Santen

focusing on

2008 growth Opportunities

Annual Report 2008 • Year Ended March 31, 2008

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. 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.

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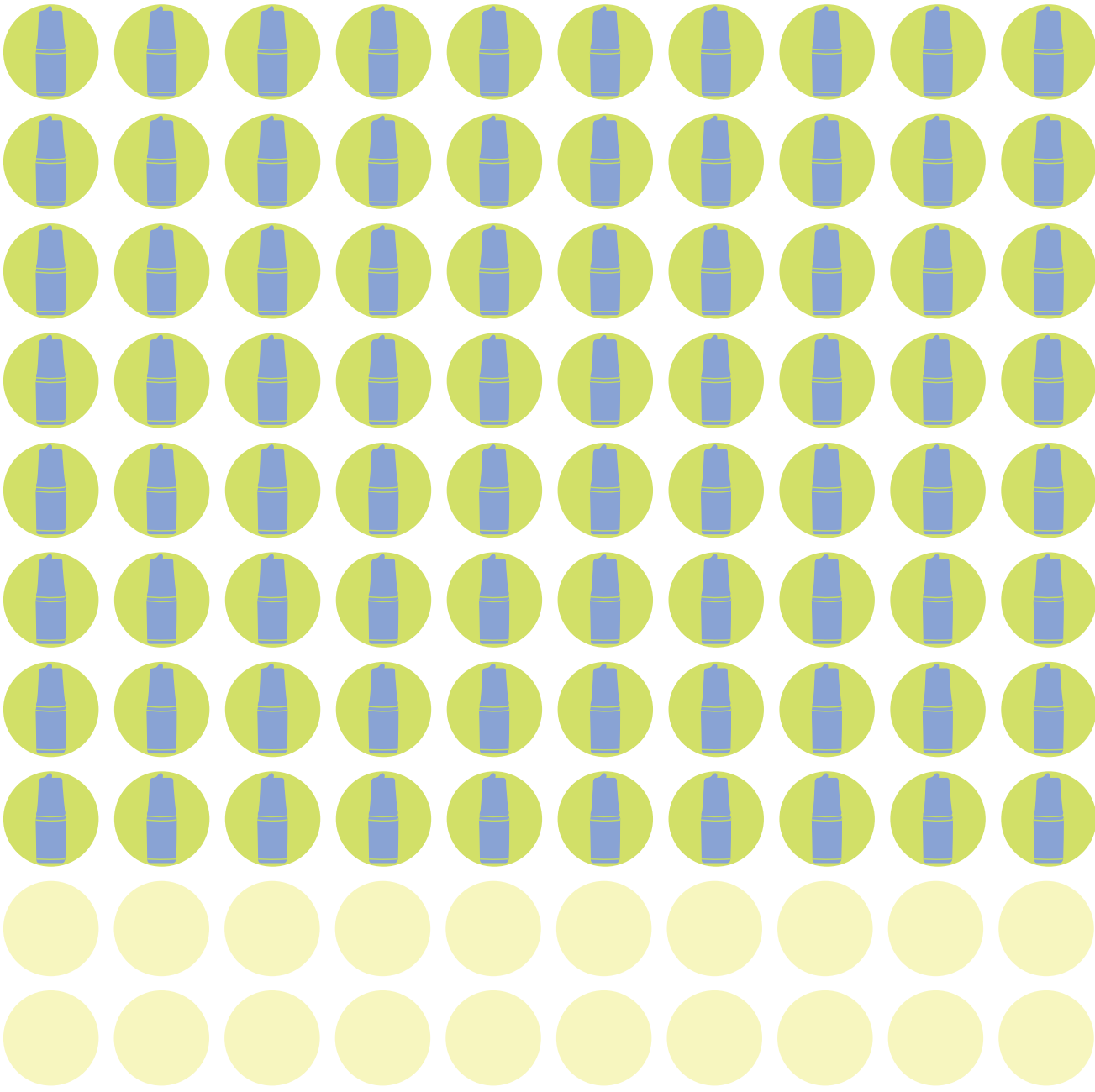
NOTE CONCERNING DATA
Some information in this annual report is based on IMS data (JPM, MIDAS). Period: January 2001 to March 2008

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS
This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication.

Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's businesses, competitive pressures, changes in related laws and regulations, status of product development programs and changes in exchange rates.



80%

80% of Santen's sales come from prescription ophthalmic pharmaceuticals

The foundation of Santen dates back almost 120 years, to 1890. At that time, our main product was a cold medicine. Nine years later, we introduced *Daigaku Eye Drops*, a very successful product that contributed greatly to our early growth. Later, in 1952 Santen took its first steps into the ophthalmic segment, and in 1958 entered the prescription pharmaceuticals market. Today, 80% of Santen's sales come from prescription ophthalmic pharmaceuticals.

Santen holds the No. 1 position in the Japanese prescription ophthalmic pharmaceuticals market with a 38.9% share

No. 1

Santen has a broad range of top-quality ophthalmic pharmaceutical products as well as approximately 400 medical representatives (MRs) in Japan. Using these strengths, we provide information that answers the practical needs of the medical community, giving us the No. 1 position in the Japanese prescription ophthalmic pharmaceuticals market with a 38.9% share. We are also No. 1 in the Japanese market for disease-modifying anti-rheumatic drugs (DMARDs), with a 46.1% share. As a result of our market dominance in two highly specialized areas, we hold a unique position among Japanese pharmaceutical companies.

In the Japanese prescription ophthalmic pharmaceuticals market, the glaucoma segment grew 4.0% and the corneal disorders segment expanded 9.0%

9.0%

The Japanese prescription ophthalmic pharmaceuticals market—Santen's primary focus of operations—is estimated to grow 2% annually until 2010. Within this market, the glaucoma and corneal disorders segments are expected to grow more quickly in line with the aging of Japan's population. In fiscal 2007, ended March 31, 2008, the glaucoma segment grew 4.0%, and the corneal disorders segment expanded 9.0%, against a backdrop of 3.1% growth in the broader prescription ophthalmic pharmaceuticals market.

Santen is globalizing its R&D efforts on the firm foundations of a clinical development network that spans 3 centers worldwide

3 centers

As an R&D-oriented pharmaceuticals company, Santen will concentrate its R&D efforts in the area where it can leverage its strength and where there is significant growth potential. We will focus on developing new products targeting glaucoma, corneal disorders and retinal disorders, where medical demand is expected to continue to be high. In the pipeline in each of these areas, we have compounds with new mechanisms of action and products that utilize the very latest technologies. On the firm foundations of a clinical development network that spans 3 centers worldwide, we are working to expand our global R&D capabilities.

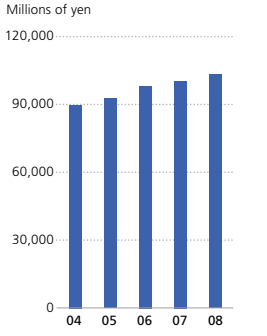
Consolidated Financial Highlights

Santen Pharmaceutical Co., Ltd. and Subsidiaries
Years ended March 31, 2008 and 2007

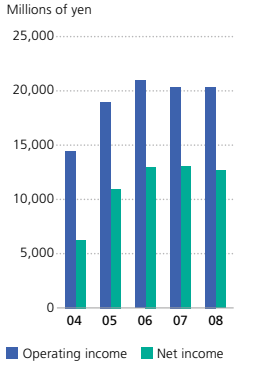
	Millions of yen		Change	Thousands of U.S dollars
	2008	2007	2008/2007	2008
For the year:				
Net sales	¥103,394	¥100,486	2.9%	$1,031,980
Operating income	20,371	20,412	(0.2)	203,320
Net income	12,651	13,148	(3.8)	126,266
R&D expenditures	12,942	13,663	(5.3)	129,170
Capital expenditures	3,151	3,556	(11.4)	31,451
Depreciation and amortization	4,593	4,761	(3.5)	45,846
Per share data (yen and U.S. dollars):				
Net income–basic	¥ 146.15	¥ 151.58	(3.5)%	$ 1.46
Net income–diluted	145.94	151.31	(3.5)	1.46
Equity	1,494.48	1,481.83	0.9	14.92
Cash dividends, applicable to period	80.00	65.00	23.1	0.80
At year-end:				
Total assets	¥156,547	¥159,099	(1.6)%	$1,562,504
Long-term debt	5,278	5,446	(3.1)	52,680
Equity	126,998	128,587	(1.2)	1,267,574
Return on equity (ROE) (%)	9.9	10.6		
Number of employees	2,483	2,409		

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate of ¥100.19 to U.S.$1 prevailing on March 31, 2008.
2. Figures in parentheses indicate a decrease.
3. Equity comprises shareholders' equity and total accumulated gains (losses) on evaluation and translation.

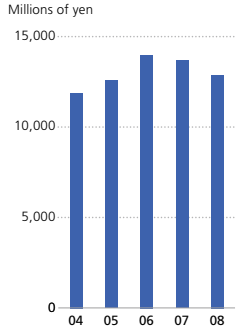
Net Sales



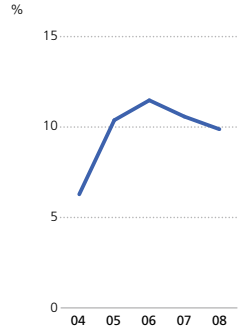
Operating Income and Net Income



R&D Expenditures



Return on Equity (ROE)



A Message from the Chairman

Focusing on Growth Opportunities

Becoming a Global Company

Santen aims to be a company internationally recognized for supplying the world with highly original products developed using its outstanding R&D capabilities. The 2006–2010 Medium-term Management Plan is the first step on the road to achieving our long-term objective of becoming a global company by fiscal 2015, ending March 31, 2016.

To further realize our objective of promoting "Santen's Global Development: Creating New Drug Candidates and Generating Growth in Promising Regions by Leveraging Strengths," we have put in place four medium-term policies as part of our current plan. These policies are: enhancing the global strategic product pipeline through internal discovery and development, joint development projects and in-licensing efforts; generating growth mainly in Japan, Northern/Eastern Europe, Russia and China and focusing U.S. activities on clinical and business development; strengthening our manufacturing bases; and strengthening human resources and organizational capabilities globally. Based on these policies, we aim to achieve solid growth in the medium-term by investing aggressively in research and development and by working to expand our business in regions where our strengths can be fully utilized.

The second step of the long-term plan comes in 2011–2015, a period when we expect to realize the benefits of our R&D investments and achieve accelerated growth and globalization.

Aiming to be a global company, we will fulfill the expectations of all stakeholders.

Conditions in Fiscal 2007

In fiscal 2007, the second year of the 2006–2010 Medium-term Management Plan, we made good progress in line with the plan's objectives.

Sales were 1.6% higher in Japan and 11.2% higher overseas, leading to net sales of ¥103.3 billion, a 2.9% increase year on year, and operating income of ¥20.3 billion, roughly level with the previous year.

Regarding principal new drug candidates, projects for global strategic products*, including DE-101 (Rivoglitazone) and DE-104, have progressed either on or ahead of schedule.

Also, construction of our Suzhou Plant in China was completed in October 2007. We plan to begin packaging operations there in fiscal 2008, ending March 31, 2009, and later will gradually shift to fully integrated manufacturing.

* New drug candidates based on new mechanisms of action, which we expect to outsell existing products in Japan, the U.S. and Europe.

Establishing Consistent and Stable Distribution of Profits

When determining appropriate distribution of profits to shareholders, Santen utilizes the dividend on equity (DOE) ratio, an indicator that combines the payout ratio with return on equity (ROE), and also considers dividend payout levels and capital efficiency improvement. In the current Medium-term Management Plan, we are targeting a DOE of 5.0% in fiscal 2010, ending March 31, 2011.

The 96th Annual General Meeting of Shareholders, held on June 25, 2008, approved a final dividend for fiscal 2007 of ¥40 per share. As a result, the annual dividend per share totaled ¥80, up ¥15 year on year, for the fourth consecutive year of dividend growth. Also, to improve capital efficiency and enhance returns to shareholders, we acquired a total of ¥4.8 billion in stock as part of our share repurchase program. As a result, DOE was 5.4%, well ahead of our medium-term target, and the payout ratio was 54.7%. We will keep DOE above 5.0% in fiscal 2008 as well.

Contributing to Society through Our Business Operations

Santen's core value is "we are focused on specific areas of expertise, such as eye care, developing our unique capabilities and technologies, and contributing to the health and quality of life of patients and their loved ones, and society as a whole." From this foundation, we envision our mission as a pharmaceutical company to be one of contributing to society through our business operations. Remaining aware of fulfilling this ideal, we are working vigorously to provide safe pharmaceuticals of superior quality to medical institutions, dispensaries and drug stores, and are working to ensure that patients have complete confidence in Santen's products. As well, we pursue a number of avenues which allow us to contribute to society, including supporting ophthalmologic and rheumatoid arthritis (RA)-related causes, contributing to large-scale natural disaster relief projects and promoting active in-house environmental conservation campaigns.

We will fulfill the expectations of shareholders and other stakeholders by steadily implementing the Medium-term Management Plan and pursuing our objective of becoming a global company. At the same time, we will endeavor to maximize corporate value and the common interests of shareholders while aiming to become a company that is trusted by patients, their loved ones and many other people throughout the world. I would like to ask for your continued understanding and support in the years to come.

August 2008

Takakazu Morita
Chairman

A Message from the President and CEO

Report of Business Results and the Future Vision

Four Consecutive Years of Increased Revenues and Record Net Sales

In fiscal 2007, Santen recorded a 2.9% growth in net sales, to ¥103.3 billion, representing the achievement of four consecutive years of rising revenues and the highest net sales in the Company's history.

In Japan, we continued our program of promotional activities, including providing individual hospitals and clinics with scientific information tailored to their specific and changing needs and campaigns to generate broader understanding of dry eye conditions. These activities contributed to growth in sales in Japan, especially in the area of treatments for corneal disorders. Domestic prescription ophthalmic pharmaceutical sales were up 1.5% year on year, an increase of ¥1.0 billion. Overseas prescription ophthalmic pharmaceutical sales rose 20.5%, an increase of ¥2.2 billion, supported primarily by growth in European markets.

Significance of Fiscal 2008 in the 2006–2010 Medium-term Management Plan

Performance targets for fiscal 2010, the final year of the 2006–2010 Medium-term Management Plan, are set at net sales of ¥115 billion, operating income of ¥32 billion, net income of ¥22 billion and return on equity (ROE) of 13%.

We will steadily implement the principal strategies set out in the Medium-term Management Plan to generate future growth.

Fiscal 2008 is the mid-point of the Medium-term Management Plan and as such is pivotal for Santen. It will reflect the value of measures implemented during the previous two fiscal years, and key events in fiscal 2008 will lead to future growth that will help Santen achieve its medium-term performance targets for fiscal 2010.

In particular, the approval and subsequent launch in Japan and Europe of DE-085 (Tafluprost) for glaucoma and ocular hypertension will contribute to rapidly maximize product value. Continuation of the awareness campaign for dry-eye related disease that was started in fiscal 2007, should maximize sales potential for the corneal and conjunctival epithelial disorder treatment *Hyalein* (sodium hyaluronate). We also expect to see rapid popularization of *Eternity* foldable intraocular lenses. Each of these will be powerful drivers supporting the achievement of the current plan's targets.

Santen's primary focus in its R&D efforts at present is to steadily propel the global strategic products DE-104 and DE-101 (Rivoglitazone) through development. Our Medium-term Management Plan also emphasizes effectively using in-house resources to pursue opportunities for alliances and in-licensing in areas where we can leverage our strengths. In May 2008, we in-licensed DE-109 (Sirolimus) for development as a new drug candidate in the area of retinal disorder treatments.

