2007.

3. Voluntary Committees

Santen has established the following three committees composed of inside and outside directors as deliberative bodies to further strengthen corporate governance and to improve management transparency and objectivity.

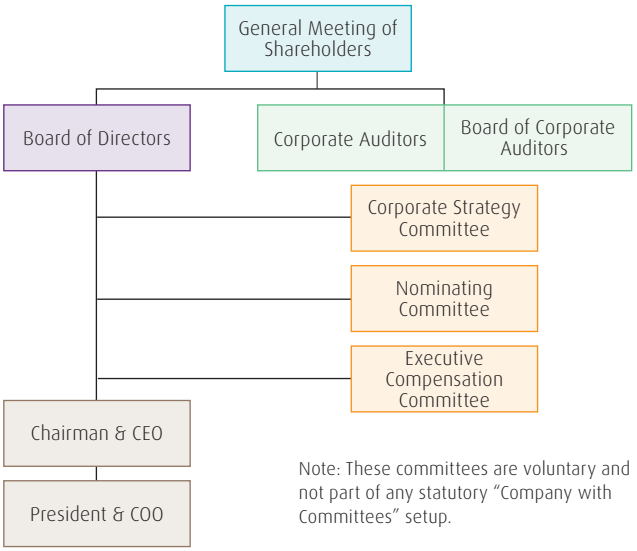
- The Corporate Strategy Committee deliberates on key strategic issues such as business strategies.
- The Nominating Committee sets the criteria for the selection and appointment of directors, clarifies the decision-making process and submits nominations to the Board of Directors based on its deliberations.
- The Executive Compensation Committee develops proposals for establishing and revising remuneration policies and related compensation systems for senior executives and deliberates on determining levels of actual compensation.

Note that these committees are not part of any statutory "Company with Committees" setup.

4. Corporate Officer System

Santen has introduced a corporate officer system to strengthen management while improving the quality and speed of strategic decision-making processes. There were nine corporate officers at the end of July 2007, including some serving concurrently as directors.

Santen Internal Governance System (as of June 26, 2007)



Note: These committees are voluntary and not part of any statutory "Company with Committees" setup.

(2) Internal Governance System

As a company active in the pharmaceutical industry, Santen aims to maintain high ethical standards in all corporate activities undertaken by all Santen directors and employees.

Our compliance system, the Santen Corporate Ethics Mission, which was formulated in December 1999 and revised in line with changing social conditions, consists of a corporate action declaration and a corporate code of conduct that defines strict ethical standards governing corporate activities. We also strive for thorough compliance through the Compliance Group, which specializes in compliance; the Compliance Committee, which operates as a companywide cross-functional group; and online programs and other types of training courses to educate the workforce on compliance-related issues on an ongoing basis.

Santen maintains an internal helpline for employees to inquire about compliance-related issues. An external helpline to an attorney is also available to all employees to report any suspected compliance violations or to receive advice.

As a risk management system, Santen has compiled an internal risk management manual that defines basic policies in crisis management situations, based on the company's business philosophy, and lists internal action standards for crisis management. Specific internal units are responsible for managing the major risks associated with operating activities, by gathering daily information for risk management purposes, and coordinating ongoing efforts to prevent key risk-related occurrences.

The Risk Evaluation Committee meets regularly to assess risks,

analyze any risk-related phenomena identified through internal or external information sources, review current preventive measures and implement appropriate measures.

The occurrence of an emergency situation triggers the creation of a Crisis Response Committee headed by a representative director according to the extent of the impact. Based on Santen's crisis management policies and related action standards, this Committee coordinates efforts to minimize any losses or damage and institutes measures to prevent recurrence.

To maintain proper operating controls within the consolidated Santen Group, which is made up of the parent company and subsidiaries, Santen has created a system specifying that its subsidiaries must seek the final approval of Santen for important business transactions, based on internal approval criteria. Monthly operating and financial reporting controls are also in place.

By appointing presidents of major subsidiaries as Santen corporate officers, Santen builds strong links with its major subsidiaries. Santen directors in charge of subsidiaries and the corporate officers (the subsidiaries' presidents) meet monthly to exchange information and report on important issues. Furthermore, formal operating and financial reports for all major subsidiaries are submitted to the Board of Directors on a quarterly basis.

The internal audit function, established in November 2005 as part of the Compliance Group to implement measures to verify that the aforementioned internal control systems work properly and efficiently, was updated as an independent organization—the Internal Audit Group—in April 2007.

Santen continues to promote activities aimed at disseminating internal controls to boost the reliability of financial reporting throughout the Santen Group. We are also preparing to respond to the new system under the Financial Products Exchange Law.

(3) Internal Audits and Corporate Auditors' Audits

1. Cooperation between Corporate Auditors and Independent Auditors

The corporate auditors hold a meeting with the independent auditors at the start of each fiscal year to receive presentations on the financial auditing plans for the year and any key audit-related issues, and to exchange opinions including corporate auditors' requests. The independent auditors present audit findings to the corporate auditors at meetings twice a year, held after the interim and final results, to exchange opinions. In addition, the corporate auditors attend a meeting convened by the independent auditors after the conclusion of the year-end audit to share comments on the audit results. During the year, the corporate auditors undertake various audits of the auditing methods used by the independent auditors and exchange information with independent auditors.

2. Cooperation between Corporate Auditors and the Internal Audit Group

The corporate auditors inform the Internal Audit Group of any specific audit-related issues or future risk-related items that may be identified in the course of auditing Santen's head office or operating sites. The Internal Audit Group also reports to the corporate auditors any important information gained from internal audits and related measures. The corporate auditors may provide support to the Internal Audit Group in implementing countermeasures as deemed necessary.

(4) Compensation for Directors and Corporate Auditors

Total remuneration for directors and corporate auditors for the year ended March 31, 2007 equaled ¥238 million. The breakdown is as follows:

1. Compensation paid to directors:	¥188 million
(of which ¥29 million was paid to outside directors)	
2. Compensation paid to corporate auditors:	¥50 million
(of which ¥12 million was paid to outside auditors)	
3. Employee salary (including bonuses) paid to directors for the work undertaken in employee capacities (including bonuses):	¥6 million

Executives have been granted subscription rights equivalent to 120,000 shares under a stock option scheme governed by the terms of Article 280-19, Paragraph 1, of the former Commercial Code, a total of 2,333 stock acquisition rights under a stock option scheme governed by the terms of Articles 280-20 and 280-21 of the former Commercial Code that was revised in 2001, and a total of 615 stock acquisition rights under a stock option scheme governed by the terms of Articles 361 and 238 of the Company Law. Of these total figures, the portions that had already been exercised as of March 31, 2007, corresponded to 21,000 shares and 458 acquisition rights, respectively.

(5) Relationships between the Company and Its Outside Directors and Outside Auditors

There are no special interest relationships between the Company and its outside directors and outside auditors.

(6) Outline of Agreements to Limit Responsibilities

To invite competent experts to work for the Company as outside directors or outside auditors to ensure further management transparency and objectivity and further reinforce the audit system, the Company stipulates in its Articles of Incorporation that it can enter into an agreement with outside directors and outside auditors to limit their liabilities for compensation of damage they might incur within a certain range.

Board of Directors, Corporate Auditors and Corporate Officers

As of July 2007

BACK ROW FROM LEFT: Isao Muramatsu, Katsuhiro Waga, Kosei Furukawa, Noboru Kotani
FRONT ROW FROM LEFT: Akira Kurokawa, Takakazu Morita, Masahiro Mita

Board of Directors

Takakazu Morita
Chairman and Chief Executive Officer

Akira Kurokawa
President and Chief Operating Officer

Masahiro Mita, M.D., Ph.D.
Managing Director
Corporate and Regulatory Affairs

Katsuhiro Waga
Member of the Board
Community and Environment Relations

Kosei Furukawa*
Member of the Board

Isao Muramatsu*
Member of the Board

Noboru Kotani*
Member of the Board

Corporate Auditors

Yukinori Mizumoto
Standing Corporate Auditor

Tadao Kagono**
Corporate Auditor

Yasuo Sato**
Corporate Auditor

Eiju Miyauchi**
Corporate Auditor

* Outside Director
** External Corporate Auditor

Adrienne Graves

Jyrki Liljeroos

BACK ROW FROM LEFT: Yoshihiro Noutsuka, Kenji Morishima, Kenji Iwamoto, Masamichi Sato
FRONT ROW FROM LEFT: Sadatoshi Furukado, Toshiaki Nishihata

Corporate Officers

Toshiaki Nishihata, Ph.D.
Senior Corporate Officer
Head of Research and Development Division

Sadatoshi Furukado
Senior Corporate Officer
Sales and Marketing Division, Prescription Pharmaceuticals

Kenji Iwamoto
Corporate Officer
Head of Asia Division

Masamichi Sato
Corporate Officer
Corporate Planning/Strategic HR/ OTC Business

Adrienne Graves, Ph.D.
Corporate Officer
President of Santen Inc.