Targeting Continued Revenue Growth in Fiscal 2008

Regarding performance estimates for fiscal 2008, we anticipate sales of our domestic prescription pharmaceuticals will be affected by National Health Insurance (NHI) drug price reductions in the mid-3% range, compared with a forecast industry average of 5.2%. We nevertheless expect to achieve an increase of approximately ¥0.6 billion in net sales, to ¥104 billion.

While sales will be affected by the upcoming drug price revisions, measures such as changing product mix and rationalizing manufacturing costs should allow us to keep cost of goods at a roughly steady ratio to net sales.

We will control overall selling, general and administrative expenses and focus our spending on strategic expenses in the areas that will help us achieve our medium-term targets.

R&D expenditures will increase by ¥6.5 billion in fiscal 2008. This reflects an increase in the total amount set aside for ongoing R&D expenditures and also includes the one-time payment related to the in-licensing agreement for DE-109 (Sirolimus) for development and marketing in the area of retinal disorders.

Consequently, we expect operating income in fiscal 2008 to total ¥15.1 billion and net income to be ¥9.8 billion.

Forecast results for fiscal 2008 include a decline in profits as a consequence of the one-time in-licensing payment outlined above, but we are entirely confident that this investment will contribute soundly to the Company's medium- to long-term growth. We also believe that the principal strategies set out in the Medium-term Management Plan will generate increased profits and growth from fiscal 2009, ending March 31, 2010, onwards. Your continuing support is highly appreciated.

August 2008

Akira Kurokawa
President and Chief Executive Officer

An Interview with the President and CEO

TOWARD ACHIEVING THE MEDIUM-TERM MANAGEMENT PLAN

President and CEO
Akira Kurokawa

Please tell us your thoughts about Santen's operating environment?

First, I believe that the ophthalmic and anti-rheumatic areas in which Santen specializes will grow over the medium to long term. The reason for this is that demand for products in our areas of expertise will continue to rise as the rapid aging of populations in developed nations like Japan continues.

There are a number of important factors influencing the environment for medical services and thus Santen's operations. In Japan, these include the progressive decline in the birthrate and the concurrent aging of the population and the primary political issue of containing social security costs through NHI drug price revisions, reducing the level of remuneration for medical treatment and rationalizing medical institutions.

The restructuring of the industry on a global level through M&A and other means also affects Santen's business operations to some degree. We are truly facing the realities of an aging population and global competition.

In such an environment, Santen aims to focus our resources in areas where we can leverage our strengths as a specialty company excelling in ophthalmic and anti-rheumatic treatments to consistently provide pharmaceutical products and services that fulfill unmet medical needs and contribute to improving patients' quality of life (QOL).

One of the policies of the 2006–2010 Medium-term Management Plan is "generating growth in promising regions by leveraging strengths." How is Santen progressing with this policy in relation to its principal business in domestic prescription pharmaceuticals?

The Japanese market for prescription ophthalmic pharmaceuticals is expected to continue to grow, but due to the influence of NHI drug price revisions and other factors, the rate of growth is likely to be held to approximately 2% per annum. Competition is also intensifying as competing companies enter the market. With these circumstances in mind, we are focusing investment of our management resources in areas with a prospectively strong growth outlook and are looking to achieve above-average growth. These areas of high potential include glaucoma and corneal disorders (dry eye), for which we forecast average annual sales increases of 4% and 7%, respectively.

In fiscal 2006 and 2007, Santen's domestic prescription ophthalmic pharmaceuticals business remained strong, despite intensifying competition. One reason was the success of our disease awareness campaign for dry eye conditions which contributed substantially to sales expansion of *Hyalein* a treatment for corneal and conjunctival epithelial disorders. We will promote our dry eye awareness campaign even more effectively in fiscal 2008.

We expect to receive approval for the glaucoma and ocular hypertension treatment DE-085 (Tafluprost) in the second half of fiscal 2008, and will work to achieve a smooth market launch and rapid uptake of this new product. In this way, we will further strengthen the foundation for our future growth. DE-085 (Tafluprost) will not make a large contribution to our results in fiscal 2008, however, it is expected to be the principal growth driver in the 2006–2010 Medium-term Management Plan. As such, I will personally take a leading and active role in ensuring its success.

Would you please update us on developments in Santen's overseas business?

We are planning to expand our businesses in China, Russia, Northern Europe and Eastern Europe during the Medium-term Management Plan. These are all markets with high growth potential, where we can leverage our strengths on the foundations of our existing operations. We are targeting average annual sales growth in excess of 10% in China, Russia and Eastern Europe and approximately 5% in Northern Europe.

> **Building toward becoming a global company, Santen creates new drug candidates and generates growth in promising regions by leveraging strengths.**

In China, we plan to achieve a growth rate higher than the market in general, primarily as a result of strong sales of the anti-infective ophthalmic solution *Cravit*, and the corneal and conjunctival epithelial disorder treatment *Hyalein*.

We have been quite reliant until now on in-licensed products in our European businesses, but are working to change the structure of these businesses by bringing new in-house products into the lineup. We aim to maximize value in Europe with the success of the glaucoma and ocular hypertension treatment DE-085 (Tafluprost) and anti-infective ophthalmic solution *Oftaquix* (sold as *Cravit* in Japan). *Oftaquix* has already been launched in 24 countries, including Russia. DE-085 (Tafluprost) was launched in Germany in June 2008 and will be released in seven other European countries in fiscal 2008.

How is Santen's medium-term objective of "enhancing the global strategic pipeline" progressing?

Our fundamental strategy of speeding up the process of developing, creating and marketing a final product by honing our R&D focus and allocating management resources on the core therapeutic areas of glaucoma, corneal disorders and retinal disorders remains unchanged. This strategy forms the basis of our corporate mission to create innovative and competitive new drugs that fulfill unmet medical needs and is also essential in securing future growth in sales and profits.

In the current plan, we are at the stage of preparing new, highly competitive global strategic product candidates and are concentrating on clinical development. As a result of these efforts, we have made solid progress in fiscal 2006 and 2007, with the development of the global strategic product DE-104 in the glaucoma area and DE-101 (Rivoglitazone) in the dry eye area.

We are also focusing our attention on business development activities in core areas—areas where we can leverage our strengths—and in May 2008 acquired the development and marketing rights for all ophthalmic indications in Japan and Asia of DE-109 (Sirolimus) from MacuSight, Inc. (U.S.), thus enabling us to strengthen our range of new drug candidates in the field of retinal disorder treatments.

Expansion in the global market for treatments for diseases of the back of the eye, including glaucoma and retinal disorder fields, has generated increasing competition, so in-licensing is becoming more and more difficult every year. In this environment, I believe it is vitally important for management to be able to correctly evaluate the potential of a prospective pharmaceutical product by staying informed of new developments in worldwide scientific information and grasping new trends at the medical facility level faster than anyone else.

How is Santen moving forward with its medium-term policy of "strengthening manufacturing bases" ?

Each year, Santen manufactures approximately 250 million bottles of prescription ophthalmic solutions. On a volume basis, this is the highest number produced by any company in the world and represents 56% of the Japanese market. We are proud that in addition to the superior operational capabilities that allow us to maintain this production volume, we possess in-house technology to manufacture the Dimple Bottle[1], which together makes us highly competitive in the market.

Under the current Medium-term Management Plan, we intend to further strengthen the base of our manufacturing activities on a global level by constructing a stable manufacturing and supply system with improved risk management and highly efficient operations in which every plant has a well-defined role in the system.

In 2007, our Shiga Plant was granted GMP (Good Manufacturing Practice)[2] certification by the European Union. I feel this is a crucial step toward Santen's globalization. In the future, we hope to create a manufacturing and supply system that is not bound by national borders and which can take full advantage on a global level of the strengths we have cultivated in our Japanese business. A notable move in this direction is the commencement in 2008, of packaging operations at our Suzhou Plant in China, construction of which was completed in 2007.

1. Developed in-house as an easy-to-hold, easy-to-use ophthalmic solution container. "Dimple" is a registered trademark of Santen Pharmaceutical Co., Ltd.
2. A set of standards regarding manufacturing management and quality control of pharmaceuticals and quasi-drugs.

Status of Medium-term Management Plan

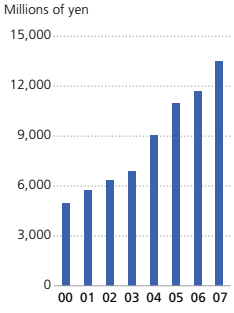
			FY2006–07 achievements	FY2008 plans	FY2009–10 plans
1. Enhance global strategic pipeline					
1-1.	Development of global strategic product candidates		DE-101: Phase II (U.S.)	Phase II (Japan, U.S.)	Phase III
			DE-104: Phase II (Japan, U.S.)	Phase II (Japan, U.S.)	Phase III
			DE-085: Applied (Japan, EU)*	Approval expected (Japan, EU)*	
			DE-089: Phase III*	Applied*	
	* To be applied and launched mainly in Japan		MD-14: Injector approved*		
2. Generate growth in Japan, Northern/Eastern Europe, Russia and China Focus activities on clinical and business development in the U.S.					
2-1.	Japan: Successful launch of new glaucoma, corneal and IOL products and early maximization of their product value				
	Glaucoma	(New product)	DE-085 applied July 2006 Started DE-085 launch preparation	DE-085 launch expected Early maximization of product value	Early maximization of product value of DE-085 (Continue)
		(Existing product)	Increased sales		
	Corneal disorder	(New product)			DE-089 launch expected
		(Existing product)	Disease awareness campaign for dry eye	Disease awareness campaign for dry eye	Increase prescription
	Intraocular lens (IOL)		Started MD-14 launch preparation	Launch MD-14	
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 Approval of *Oftaquix* (Russia)	Launch *Oftaquix* (Russia)	
			DE-085 applied April 2007	Launch DE-085 in 8 countries (EU)	
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 (MRs) Increased prescriptions	Start sales Increase prescriptions	
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 (preparation for emergency)		Formulated reorganization plan	Continue	Implement reorganization plan
			Started and completed China plant construction	Start packaging operation	
4. Strengthen human resources and organization at the global level (Develop human resources; reorganizations)					
4-1.	Develop core human resources		Assessed HR and formulated HR development plan	Implement plan	Continue
4-2.	Develop organizational capabilities		Enhanced planning and business development	Enhance global organization	Continue

Special Feature: Accelerating Operations in China

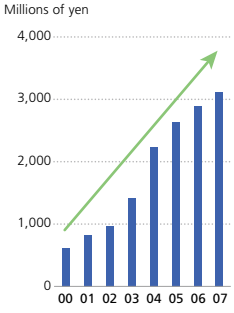
"GENERATING GROWTH IN PROMISING REGIONS BY LEVERAGING STRENGTHS"

Santen's 2006–2010 Medium-term Management Plan has as part of its theme the objective of promoting business growth in regions of the world where it can display its unique strengths to the fullest. China is one such area. To continue the expansion of our market share in China, we have set up a local manufacturing and marketing framework.

Prescription Ophthalmic Pharmaceutcals Market in China



Sales for Santen in China



Chinese Prescription Ophthalmic Pharmaceuticals Market to Average Growth of More Than 10% Per Year

In China, with its remarkable economic growth, the market for prescription pharmaceuticals is expanding as the medical insurance system becomes more widespread and personal incomes rise. The Chinese prescription ophthalmic pharmaceuticals market is developing rapidly. In 2007, it was valued at approximately ¥13.5 billion (RMB 950 million*) and continued double-digit growth is forecast for the future.

* Based on the exchange rate at the end of March 2008, of ¥14.24 to RMB1

Santen—A Company with a Strong Presence in China

Santen first began exporting products to China through a local agency in the 1980s. The launch in 1988 of *Tarivid* anti-infective ophthalmic solution marked our full-fledged entry into the Chinese prescription ophthalmic pharmaceuticals market. Just as in Japan and many other countries, *Tarivid* earned a high reputation in China as an outstanding anti-infective ophthalmic agent. This reputation dramatically boosted Santen's profile in China. Later, we steadily augmented our product line and began providing detailed product information, an approach which spread the Santen brand name throughout China.

At present, we have marketed 12 products in China, including the key products *Tarivid* and *Cravit* anti-infective ophthalmic solutions and *Hyalein* a treatment for corneal and conjunctival epithelial disorders, each of which has achieved a fine reputation among patients and medical professionals for their superior efficacy and excellent product quality. As a result, in 2007 we held 23% of the Chinese urban hospital market for ophthalmic pharmaceuticals and our fifth consecutive year since 2003 as the market leader.

Santen Pharmaceutical (China) Co., Ltd., plant in Suzhou, established in 2007

State-of-the-Art Manufacturing Plant

Construction of our plant in Suzhou, Jiangsu Province, was completed in August 2007 by Santen Pharmaceutical (China) Co., Ltd. The new plant is equipped to manufacture high-quality ophthalmic solutions in the same sterile, dust-free environment that our facilities maintain in Japan. For example, in the filling room of the plant, where ophthalmic solution is put into containers, we have installed the latest air conditioning systems to preserve extremely high standards of air purity. For water, whose purity is absolutely crucial in ophthalmic solution formulations, we carry out an eight-stage purification process, including multiple filtration systems, electrical ion exchange and distillation. To ensure the water used for product manufacturing is always of the best quality, we also set up an automated quality control (QC) sampling[1] system. In addition to utilizing the most up-to-date equipment in the plant, we have implemented an extensive technology training program covering around 400 different curricula for our employees. By establishing a system that allows us to supply locally manufactured pharmaceuticals of the same consistently high quality as export products marketed in China until now, we will fulfill the expectations of the local medical community. In July 2008, the new plant was granted a manufacturing license based on compliance with GMP[2] standards.

Thorough quality control

1. A process of testing samples of the raw materials and water used in product manufacture to determine that product quality is maintained at an appropriate level.
2. A set of standards regarding manufacturing management and quality control for pharmaceuticals and quasi-drugs.

World Ophthalmology Congress (WOC)

WOC held in Hong Kong, June 2008

The WOC was held in June 2008 in Hong Kong. This year, it was co-hosted by the Chinese Ophthalmological Society and the Asia–Pacific Academy of Ophthalmology. As Santen is on the brink of commencing full-scale operations in China, it was an important event for the Company.

We were successful in making a positive impression on the Chinese medical professionals at the WOC by designing our exhibitor's booth to appeal to them, providing medical information and presenting lectures that drew on the wide resources of our global network.

Disseminating the Latest Scientific Information

Santen has established itself as the market leader in the Japanese prescription ophthalmic pharmaceuticals market. One of the strengths supporting that position is our ability to provide high-caliber scientific and medical information through our well-trained medical representatives (MRs). Once we transition from indirect marketing through a local agency to direct marketing, we will be in a position to utilize our MRs scientific and medical information as well as promotional campaigns in China. Along with constructing a local plant fitted with the most up-to-date equipment that allows us to steadily supply high-quality products, we have posted 80 staff (at April 1, 2008), including MRs and sales managers, in key cities throughout China and begun education and training programs in preparation for commencing direct marketing activities.

In addition to providing pharmaceuticals of superior quality, Santen will provide medical and scientific information through promotional activities tailored to the specific needs of patients and the medical community in China, thus positioning the Company to become highly competitive in the market. To ensure our growth in the Chinese market, we will make every effort to expand our market share by aggressively developing and introducing new products.

Contributing to the Advancement of Ophthalmology

Since 1996, Santen has supported the Chinese Ophthalmological Society's scholarship program, set up to encourage excellence among ophthalmologists in China. In the future, we anticipate providing advice on prescribing pharmaceuticals as well as enhancing medical technology through seminars presented jointly with the Chinese Ophthalmological Society and ophthalmologists from various regions across China. As we strengthen our foundation as a leading company in the ophthalmic pharmaceuticals market, we will directly contribute to Chinese ophthalmic pharmaceuticals as a highly specialized company that can help improve the quality of life (QOL) of patients and their loved ones.