Jyrki Liljeroos
Corporate Officer
President of Santen Oy

Kenji Morishima
Corporate Officer
Head of Product Supply Division

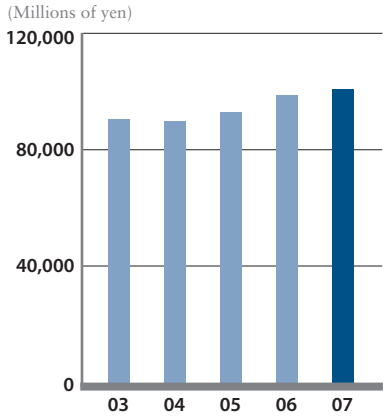
Yoshihiro Noutsuka
Corporate Officer
Head of Planning and Control Division

Financial Section

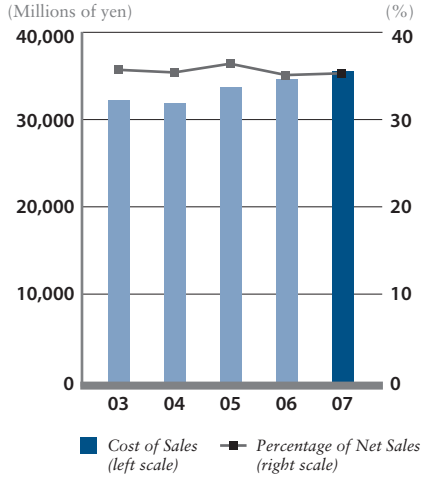
Contents

Financial Review

Net Sales



Cost of Sales and Percentage of Net Sales



Net Sales

Consolidated net sales of the Santen Group for the year ended March 31, 2007 increased 2.1% year over year to ¥100,486 million. Net sales in our mainstay prescription pharmaceuticals business rose 1.8% to ¥91,849 million, which accounted for 91.4% of total sales, down 0.3 points from the previous year.

Sales of the Santen Group consist of those from four segments: prescription pharmaceuticals, over-the-counter (OTC) pharmaceuticals, medical devices and other business.

Prescription Pharmaceuticals

Prescription pharmaceutical sales can be broken down into ophthalmics, anti-rheumatics and other pharmaceuticals.

(Ophthalmics)

Domestic prescription ophthalmic sales were ¥71,272 million, almost level with the previous year. Although sales were affected by the National Health Insurance drug price reduction, our activities to provide medical information tailored to the changing needs of each medical institution contributed to the sales total.

Overseas prescription ophthalmic sales, after conversion into yen, increased 12.1% year over year to ¥10,880 million. In Europe, sales increased mainly in Northern and Eastern Europe and Germany, boosted by our value-add information efforts and the impact of foreign exchange rates. In the United States, sales declined due to intensified competition. In Asia, we increased awareness of the Santen brand and products through our promotional activities. As a result, sales increased in the key markets of China and South Korea.

(Anti-Rheumatics)

The disease modifying anti-rheumatic market shrank from the previous year due to the influence of the drug price reduction. *Rimatil*, *Azulfidine EN* and *Metolate* were selected as "Grade A—Highly Recommended" drugs in accordance with the Guidelines for the Management of Rheumatoid Arthritis announced by the Japan College of Rheumatology in April 2004 and continued to steadily penetrate into the market during the year under review. As a result, sales of anti-rheumatics increased 3.7% to ¥9,379 million.

OTC Pharmaceuticals

Sales of OTC pharmaceuticals rose 1.1% to ¥5,308 million. Although sales of eye drops for allergies and contact lenses declined, such factors were offset by our continued vigorous sales promotion of eye drops for eye fatigue, blurred vision or cool relief for fatigued eyes.

Medical Devices

Although the number of cataract surgeries in Japan increased slightly, sales of medical devices as a whole fell 15.9% to ¥537 million due to severe competition in the intraocular lens market.

Other Business

Sales in other business rose 23.5% to ¥2,792 million mainly fueled by an increase in the contract manufacturing of an anti-infective otic pharmaceutical for the United States.

Net Sales by Business Segment

Millions of yen

Years ended March 31	**2007**	2006	Change (%)
Prescription pharmaceuticals	**91,849**	90,251	1.8
Ophthalmics	**82,152**	80,922	1.5
Anti-rheumatics	**9,379**	9,041	3.7
Other pharmaceuticals	**318**	288	10.4
OTC pharmaceuticals	**5,308**	5,248	1.1
Medical devices	**537**	639	(15.9)
Other	**2,792**	2,260	23.5
Total	**100,486**	98,398	2.1

Note: Figures in parentheses indicate a decrease.

Cost of Sales

Cost of sales increased 2.7% to ¥35,484 million due to an advance in sales. The ratio of cost of sales to net sales increased from 35.1% to 35.3%, resulting from a rise in cost percentage due to drug price reductions which offset our cost reduction efforts.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 4.0% to ¥44,590 million as a result of defensive strategies against domestic competition as well as the increased promotion activities in Asia and Europe. R&D expenditures decreased 2.2% from the previous year to ¥13,663 million.

Operating Income

As a result of increased sales promotional activities, operating income decreased 2.8% to ¥20,412 million. The ratio of operating income to net sales decreased 1.0 percentage point to 20.3% from 21.3% in the previous year.

Other Income and Expenses

Other net income for the year totaled ¥627 million.

Other income increased to ¥1,393 million due to rising in interest and dividend income as well as the sale of fixed assets.

Other expenses totaled ¥766 million due to foreign exchange losses at European subsidiaries despite the absence of an impairment loss and a special retirement premium, which occurred in the previous year.

Income Taxes

Income taxes were ¥7,891 million. The effective tax rate, increased to 37.5% from 36.0% in the previous year mainly due to a decrease in the tax deduction for research spending.

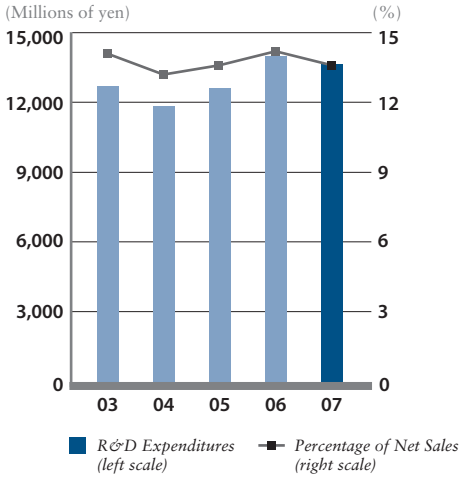
Net Income

Net income increased 1.0% year over year to ¥13,148 million due to the absence of special losses, such as impairment losses, that occurred in the previous year. The ratio of net income to net sales was 13.1% compared with 13.2% the previous year. Net income per share rose from ¥150.26 the previous year to ¥151.58. Diluted net income per share rose from ¥150.01 to ¥151.31.

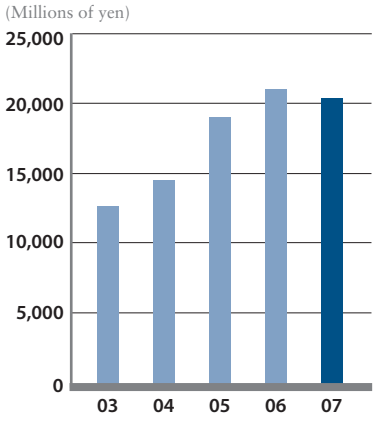
Net Income per Share, Dividend and ROE

Years ended March 31	**2007**	2006	2005
Net income per share-basic (yen)	**151.58**	150.26	125.85
Net income per share-diluted (yen)	**151.31**	150.01	125.71
Dividend (yen)	**65**	60	50
ROE (%)	**10.6**	11.5	10.4

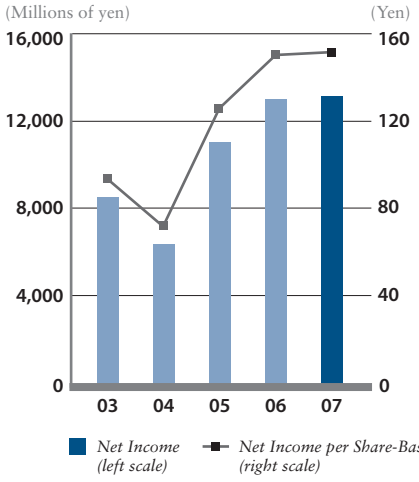
R&D Expenditures and Percentage of Net Sales



Operating Income

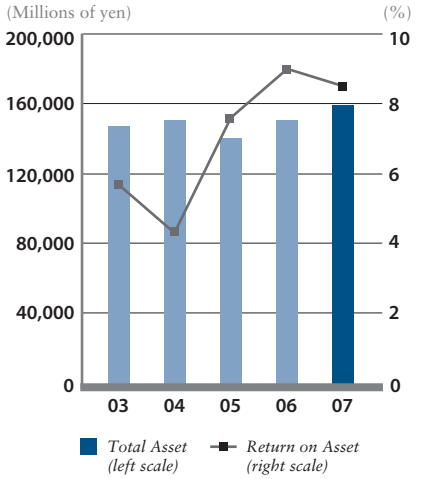


Net Income and Net Income per Share-Basic

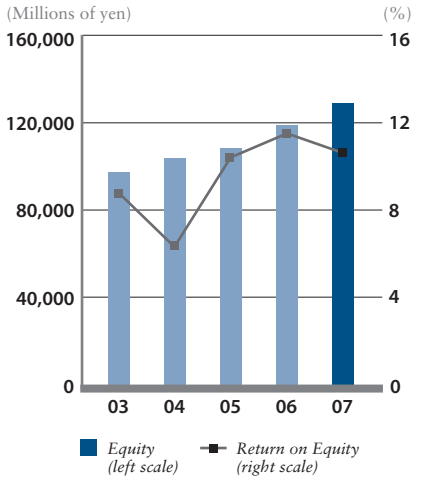


Financial Condition

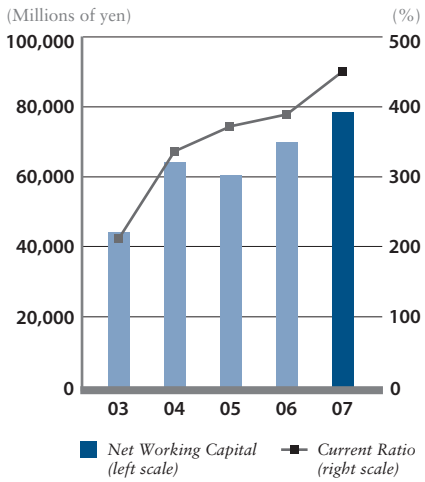
Total Assets and Return on Assets



Equity and Return on Equity



Net Working Capital and Current Ratio



Assets

As of March 31, 2007, total assets were ¥159,099 million, up ¥8,641 million, or 5.7%, from the previous year-end. Current assets increased ¥6,927 million, or 7.4%, to ¥100,820 million, reflecting an increase in marketable securities due to the purchase of short-term financial instruments. Current assets to total assets increased 1.0 percentage point to 63.4% from 62.4% in the previous fiscal year. Net property, plant and equipment at year-end rose ¥90 million or 0.3% over the previous year-end to ¥30,485 million, reflecting an increase in construction in progress because of the launch of construction of the Suzhou Plant at our Santen Pharmaceutical (China) Co., Ltd. subsidiary.

Investments and other assets increased ¥1,624 million, or 6.2%, to ¥27,794 million, reflecting a rise in the value of marketable securities. As a result, return on assets (ROA) for the year under review declined 0.5 percentage point to 8.5% from 9.0% the previous fiscal year.

Liabilities

Total liabilities ended the year at ¥30,453 million, a decrease of ¥1,368 million, or 4.3%, from the previous year-end. Current liabilities decreased ¥1,742 million, or 7.2%, to ¥22,369 million. This primarily resulted from a decrease of ¥1,029 million, or 20.8%, in income taxes payable and a decline of ¥735 million, or 7.9%, in other accounts payable.

Non-current liabilities increased ¥374 million, or 4.9%, to ¥8,084 million primarily for retirement and severance benefits, and interest-bearing liabilities decreased ¥168 million, or 3.0%, to ¥5,446 million.

Net Assets

Net Assets rose ¥10,009 million, or 8.4%, from the previous year-end to ¥128,646 million. This was primarily due to an increase in unrealized holding gains on securities. Equity ratio improved 1.9 percentage points to 80.8% from 78.9%. Return on equity (ROE) declined 0.9 percentage point to 10.6% from 11.5% mainly due to a slower growth rate in net income. Equity per share increased ¥113.56, or 8.3%, to ¥1,481.83.

Capital and Liquidity

Santen Pharmaceutical is striving to maintain a healthy balance sheet and ensure the Company has appropriate liquidity and the necessary funds for its business activities. Net working capital—defined as the difference between current assets and current liabilities—increased ¥8,669 million, or 12.4%, from the previous year-end to ¥78,451 million, and the current ratio improved 62 percentage points to 451% from 389% at the previous year-end. Cash and cash equivalents at the end of the year increased ¥3,736 million, or 8.1%, from the previous year-end to ¥49,841 million. Cash generated by operating activities totaled ¥14,959 million, of which ¥5,846 million was used for investing activities and ¥5,691 million for financing activities.

Cash Flows

Cash Flows Summary

Years ended March 31	2007	2006	Change
	Millions of yen		
Cash flows from operating activities	**14,959**	20,879	(5,920)
Cash flows from investing activities	**(5,846)**	(1,330)	(4,516)
Cash flows from financing activities	**(5,691)**	(5,900)	209
Cash and cash equivalents at end of year	**49,841**	46,105	3,736

Note: Figures in parentheses indicate decreases.

Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥5,920 million from the previous year to ¥14,959 million. It is mainly because trade receivables and corporate tax payments increased despite an increase in income before income taxes.

Cash Flows from Investing Activities

Net cash used in investing activities increased ¥4,516 million to ¥5,846 million. This was due to increases in payments on the acquisition of property, plant and equipment (construction in progress) because of the launch of construction of the Suzhou plant at a subsidiary in China, Santen Pharmaceutical (China) Co., Ltd., and the acquisition of investment securities.

Cash Flows from Financing Activities

Net cash used in financing activities decreased ¥209 million to ¥5,691 million mainly due to the dividend payment.

As a result, the cash and cash equivalent balance at the end of the year totaled to ¥49,841 million, an increase of ¥3,736 million from the previous year.

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 conditions include, but are not limited to, the factors described below.

External Factors

Regulatory Controls

Our prescription pharmaceuticals 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 fully in consideration of drug price revisions in Japan to the 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 April 2006, NHI drug price revisions went into effect resulting in an average 5.5% reduction for the prescription ophthalmic pharmaceuticals industry. 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 pressures 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 conditions 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 assets of overseas subsidiaries, affect our sales, profits and financial conditions depending on foreign exchange rate fluctuations. Overseas sales for the year ended March 31, 2007, accounted for 13.3% of our consolidated net sales.

Competition

Effects of Generic Pharmaceuticals

Sales of generic pharmaceuticals in Japan and overseas might affect Santen's overall business results.

Although our mainstay products—including *Cravit*, *Rescula* and *Livostin*—are protected by patents, generic pharmaceuticals for products such as *Hyalein* and *Tarivid* have already been introduced into the Japanese market by other companies, which will intensify competition in generic pharmaceuticals.

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 year ended March 31, 2007. 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* and *Detantol*. We also have sales rights in Japan for *Timoptol*, *Timoptol XE* and *Livostin*, and exclusive sales rights in Japan for *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 United States, we have a distribution agreement with Johnson & Johnson Vision Care, Inc. (JJVCI), for certain prescription ophthalmics. In the event that JJVCI 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 over-the-counter (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.

Research & Development Activities

Uncertainties in New Product Development
Years are required to bring new drugs from initial research and development 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 disapproval 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 launching manufacturing and sales.

Forecasting a precise time line 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 do not indicate differentiation from competitor products, safety and efficacy concerns, unexpected side effects, discontinued development and delayed product release, any of which might 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, are critical for the future growth of Santen. Every year we invest significantly in research and development, 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 conditions.

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 conditions. 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. When the Noto Peninsula earthquake occurred in March 2007, operation of the production line at the Noto Plant in Houdatsushimizucho, Hakui-gun, Ishikawa, Japan, was suspended for inspection for several days, which fortunately did not affect supply.

Cancellation of Sales and Product Withdrawals
If sales of products are cancelled, or if we withdraw products due to a batch defect, 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 conditions. Currently, we are involved in no litigation that substantially impacts the management of our company.

Eleven-year Summary of Selected Financial Data

Years ended March 31

	2007	2006	2005	2004
For the year:				
Net sales	**¥ 100,486**	¥ 98,398	¥ 92,696	¥ 89,858
Cost of sales	**35,484**	34,535	33,710	31,859
Selling, general and administrative expenses	**44,590**	42,868	40,004	43,475
Operating income	**20,412**	20,995	18,982	14,524
Interest expense	**91**	94	182	366
Income before income taxes	**21,039**	20,342	18,436	13,775
Income taxes	**7,891**	7,319	7,413	7,454
Net income	**13,148**	13,023	11,023	6,321
Capital expenditures	**3,556**	2,106	4,907	3,226
Depreciation and amortization	**4,761**	4,824	4,750	4,521
R&D expenditures	**13,663**	13,971	12,620	11,853
Per share data (yen and U.S. dollars):				
Net income-basic	**¥ 151.58**	¥ 150.26	¥ 125.85	¥ 71.65
Net income-diluted	**151.31**	150.01	125.71	71.64
Equity	**1,481.83**	1,368.27	1,249.32	1,176.83
Cash dividends, applicable to period	**65.00**	60.00	50.00	40.00
Cash Flows:				
Net cash provided by operating activities	**¥ 14,959**	¥ 20,879	¥ 6,619	¥ 23,196
Net cash (used in) provided by investing activities	**(5,846)**	(1,330)	(2,907)	5,246
Net cash (used in) provided by financing activities	**(5,691)**	(5,900)	(12,712)	(12,122)
Interest coverage ratio (times)	**164.3**	218.7	36.1	70.6
Debt to cash flow ratio (%)	**36.4**	26.9	104.0	54.7
At year-end:				
Current assets	**¥ 100,820**	¥ 93,893	¥ 82,735	¥ 91,231
Net property, plant and equipment	**30,485**	30,395	32,676	37,237
Total assets	**159,099**	150,458	139,980	150,238
Long-term debt	**5,446**	5,614	6,882	12,686
Equity	**128,587**	118,637	108,240	103,500
Return on equity (ROE) (%)	**10.6**	11.5	10.4	6.3
Return on total assets (ROA) (%)	**8.5**	9.0	7.6	4.3
Equity ratio (%)	**80.8**	78.9	77.3	68.9
Equity ratio on stock price basis (%)	**165.3**	163.0	142.3	101.8
Price earnings ratio (PER) (times)	**20.0**	18.8	18.3	24.3
Issued shares (thousands)	**86,825**	86,751	86,659	87,963
Number of employees	**2,409**	2,312	2,308	2,335

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate of ¥118.05 to U.S. $1 prevailing on March 31, 2007.

2. See Notes 2. 13) and 11 of Notes to Consolidated Financial Statements in respect of per share data.

3. Net sales in the seven years ended March 31, 2007 to 2001 include royalty income which was presented as "Other, net" in "Other income (expenses)" through the fiscal year ended March 31, 2000.