Signing ceremony at the Chinese Ophthalmological Society in Beijing, China, for the Company's donation to the Chinese Ophthalmological Scholarship Program held in April 2008

Kenji Iwamoto
Corporate Officer, Head of Asian Division, Santen Pharmaceutical Co., Ltd.
President, Director, Santen Pharmaceutical (China) Co., Ltd.

Aiming to Further Expand Operations in China with the Commencement of Local Production and Direct Marketing

The Chinese pharmaceuticals market is expanding at a spectacular rate and the market for prescription ophthalmic pharmaceuticals is expected to continue growing equally rapidly. Santen's operations in China are now poised to enter a full-fledged growth period and Santen Pharmaceutical (China) will begin educational and promotional activities using its in-house sales force.

First, as a manufacturing base of the Santen Group, we aim to optimize production efficiency so that we can steadily supply ophthalmic pharmaceutical products of an internationally high standard of quality. Second, in fiscal 2008 our in-house MRs will commence promotional campaigns providing pharmaceutical information. We intend to increase sales and raise our market share and also to assemble a high level of support from many different stakeholders, including medical professionals and patients, to become a company capable of continued sustainable growth.

Research and Development

Focusing Management Resources on the Core Therapeutic Segments

Santen's fundamental R&D strategy is to focus resources on growth areas where its strengths can be fully utilized and where there is significant growth potential. As part of this strategy, we have strengthened our R&D capabilities, especially at the Nara Research and Development Center, which specializes in the fields of ophthalmology and rheumatology. Within these fields, we narrowed our thematic focus even further to target the core therapeutic fields of glaucoma, corneal disorders and retinal disorders to enable us to pursue effective and faster new drug development.

The markets for glaucoma and corneal disorder treatments are expanding as the global population ages and the number of patients in these segments grows. Although the number of patients with retinal disorders is also rising, there are few treatments available in this area, resulting in a considerable need to develop effective products. By developing new drugs in these important fields, Santen contributes to fulfilling unmet medical needs and to enhancing patients' quality of life (QOL). It is through these contributions that the Company will continue to grow.

Implementing Efficient Research Activities that Make the Most of External Resources

While working to discover new drug candidates using our own research capabilities, we are proceeding in parallel with a unique method called "network-based drug discovery," which utilizes external resources. This method of drug design takes simultaneous advantage of Santen's considerable accumulated knowledge and technologies as well as leading-edge technologies from other pharmaceutical companies and research institutions, primarily based in Japan. For example, by accessing the chemical library of a collaborating pharmaceutical company and applying our own abundant resources in an ophthalmic disease-model, we can select and strategically introduce highly effective compounds in our target market segments. We also successfully engage in joint research efforts to develop powerful new candidate compounds based on in-house ideas, including DE-085 (Tafluprost) and DE-104.

Nara Research and Development Center

By applying these highly efficient development methods, we have created a development pipeline that will generate a steady flow of marketable new products. For each development candidate, Santen prepares backup compounds to reduce the inherent risk of additional R&D activities and expenses.

Promoting Speed and Globalization in Research and Development

Competition among pharmaceutical companies is becoming fiercer on the global stage. To stay ahead of competitors, it is essential to quickly develop and launch globally innovative and competitive new drugs. To achieve this, we place a strong emphasis on "accelerating" and "globalizing" our R&D efforts.

On the "accelerating" front, Santen has worked solidly to achieve the specific time-reduction targets set out in its 2003–2005 Medium-term Management Plan to shorten preclinical testing to one and a half years (from a previous timeframe of approximately three years) and clinical testing to five years (from approximately seven to eight years). The 2006–2010 Medium-term Management Plan also highlights acceleration through ongoing reviews of in-house R&D processes.

For "globalizing," we now have a clinical development network spanning three centers—Japan, the U.S. and Europe—and are currently carrying out clinical trials for several products in Europe and the U.S. Also, by categorizing new drug candidates for overseas marketing as either global strategic products[1] or global products[2], Santen is able to pursue priority

development efforts of global strategic products. In addition to Japan, the U.S. and Europe, Santen is looking to integrate Asia into its clinical development network, thus shortening the time used in clinical work and rationalizing costs by standardizing clinical trial protocols and sharing data among regions.

Santen Oy (Finland)

Development Advances

Santen maintains its active R&D focus on the core therapeutic fields of glaucoma, corneal disorders and retinal disorders.

Glaucoma Segment

In July 2006, we filed a new drug application (NDA) for the prostaglandin derivative DE-085 (Tafluprost) in Japan, and in April 2007 filed for marketing approval in major European countries. Approval was granted first in Denmark in April 2008 and subsequently in Germany and several other countries. The European approvals process is progressing smoothly and we are now assessing the commercial viability of filing in the U.S. Phase II clinical trials of the angiotensin II receptor antagonist DE-092 (Olmesartan) were temporarily suspended as it did not demonstrate clear dose–response. We have now commenced a Phase II pilot study using a modified formulation. The ROCK inhibitor DE-104, for glaucoma and ocular hypertension, is in concurrent Phase II clinical trials in Japan and the U.S.

Corneal and Conjunctival Epithelial Disorder Segment

In May 2008, we filed an NDA in Japan for DE-089 (Diquafosol sodium), a treatment for corneal and conjunctival epithelial disorders associated with dry eye. Santen suspended clinical studies of DE-099 (Gefarnate) based on Phase II trial results in Japan. DE-101 (Rivoglitazone) is in Phase II clinical trials in Japan and about to enter Phase II clinical trials in the U.S. The phosphodiesterase type 4 inhibitor for allergic conjunctivitis, DE-103, is in Phase II clinical trials in Japan.

Retinal Disorder Segment

DE-102 is in Phase I/II clinical trials in Japan to determine safety and efficacy in patients. Santen entered into an R&D collaboration and licensing agreement for the development of DE-109 (Sirolimus) with MacuSight, Inc. (U.S.), in May 2008, and is now in the process of formulating a development plan for patients with wet age-related macular degeneration (wet AMD) and with diabetic macular edema (DME).

Other Areas

DE-098 is an anti-rheumatoid arthritis agent licensed to Argenes, Inc., for development in Japan. It is now in Phase I/II clinical trials in Europe and Japan to determine safety and efficacy. Santen owns the domestic marketing rights and overseas development and marketing rights of DE-098.

In October 2006, we received approval in Japan for *Eternity* foldable intraocular lenses made of a new high-refractive optical material, and will begin marketing it in fiscal 2008 after making adjustments to the design of the injector to better suit doctors' needs.

1. Global Strategic Products
New drug candidates with a new mechanism of action that have potential to generate higher sales than existing products in Japan, the U.S. and Europe.

2. Global Products
Drug candidates that improve on existing mechanisms of action for which the anticipated sales are on par with existing products in Japan and certain overseas regions.

About Research and Development

After passing preclinical tests for safety and efficacy, new drug candidates are put through the clinical trial phases outlined below. Once Phase III is completed, an NDA is filed with the appropriate regulatory agency in each of our global regions. If it passes evaluation, the drug receives approval for manufacture and marketing.

Phase I Clinical Trials	Phase II Clinical Trials	Phase III Clinical Trials
Estimate initial safety and tolerability of drug on a small number of healthy volunteers	Investigate and determin the appropriate dose and regimen for a specific treatment purpose on a small number of patients	Confirm safety and efficacy relative to existing drugs and placebos on a large number of patients

Pipeline of Prescription Pharmaceuticals (Clinical Development)

As of July 31, 2008

Global strategic product Global product Domestic (Japan) product

Category	Generic Name	Dev. Code	Indication	Region	Phase I	Phase II	Phase III	NDA Filed	Approved	Characteristics
Glaucoma										
Global	Tafluprost	DE-085	Glaucoma Ocular hypertension	Japan				July 2006		Prostaglandin derivative treatment for 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 April 2008, the first national approval was granted in Denmark and subsequently in Germany and several other countries.
				Europe				April 2008		
				U.S.						
Global	Olmesartan	DE-092	Glaucoma Ocular hypertension	Japan						Angiotensin II receptor antagonist. The Phase II studies did not demonstrate clear dose–response, and therefore we decided to suspend clinical studies. We are now conducting the Phase II pilot study with different formulation.
				U.S./ Europe						
Domestic	Lomerizine HCl	DE-090	Glaucoma	Japan						Calcium antagonist. A new type of oral glaucoma treatment studied for inhibiting the progression of visual field defects. Compared with NMDA receptor antagonists, fewer systemic side effects are expected, thus having excellent safety. Marketed by Schering-Plough Corporation as a migraine treatment.
Global strategic	Undetermined	DE-104	Glaucoma Ocular hypertension	U.S.						ROCK inhibitor co-developed with Ube Industries for treatment of glaucoma and ocular hypertension that has a different action mechanism from other existing drugs. It is expected to show a strong intraocular pressure reduction by promoting aqueous humor outflow by acting directly on trabecular meshwork cells.
				Japan						
Corneal and conjunctival epithelial disorders										
Domestic	Diquafosol sodium	DE-089	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	Japan				May 2008		A treatment for corneal and conjunctival epithelial disorder mostly associated with dry eye, etc., that stimulates the ocular surface to secrete tear fluid and components. Expected to be used in combination with existing treatments.
Global strategic	Rivoglitazone	DE-101	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	U.S.						Expected to show a potent effect on corneal and conjunctival epithelial disorder mostly associated with dry eye, etc., by directly acting on the corneal and conjunctival epithelial cells. It has an action mechanism which differs from any other existing treatment or drug candidate in development. The compound is currently under development by Daiichi Sankyo as an oral anti-diabetic drug in the U.S.
				Japan						
Domestic	Undetermined	DE-103	Allergic conjunctivitis	Japan						PDE4 (Phosphodiesterase type 4) inhibitor for allergic conjunctivitis that has a different action mechanism from the existing drugs. Expected to be effective for allergic conjunctivitis through its inhibitory effect against PDE4.
Retinal disorders										
Global	Undetermined	DE-102	Diabetic macular edema (DME)	Japan	Phase I/II					Steroid microsphere product for a sustained release injection. Animal studies demonstrated sustained efficacy by local injection. In order to produce sterile microsphere in commercial scale, we collaborate with Oakwood Laboratories (U.S.).
Domestic	Sirolimus	DE-109	Wet age-related macular degeneration (wet AMD) Diabetic macular edema (DME)	Japan	Preparing for Phase I/II					Subconjunctival or intravitreal injection having immunosuppressive effect, anti-angiogenic effect, etc. Phase I clinical trials in patients with wet AMD and DME have shown patients who participated in these studies exhibited improvements in visual acuity that were consistent with morphological changes following a single administration of Sirolimus. In May 2008, Santen made an R&D collaboration and license agreement with MacuSight, Inc. (U.S.), for the Japanese and Asian development and commercialization of Sirolimus for the treatment of ocular diseases and conditions, including wet AMD and DME.
Rheumatoid arthritis										
Global	Undetermined (license out)	DE-098	Rheumatoid arthritis	Japan	Phase I/II					Joint injection that induces apoptosis in diseased joints of rheumatoid arthritis patients. Bulk pharmaceutical manufacturing process for actual production scale has been established. Santen granted the domestic development rights to Argenes, Inc. The compound had been in-licensed from Centocor Inc. (U.S.). In Japan and Europe, the clinical study has been started. Santen continues to hold the marketing rights in Japan and the overseas marketing and development rights.
				Europe	Phase I/II					

Review of Operations

Year ended March 31, 2008

Consolidated Net Sales ¥103,394 million +2.9%

SALES BY BUSINESS

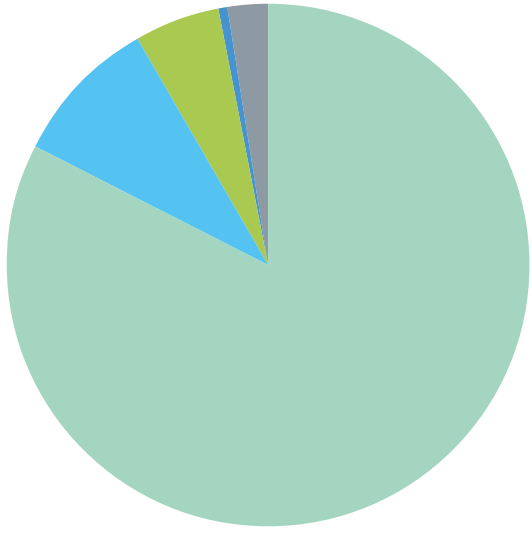
Prescription Ophthalmic Pharmaceuticals 82.6%

Prescription Anti-Rheumatic Pharmaceuticals 9.3%

Over-the-Counter Pharmaceuticals 5.3%

Medical Devices 0.4%

Others 2.4%



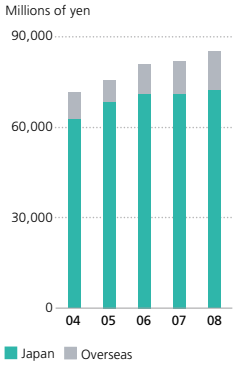
Note: All graphs in this section, Review of Operations, are based on fiscal years ended March 31.

Business Area		Description of Business	Market Share; Market Position
Prescription Pharmaceuticals	Ophthalmic Pharmaceuticals	In Japan, Santen markets a broad range of ophthalmic pharmaceutical products, such as treatments for corneal and conjunctival epithelial disorders, anti-infective ophthalmics, treatments for glaucoma and anti-allergy ophthalmics. Overseas, Santen markets levofloxacin ophthalmic solution (brand names: *Quixin*, *Oftaquix*, *Cravit* and *Iquix*) and other products through a sales network in the U.S., Europe and Asia.	38.9%; Number One[1] Santen enjoys its position as the leader of the Japanese prescription ophthalmics market. We deploy approximately 400 medical representatives (MRs) and our product lineup covers a broad array of ophthalmic disorders.
	Anti-Rheumatic Pharmaceuticals	In Japan, we offer *Rimatil* and *Azulfidine EN*, physicians' disease modifying anti-rheumatic drugs (DMARDs)[2] of choice for treating rheumatoid arthritis.	46.1%; 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[3]
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, 2008. The share and position for anti-rheumatic pharmaceuticals represent those in the DMARDs segment.
Source: Santen analysis based on IMS data. Copyright IMS Japan KK, 2008. All rights reserved.
2. 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.
3. Market share and market position in the Japanese OTC eye drop market for the year ended March 31, 2008. Source: Santen Pharmaceutical Co., Ltd.

Prescription Pharmaceuticals
Ophthalmic Pharmaceuticals

Net Sales of Prescription Ophthalmic Pharmaceuticals



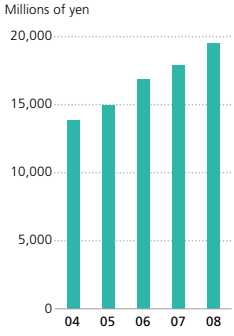
Santen's domestic sales of prescription ophthalmic pharmaceuticals rose 1.5%, to ¥72,320 million, and overseas sales increased 20.5% in yen terms, to ¥13,106 million. Combined, this represents a 4.0% rise, to ¥85,426 million, in net sales of prescription ophthalmic pharmaceuticals for the year ended March 31, 2008.

Net Sales ¥85,426 million +4.0%

JAPAN

The Japanese prescription ophthalmic pharmaceuticals market benefited from the growth in sales of products for glaucoma and corneal and conjunctival epithelial disorders, rising 3.1% overall, to ¥221,000 million, in fiscal 2007. Santen's domestic prescription ophthalmic pharmaceuticals sales increased 1.5%, to ¥72,320 million, supported by promotional activities in which its medical representatives (MRs) provide individual medical facilities with scientific information tailored to their changing needs.