4. Equity comprises shareholders' equity and accumulated gains (losses) on evaluation and translation.

Millions of yen							Thousands of U.S. dollars
2003	2002	2001	2000	1999	1998	1997	**2007**
¥ 90,253	¥ 88,966	¥ 88,449	¥ 83,577	¥ 79,639	¥ 77,957	¥ 75,216	**$ 851,213**
32,272	32,701	33,385	32,195	32,746	31,278	27,552	**300,584**
45,284	44,475	38,546	33,894	30,294	30,535	27,984	**377,716**
12,697	11,790	16,518	17,488	16,599	16,144	19,680	**172,913**
480	465	430	462	588	654	624	**768**
9,947	12,679	15,521	14,422	15,969	14,917	18,913	**178,222**
1,444	7,373	7,807	6,481	7,864	7,594	9,915	**66,849**
8,503	5,306	7,714	7,941	8,105	7,323	8,998	**111,373**
7,046	6,586	4,943	2,510	3,443	5,898	16,725	**30,116**
4,311	5,334	5,683	5,725	6,314	6,674	4,202	**40,334**
12,719	12,187	10,511	9,221	7,335	7,731	6,213	**115,740**
¥ 93.67	¥ 57.34	¥ 81.32	¥ 83.54	¥ 85.27	¥ 77.06	¥ 105.32	**$ 1.28**
85.97	53.07	75.01	77.04	78.63	71.01	99.87	**1.28**
1,104.21	1,048.51	1,022.99	1,006.48	935.71	862.88	877.12	**12.55**
20.00	20.00	20.00	12.00	12.00	12.00	12.00	**0.55**
¥ 15,808	¥ 6,941	¥ 6,832	¥ 9,372	¥ 16,339	¥ 11,535	¥ 16,181	**$ 126,720**
(9,951)	(6,374)	(3,172)	837	(8,305)	(9,537)	(28,259)	**(49,518)**
(6,507)	(5,684)	(7,193)	(3,817)	(3,857)	(1,677)	18,610	**(48,209)**
34.5	14.9	16.8	20.3	27.8	21.6	32.8	
145.8	352.5	367.3	274.7	173.8	270.6	196.6	
¥ 83,431	¥ 86,064	¥ 88,025	¥ 82,218	¥ 78,018	¥ 70,892	¥ 69,065	**$ 854,046**
40,850	42,159	36,684	37,416	39,638	43,425	47,278	**258,243**
147,148	152,103	153,243	149,968	144,913	138,822	140,226	**1,347,725**
23,047	24,467	25,482	26,491	27,496	31,168	31,807	**46,133**
97,126	95,101	94,834	95,669	88,950	81,998	75,759	**1,089,248**
8.8	5.6	8.1	8.6	9.5	9.3	11.9	
5.7	3.5	5.1	5.4	5.7	5.2	6.4	
66.0	62.5	61.9	63.8	61.4	59.1	54.0	
68.7	86.6	134.3	139.4	145.0	106.1	131.8	
12.3	25.3	27.3	26.3	25.9	20.1	21.6	
90,704	90,704	92,721	95,075	95,075	95,075	86,410	
2,500	2,463	2,167	2,093	2,037	2,010	1,910	

Consolidated Balance Sheets

Santen Pharmaceutical Co., Ltd. and Subsidiaries
As of March 31, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	**2007**
Current assets:			
Cash and cash equivalents (Note 4)	**¥ 49,841**	¥ 46,105	**$ 422,203**
Short-term investments (Note 4)	**1,868**	180	**15,825**
Trade receivables:			
Notes	**430**	309	**3,645**
Accounts	**34,604**	34,115	**293,131**
Allowance for doubtful receivables	**(0)**	(1)	**(2)**
Net trade receivables	**35,034**	34,423	**296,774**
Inventories (Note 6)	**10,358**	9,838	**87,741**
Deferred tax assets (Note 14)	**1,626**	1,651	**13,773**
Other current assets	**2,093**	1,696	**17,730**
Total current assets	**100,820**	93,893	**854,046**
Property, plant and equipment (Notes 7 and 8)**:**			
Land	**8,843**	9,064	**74,908**
Buildings and structures	**39,523**	40,289	**334,803**
Machinery and equipment	**10,230**	10,982	**86,661**
Tools, furniture and vehicles	**10,961**	10,452	**92,847**
Construction in progress	**1,806**	275	**15,302**
Total	**71,363**	71,062	**604,521**
Accumulated depreciation	**(40,878)**	(40,667)	**(346,278)**
Net property, plant and equipment	**30,485**	30,395	**258,243**
Investments and other assets:			
Investment securities (Note 4)	**21,020**	17,716	**178,057**
Goodwill	**385**	709	**3,263**
Other intangibles	**2,387**	2,242	**20,216**
Deferred tax assets (Note 14)	**—**	380	**—**
Other assets	**4,002**	5,123	**33,900**
Total investments and other assets	**27,794**	26,170	**235,436**
Total assets	**¥159,099**	¥150,458	**$1,347,725**

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	**2007**
Current liabilities:			
Current portion of long-term debt (Note 9)	**¥ 168**	¥ 168	**$ 1,423**
Trade accounts payable	**6,089**	5,631	**51,581**
Other payables	**8,573**	9,308	**72,616**
Accrued expenses	**3,154**	3,417	**26,721**
Income taxes payable (Note 14)	**3,917**	4,946	**33,184**
Other current liabilities	**468**	641	**3,965**
Total current liabilities	**22,369**	24,111	**189,490**
Noncurrent liabilities:			
Long-term debt (Note 9)	**5,278**	5,446	**44,710**
Retirement and severance benefits (Note 10)	**1,919**	1,707	**16,256**
Deferred tax liabilities (Note 14)	**427**	20	**3,615**
Other liabilities	**460**	537	**3,902**
Total noncurrent liabilities	**8,084**	7,710	**68,483**
Contingent liabilities (Note 15)			
Total liabilities	**30,453**	31,821	**257,973**
Net Assets (Note 11)**:**			
Common stock (Note 12):			
Authorized-151,493,354 shares (151,493,354 shares in 2006)			
Issued-86,825,303 shares (86,751,203 shares in 2006)	**6,382**	6,319	**54,062**
Capital surplus (Note 12)	**7,077**	7,014	**59,950**
Retained earnings	**111,645**	104,134	**945,744**
Treasury stock at cost:			
50,282 shares in 2007 and 45,090 shares in 2006	**(106)**	(90)	**(902)**
Total shareholders' equity	**124,998**	117,377	**1,058,854**
Unrealized gains on securities, net of taxes (Note 4)	**5,203**	3,996	**44,074**
Unrealized gains on hedging derivatives, net of taxes (Note 5)	**3**	—	**27**
Foreign currency translation adjustments	**(1,617)**	(2,736)	**(13,707)**
Total accumulated gains (losses) on evaluation and translation	**3,589**	1,260	**30,394**
Stock subscription rights (Note 12)	**59**	—	**504**
Total net assets	**128,646**	118,637	**1,089,752**
Total liabilities and net assets	**¥159,099**	¥150,458	**$1,347,725**

Consolidated Statements of Income

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	**2007**
Net sales	**¥100,486**	¥98,398	¥92,696	**$851,213**
Cost of sales	**35,484**	34,535	33,710	**300,584**
Gross profit	**65,002**	63,863	58,986	**550,629**
Selling, general and administrative expenses	**44,590**	42,868	40,004	**377,716**
Operating income	**20,412**	20,995	18,982	**172,913**
Other income (expenses):				
Interest and dividend income	**460**	262	249	**3,895**
Gain on insurance received	**119**	74	114	**1,010**
Dividends received from investment limited partnership	**72**	136	—	**609**
Interest expense	**(91)**	(94)	(182)	**(768)**
Gain on sale of investment securities	**—**	0	1	**—**
Gain on sale of fixed assets	**251**	3	341	**2,124**
Net gain on the change of the retirement benefits program (Note 10)	**—**	—	316	**—**
Gains on marketable securities contributed to employees' retirement benefit trust (Note 10)	**—**	—	211	**—**
Loss on impairment of fixed assets (Note 8)	**—**	(909)	(823)	**—**
Loss on valuation of investment securities	**—**	—	(51)	**—**
Restructuring charge for the logistics operations	**—**	(149)	—	**—**
Restructuring charge for the U.S. business	**—**	—	(441)	**—**
Other, net	**(184)**	24	(281)	**(1,561)**
Income before income taxes	**21,039**	20,342	18,436	**178,222**
Income taxes (Note 14):				
Current	**7,902**	7,999	6,447	**66,938**
Deferred	**(11)**	(680)	966	**(89)**
	7,891	7,319	7,413	**66,849**
Net income	**¥ 13,148**	¥13,023	¥11,023	**$111,373**

Per share data:	Yen			U.S. dollars (Note 3)
	2007	2006	2005	**2007**
Net income-basic	**¥ 151.58**	¥150.26	¥125.85	**$ 1.28**
Net income-diluted	**151.31**	150.01	125.71	**1.28**
Cash dividends, applicable to the period	**65.00**	60.00	50.00	**0.55**

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, 2007, 2006 and 2005

	Millions of yen							
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Unrealized gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Foreign currency translation adjustments	Stock subscription rights
Balance at March 31, 2004	¥ 6,214	¥ 6,909	¥ 91,845	¥ (40)	¥ 1,426	¥ —	¥ (2,854)	¥ —
Exercise of stock options	34	34						
Cash dividends paid			(4,397)					
Bonuses to directors and corporate auditors			(21)					
Net income			11,023					
Repurchase of treasury stock, net				(2,583)				
Retirement of treasury stock			(2,548)	2,548				
Other					623		27	
Balance at March 31, 2005	¥ 6,248	¥ 6,943	¥ 95,902	¥ (75)	¥ 2,049	¥ —	¥ (2,827)	¥ —
Exercise of stock options	71	71						
Cash dividends paid			(4,766)					
Bonuses to directors and corporate auditors			(25)					
Net income			13,023					
Repurchase of treasury stock, net				(15)				
Retirement of treasury stock								
Other					1,947		91	
Balance at March 31, 2006	¥ 6,319	¥ 7,014	¥104,134	¥ (90)	¥ 3,996	¥ —	¥ (2,736)	¥ —
Exercise of stock options	63	63						
Cash dividends paid			(5,637)					
Net income			13,148					
Repurchase of treasury stock, net				(17)				
Retirement of treasury stock		0		1				
Other					1,207	3	1,119	59
Balance at March 31, 2007	**¥ 6,382**	**¥ 7,077**	**¥111,645**	**¥ (106)**	**¥ 5,203**	**¥ 3**	**¥ (1,617)**	**¥ 59**

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Unrealized gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Foreign currency translation adjustments	Stock subscription rights
Balance at March 31, 2006	$53,530	$59,417	$882,120	$ (763)	$33,849	$ —	$ (23,174)	$ —
Exercise of stock options	532	532						
Cash dividends paid			(47,749)					
Net income			111,373					
Repurchase of treasury stock, net				(142)				
Retirement of treasury stock		1		3				
Other					10,225	27	9,467	504
Balance at March 31, 2007	**$54,062**	**$59,950**	**$945,744**	**$ (902)**	**$44,074**	**$27**	**$(13,707)**	**$504**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	**2007**
Cash flows from operating activities:				
Income before income taxes	**¥21,039**	¥20,342	¥18,436	**$178,222**
Depreciation and amortization	**4,761**	4,824	4,750	**40,334**
Loss on impairment of fixed assets (Note 8)	**—**	909	823	**—**
Increase (decrease) in retirement and severance benefits	**160**	(212)	(2,551)	**1,359**
Interest and dividend income	**(460)**	(262)	(249)	**(3,895)**
Gain on insurance received	**(119)**	(74)	(114)	**(1,010)**
Interest expense	**91**	94	182	**768**
(Increase) decrease in trade receivables	**(414)**	1,407	(3,082)	**(3,511)**
(Increase) decrease in inventories	**(357)**	(18)	595	**(3,023)**
Increase (decrease) in trade accounts payable	**401**	(495)	1,066	**3,395**
Other, net	**(1,820)**	571	(2,263)	**(15,417)**
Subtotal	**23,282**	27,086	17,593	**197,222**
Interest and dividend income received	**460**	266	247	**3,898**
Interest expense paid	**(91)**	(95)	(183)	**(771)**
Insurance received	**222**	129	198	**1,882**
Income taxes paid	**(8,914)**	(6,507)	(11,236)	**(75,511)**
Net cash provided by operating activities	**14,959**	20,879	6,619	**126,720**
Cash flows from investing activities:				
Capital expenditures	**(3,556)**	(2,106)	(4,907)	**(30,116)**
Purchase of investment securities	**(2,209)**	(58)	(3,230)	**(18,707)**
Proceeds from sale of investment securities	**—**	20	1,059	**—**
Proceeds from sale of property, plant and equipment	**601**	29	2,488	**5,087**
Purchase of short-term investments	**(1,223)**	(804)	(6,048)	**(10,361)**
Proceeds from sale of short-term investments	**554**	1,547	7,722	**4,691**
Other, net	**(13)**	42	9	**(112)**
Net cash used in investing activities	**(5,846)**	(1,330)	(2,907)	**(49,518)**
Cash flows from financing activities:				
Repayment of long-term debt	**(168)**	(1,268)	(5,804)	**(1,423)**
Repurchase of treasury stock, net	**(17)**	(15)	(2,583)	**(142)**
Dividends paid	**(5,632)**	(4,760)	(4,393)	**(47,712)**
Other, net	**126**	143	68	**1,068**
Net cash used in financing activities	**(5,691)**	(5,900)	(12,712)	**(48,209)**
Effect of exchange rate changes on cash and cash equivalents	**314**	75	(42)	**2,657**
Net increase (decrease) in cash and cash equivalents	**3,736**	13,724	(9,042)	**31,650**
Cash and cash equivalents at beginning of year	**46,105**	32,381	41,423	**390,553**
Cash and cash equivalents at end of year	**¥49,841**	¥46,105	¥32,381	**$422,203**

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 accompanying consolidated financial statements of Santen Pharmaceutical Co., Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law 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 the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into the English (with certain expanded disclosure and the inclusion of the consolidated statements of changes in net assets for the years ended March 31, 2006 and 2005) 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 Securities and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

2. Summary of Significant Accounting Policies

1) Principles of consolidation

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

2) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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 Note 4)

The Company and its domestic subsidiary have adopted "Accounting Standard for Financial Instruments" which was issued 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, 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 judged to recover.

4) Derivative instruments (see Note 5)

Derivative instruments are stated at fair value, and 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 recognized 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.

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 exposure risk 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.

5) Allowance for doubtful receivables

Allowance for doubtful receivables is provided principally at an amount computed based on the actual ratio of bad debts in the past and the estimated uncollectible amounts based on the individual analysis of certain receivables.

6) Inventories (see Note 6)

Inventories are stated at cost, determined principally by the average method.

7) Property, plant and equipment

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

The principal estimated useful lives are as follows:

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

8) Leases (see Note 7)
In Japan, finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

9) Impairment of fixed assets (see Note 8)
In accordance with "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 a comparison of 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 all domestic 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 Company and all domestic subsidiaries have adopted "Accounting Standard for Retirement Benefits" which was issued by the Financial Accounting Deliberation Council. In accordance with this standard, the allowance for retirement benefits for employees is provided based on the estimated retirement benefit obligation and the pension 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. Prior service cost is expensed as incurred.

In January 2005, due to the enforcement of the Defined Contribution Pension Plan Act in Japan, the Company has abolished its qualified pension plan and introduced a new retirement benefit scheme, which is a combination of lump-sum severance plan, cash balance and defined contribution pension plan and has adopted the Financial Accounting Standards Implementation Guidance No.1 "Accounting for Transfers between Retirement Benefit Plans" which was issued by the Accounting Standards Board of Japan. The Company also established the retirement benefits trust in March 2005.

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. Accrued severance indemnities for the members of the board and corporate auditors of the Company are provided based on internal regulations. The accrued provision for severance indemnities for members of the board and corporate auditors is not funded.

Certain overseas subsidiaries have defined contribution plans covering substantially all of their employees. The amounts contributed under the plans are charged to income.

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 all domestic subsidiaries have adopted "Accounting Standard for Foreign Currency Transactions" which was issued by the Business Accounting Council in Japan.

Financial statements of overseas subsidiaries are translated into Japanese 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 their estimated useful life, 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 is 86,735 thousand, 86,662 thousand and 87,390 thousand for the years ended March 31, 2007, 2006 and 2005, respectively.

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 is 86,891 thousand, 86,808 thousand and 87,485

thousand for the years ended March 31, 2007, 2006 and 2005, respectively.

Cash dividends per share shown in the accompanying consolidated statements of income are the amounts applicable to the respective years.

14) Income taxes (see Note 14)
Income taxes are accounted for under 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.

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) New Accounting Pronouncements
(i) Accounting Standard for Presentation of Net Assets in the Balance Sheet
Effective from the year ended March 31, 2007, the Company and its domestic subsidiary adopted new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises assets, liabilities and net assets sections. Previously, the balance sheet comprised assets, liabilities and stockholders' equity sections. The net assets section comprises three subsections, which are shareholders' equity, accumulated gains (losses) on evaluation and translation and stock subscription rights, as applicable.

The stockholders' equity section in the balance sheet as of March 31, 2006 has been reclassified to conform to the 2007 presentation. Under the New Accounting Standards, the net assets section includes unrealized gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, companies were required to present unrealized gains (losses) on hedging derivatives in the assets or liabilities section without considering the related income tax effects. Prior years' unrealized gains (losses) on hedging derivatives have not been restated since there were no material effects on the Company's consolidated financial statements.

(ii) Accounting Standard for Statement of Changes in Net Assets
Effective from the year ended March 31, 2007, the Company and its domestic subsidiary adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for the years ended March 31, 2006 and 2005 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

(iii) Accounting Standard for Share-based Payment
Effective from the year ended March 31, 2007, the Company adopted new accounting standards, "Accounting Standard for Share-based Payment" (Statement No.8 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for share-based payment (the Financial Accounting Standard Implementation Guidance No.11 issued by the Accounting Standards Board of Japan on May 31, 2006). The effect of this adoption was to decrease operating income and income before income taxes by ¥59 million ($504 thousand).

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 ¥118.05=US$1, the approximate exchange rate prevailing on March 31, 2007. 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. Short-term Investments and Investment Securities

The following is a summary of held-to-maturity debt securities and other securities with a market value at March 31, 2007 and 2006:

	Millions of yen							
	2007				2006			
	Held-to-maturity debt securities				Held-to-maturity debt securities			
	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Bonds and debentures	**¥ 1,000**	**¥ 2**	**¥ —**	**¥ 1,002**	¥1,000	¥ 9	¥ —	¥ 1,009

	Other securities				Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	**¥10,904**	**¥ 8,669**	**¥ —**	**¥ 19,573**	¥8,796	¥6,647	¥ —	¥15,443

	Thousands of U.S. dollars			
	2007			
	Held-to-maturity debt securities			
	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Bonds and debentures	**$ 8,471**	**$ 15**	**$ —**	**$ 8,486**

	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	**$ 92,368**	**$73,433**	**$ —**	**$165,801**

Maturities of investments at March 31, 2007 and 2006 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		**2007**	
	Bonds and debentures	Other securities	Bonds and debentures	Other securities	Bonds and debentures	Other securities
Cash equivalents	**¥15,000**	**¥ —**	¥ 9,300	¥ —	**$127,065**	**$ —**
Due within one year	**—**	**—**	—	—	**—**	**—**
Due after one year through five years	**—**	**—**	1,000	—	**—**	**—**
	¥15,000	**¥ —**	¥10,300	¥ —	**$127,065**	**$ —**

5. Derivative Instruments

The Company principally utilizes derivative instruments such as foreign exchange contracts and interest rate swaps to hedge the exposure risk arising from fluctuations in foreign currency exchange rates, interest rates and market price of securities.