Sales of *Hyalein*



Treatments for Corneal and Conjunctival Epithelial Disorders

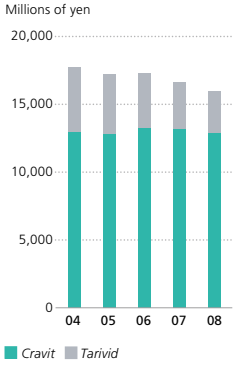
The market for preparations to treat corneal and conjunctival epithelial disorders associated with conditions such as dry eye, of which Santen products hold an 80% share, expanded 9.0% for fiscal 2007. Since dry eye—caused by inadequate tear fluid volume or a change in tear fluid composition—is a condition that can result in corneal damage, it is important that it is correctly diagnosed and treated through regular consultations with an ophthalmologist. This is not widely recognized, however, and many patients with obvious symptoms do not consult a doctor. In addition, the number of people suffering from dry eye is trending upward with increased use of personal computers (PCs) and contact lenses and the aging of population. As a result, the market for effective treatments for corneal and conjunctival epithelial disorders is expected to continue growing.

Santen's mainstay product, *Hyalein*, is a highly water-retentive ophthalmic solution that increases tear film stability and demonstrates superior efficacy in alleviating corneal and conjunctival epithelial disorders associated with conditions such as dry eye. As a result of an active disease awareness campaign of dry eye to patients and medical professionals, sales of *Hyalein*, renowned as the first choice of treatment for dry eye, grew steadily, increased 9.3% year on year, to ¥17,860 million.

We plan to continue promoting greater understanding of the diagnosis and treatment of dry eye to further raise awareness, so new patients will consult their physicians and existing patients will maintain an appropriate course of treatment. We believe this will contribute to growth in the market for dry eye medications and also strengthen our own position in the market. Furthermore, we are working on new preparations for the development pipeline to enhance our product lineup in this sector of the market.

Hyalein

Sales of *Cravit* and *Tarivid*



Anti-Infective Ophthalmics

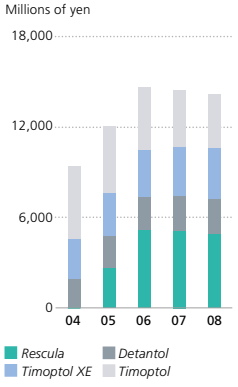
The anti-infective ophthalmic pharmaceuticals market is trending very slightly downwards. One likely reason for this is the shortening of the administration period for anti-infective ophthalmic products after cataract and other surgeries.

Santen dominates the anti-infective ophthalmic pharmaceuticals market with a share of approximately 75%, supported by its two key products, *Cravit* and *Tarivid*, which both display strong antibacterial properties, broad-spectrum coverage (effective against a wide range of infections) and excellent intraocular penetration and safety. Both are widely used for conjunctivitis, keratitis and preventing post-operative eye infection. As a result of increased competition, combined sales of *Cravit* and *Tarivid* declined 4.4% to ¥14,646 million in fiscal 2007.

We will continue to strongly promote *Cravit*, highlighting the scientific data supporting its superior clinical efficacy and safety. Combined with providing the latest information on ophthalmic disease, this will help reinforce *Cravit*'s position as the gold standard among treatments for ophthalmic infections and allow it to maintain its leading position in the market for anti-infective ophthalmic products.

Cravit *Tarivid*

Sales of *Rescula*, *Detantol*, *Timoptol XE* and *Timoptol*



Treatments for Glaucoma

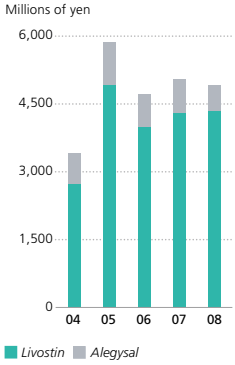
Glaucoma treatments represent the largest sector of the domestic prescription ophthalmic pharmaceuticals market, accounting for approximately 37% of the total. In glaucoma, rising intraocular pressure is a significant risk factor for damage caused to the optic nerve, leading to visual field loss and in some cases blindness. It is one of the most common causes of blindness in people with ophthalmic disease. Recent epidemiological studies indicate a high potential incidence of glaucoma, so early detection and treatment of the disorder has become a major issue. This, combined with increasing patient numbers from Japan's aging population, has led to a steady expansion of the glaucoma market, which increased 4.0% year on year in fiscal 2007.

In fiscal 2007, Santen maintained its MR program of providing the latest information about glaucoma and its treatment, and worked diligently to increase the market penetration and presence of its glaucoma product line. Competition in this sector was strong, however, and sales of our four leading products—*Rescula*, *Detantol*, *Timoptol XE* and *Timoptol*—fell 1.8% in aggregate, to ¥14,224 million.

Santen will continue to spotlight the particular benefits of *Rescula* and *Detantol* in treating glaucomatous ocular hypertension. With the prospective launch of DE-085 (Tafluprost), currently awaiting manufacturing and marketing approval, we will be in an even better position to actively meet the needs of the medical profession, providing new information so this new Santen offering will rapidly gain a high profile in the glaucoma sector.

Rescula *Detantol*

Sales of *Livostin* and *Alegysal*



Anti-Allergy Ophthalmics

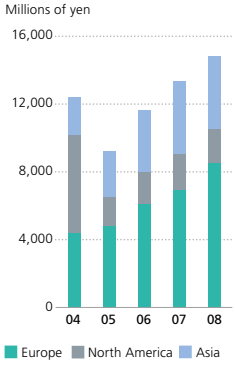
Higher pollen counts precipitated a rise in the incidence of allergic conjunctivitis in Japan during fiscal 2007, compared with the previous year, contributing to a 2.6% growth in the anti-allergy ophthalmic pharmaceuticals market.

Santen maintained its leading 22.7% share of the anti-allergy ophthalmic pharmaceuticals market. We continued strong product marketing and disease-related educational efforts, so in an environment of significantly increased competition in this sector, *Livostin* sales increased 0.8%, to ¥4,341 million, while *Alegysal* sales decreased 14.3%, to ¥583 million. This represents a 1.2% decline in combined sales of these products, to ¥4,924 million.

Livostin provides rapid relief from such symptoms of year-round and seasonal allergies as itching and redness and thus contributes to patients being able to reclaim a comfortable life. By continuing to appeal to these characteristics, we aim to expand both sales and market share of this product.

Livostin *Alegysal*

Overseas Sales



* Overseas sales include prescription ophthalmics and other products

● OVERSEAS

Markets for prescription ophthalmic pharmaceuticals were strong in the U.S., Europe and Asia. Santen saw sales grow in Northern and Eastern Europe, as well as Russia, Germany, the U.S. and Asia. In fiscal 2007, we registered a year-on-year increase in total overseas sales of prescription ophthalmic pharmaceuticals of 20.5% in yen terms, to ¥13,106 million.

United States

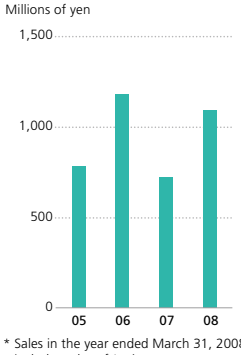
The U.S. prescription ophthalmic pharmaceuticals market, already the world's largest, is continuing to expand as increasing numbers of the baby boomer generation develop age-related disorders such as glaucoma and macular degeneration. Competition in the U.S. prescription anti-infective pharmaceuticals market is also broadening.

We market four products under a licensing agreement with VISTAKON Pharmaceuticals, LLC: the anti-infective *Quixin* (sold as *Cravit* in Japan), the glaucoma treatment *Betimol*, the anti-allergy ophthalmic solution *Alamast* (sold as *Alegysal* in Japan) and the well-received *Iquix*, high-concentration levofloxacin ophthalmic solutions, which was launched in October 2007. With the support of greater exposure in the local anti-infective ophthalmic pharmaceuticals market and the launch of *Iquix*, total sales of Santen products licensed to VISTAKON Pharmaceuticals rose 55.1%, to ¥1,089 million. Contract manufacture of *Floxin* ear drops, however, dropped sharply during fiscal 2007 due to new generic competition, resulting in an 8.3% decline in the U.S. sales of this product, to ¥1,951 million. In the U.S., we have completed Phase II clinical trials of DE-101 (Rivoglitazone) and Phase I clinical trials of DE-104, on or ahead of schedule. At present, we are considering plans to advance DE-101 (Rivoglitazone) to the next stage of trials and have already begun the next stage of DE-104 trials.

Going forward, we will continue to expand our R&D pipeline with new drug candidates and work to further strengthen our business-development activities.

The 111th American Academy of Ophthalmology (AAO) meeting held in New Orleans, Louisiana, U.S. in November 2007

Sales of Products Licensed to VISTAKON Pharmaceuticals



* Sales in the year ended March 31, 2008 includes sales of *Iquix*

Europe

The European market for prescription ophthalmic pharmaceuticals has been growing for several years at 5% to 10% per annum, triggered by a combination of rising numbers of patients with glaucoma and dry eye disorders, and increasing economic prosperity in Eastern Europe and Russia. At the same time, various European governments actively encourage the use of generic products as part of their health care cost-containment policies, so conditions surrounding the European prescription ophthalmic pharmaceuticals market are becoming increasingly difficult. In addition, the European market is characterized by its diversity—each country in the region has a different health insurance system and different medical treatment practices.

Santen Oy, our subsidiary in Finland, manufactures pharmaceuticals for sale in Europe and the U.S. It is also home to our European R&D and clinical development endeavors. Santen Oy now conducts marketing operations in 31 European countries, including Northern Europe, Eastern Europe, Russia and Germany. The anti-infective ophthalmic solution preparation *Oftaquix* (sold as *Cravit* in Japan) is now available in 24 countries, including Russia, Finland, Germany and Sweden, and has gained an excellent reputation among ophthalmic surgeons for its superior reliability in preventing post-operative eye infection. In fiscal 2007, effective educational and promotional activities and favorable exchange rates generated sales growth in Northern and Eastern Europe, Russia and Germany, resulting in an annual increase of 23.4% in total European sales, to ¥8,533 million.

In the upcoming fiscal period, we plan to continue raising the profile and reach of our existing products through promotional activities. In April 2007, we applied for *Taflotan* (Tafluprost) marketing approval in 13 European countries. The first approval was received in April 2008, in Denmark, followed shortly thereafter by Germany and several other countries. We are currently preparing to launch this product across the region.

European Glaucoma Society (EGS) 8th meeting held in Berlin, Germany, in June 2008

Asia

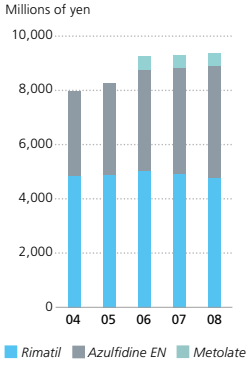
Santen operates actively in 10 countries and regions in Asia, including China, South Korea and the ASEAN nations, and carries out export and marketing activities through local sales agents. Our vision for the Asian market is to become the top ophthalmic drug manufacturer. To this end, we are striving to enhance trust-based relationships with patients and medical professionals, thereby contributing to the improvement of ophthalmic treatment in Asia.

As a result of successful sales promotions combined with specialist academic information on ophthalmology and sales growth in China, total sales in Asia rose 1.9% year on year, to ¥4,326 million.

In the Chinese market there is an upward economic trend as well as increasing population, so we expect sales to grow strongly in the medium to long term. In addition to representative offices in Beijing, Guangzhou and Shanghai, Santen opened a new office in Shenyang in April 2007. We are concentrating our promotional activities on these urban centers and marketing the prescription ophthalmic pharmaceuticals products *Cravit* anti-infective eye drops and *Hyalein* a corneal and conjunctival epithelial disorder treatment, through local sales agents. In September 2005, we founded a wholly owned subsidiary, Santen Pharmaceutical (China) Co., Ltd., in Suzhou, Jiangsu Province, China. Santen Pharmaceutical (China) completed construction of a plant in August 2007 and is preparing for direct marketing. We are also working to increase the penetration of the Santen brand in the South Korean and ASEAN markets through Santen Pharmaceutical Korea, Co., Ltd. and local agencies.

Prescription Pharmaceuticals
Anti-Rheumatic Pharmaceuticals

Sales of *Rimatil*, *Azulfidine EN* and *Metolate*



Rimatil, *Azulfidine EN* and *Metolate* are each highly recommended under the Guidelines for the Management of Rheumatoid Arthritis and as a result of their steadily expanding use as preferred treatment options, Santen's prescription anti-rheumatic pharmaceuticals net sales grew 2.6% to ¥9,627 million in fiscal 2007.

Net Sales ¥9,627 million +2.6%

The causes of rheumatoid arthritis (RA) are not yet well understood, but it is thought to be a chronic inflammatory disorder that affects the whole body. Inflammation occurs particularly in the joints, causing pain and swelling, and can often lead to bone and cartilage damage and subsequent joint deformity. It is estimated that there are approximately 700,000 people with RA in Japan today. The Japanese market for DMARDs* expanded 3.7%, to ¥24,100 million, in fiscal 2007, as the number of patients grew in line with population aging and prescriptions of higher-priced medications increased.

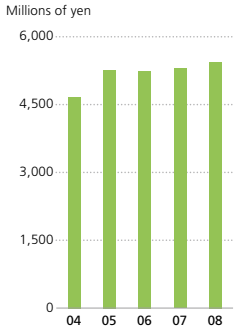
Santen has built its leading market share of the prescription anti-rheumatic pharmaceuticals market through active promotion of *Rimatil*, *Azulfidine EN* and *Metolate* in hospitals and clinics. Among sales results of core products in the period under review, *Rimatil* fell 3.0%, sales of *Azulfidine EN*, which displays early-onset effect characteristics, grew a favorable 6.0% year on year, and effective promotional activities propelled *Metolate*, launched in July 2004, to make good inroads in the market. As a result, net sales of prescription anti-rheumatic pharmaceuticals increased 2.6%, to ¥9,627 million, and Santen maintained its dominant position as leader of the DMARDs market, with a 46.1% share.

The Guidelines for the Management of Rheumatoid Arthritis, announced in April 2004 by the Japan College of Rheumatology, recommends treating RA with DMARDs from the early stages to improve patients' quality of life (QOL) by retarding the progress of joint destruction and so avoiding the development of joint deformity. Santen's *Rimatil*, *Azulfidine EN* and *Metolate* are each rated "Grade A – Highly Recommended" under the guidelines, which gives them a high profile as strongly recommended treatment options. To broaden the market share of these three products even further, we will continue to emphasize this solid independent support for their superior efficacy in our promotional activities.

* 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

Net Sales of OTC Pharmaceuticals



As a result of continued promotional activities focusing on products for tired eyes, blurred vision and eye refreshment, Santen's OTC net sales rose 2.7%, to ¥5,451 million.

Net Sales ¥5,451 million +2.7%

Santen's OTC pharmaceuticals sales are almost entirely generated in the Japanese OTC ophthalmic market. In fiscal 2007, that market grew as demand rose for products for eye fatigue, contact lens wearers and allergies.

Our OTC business specializes in a range of ophthalmic products, including *Sante FX Neo*, Japan's top-selling ophthalmic solution brand, and the *Sante 40* series, highly effective in improving blurred vision. As a result of promotional activities focusing on products for tired eyes, blurred vision and eye refreshment, especially *Sante Medical 10*—a sophisticated formulation with 10 different active ingredients to specifically relieve eye fatigue, which we launched in October 2006—OTC net sales rose 2.7%, to ¥5,451 million.

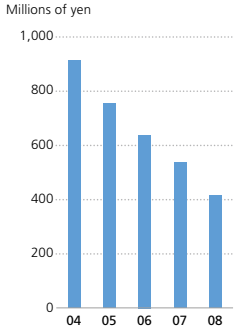
With fierce competition set to continue in this market, we will promote sales of new products while maintaining the market share of our existing range.

Sante FX Neo

Sante Medical 10

Medical Devices

Net Sales of Medical Devices



The number of cataract surgeries in Japan rose only slightly in fiscal 2007, and combined with heightened competition, this led to a decline in Santen's intraocular lens (IOL) sales and a reduction of 22.8% in net sales of its medical devices, to ¥415 million.