The Company is exposed to the risk that the counterparties will not be able to fully satisfy their obligations under contracts, but the Company believes that such risk is mitigated by the high credit ratings of the counterparties.

There is no outstanding derivative transaction for which hedge accounting was not applied at March 31, 2007 and 2006.

6. Inventories

Inventories at March 31 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Merchandise	**¥ 2,973**	¥2,680	**$25,184**
Finished goods	**4,948**	5,151	**41,914**
Work in process and semi-finished goods	**910**	749	**7,705**
Raw materials and supplies	**1,527**	1,258	**12,938**
	¥10,358	¥9,838	**$87,741**

7. Leases

Finance leases, except for those in which ownership is deemed to be transferred to the lessee, are accounted for as operating leases.

Finance leases:
Equivalent purchase amount, accumulated depreciation and future minimum lease payments on an "as if capitalized" basis at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Machinery and equipment:			
Equivalent purchase amount	**¥12,755**	¥14,236	**$108,045**
Equivalent accumulated depreciation amount	**10,828**	11,498	**91,723**
Equivalent balance at year-end	**1,927**	2,738	**16,322**
Tools:			
Equivalent purchase amount	**615**	514	**5,216**
Equivalent accumulated depreciation amount	**393**	287	**3,332**
Equivalent balance at year-end	**222**	227	**1,884**
Total:			
Equivalent purchase amount	**13,370**	14,750	**113,261**
Equivalent accumulated depreciation amount	**11,221**	11,785	**95,055**
Equivalent balance at year-end	**¥ 2,149**	¥ 2,965	**$ 18,206**
Future minimum lease payments:			
Due within one year	**¥ 951**	¥ 948	**$ 8,057**
Due after one year	**1,319**	2,123	**11,172**
	¥ 2,270	¥ 3,071	**$ 19,229**

Lease payments, equivalent depreciation and equivalent interest expense for the three years ended March 31, 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Lease payments	**¥1,032**	¥1,035	¥977	**$8,744**
Equivalent depreciation	**¥ 970**	¥ 969	¥911	**$8,218**
Equivalent interest expense	**¥ 47**	¥ 61	¥ 68	**$ 396**

Operating leases:
Future minimum rents under non-cancellable operating leases at March 31, 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥134**	¥107	**$1,135**
Due after one year	**161**	98	**1,367**
	¥295	¥205	**$2,502**

8. Impairment of fixed assets

The Company and all domestic subsidiaries account for impairment of fixed assets in accordance with the Financial Accounting Standard on Accounting for Impairment of Assets. The Company and all domestic subsidiaries review the recorded value of their property, plant and equipment and intangible assets to determine if the future cash flows to be derived from these properties will be sufficient to recover the remaining recorded asset values.

The impairment losses recognized for the three years ended March 31, 2007, 2006 and 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Land	**¥ —**	¥433	¥700	**$ —**
Buildings and structures	**—**	372	73	**—**
Others	**—**	104	50	**—**
	¥ —	¥909	¥823	**$ —**

The Company and certain subsidiaries recorded impairment losses related to the write-down of land and buildings in connection with the logistics operations in the western area of Japan as a result of an outsourcing plan for the year ended March 31, 2006. The fair value of the land and buildings was determined by specific appraisal.

The Company decided to sell the rental land and buildings for the year ended March 31, 2005. As a result, the Company recognized an impairment loss. The fair value of the land and buildings was determined by using a purchase price offered by a third party.

9. Long-term Debt

Long-term debt at March 31, 2007 and 2006 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Unsecured yen syndicated loans from domestic banks, due in 2008, interest 1.06%	**¥5,000**	¥5,000	**$42,355**
Unsecured yen loans from domestic banks, due in installments through 2009, interest 4.75%	**446**	614	**3,778**
Total	**5,446**	5,614	**46,133**
Current portion shown in current liabilities	**(168)**	(168)	**(1,423)**
	¥5,278	¥5,446	**$44,710**

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

The aggregate annual maturities of long-term debt at March 31, 2007 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 168	$ 1,423
2009	5,168	43,778
2010	110	932
2011 and thereafter	—	—
Total	¥5,446	$46,133

In 2006, the Company entered into a commitment line contract with seven domestic banks. The maximum aggregate credit available to the Company is ¥16,000 million. The credit has not been used as of March 31, 2007.

10. Retirement and Severance Benefits

As discussed in Note 2, 10), the Company has abolished its qualified pension plan and introduced a new retirement benefit scheme, which is a combination of lump-sum severance, cash balance and defined contribution pension plans, since January 2005. In addition, the Company has set up an employees' retirement benefit trust in March 2005.

The following table sets forth the details of benefit obligation, plan assets and funded status of the Companies at March 31, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
For employees:			
Benefit obligation at end of year	**¥(11,371)**	¥(10,838)	**$(96,322)**
Fair value of plan assets at end of year	**9,356**	8,939	**79,253**
Funded status (benefit obligation in excess of plan assets)	**(2,015)**	(1,899)	**(17,069)**
Unrecognized actuarial loss	**610**	655	**5,166**
For directors and corporate auditors:			
Accrued retirement benefit	**(514)**	(463)	**(4,353)**
Retirement and severance benefits recognized in the consolidated balance sheets	**¥ (1,919)**	¥ (1,707)	**$(16,256)**

Retirement and severance costs of the Companies include the following components for the three years ended March 31, 2007.

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
For employees:				
Service cost	**¥ 701**	¥ 673	¥ 869	**$ 5,939**
Interest cost	**218**	208	217	**1,845**
Expected return on plan assets	**(179)**	(154)	(103)	**(1,514)**
Recognized actuarial loss	**79**	76	111	**668**
Amortization of unrecognized prior service cost	**—**	—	572	**—**
Net gains on the change of the retirement benefits program	**—**	—	(316)	**—**
Contribution to defined contribution pension plan	**807**	770	491	**6,840**
Net periodic benefit cost	**¥1,626**	¥1,573	¥1,841	**$13,778**
For directors and corporate auditors:				
Accrual for retirement benefit	**¥ 79**	¥ 60	¥ 6	**$ 670**

Assumptions used in the accounting for retirement and severance benefits for the three years ended March 31, 2007 are as follows:

	2007	2006	2005
Method of attributing benefit to period of service	**Straight-line basis**	Straight-line basis	Straight-line basis
Discount rate	**2.00%**	2.00%	2.00%
Expected return on plan assets	**2.00%**	2.00%	2.00%
Amortization period for actuarial losses*	**14 years**	14 years	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.

All domestic subsidiaries have 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.

11. Net Assets

As described in Note 2, 16) "New Accounting Pronouncements", net assets comprises three subsections, which are shareholders' equity, accumulated gains (losses) on evaluation and translation and stock subscription rights, as applicable. Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

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 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 ($13,142 thousand) and ¥1,551 million as of March 31, 2007 and 2006, respectively.

Cash dividends charged to retained earnings during the three years ended March 31, 2007 represent dividends paid out during the periods. The accompanying consolidated financial statements do not include any provision for the year end dividend of ¥35 ($0.30) per share, aggregating ¥3,037 million ($25,727 thousand) which was approved at the Company's shareholders' meeting on June 26, 2007 in respect of the year ended March 31, 2007.

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 have a span of ten years from the date of grant.

Stock options existing as of March 31, 2007 are as follows:

Stock options granted	1998	1999	2000
Persons granted	Directors:12	Directors:10 Management:6	Directors and corporate officers:16
Number of shares	Common Stock 106,000	Common Stock 66,000	Common Stock 60,000
Date of grant	July 1, 1998	July 8, 1999	July 10, 2000
Vesting conditions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions
Exercise period	From June 27, 2000 to June 25, 2008	From June 30, 2001 to June 28, 2009	From June 30, 2002 to June 28, 2010

Stock options granted	2001	2002	2003
Persons granted	Directors and corporate officers:14	Directors and corporate officers:14	Directors and corporate officers:12
Number of shares	Common Stock 55,000	Common Stock 92,000	Common Stock 137,600
Date of grant	July 9, 2001	July 5, 2002	July 4, 2003
Vesting conditions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions
Exercise period	From June 29, 2003 to June 27, 2011	From June 27, 2004 to June 25, 2012	From June 27, 2005 to June 25, 2013

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

Number, movement and price of stock options as of March 31, 2007 are as follows:

Before vesting options (Number of shares):

Stock options granted	1998	1999	2000	2001	2002
Balance at April 1, 2006	—	—	—	—	—
Granted	—	—	—	—	—
Vested	—	—	—	—	—
Balance at March 31, 2007	**—**	**—**	**—**	**—**	**—**

Stock options granted	2003	2004	2005	2006
Balance at April 1, 2006	—	—	—	—
Granted	—	—	—	102,700
Vested	—	—	—	102,700
Balance at March 31, 2007	**—**	**—**	**—**	**—**

After vesting options (Number of shares):

Stock options granted	1998	1999	2000	2001	2002
Balance at April 1, 2006	27,000	57,300	58,000	42,600	53,700
Vested	—	—	—	—	—
Exercised	3,000	9,300	9,800	4,000	21,600
Balance at March 31, 2007	**24,000**	**48,000**	**48,200**	**38,600**	**32,100**

Stock options granted	2003	2004	2005	2006
Balance at April 1, 2006	95,000	78,200	129,200	—
Vested	—	—	—	102,700
Exercised	22,100	4,300	—	—
Balance at March 31, 2007	**72,900**	**73,900**	**129,200**	**102,700**

Price information (yen):

Stock options granted	1998	1999	2000	2001	2002
Option price	1,540	2,480	2,705	2,299	1,326
Weighted-average stock price	2,845	3,306	3,201	2,879	3,129
Fair value at grant date*	—	—	—	—	—

Stock options granted	2003	2004	2005	2006
Option price	1,176	1,743	2,480	2,715
Weighted-average stock price	3,020	2,795	—	—
Fair value at grant date*	—	—	—	579.05

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

On June 26, 2007, the Company's shareholders' meeting approved that the Company's stock subscription rights as stock options would be allotted to directors and corporate officers of the Company.