Net Sales ¥415 million −22.8%

Santen's medical devices business specializes in the cataract surgery field, focusing primarily on IOLs. The number of cataract surgeries in Japan rose slightly in fiscal 2007, but heightened competition led to a fall in the overall unit price of IOLs. As a result, net sales of medical devices declined 22.8%, to ¥415 million.

IOL demand in recent years has shifted primarily to foldable lenses that can be inserted through a small incision. Santen will soon be beginning full-scale marketing in Japan of *Eternity* foldable IOL made of a new highly refractive optical material. *Eternity* is made by Advanced Vision Science, Inc., a U.S. subsidiary of Santen, and will contribute to the expansion in sales of medical devices.

Society and the Environment

Earning the Trust of Society

As a corporation involved in medicine, Santen is committed to becoming a company trusted by all stakeholders, including health care professionals, members of the community, patients and their loved ones.

In order to deepen the relationship of trust we have fostered with society at large and fulfill our corporate duties and responsibilities through robust business practices, we formulated the Santen Corporate Ethics Mission in 1999. This mission has been revised in response to social changes and demonstrates our fundamental approach to society and our customers, shareholders, business partners and employees.

Santen aims to be a good, socially responsible corporate citizen based on the high ethical principles outlined in the Santen Corporate Ethics Mission.

Relationship with Society

Santen aims to encourage cooperation and harmony with others through a variety of social contributions, including fostering medical advances and serving local communities.

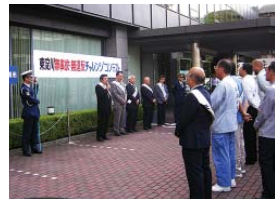
Local clean-up activities near the head office in November 2007

Promoting advances in medicine requires the training of talented staff. Santen has formed a joint lecture program with the Nara Institute of Science and Technology and has been instructing students at its training facilities. We also support the ongoing education of ophthalmologists in Asian nations where medical standards are perhaps still not uniform with globally accepted levels. Santen continuously donates to a number of charities, including the Japan Eye Bank Association and the Japan National Society for the Prevention of Blindness. We also support the Chinese Ophthalmology Scholarship Program in China and the Ophthalmology Training Fund in South Korea, and contribute to Helen Keller International—a non-profit organization devoted to fighting and treating preventable blindness in developing countries.

Santen contributes to the local community by making concerted efforts to beautify and promote the greening of the areas surrounding its research facilities, manufacturing plants and offices. We make sizeable donations to large-scale natural disaster relief efforts, like those for the earthquake that occurred in March 2007 on the Noto Peninsula and the Sichuan earthquake of May 2008 in China.

Relationship with Customers and Business Partners

Santen strives to discover innovative new drugs that improve patient quality of life (QOL) and can be used by patients in a safe and appropriate manner.



No accidents / no violations contest in Japan, October 2007

Japan's Medicine Act strictly details the standards required for pharmaceutical quality control and post-marketing safety supervision. In addition to adhering to these requirements, Santen maintains its own world-class quality assurance system based on an in-house product quality policy. Also, we value our business partners and endeavor to provide high-quality products that enable mutual strong business development. To properly fulfill their function, pharmaceutical products must come together with important information about correct usage, such as efficacy, side effects and method of use. Santen has a nationwide sales force of approximately 400 MRs in Japan. Through our MRs, we provide quick, accurate and pertinent information to healthcare professionals, and by continuously updating MR professional training we are able to keep standards high. The centralized Customer Service Center was established to deal comprehensively with customer requests and suggestions,

and in responding to this feedback we are able to improve our products and enhance our information services.

Relationship with Employees

Santen promotes a pleasant working environment and encourages every employee to unlock and enhance their unique talents and abilities.

Training for new MRs in 2007

To ensure a happy working environment, Santen emphasizes safety and cleanliness so employees feel happy and comfortable at work and provides support systems for employees' physical and emotional well-being. To ensure no discrimination or harassment occurs in the workplace, we continually promote human rights awareness activities and encourage understanding and consideration.

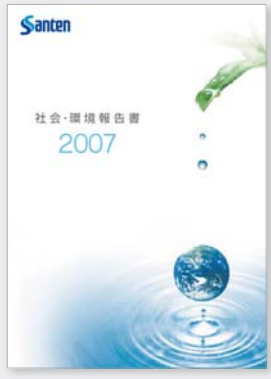
To create a culture that encourages our employees' individual abilities to shine, we set up a range of training systems and instituted an employee performance evaluation system that better recognizes individual achievement. To assist employees in balancing work and raising children, we actively support employees' family responsibilities. In October 2007, we were approved Industry Participant status in Supporting the Development of the Next Generation.

Conserving the Global Environment

Protecting the Earth's resources and preserving the natural environment for future generations is a major concern for everyone. Santen has placed environmental conservation high on its list of management issues. We formulated a Basic Environmental Policy in 1998 and set up our corporate Environmental Guidelines in 2000 and have been pushing forward with environmental conservation activities. To increase the effectiveness of these activities, all of our plants in Japan have now been certified to ISO 14001 standards. In other areas of its business, Santen established environmental management systems, which now operate constantly. We are currently working to ensure our overseas subsidiaries also conform to ISO 14001 certification standards. In material terms, we are steadily contributing to reducing our environmental footprint by continuing to reduce CO_2 emissions and water consumption, promote the 3R—Reduce, Reuse and Recycle—system of waste management, handle chemical substances responsibly and employ environmental accounting.

Santen believes green procurement is vital and chooses environmentally friendly goods when sourcing product raw materials and manufacturing materials. To reinforce these activities, we drew up Green Procurement Guidelines and encourage the understanding and cooperation of our business partners. Even in regard to office supplies, we follow a policy of Green Purchasing.

To make our environmental conservation activities even more effective, we try to inspire all our employees to be environmentally aware, to further their understanding of the issues through e-learning and other education and to engage in regional environmental conservation activities.



Social Environmental Report

Santen publishes an annual Social 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.

Corporate Governance

Santen recognizes that in order to achieve and enhance corporate value, and thus returns to shareholders, it is vital to upgrade and strengthen corporate governance. Accordingly, Santen is working to raise business performance while maintaining transparent and sound management practices through the development of effective corporate governance systems.

Governance Systems

Board of Directors

In addition to various statutory functions, the Board of Directors formulates management policies, strategies and business plans for the Santen Group, 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, 2008, the Board comprised seven members including three outside directors. The Board of Directors convened 11 times during fiscal 2007.

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 formulate auditing policies and plans and attend the Board of Directors' and other important business meetings as well as 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 eight times during fiscal 2007.

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 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" under Japan Corporate Law.

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 eight corporate officers at the end of July 2008, excluding some serving concurrently as directors.

Internal Governance System

Deeply aware of the sanctity of human life, Santen greatly values its customers, shareholders and employees as well as all members of the community. As a company active in the pharmaceuticals industry, Santen aims to maintain high ethical standards in all corporate activities undertaken by 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 specially established Corporate Social Responsibility (CSR) Group, CSR committees put in place across our corporate structure and employee

training programs via such means as e-learning. Santen maintains an internal employee reporting system for compliance-related enquiries and an external helpline to an attorney is also available to all employees, enabling them 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 operation of a Crisis Response Committee headed by a representative director according to the extent of the impact. Based on Santen's Risk Management Manual, this Committee coordinates efforts to minimize any losses or damages and institutes measures to prevent recurrence.

To maintain proper operating controls within the Group, 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 has built strong links with its principal 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 section, established as part of the Corporate Social Responsibility (CSR) Group to implement measures to verify that the aforementioned internal control systems work properly and efficiently, became the Internal Audit Group in April 2007. The Internal Audit Group now comprises three people including the chief officer.

Santen continues to promote activities aimed at disseminating internal controls to boost the reliability of financial reporting throughout the Santen Group. We are also continuing to meet requirements under the Japanese Financial Instruments and Exchange Act to report internal control matters, through maintaining and enhancing internal audit systems and self-inspection systems in each of our company divisions and principal subsidiaries.

Internal Audits and Corporate Auditors' Audits

Cooperation between Corporate Auditors and Independent Auditors

The corporate auditors hold a meeting with the independent auditors at the beginning 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 an audit review meeting with the independent auditors after the conclusion of the year-end audit to share comments on audit results and procedures.

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.

Compensation for Directors and Corporate Auditors

Total remuneration for directors and corporate auditors for fiscal 2007 equaled ¥310 million. The breakdown is as follows:

1. Compensation paid to directors: ¥263 million
   (of which ¥32 million was paid to outside directors)
2. Compensation paid to corporate auditors: ¥47 million
   (of which ¥19 million was paid to outside auditors)

Relationships between the Company and its Outside Directors and Outside Auditors

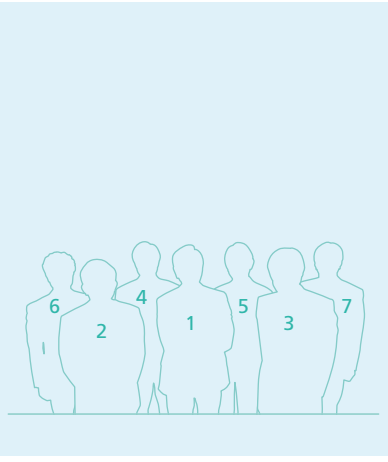
There are no special interest relationships between the Company and its outside directors and outside auditors.

Outline of Agreements to Limit Responsibilities

To invite and appoint 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 2008



Board of Directors

1 Takakazu Morita
Chairman

2 Akira Kurokawa
President and Chief Executive Officer

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

4 Katsuhiro Waga
Member of the Board
Community and Environment Relations

5 Isao Muramatsu [1]
Member of the Board

6 Noboru Kotani [1]
Member of the Board

7 Tatsuhiko Hamamoto [1]
Member of the Board

Corporate Auditors

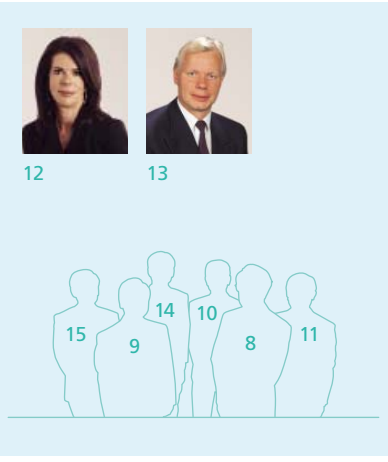
Yukinori Mizumoto
Standing Corporate Auditor

Tadao Kagono [2]
Corporate Auditor

Yasuo Sato [2]
Corporate Auditor

Eiju Miyauchi [2]
Corporate Auditor

1. Outside Director 2. Outside Corporate Auditor



Corporate Officers

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

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

10 Kenji Iwamoto
Corporate Officer
Head of Asia Division

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

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

13 Jyrki Liljeroos
Corporate Officer
President of Santen Oy

14 Kenji Morishima
Corporate Officer
Head of Product Supply Division

15 Yoshihiro Noutsuka
Corporate Officer
Head of Planning and Control Division

Financial Section

CONTENTS

Report and Analysis of Operating Results and Financial Condition

OPERATING RESULTS

Net Sales

Sales of the Santen Group are comprised of four segments: prescription pharmaceuticals, over-the-counter (OTC) pharmaceuticals, medical devices and other.

Consolidated net sales for the year ended March 31, 2008 rose 2.9%, to ¥103,394 million, due mainly to sales increases in the Group's mainstay prescription segments.

● Prescription Pharmaceuticals

Santen's prescription pharmaceuticals are divided into three categories: ophthalmics, anti-rheumatics and other pharmaceuticals. In the year under review, demand rose for ophthalmic and anti-rheumatic products which contributed to a 3.8% increase in prescription pharmaceutical sales to ¥95,322 million, and represented 92.2% of consolidated net sales.

• Ophthalmics

In Japan, Santen utilizes a successful promotional campaign which provides individual medical facilities with scientific information tailored to their specific and changing needs. As a result of these efforts, domestic sales of prescription ophthalmic pharmaceuticals increased 1.5%, to ¥72,320 million.

Overseas, ophthalmics sales rose 20.5% after conversion to yen, to ¥13,106 million. Educational promotion campaigns were effective in European markets and, combined with beneficial exchange rates, contributed to sales growth in the region, especially Northern Europe, Eastern Europe and Germany. In the U.S., sales were higher, with growing market penetration by our anti-infective ophthalmic products. Sales in Asia also saw a year-on-year rise as promotional campaigns took effect and the Santen brand gained a more prominent profile in that market.

As a result, prescription ophthalmic pharmaceuticals net sales rose 4.0%, to ¥85,426 million.

• Anti-Rheumatics

Rimatil, *Azulfidine EN* and *Metolate* were highly recommended in the Guidelines for the Management of Rheumatoid Arthritis by the Japan College of Rheumatology in 2004. The rating of each of these products as "Grade A – Highly Recommended" has helped steadily raise their market profile. Consequently, net sales of anti-rheumatics grew 2.6%, to ¥9,627 million.

● OTC Pharmaceuticals

Effective promotional campaigns for our range of ophthalmic products for tired eyes, blurred vision and eye refreshment resulted in an increase in net sales of OTC pharmaceuticals of 2.7%, to ¥5,451 million.

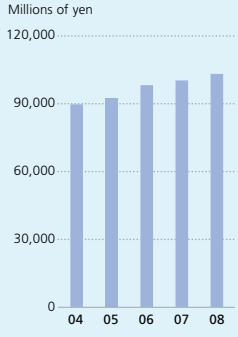
● Medical Devices

The number of cataract surgeries performed in Japan in the year under review rose slightly, but heightened competition led to a decline in IOL sales. Net sales of medical devices decreased 22.8%, to ¥415 million.

● Other

The primary component of our other business segment is the contract manufacturing of an anti-infective otic pharmaceutical product for sale in the U.S. As a result of a considerable decline in the level of orders from the contracting company, net sales decreased 21.0%, to ¥2,206 million.

Net Sales



Net Sales by Business Segment

Millions of yen

Years ended March 31	2008	2007	Change (%)
Prescription pharmaceuticals	¥ 95,322	¥ 91,849	3.8
Ophthalmics	85,426	82,152	4.0
Anti-rheumatics	9,627	9,379	2.6
Other pharmaceuticals	269	318	(15.3)
OTC pharmaceuticals	5,451	5,308	2.7
Medical devices	415	537	(22.8)
Other	2,206	2,792	(21.0)
Total	¥103,394	¥100,486	2.9

Cost of Sales

In line with increased net sales, cost of sales rose 2.9%, to ¥36,513 million. The ratio of cost of sales to net sales was roughly level with the previous period, at 35.3%.

Selling, General and Administrative Expenses

We implemented several activities during the year to encourage future sales growth, including defensive strategies to combat competition in the Japanese market, a disease awareness campaign for dry eye and sales promotions in Europe and Asia. As a result of these activities, selling, general and administrative expenses increased 4.3%, to ¥46,510 million.

Operating Income

Operating income declined 0.2%, to ¥20,371 million, and the ratio of operating income to net sales dropped slightly to 19.7%, from 20.3% in the previous year.

Other Income and Expenses

Other net income for the year ended March 31, 2008 was ¥112 million.

Other income rose ¥201 million, to ¥1,594 million, as a result of a year-on-year decline in profits from the sale of fixed assets, a rise in interest and dividend income and gain on sale of investment securities.

Other expenses increased ¥716 million, to ¥1,482 million. This result reflects a decrease in amortization of goodwill, a ¥317 million loss on impairment of fixed assets and a net foreign exchange loss.

Income Taxes

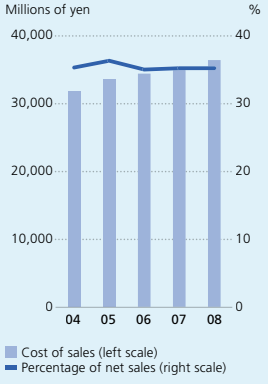
Income taxes totaled ¥7,832 million. The effective tax rate was 38.2%, compared with 37.5% for the previous year.

Net Income

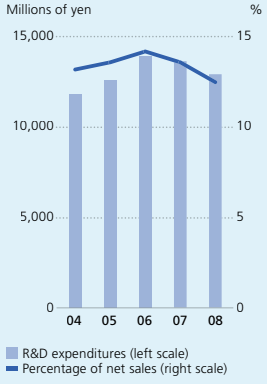
Net income was down 3.8%, to ¥12,651 million, in the year ended March 31, 2008. The ratio of net income to net sales was 12.2%, compared with 13.1% in the previous year.

Basic net income per share was ¥146.15, compared with ¥151.58 in the previous year, and diluted net income per share was ¥145.94, down from ¥151.31.

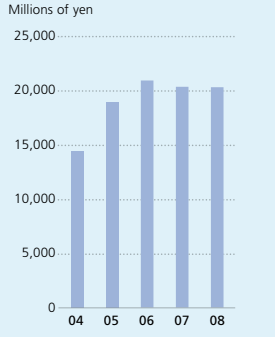
Cost of Sales and Percentage of Net Sales



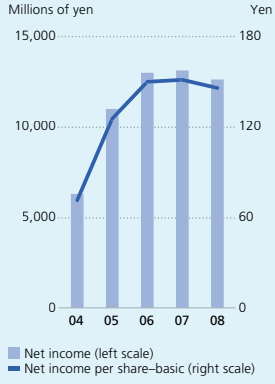
R&D Expenditures and Percentage of Net Sales



Operating Income



Net Income and Net Income per Share–Basic



FINANCIAL CONDITION

Assets

As of March 31, 2008, total assets were ¥156,547 million, down ¥2,552 million, or 1.6%, from the previous year-end. Return on assets (ROA) was down slightly at 8.0%, compared to 8.5% in the previous year. Total current assets were ¥102,754 million, and the ratio of total current assets to total assets rose 2.2 percentage points, to 65.6%, from 63.4% in the previous year. Within fixed assets, net property, plant and equipment totaled ¥29,849 million, and total investments and other assets amounted to ¥23,944 million.

Liabilities

Total liabilities at March 31, 2008 were ¥29,429 million, down ¥1,024 million, or 3.4%, from the previous year-end. Interest-bearing debt was ¥5,278 million, a year on year decline of ¥168 million, or 3.1%. Total current liabilities were ¥26,561 million and noncurrent liabilities were ¥2,868 million.

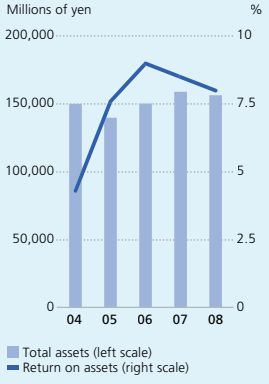
Net Assets

Net assets amounted to ¥127,118 million, down ¥1,528 million, or 1.2%, year on year, as increased treasury stock acquisition outweighed a rise in retained earnings. The equity ratio increased to 81.1%, from 80.8% in the previous year. Return on equity (ROE) fell to 9.9%, from 10.6% the previous year. Equity per share was ¥1,494.48, a rise of ¥12.65, or 0.9%, from the previous year.

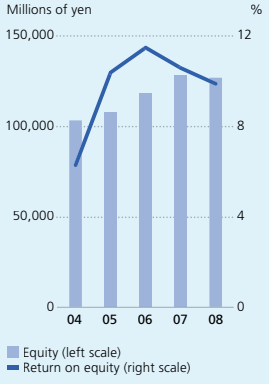
Capital and Liquidity

Santen strives to maintain a healthy balance sheet and to ensure it has an appropriate level of liquidity and sufficient resources to fund its business activities. Cash and cash equivalents at end of year amounted to ¥51,670 million, up ¥1,829 million, or 3.7%. Net cash provided by operating activities was ¥15,468 million, of which ¥2,083 million was used in investment activities and ¥11,415 million in financing activities.

Total Assets and Return on Assets



Equity and Return on Equity



Cash Flows

Net cash provided by operating activities was ¥15,468 million, a rise of ¥509 million year on year. This was largely due to a decline in the amount of taxes paid, against a fall in income before income taxes, increase in inventories and a fall in amounts due on purchases.

Net cash used in investment activities was ¥2,083 million, representing a drop of ¥3,763 million from the previous year. Main investments were of property, plant and equipment related to the construction of the Suzhou Plant of our subsidiary in China.

Net cash used in financing activities was ¥11,415 million, an increase of ¥5,724 million, which resulted primarily from repurchase of treasury stock, net, and dividends paid.

As a result, cash and cash equivalents at end of year was ¥51,670 million, a rise of ¥1,829 million.

Distribution of Profits

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

- To enhance corporate value, we will focus on raising capital efficiency and on securing internal reserves to fund R&D and the implementation of growth strategies.
- We will strive to increase the level of dividends in line with such factors as the Company's demand for funds and financial position.
- We will consider repurchase and retirement of treasury stock as a flexible method of providing a return to shareholders.

To maintain a stable level of dividends, we employ the dividend on equity (DOE) ratio, which combines the dividend payout ratio and ROE. For fiscal 2010, the final year of the current Medium-term Management Plan, our DOE target is 5.0%.

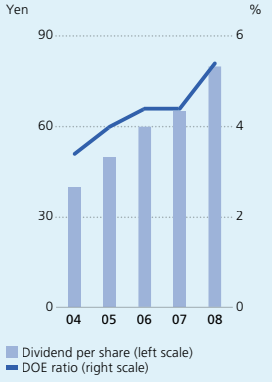
For fiscal 2007, the annual dividend per share was ¥80, an increase of ¥15, and the Company acquired ¥4,800 million in treasury stock. As a result, the DOE ratio was 5.4%, significantly exceeding the current plan's 5.0% target. In the future, we will maintain our DOE target at 5.0% and consider the possibility of further treasury stock repurchase and retirement.

Cash Flows Summary

Years ended March 31	2008	2007	Change
	Millions of yen		
Cash flows from operating activities	¥15,468	¥14,959	¥ 509
Cash flows from investing activities	(2,083)	(5,846)	3,763
Cash flows from financing activities	(11,415)	(5,691)	(5,724)
Cash and cash equivalents at end of year	51,670	49,841	1,829

Note: Figures in parentheses indicate a decrease.

Dividend per Share
Dividend on Equity (DOE) Ratio



Risks Related to Our Business

Forward-Looking Information and Factors That Might Affect Future Results

Any statements that we make, other than historical facts, contain forward-looking information based on our business plans and assumptions at the time of disclosure. Such forward-looking information includes, but is not limited to, our expected growth strategies, projected operating results, market forecasts and anticipated timing for developing, obtaining approval and bringing products to market. Our business, as well as each product we develop and market, is subject to various risks and uncertainties beyond our control. Therefore, these forward-looking statements might differ substantially from actual results.

Risks and uncertainties that could affect the Company's future results and financial 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 2008, NHI drug price revisions went into effect resulting in an average 3.8% 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, 2008, accounted for 14.3% of our consolidated net sales.

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, 2008. 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 U.S., we have a distribution agreement with VISTAKON Pharmaceuticals, LLC, for certain prescription ophthalmics. In the event that VISTAKON Pharmaceuticals cannot achieve sufficient sales of such products we consigned, our financial results might be affected.

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

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

Research and 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.

- **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 the Company.

Eleven-year Summary of Selected Financial Data

Years ended March 31

	1998	1999	2000	2001
For the year:				
Net sales	¥ 77,957	¥ 79,639	¥ 83,577	¥ 88,449
Cost of sales	31,278	32,746	32,195	33,385
Selling, general and administrative expenses	30,535	30,294	33,894	38,546
Operating income	16,144	16,599	17,488	16,518
Interest expense	654	588	462	430
Income before income taxes	14,917	15,969	14,422	15,521
Income taxes	7,594	7,864	6,481	7,807
Net income	7,323	8,105	7,941	7,714
Capital expenditures	5,898	3,443	2,510	4,943
Depreciation and amortization	6,674	6,314	5,725	5,683
R&D expenditures	7,731	7,335	9,221	10,511
Per share data (yen and U.S. dollars):				
Net income–basic	¥ 77.06	¥ 85.27	¥ 83.54	¥ 81.32
Net income–diluted	71.01	78.63	77.04	75.01
Equity	862.88	935.71	1,006.48	1,022.99
Cash dividends, applicable to period	12.00	12.00	12.00	20.00
Cash flows:				
Net cash provided by operating activities	¥ 11,535	¥ 16,339	¥ 9,372	¥ 6,832
Net cash (used in) provided by investing activities	(9,537)	(8,305)	837	(3,172)
Net cash used in financing activities	(1,677)	(3,857)	(3,817)	(7,193)
Interest coverage ratio (times)	21.6	27.8	20.3	16.8
Debt to cash flow ratio (%)	270.6	173.8	274.7	367.3
At year-end:				
Total current assets	¥ 70,892	¥ 78,018	¥ 82,218	¥ 88,025
Net property, plant and equipment	43,425	39,638	37,416	36,684
Total assets	138,822	144,913	149,968	153,243
Long-term debt	31,168	27,496	26,491	25,482
Equity	81,998	88,950	95,669	94,834
Return on equity (ROE) (%)	9.3	9.5	8.6	8.1
Return on total assets (ROA) (%)	5.2	5.7	5.4	5.1
Equity ratio (%)	59.1	61.4	63.8	61.9
Equity ratio on stock price basis (%)	106.1	145.0	139.4	134.3
Price earnings ratio (PER) (times)	20.1	25.9	26.3	27.3
Dividend on equity (DOE) (%)	1.4	1.3	1.2	2.0
Issued shares (thousands)	95,075	95,075	95,075	92,721
Number of employees	2,010	2,037	2,093	2,167

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate of ¥100.19 to U.S. $1 prevailing on March 31, 2008.
2. See Notes 2. 13) and 11 of Notes to Consolidated Financial Statements in respect of per share data.
3. Net sales in the eight years ended March 31, 2008 include royalty income which was presented as "Other, net" in "Other income (expenses)" through the year ended March 31, 2000.
4. Equity comprises shareholders' equity and total accumulated gains (losses) on evaluation and translation.

Millions of yen							Thousands of U.S dollars
2002	2003	2004	2005	2006	2007	2008	2008
¥ 88,966	¥ 90,253	¥ 89,858	¥ 92,696	¥ 98,398	¥ 100,486	¥ 103,394	$ 1,031,980
32,701	32,272	31,859	33,710	34,535	35,484	36,513	364,441
44,475	45,284	43,475	40,004	42,868	44,590	46,510	464,219
11,790	12,697	14,524	18,982	20,995	20,412	20,371	203,320
465	480	366	182	94	91	97	965
12,679	9,947	13,775	18,436	20,342	21,039	20,483	204,438
7,373	1,444	7,454	7,413	7,319	7,891	7,832	78,172
5,306	8,503	6,321	11,023	13,023	13,148	12,651	126,266
6,586	7,046	3,226	4,907	2,106	3,556	3,151	31,451
5,334	4,311	4,521	4,750	4,824	4,761	4,593	45,846
12,187	12,719	11,853	12,620	13,971	13,663	12,942	129,170
¥ 57.34	¥ 93.67	¥ 71.65	¥ 125.85	¥ 150.26	¥ 151.58	¥ 146.15	$ 1.46
53.07	85.97	71.64	125.71	150.01	151.31	145.94	1.46
1,048.51	1,104.21	1,176.83	1,249.32	1,368.27	1,481.83	1,494.48	14.92
20.00	20.00	40.00	50.00	60.00	65.00	80.00	0.80
¥ 6,941	¥ 15,808	¥ 23,196	¥ 6,619	¥ 20,879	¥ 14,959	¥ 15,468	$ 154,387
(6,374)	(9,951)	5,246	(2,907)	(1,330)	(5,846)	(2,083)	(20,793)
(5,684)	(6,507)	(12,122)	(12,712)	(5,900)	(5,691)	(11,415)	(113,937)
14.9	34.5	70.6	36.1	218.7	164.3	163.6	
352.5	145.8	54.7	104.0	26.9	36.4	34.1	
¥ 86,064	¥ 83,431	¥ 91,231	¥ 82,735	¥ 93,893	¥ 100,820	¥ 102,754	$ 1,025,596
42,159	40,850	37,237	32,676	30,395	30,485	29,849	297,921
152,103	147,148	150,238	139,980	150,458	159,099	156,547	1,562,504
24,467	23,047	12,686	6,882	5,614	5,446	5,278	52,680
95,101	97,126	103,500	108,240	118,637	128,587	126,998	1,267,574
5.6	8.8	6.3	10.4	11.5	10.6	9.9	
3.5	5.7	4.3	7.6	9.0	8.5	8.0	
62.5	66.0	68.9	77.3	78.9	80.8	81.1	
86.6	68.7	101.8	142.3	163.0	165.3	126.2	
25.3	12.3	24.3	18.3	18.8	20.0	15.9	
1.9	1.9	3.5	4.1	4.6	4.6	5.4	
90,704	90,704	87,963	86,659	86,751	86,825	86,867	
2,463	2,500	2,335	2,308	2,312	2,409	2,483	

Consolidated Balance Sheets

Santen Pharmaceutical Co., Ltd. and Subsidiaries
As of March 31, 2008 and 2007

ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 3) 2008
Current assets:			
Cash and cash equivalents (Note 4)	¥ 51,670	¥ 49,841	$ 515,717
Short-term investments (Note 4)	182	1,868	1,812
Trade receivables:			
Notes	221	430	2,205
Accounts	35,393	34,604	353,267
Allowance for doubtful receivables	(1)	(0)	(15)
Net trade receivables	35,613	35,034	355,457
Inventories (Note 6)	11,333	10,358	113,112
Deferred tax assets (Note 14)	1,699	1,626	16,962
Other current assets	2,257	2,093	22,536
Total current assets	102,754	100,820	1,025,596
Property, plant and equipment (Notes 7 and 8)**:**			
Land	8,558	8,843	85,418
Buildings and structures	39,860	39,523	397,843
Machinery and equipment	10,988	10,230	109,667
Tools, furniture and vehicles	10,628	10,961	106,079
Construction in progress	1,879	1,806	18,761
Total	71,913	71,363	717,768
Accumulated depreciation	(42,064)	(40,878)	(419,847)
Net property, plant and equipment	29,849	30,485	297,921
Investments and other assets:			
Investments in affiliates	480	—	4,791
Investment securities (Note 4)	16,470	21,020	164,383
Goodwill	301	385	3,001
Other intangibles	1,933	2,387	19,292
Deferred tax assets (Note 14)	1,822	—	18,190
Other assets	2,938	4,002	29,330
Total investments and other assets	23,944	27,794	238,987
Total assets	¥ 156,547	¥ 159,099	$ 1,562,504

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 3) 2008
Current liabilities:			
Current portion of long-term debt (Note 9)	¥ 5,168	¥ 168	$ 51,582
Trade accounts payable	5,634	6,089	56,232
Other payables	7,690	8,573	76,758
Accrued expenses	3,249	3,154	32,428
Income taxes payable (Note 14)	4,324	3,917	43,157
Other current liabilities	496	468	4,950
Total current liabilities	26,561	22,369	265,107
Noncurrent liabilities:			
Long-term debt (Note 9)	110	5,278	1,098
Retirement and severance benefits (Note 10)	2,302	1,919	22,982
Deferred tax liabilities (Note 14)	18	427	177
Other liabilities	438	460	4,368
Total noncurrent liabilities	2,868	8,084	28,625
Contingent liabilities (Note 15)			
Total liabilities	29,429	30,453	293,732
Net assets (Note 11)**:**			
Common stock (Note 12):			
Authorized–220,000,000 shares			
(151,493,354 shares in 2007)			
Issued–86,866,703 shares			
(86,825,303 shares in 2007)	6,419	6,382	64,063
Capital surplus (Note 12)	7,114	7,077	71,002
Retained earnings	117,787	111,645	1,175,634
Treasury stock, at cost:			
1,888,743 shares in 2008 and 50,282 shares in 2007	(4,921)	(106)	(49,116)
Total shareholders' equity	126,399	124,998	1,261,583
Unrealized gains on securities, net of taxes (Note 4)	2,273	5,203	22,696
Unrealized gains on hedging derivatives, net of taxes (Note 5)	—	3	—
Foreign currency translation adjustments	(1,674)	(1,617)	(16,705)
Total accumulated gains on evaluation and translation	599	3,589	5,991
Stock subscription rights (Note 12)	120	59	1,198
Total net assets	127,118	128,646	1,268,772
Total liabilities and net assets	¥ 156,547	¥ 159,099	$ 1,562,504