These stock subscription rights are exercisable from June 27, 2009 to June 26, 2017. The total number of stock subscription rights is limited in aggregate to 99,300 common shares.

13. Research and Development Expenditures

Research and development expenditures charged to income for the years ended March 31, 2007, 2006 and 2005 amounted to ¥13,663 million ($115,740 thousand), ¥13,971 and ¥12,620 million, respectively.

14. Income Taxes

The Company and its domestic subsidiaries 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, 2007. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The effective rates for the years ended March 31, 2007, 2006 and 2005 differ from the normal tax rates for the following reasons:

	2007	2006	2005
Normal tax rate	**40.4 %**	40.4 %	40.4 %
Change in valuation allowance allocated to income tax expenses	**1.5**	0.6	2.7
Expenses not deductible for tax purposes	**1.4**	1.7	1.6
Per capita inhabitants' tax	**—**	0.4	0.4
Lower tax rates of subsidiaries	**(0.4)**	(0.7)	0.6
Tax credit for research and development expenses	**(5.8)**	(6.4)	(5.7)
Others	**0.4**	0.0	0.2
Effective tax rate	**37.5 %**	36.0 %	40.2 %

The tax effects of temporary differences and tax loss carryforwards that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2007 and 2006 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Tax loss carryforwards	**¥ 6,430**	¥ 5,943	**$ 54,468**
Retirement and severance benefits	**2,111**	1,961	**17,880**
Accrued expenses	**1,202**	1,039	**10,180**
Depreciation and amortization	**827**	191	**7,009**
Deferred assets for tax purposes	**480**	271	**4,065**
Accrued enterprise taxes	**316**	428	**2,678**
Loss on impairment of golf membership rights	**208**	222	**1,761**
Loss on impairment of fixed assets	**148**	514	**1,250**
Loss on valuation of inventories	**73**	60	**621**
Loss on valuation of securities	**44**	44	**373**
Unrealized profits of other intangibles	**42**	67	**359**
Other	**953**	1,368	**8,072**
Subtotal	**12,834**	12,108	**108,716**
Valuation allowance	**(7,907)**	(7,152)	**(66,976)**
Total gross deferred tax assets	**4,927**	4,956	**41,740**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(3,532)**	(2,698)	**(29,919)**
Reserve for special depreciation	**(176)**	(227)	**(1,491)**
Other	**(20)**	(20)	**(172)**
Total gross deferred tax liabilities	**(3,728)**	(2,945)	**(31,582)**
Net deferred tax assets	**¥ 1,199**	¥ 2,011	**$ 10,158**

Net deferred tax assets at March 31, 2007 and 2006 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Current assets - deferred tax assets	**¥ 1,626**	¥ 1,651	**$ 13,773**
Investments and other assets - deferred tax assets	**—**	380	**—**
Noncurrent liabilities - deferred tax liabilities	**(427)**	(20)	**(3,615)**
Net deferred tax assets	**¥ 1,199**	¥ 2,011	**$ 10,158**

15. Contingent Liabilities

At March 31, 2007, the Company has provided guarantees to financial institutions covering employee loans totaling ¥449 million ($3,800 thousand).

16. Segment Information

The Companies operate predominantly in a single industry segment: the production, sale and marketing of pharmaceuticals. Intercompany sales between geographic areas are recorded at cost plus a markup and intercompany sales and profits are eliminated on consolidation. Corporate assets are composed mainly of cash and cash equivalents, short-term investments and investment securities.

Information by geographic area and overseas sales are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Geographic areas:				
Net sales:				
Japan:				
External customers	**¥ 90,695**	¥ 89,882	¥ 85,837	**$ 768,276**
Intersegment	**1,167**	986	549	**9,888**
Total	**91,862**	90,868	86,386	**778,164**
Europe:				
External customers	**9,186**	8,156	6,375	**77,816**
Intersegment	**2,028**	1,988	1,624	**17,182**
Total	**11,214**	10,144	7,999	**94,998**
Other:				
External customers	**605**	360	484	**5,121**
Intersegment	**2,611**	2,859	2,570	**22,115**
Total	**3,216**	3,219	3,054	**27,236**
Corporate and eliminations	**(5,806)**	(5,833)	(4,743)	**(49,185)**
Consolidated	**¥100,486**	¥ 98,398	¥ 92,696	**$ 851,213**

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Operating income (loss):				
Japan	**¥ 21,768**	¥ 22,623	¥ 22,169	**$ 184,399**
Europe	**980**	951	(150)	**8,300**
Other	**(755)**	(708)	(743)	**(6,394)**
Corporate and eliminations	**(1,581)**	(1,871)	(2,294)	**(13,392)**
Consolidated	**¥ 20,412**	¥ 20,995	¥ 18,982	**$ 172,913**
Assets:				
Japan	**¥125,822**	¥127,647	¥123,067	**$1,065,836**
Europe	**10,635**	8,744	8,604	**90,086**
Other	**4,880**	5,217	5,155	**41,341**
Corporate and eliminations	**17,762**	8,850	3,154	**150,462**
Consolidated	**¥159,099**	¥150,458	¥139,980	**$1,347,725**

The main countries included in Europe and Other are as follows:

Europe:	Finland, Germany and Sweden
Other:	United States of America, China, Korea and Taiwan

Overseas sales:

Europe	**¥ 6,917**	¥ 6,089	¥ 4,794	**$ 58,592**
North America	**2,129**	1,916	1,704	**18,034**
Other	**4,288**	3,608	2,752	**36,322**
Total	**¥ 13,334**	¥ 11,613	¥ 9,250	**$ 112,948**
Consolidated net sales	**¥100,486**	¥ 98,398	¥ 92,696	**$ 851,213**
Percentage of overseas sales to consolidated net sales	**13.3%**	11.8%	10.0%	**13.3%**

The main countries included in Europe, North America and Other are as follows:

Europe:	Finland, Russia, Sweden, Germany and Norway
North America:	United States of America and Canada
Other:	Korea, China and Taiwan

Overseas sales represent the total amount of export sales of the Company and domestic subsidiaries and sales of overseas subsidiaries (intercompany sales between consolidated subsidiaries are eliminated upon consolidation).

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Santen Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2007, 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 consolidated financial position of Santen Pharmaceutical Co., Ltd. and subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

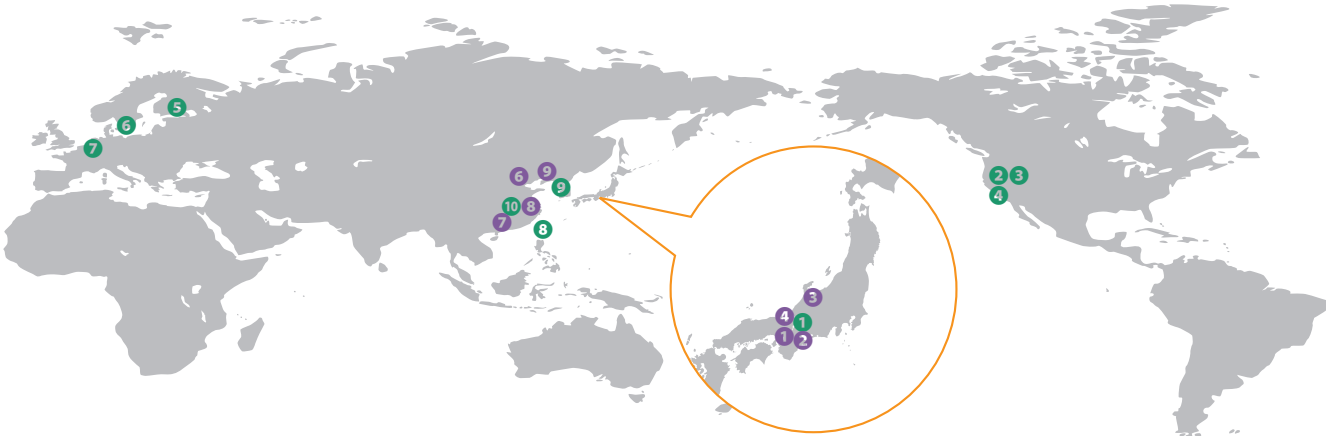
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 26, 2007

Major Subsidiaries and Facilities

As of July 2007



Subsidiaries

1 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
Business: Cleaning of antidust and sterilized clothing
Equity Ownership: 100%

2 Santen Holdings U.S. Inc.
555 Gateway Drive, Napa, California 94558, U.S.A.
Business: Holding company for North American businesses
Equity Ownership: 100%

3 Santen Inc.
555 Gateway Drive, Napa, California 94558, U.S.A.
TEL: +1-707-254-1750 FAX: +1-707-254-1755
Business: Clinical development of pharmaceuticals
Equity Ownership: 100%*

4 Advanced Vision Science, Inc.
5743 Thornwood Drive, Goleta, California 93117, U.S.A.
TEL: +1-805-683-3851 FAX: +1-805-964-3065
Business: Research and development of medical devices
Equity Ownership: 100%*