Consolidated Statements of Income

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Net sales	¥ 103,394	¥100,486	¥ 98,398	$ 1,031,980
Cost of sales	36,513	35,484	34,535	364,441
Gross profit	66,881	65,002	63,863	667,539
Selling, general and administrative expenses	46,510	44,590	42,868	464,219
Operating income	20,371	20,412	20,995	203,320
Other income (expenses):				
Interest and dividend income	607	460	262	6,058
Gain on insurance received	165	119	74	1,644
Exchange gains (losses), net	(746)	(182)	156	(7,446)
Dividends received from investment limited partnership	—	72	136	—
Interest expense	(97)	(91)	(94)	(965)
Gain on sale of investment securities	237	—	0	2,366
Gain on sale of fixed assets	0	251	3	1
Loss on impairment of fixed assets (Note 8)	(317)	—	(909)	(3,162)
Restructuring charge for the logistics operations	—	—	(149)	—
Other, net	263	(2)	(132)	2,622
Income before income taxes	20,483	21,039	20,342	204,438
Income taxes (Note 14):				
Current	8,146	7,902	7,999	81,305
Deferred	(314)	(11)	(680)	(3,133)
	7,832	7,891	7,319	78,172
Net income	¥ 12,651	¥ 13,148	¥ 13,023	$ 126,266

	Yen			U.S. dollars (Note 3)
Per share data:	2008	2007	2006	2008
Net income–basic	¥ 146.15	¥ 151.58	¥ 150.26	$ 1.46
Net income–diluted	145.94	151.31	150.01	1.46
Cash dividends, applicable to the period	80.00	65.00	60.00	0.80

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, 2008, 2007 and 2006

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, 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)				
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
Exercise of stock options	37	37						
Cash dividends paid			(6,509)					
Net income			12,651					
Repurchase of treasury stock, net				(4,816)				
Retirement of treasury stock		0		1				
Other					(2,930)	(3)	(57)	61
Balance at March 31, 2008	**¥ 6,419**	**¥ 7,114**	**¥ 117,787**	**¥ (4,921)**	**¥ 2,273**	**¥ —**	**¥ (1,674)**	**¥ 120**

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, 2007	$ 63,700	$ 70,637	$ 1,114,334	$ (1,062)	$ 51,931	$ 32	$ (16,151)	$ 594
Exercise of stock options	363	364						
Cash dividends paid			(64,966)					
Net income			126,266					
Repurchase of treasury stock, net				(48,062)				
Retirement of treasury stock		1		8				
Other					(29,235)	(32)	(554)	604
Balance at March 31, 2008	**$ 64,063**	**$ 71,002**	**$ 1,175,634**	**$ (49,116)**	**$ 22,696**	**$ —**	**$ (16,705)**	**$ 1,198**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Cash flows from operating activities:				
Income before income taxes	¥ 20,483	¥ 21,039	¥ 20,342	$ 204,438
Depreciation and amortization	4,593	4,761	4,824	45,846
Loss on impairment of fixed assets (Note 8)	317	—	909	3,162
Increase (decrease) in retirement and severance benefits	412	160	(212)	4,111
Interest and dividend income	(607)	(460)	(262)	(6,058)
Interest expense	97	91	94	965
(Increase) decrease in trade receivables	(587)	(414)	1,407	(5,856)
Increase in inventories	(1,006)	(357)	(18)	(10,041)
Increase (decrease) in trade accounts payable	(430)	401	(495)	(4,297)
Other, net	(562)	(1,717)	626	(5,600)
Subtotal	22,710	23,504	27,215	226,670
Interest and dividend income received	611	460	266	6,094
Interest expense paid	(95)	(91)	(95)	(943)
Income taxes paid	(7,758)	(8,914)	(6,507)	(77,434)
Net cash provided by operating activities	15,468	14,959	20,879	154,387
Cash flows from investing activities:				
Capital expenditures	(3,151)	(3,556)	(2,106)	(31,451)
Purchase of investment securities	(3,266)	(2,209)	(58)	(32,604)
Proceeds from sale of investment securities	2,660	—	20	26,554
Proceeds from sale of property, plant and equipment	5	601	29	52
Purchase of short-term investments	(1,518)	(1,223)	(804)	(15,160)
Proceeds from sale of short-term investments	3,160	554	1,547	31,542
Other, net	27	(13)	42	274
Net cash used in investing activities	(2,083)	(5,846)	(1,330)	(20,793)
Cash flows from financing activities:				
Repayment of long-term debt	(168)	(168)	(1,268)	(1,677)
Repurchase of treasury stock, net	(4,815)	(17)	(15)	(48,061)
Dividends paid	(6,506)	(5,632)	(4,760)	(64,936)
Other, net	74	126	143	737
Net cash used in financing activities	(11,415)	(5,691)	(5,900)	(113,937)
Effect of exchange rate changes on cash and cash equivalents	(141)	314	75	(1,406)
Net increase in cash and cash equivalents	1,829	3,736	13,724	18,251
Cash and cash equivalents at beginning of year	49,841	46,105	32,381	497,466
Cash and cash equivalents at end of year	¥ 51,670	¥ 49,841	¥ 46,105	$ 515,717

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Santen Pharmaceutical Co., Ltd. and Subsidiaries

1. Basis of Presentation of Consolidated Financial Statements

The consolidated financial statements of Santen Pharmaceutical Co., Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries have been prepared based on the generally accepted accounting principles prevailing in their respective countries of domicile.

The 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 2006) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the consolidated financial statements.

2. Summary of Significant Accounting Policies

1) Principles of consolidation

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

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

2) Use of estimates

The preparation of the consolidated financial statements in conformity with Japanese GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

3) Short-term investments, investment securities and golf membership rights (see 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 anticipated 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. With respect to interest rate swaps under the special method, the evaluation of hedge effectiveness is omitted.

5) Allowance for doubtful receivables

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

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 using 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 using 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

Change in accounting method

Effective April 1, 2007, the Company and its domestic subsidiary adopted the new depreciation method to comply with Corporate Tax Law revised in 2007 for property, plant and equipment acquired after April 1, 2007. The effect of this adoption was to decrease operating income and income before income taxes by ¥48 million ($477 thousand). The effect of this adoption to segment information is described in Note 16.

Additional information

Prior to the amendment of the Corporate Tax law, all tangible fixed assets must have a 5% residual value. Subsequent to the amendment of the Corporate Tax Law effective April 1, 2007, Japanese domiciled companies are permitted to fully depreciate tangible fixed assets. Hence the Company and its domestic subsidiaries have taken advantage of this amendment and are depreciating the remaining residual of eligible assets over 5 years. The straight line depreciation starts from the next year, when the book value of tangible assets acquired on and before March 31, 2007 reaches 5% of the acquisition cost. As a result, for the year ended March 31, 2008, operating income and income before income taxes were down ¥126 million ($1,259 thousand) each, compared to the previous method. For the impact that these changes had on segment information is described in Note 16.

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 as 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.

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

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 86,561 thousand, 86,735 thousand and 86,662 thousand for the years ended March 31, 2008, 2007 and 2006, 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 86,683 thousand, 86,891 thousand and 86,808 thousand for the years ended March 31, 2008, 2007 and 2006, 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) Reclassifications
Certain reclassifications have been made to prior years' consolidated financial statements to conform with the presentation used for the year ended March 31, 2008.

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 ¥100.19=US$1, the approximate exchange rate prevailing on March 31, 2008. 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, 2008 and 2007:

	Millions of yen							
	2008				2007			
	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

	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	¥ 10,829	¥ 3,830	¥ —	¥ 14,659	¥ 10,904	¥ 8,669	¥ —	¥ 19,573

	Thousands of U.S. dollars			
	2008			
	Held-to-maturity debt securities			
	Book value (Carrying amount)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Bonds and debentures	$ —	$ —	$ —	$ —

	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	$ 108,087	$ 38,227	$ —	$ 146,314

Maturities of investments at March 31, 2008 and 2007 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2008		2007		2008	
	Bonds and debentures	Other securities	Bonds and debentures	Other securities	Bonds and debentures	Other securities
Cash equivalents	¥ 13,500	¥ —	¥ 15,000	¥ —	$ 134,744	$ —
Due within one year	—	—	—	—	—	—
Due after one year through five years	1,500	—	—	—	14,972	—
	¥ 15,000	¥ —	¥ 15,000	¥ —	$ 149,716	$ —

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, 2008 and 2007.

6. Inventories

Inventories at March 31, 2008 and 2007 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Merchandise	¥ 3,339	¥ 2,973	$ 33,321
Finished goods	5,227	4,948	52,175
Work in process and semi-finished goods	1,081	910	10,791
Raw materials and supplies	1,686	1,527	16,825
	¥ 11,333	¥ 10,358	$ 113,112

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, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Machinery and equipment:			
Equivalent purchase amount	¥ 12,577	¥ 12,755	$ 125,528
Equivalent accumulated depreciation amount	11,453	10,828	114,311
Equivalent balance at year-end	1,124	1,927	11,217
Tools:			
Equivalent purchase amount	558	615	5,572
Equivalent accumulated depreciation amount	346	393	3,460
Equivalent balance at year-end	212	222	2,112
Total:			
Equivalent purchase amount	13,135	13,370	131,100
Equivalent accumulated depreciation amount	11,799	11,221	117,771
Equivalent balance at year-end	¥ 1,336	¥ 2,149	$ 13,329
Future minimum lease payments:			
Due within one year	¥ 872	¥ 951	$ 8,700
Due after one year	581	1,319	5,802
	¥ 1,453	¥ 2,270	$ 14,502

Lease payments, equivalent depreciation and equivalent interest expense for the three years ended March 31, 2008 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Lease payments	¥ 1,013	¥ 1,032	¥ 1,035	$ 10,110
Equivalent depreciation	¥ 942	¥ 970	¥ 969	$ 9,402
Equivalent interest expense	¥ 33	¥ 47	¥ 61	$ 333

Operating leases:

Future minimum rents under non-cancellable operating leases at March 31, 2008 and 2007 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 112	¥ 134	$ 1,119
Due after one year	124	161	1,237
	¥ 236	¥ 295	$ 2,356

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, 2008 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Land	¥ 253	¥ —	¥ 433	$ 2,528
Buildings and structures	64	—	372	634
Others	—	—	104	—
	¥ 317	¥ —	¥ 909	$ 3,162

The Company recorded impairment losses related to land and buildings for dormitory due to the Company's decision to close down during the year ended March 31, 2008. The fair value of the land, buildings and structures was based on local tax authority's valuation.

The Company and certain subsidiaries recorded impairment losses related to land and buildings in connection with the cessation of 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.

9. Long-term Debt

Long-term debt at March 31, 2008 and 2007 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Unsecured yen syndicated loans from domestic banks, due in 2008, interest 1.4%	¥ 5,000	¥ 5,000	$ 49,905
Unsecured yen loans from domestic banks, due in installments through 2009, interest 4.8%	278	446	2,775
Total	5,278	5,446	52,680
Current portion shown in current liabilities	(5,168)	(168)	(51,582)
	¥ 110	¥ 5,278	$ 1,098

As is customary in Japan, long-term bank loans are made under general agreements which provide that under certain circumstances, additional security and guarantees for present and future indebtedness will be given upon request by the bank 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 the 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, 2008 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 5,168	$ 51,582
2010	110	1,098
Total	¥ 5,278	$ 52,680

In 2006, the Company entered into a commitment line contract with seven domestic banks. The maximum aggregate credit facility available to the Company is ¥16,000 million. The credit facility has not been used as of March 31, 2008.

10. Retirement and Severance Benefits

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

The following table sets forth the details of benefit obligation, plan assets and funded status of the Companies at March 31, 2008 and 2007.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
For employees:			
Benefit obligation at end of year	¥ (12,613)	¥ (11,371)	$ (125,893)
Fair value of plan assets at end of year	9,427	9,356	94,090
Funded status (benefit obligation in excess of plan assets)	(3,186)	(2,015)	(31,803)
Unrecognized actuarial loss	1,371	610	13,686
For directors and corporate auditors:			
Accrued retirement benefit	(487)	(514)	(4,865)
Retirement and severance benefits recognized in the consolidated balance sheets	¥ (2,302)	¥ (1,919)	$ (22,982)

Retirement and severance costs of the Companies include the following components for the three years ended March 31, 2008.

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
For employees:				
Service cost	¥ 802	¥ 701	¥ 673	$ 8,001
Interest cost	226	218	208	2,253
Expected return on plan assets	(187)	(179)	(154)	(1,868)
Recognized actuarial loss	143	79	76	1,432
Contribution to defined contribution pension plan	901	807	770	8,993
Net periodic benefit cost	¥ 1,885	¥ 1,626	¥ 1,573	$ 18,811
For directors and corporate auditors:				
Accrual for retirement benefit	¥ 17	¥ 79	¥ 60	$ 167

Assumptions used in the accounting for retirement and severance benefits for the three years ended March 31, 2008 are as follows:

	2008	2007	2006
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

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

Under the Japanese Corporate Law ("The Law"), in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend and the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets and amounted to ¥1,551 million ($15,485 thousand) and ¥1,551 million as of March 31, 2008 and 2007, respectively.

Cash dividends charged to retained earnings during the three years ended March 31, 2008 represent dividends paid out during the periods. The accompanying consolidated financial statements do not include any provision for the year end dividend of ¥40 ($0.40) per share, aggregating ¥3,399 million ($33,927 thousand) which was approved at the Company's shareholders' meeting on June 25, 2008 in respect of the year ended March 31, 2008.

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 ten years from the date of grant.