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

5 Santen Oy
Niittyhaankatu 20, P.O. Box 33, FIN-33721 Tampere, Finland
TEL: +358-3-284-8111 FAX: +358-3-318-1900
Business: Development, production and marketing of pharmaceuticals
Equity Ownership: 100%

6 SantenPharma AB
Solna torg 3, SE-17145 Solna, Sweden
TEL: +46-8-83-4140 FAX: +46-8-83-4145
Business: Marketing support of pharmaceuticals
Equity Ownership: 100%

7 Santen GmbH
Industriestrasse 1, Germering D-82110, Germany
TEL: +49-89-848078-0 FAX: +49-89-848078-60
Business: Marketing of pharmaceuticals, regulatory affairs, scientific marketing and business development
Equity Ownership: 100%

8 Taiwan Santen Pharmaceutical Co., Ltd.
16F, No. 57, Sec. 2, Tun-Hwa South Rd., Taipei, Taiwan, R.O.C.
TEL: +886-2-2700-1553 FAX: +886-2-2700-1730
Business: Import and marketing of pharmaceuticals
Equity Ownership: 100%

9 Santen Pharmaceutical Korea, Co., Ltd.
Room 805, Center Building, 91-1, Sogongdong, Chung-ku, Seoul, Republic of Korea
TEL: +82-2-754-1434 FAX: +82-2-754-2929
Business: Import and marketing of pharmaceuticals
Equity Ownership: 100%

10 Santen Pharmaceutical (China) Co., Ltd.
No. 169 Tinglan Road, Suzhou Industrial Park, Jiangsu Province, 215026, China
TEL: +86-512-6295-7500 FAX: +86-512-6295-7800
Equity Ownership: 100%

Offices, Laboratory and Plants

1 Corporate Headquarters
9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku, Osaka 533-0021, Japan
TEL: +81-6-6321-7000 FAX: +81-6-6328-5082

2 Nara Research and Development Center
8916-16, Takayama-cho, Ikoma-shi, Nara 630-0101, Japan
TEL: +81-743-79-4501 FAX: +81-743-79-4521

3 Noto Plant
2-14, Shikinami, Houdatsushimizucho, Hakui-gun, Ishikawa 929-1494, Japan
TEL: +81-767-29-2666 FAX: +81-767-29-4233

4 Shiga Plant
348-3, Aza-suwa, Oaza-shide, Taga-cho, Inukami-gun, Shiga 522-0314, Japan
TEL: +81-749-48-2900 FAX: +81-749-48-2901

5 Osaka Plant
9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku, Osaka 533-0021, Japan
TEL: +81-6-6321-7070 FAX: +81-6-6321-3026

6 Beijing Representative Office
Room 2010, Beijing Fortune Bldg., No. 5, Dongsanhuan Beilu, Chaoyang District Beijing 100004, China
TEL: +86-10-6590-8535 FAX: +86-10-6590-8537

7 Guangzhou Representative Office
1603 Peace World Plaza, 362-366, Huan-shi East Road, Guangzhou 510060, China
TEL: +86-20-8375-2212 FAX: +86-20-8387-8799

8 Shanghai Representative Office
1804, Shanghai Ciro's Plaza No. 388, West Nanjin Road, Shanghai 200003, China
TEL: +86-21-6334-5813 FAX: +86-21-6334-5819

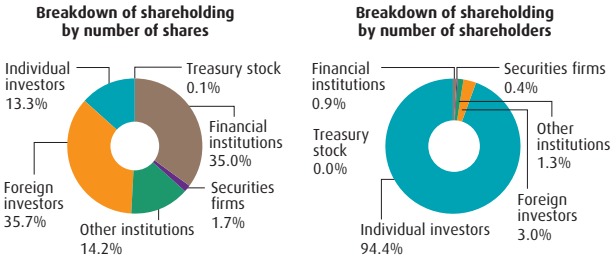
9 Shenyang Representative Office
Room 1906, Tower A, President Building No. 69, Heping North Avenue, Heping District Shenyang, 110003, China
TEL: +86-24-2281-5281 FAX: +86-24-2281-5280

Corporate Information/Stock Information

As of March 31, 2007

Corporate Headquarters	Santen Pharmaceutical Co., Ltd. 9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku, Osaka 533-0021, 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	¥6,382 million
Number of Shareholders	10,016
Stock Exchange Listings	Tokyo and Osaka
Ticker Code	4536
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation 6-3, Fushimicho 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	2,409 (non-consolidated: 1,695)
Number of Shares Issued	86,825,303

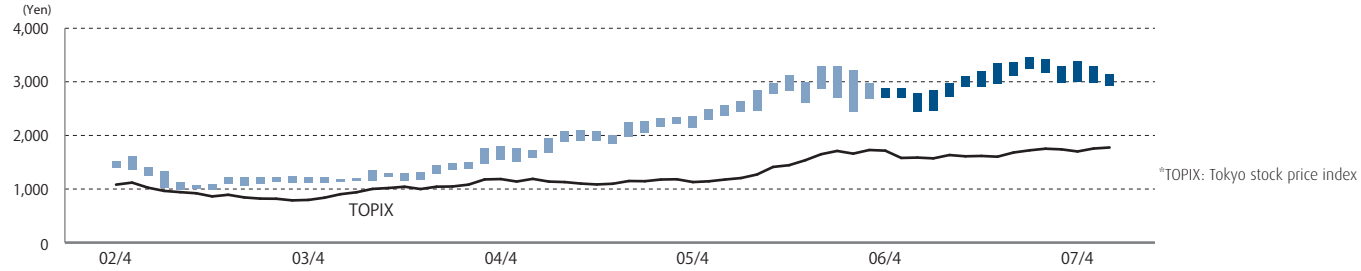
Breakdown of Shareholding



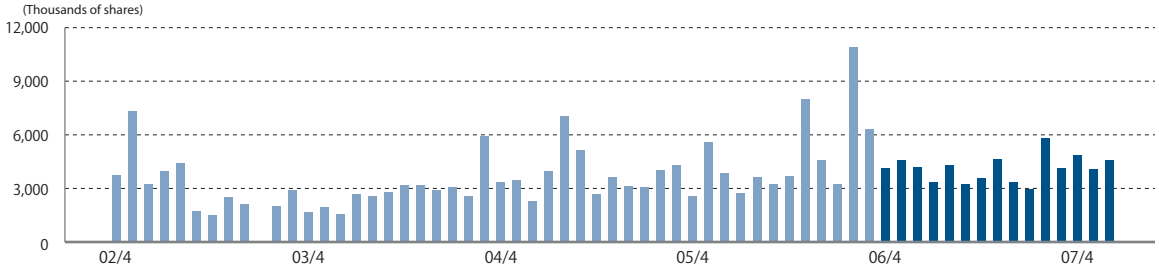
Major shareholders

Name	Number of shares held	Percentage of investment
Japan Trustee Service Bank, Ltd.	6,335 Thousand shares	7.3 %
Northern Trust CO. (AVFC) Sub-account American Clients	5,660	6.5
Mita Sangyo Co., Ltd.	4,756	5.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,296	5.0
Japan Master Trust and Banking Co., Ltd.	3,824	4.4
Nippon Life Insurance Company	2,961	3.4
The Tokio Marine and Nichido Fire Insurance Co., Ltd.	2,668	3.1
Trust and Custody Services Bank, Ltd.	2,360	2.7
Northern Trust CO. AVFC Re U.S. Tax Exempted Pension Funds	2,321	2.7
Mitsubishi UFJ Trust and Banking Corporation	1,924	2.2

Stock Price Range Osaka Securities Exchange (monthly basis)



Trading Volume Osaka Securities Exchange (monthly basis)



Yearly High and Low Prices

	2003	2004	2005	2006	**2007**
High (yen)	1,435	2,240	3,290	3,370	**3,450**
Low (yen)	1,099	1,362	2,050	2,440	**2,925**

Note: Calendar years. Stock prices for 2007 are for the period to the end of June

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
1945 Head Office transferred to Yodogawa Plant (current site)
Company name changed to Santendo Pharmaceutical Co., Ltd.

1958 Company name changed to current form of Santen Pharmaceutical Co., Ltd.
Santen enters prescription pharmaceuticals 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 United States
1994 Subsidiary Santen GmbH established in Germany
1995 Representative office established in Beijing, China
1996 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
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
2004 U.S. sales partnership with Johnson & Johnson Vision Care, Inc. started
2005 Representative office established in Shanghai, China
Subsidiary Santen Pharmaceutical (China) Co., Ltd. established
2006 2006–2010 Medium-term Management Plan formulated

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

1985 Launch of *Sante 40 NE*
1986 Santen commences sales of intraocular lenses
1987 Launch of anti-infective ophthalmic *Tarivid*
Launch of anti-rheumatic *Rimatil*

1991 Launch of *Sante FX*
1992 Launch of *Kary Uni*, a treatment for early-stage senile cataracts
Launch of *BSS PLUS*, an ophthalmic perfusion and bathing solution

1995 Launch of *Hyalein*, a drug for treating 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

1999 Launch of *Timoptol XE*, a treatment for glaucoma
Launch of *Sante FX Neo*
2000 Launch of anti-infective ophthalmic *Cravit*

2001 Launch of *Detantol*, a treatment for glaucoma
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 Launch of *Rescula*, a treatment for glaucoma
Launch of anti-rheumatic *Metolate*

2006 Launch of *PAPILOCK* Mini ophthalmic solution 0.1%, a treatment for vernal keratoconjunctivitis
Launch of *Sante Medical 10*
Launch of *Sante AL Cool II*

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

SANTEN PHARMACEUTICAL CO.,LTD.

http://www.santen.com

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