Stock options existing as of March 31, 2008 are as follows:

Stock options granted	2007	2006	2005	2004
Persons granted	Directors and corporate officers: 12	Directors and corporate officers: 15	Directors and corporate officers: 15	Directors and corporate officers: 11
Number of shares	Common Stock 99,300	Common Stock 102,700	Common Stock 129,200	Common Stock 78,200
Date of grant	July 3, 2007	July 4, 2006	July 4, 2005	July 5, 2004
Vesting conditions	No provisions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions	No provisions
Exercise period	From June 27, 2009 to June 26, 2017	From June 28, 2008 to June 24, 2016	From June 25, 2007 to June 23, 2015	From June 26, 2006 to June 24, 2014

Stock options granted	2003	2002	2001	2000
Persons granted	Directors and corporate officers: 12	Directors and corporate officers: 14	Directors and corporate officers: 14	Directors and corporate officers: 16
Number of shares	Common Stock 137,600	Common Stock 92,000	Common Stock 55,000	Common Stock 60,000
Date of grant	July 4, 2003	July 5, 2002	July 9, 2001	July 10, 2000
Vesting conditions	No provisions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions	No provisions
Exercise period	From June 27, 2005 to June 25, 2013	From June 27, 2004 to June 25, 2012	From June 29, 2003 to June 27, 2011	From June 30, 2002 to June 28, 2010

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

Number, movement and price of stock options as of March 31, 2008 are as follows:

Before vesting options (Number of shares):

Stock options granted	2007	2006	2005	2004	2003
Balance at April 1, 2007	—	—	—	—	—
Granted	99,300	—	—	—	—
Vested	99,300	—	—	—	—
Balance at March 31, 2008	—	—	—	—	—

Stock options granted	2002	2001	2000	1999	1998
Balance at April 1, 2007	—	—	—	—	—
Granted	—	—	—	—	—
Vested	—	—	—	—	—
Balance at March 31, 2008	—	—	—	—	—

After vesting options (Number of shares):

Stock options granted	2007	2006	2005	2004	2003
Balance at April 1, 2007	—	102,700	129,200	73,900	72,900
Vested	99,300	—	—	—	—
Exercised	—	—	1,700	7,800	17,700
Balance at March 31, 2008	99,300	102,700	127,500	66,100	55,200

Stock options granted	2002	2001	2000	1999	1998
Balance at April 1, 2007	32,100	38,600	48,200	48,000	24,000
Vested	—	—	—	—	—
Exercised	1,200	—	2,000	11,000	—
Balance at March 31, 2008	30,900	38,600	46,200	37,000	24,000

Price information (yen):

Stock options granted	2007	2006	2005	2004	2003
Option price	3,050	2,715	2,480	1,743	1,176
Weighted-average stock price	—	—	2,870	2,557	2,819
Fair value at grant date*	609.45	579.05	—	—	—

Stock options granted	2002	2001	2000	1999	1998
Option price	1,326	2,299	2,705	2,480	1,540
Weighted-average stock price	2,850	—	3,310	2,933	—
Fair value at grant date*	—	—	—	—	—

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

On June 25, 2008, the Company's shareholders' meeting approved that the Company's stock subscription rights for allotment as stock options to directors and corporate officers of the Company. These stock subscription rights are exercisable from June 28, 2010 to June 25, 2018. The maximum number of stock subscription rights that can be exercised is 161,700 common shares.

13. Research and Development Expenditures

Research and development expenditures charged to income for the years ended March 31, 2008, 2007 and 2006 amounted to ¥12,942 million ($129,170 thousand), ¥13,663 and ¥13,971 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, 2008. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The effective rates for the years ended March 31, 2008, 2007 and 2006 differ from the normal tax rates for the following reasons:

	2008	2007	2006
Normal tax rate	40.4 %	40.4 %	40.4 %
Change in valuation allowance allocated to income tax expenses	1.6	1.5	0.6
Expenses not deductible for tax purposes	1.6	1.4	1.7
Lower tax rates of subsidiaries	(0.2)	(0.4)	(0.7)
Tax credit for research and development expenses	(5.5)	(5.8)	(6.4)
Others	0.3	0.4	0.4
Effective tax rate	38.2 %	37.5 %	36.0 %

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, 2008 and 2007 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Tax loss carryforwards	¥ 6,074	¥ 6,430	$ 60,628
Retirement and severance benefits	2,487	2,319	24,825
Accrued expenses	1,072	994	10,700
Depreciation and amortization	892	827	8,899
Deferred assets for tax purposes	458	480	4,571
Accrued enterprise taxes	363	316	3,623
Loss on impairment of fixed assets	272	148	2,715
Loss on impairment of golf membership rights	208	208	2,076
Loss on valuation of inventories	84	73	838
Loss on valuation of securities	43	44	429
Other	925	995	9,237
Subtotal	12,878	12,834	128,541
Valuation allowance	(7,674)	(7,907)	(76,592)
Total gross deferred tax assets	5,204	4,927	51,949
Deferred tax liabilities:			
Net unrealized holding gains on securities	(1,551)	(3,532)	(15,480)
Reserve for special depreciation	(131)	(176)	(1,308)
Other	(19)	(20)	(186)
Total gross deferred tax liabilities	(1,701)	(3,728)	(16,974)
Net deferred tax assets	¥ 3,503	¥ 1,199	$ 34,975

Net deferred tax assets at March 31, 2008 and 2007 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current assets – deferred tax assets	¥ 1,699	¥ 1,626	$ 16,962
Investments and other assets – deferred tax assets	1,822	—	18,190
Noncurrent liabilities – deferred tax liabilities	(18)	(427)	(177)
Net deferred tax assets	¥ 3,503	¥ 1,199	$ 34,975

15. Contingent Liabilities

At March 31, 2008, the Company has provided guarantees to financial institutions covering employee loans totaling ¥369 million ($3,682 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
	2008	2007	2006	2008
Geographic areas:				
Net sales:				
Japan:				
External customers	¥ 92,098	¥ 90,695	¥ 89,882	$ 919,234
Intersegment	1,978	1,167	986	19,738
Total	94,076	91,862	90,868	938,972
Europe:				
External customers	10,617	9,186	8,156	105,972
Intersegment	2,041	2,028	1,988	20,367
Total	12,658	11,214	10,144	126,339
Other:				
External customers	679	605	360	6,774
Intersegment	2,761	2,611	2,859	27,561
Total	3,440	3,216	3,219	34,335
Corporate and eliminations	(6,780)	(5,806)	(5,833)	(67,666)
Consolidated	¥ 103,394	¥ 100,486	¥ 98,398	$ 1,031,980

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Operating income (loss):				
Japan	¥ 22,633	¥ 21,768	¥ 22,623	$ 225,902
Europe	555	980	951	5,536
Other	(819)	(755)	(708)	(8,179)
Corporate and eliminations	(1,998)	(1,581)	(1,871)	(19,939)
Consolidated	¥ 20,371	¥ 20,412	¥ 20,995	$ 203,320
Assets:				
Japan	¥ 129,610	¥ 125,822	¥ 127,647	$ 1,293,641
Europe	10,908	10,635	8,744	108,872
Other	5,745	4,880	5,217	57,344
Corporate and eliminations	10,284	17,762	8,850	102,647
Consolidated	¥ 156,547	¥ 159,099	¥ 150,458	$ 1,562,504

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

As discussed in Note 2, 7), the Company and its domestic subsidiary adopted new depreciation method for the year ended March 31, 2008 for property, plant and equipment acquired after April 1, 2007. The effect of this adoption was to decrease operating income of Japan segment by ¥48 million ($477 thousand).

As discussed in Note 2, 7), prior to the amendment of the Corporate Tax law, all tangible fixed assets must have a 5% residual value. Subsequent to the amendment of the Corporate Tax Law effective April 1, 2007, Japanese domiciled companies are permitted to fully depreciate tangible fixed assets. Hence the Company and its domestic subsidiary have taken advantage of this amendment and are depreciating the remaining residual of eligible assets over 5 years. The straight line depreciation starts from the next year, when the book value of tangible assets acquired on and before March 31, 2007 reaches 5% of the acquisition cost. As a result, for the year ended March 31, 2008, operating income of Japan segment was down ¥126 million ($1,259 thousand) each, compared to the previous method.

Overseas sales:

Europe	¥ 8,533	¥ 6,917	¥ 6,089	$ 85,167
North America	1,951	2,129	1,916	19,478
Asia	4,326	4,247	3,554	43,182
Other	17	41	54	169
Total	¥ 14,827	¥ 13,334	¥ 11,613	$ 147,996
Consolidated net sales	¥ 103,394	¥ 100,486	¥ 98,398	$ 1,031,980
Percentage of overseas sales to consolidated net sales	14.3%	13.3%	11.8%	

The main countries included in Europe, North America, Asia and Other are as follows:
Europe: Finland, Russia, Sweden, Germany and Norway
North America: United States of America
Asia: Korea, China, Vietnam and Taiwan
Other: Australia

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).

17. Subsequent Event

The Company entered into a R&D collaboration and licensing agreement ("The Agreement") with MacuSight, Inc. on May 30, 2008. The Agreement grants the Company the right to develop and commercialized sirolimus (development code: DE-109) in the Japanese and Asian market. Sirolimus, originally known as rapamycin, is a highly-potent, broad-acting compound that has demonstrated the ability to treat ocular diseases and conditions including wet age related macular degeneration and diabetic macular edema. The Agreement also requires the Company to make a non-refundable initial payment of $50,000 thousand toward MacuSight's R&D and clinical development of sirolimus. Additionally, the Company will provide MacuSight with milestone payments and a royalty on future sirolimus sales in Japanese and Asian markets. The initial payment and ancillary expenses, amounting to a total of approximately ¥5,400 million, ($53,898 thousand) will be recorded as R&D expenditures in selling, general and administrative expenses for the year ended March 31, 2009.

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 subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows ("consolidated financial statements") for each of the years in the three-year period ended March 31, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
As described in Note 17 to the consolidated financial statements, Santen Pharmaceutical Co., Ltd. entered into an R&D collaboration and licencing agreement with MacuSight, Inc. on May 30, 2008.

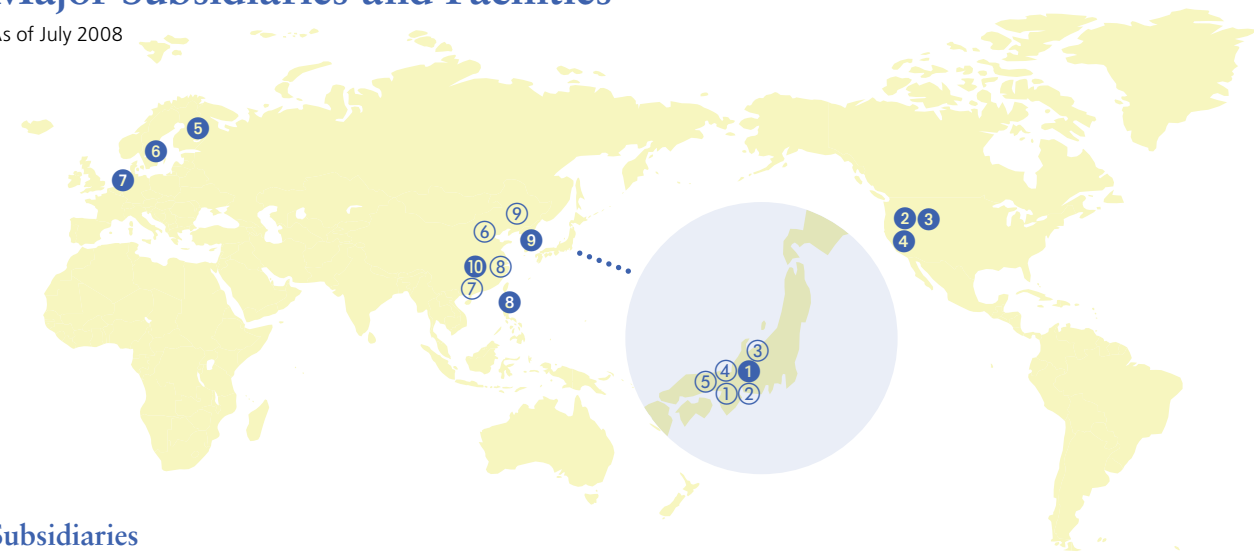
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 25, 2008

Major Subsidiaries and Facilities

As of July 2008



Subsidiaries

❶ 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%

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

❸ 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%*

❹ 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%*

❺ 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, marketing of pharmaceuticals, and contract manufacturing
Equity Ownership: 100%

❻ 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%

❼ 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%

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

❾ Santen Pharmaceutical Korea, Co., Ltd.
Room 805, Center Building, 91-1, Sogongdong, Chung-ku, Seoul, 10070, R.O.K.
TEL: +82-2-754-1434 FAX: +82-2-754-2929
Business: Import and marketing of pharmaceuticals
Equity Ownership: 100%

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

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

Offices, Laboratory and Plants

① Corporate Headquarters
9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku, Osaka 533-8651, 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, Houdatsushimizu-cho, 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 533-8651, Japan
TEL: +81-6-6321-9976 FAX: +81-6-6321-7149

⑥ Beijing Representative Office
Suit 1204 to 1206, TOWER W3, Oriental Plaza, No. 1 East Chang An Ave., Dong Cheng District, Beijing, 100738, P.R.C.
TEL: +86-10-8515-1515 FAX: +86-10-8515-1020

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

⑧ Shanghai Representative Office
Room 2509, No. 227 Huangpi (N) Road, Shanghai 200003, P.R.C.
TEL: +86-21-6375-8801 FAX: +86-21-6375-8802

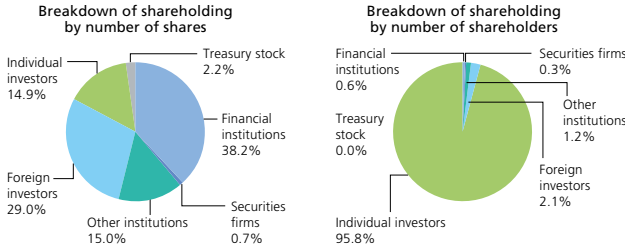
⑨ Shenyang Representative Office
Room 1906, Tower A, President Building No. 69, Heping North Avenue, Heping District Shenyang, 110003, P.R.C.
TEL: +86-24-2281-5281 FAX: +86-24-2281-5280

Corporate Information/Stock Information

As of March 31, 2008

Corporate Headquarters	Santen Pharmaceutical Co., Ltd. 9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku, Osaka 533-8651, Japan URL: http://www.santen.com Investor relations contact: TEL: +81-6-6321-7007 FAX: +81-6-6321-8400 E-MAIL: ir@santen.co.jp
Established	1890
Paid-in Capital	¥6,419 million
Number of Shareholders	13,113
Stock Exchange Listings	Tokyo and Osaka
Ticker Code	4536
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation 1-5, Dojimahama 1-chome, Kita-ku, Osaka 530-0004, 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	2,483 (nonconsolidated: 1,847)
Number of Shares Issued	86,866,703

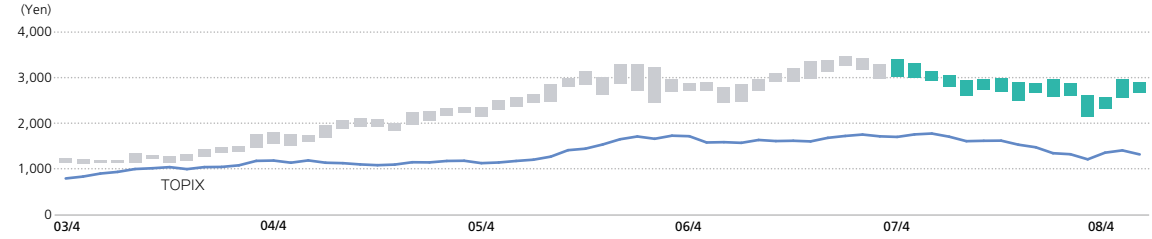
Breakdown of Shareholding



Major Shareholders

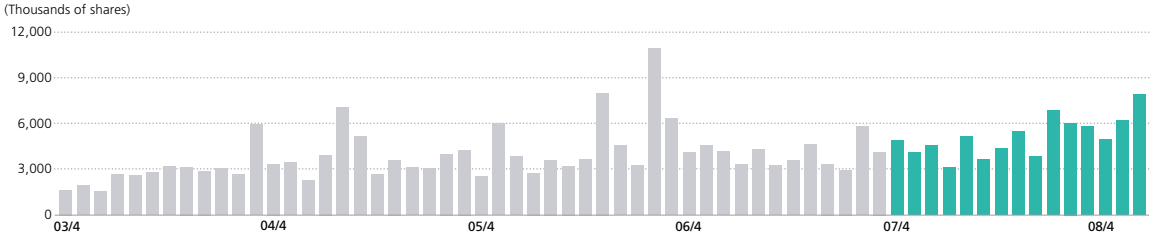
Name	Number of shares held (Thousand of shares)	Percentage of investment
Japan Trustee Service Bank, Ltd.	7,027	8.1%
Mita Sangyo Co., Ltd.	4,756	5.5
The Master Trust Bank of Japan, Ltd.	4,420	5.1
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,241	4.9
Northern Trust CO. (AVFC) Sub-account American Clients	3,972	4.6
Nippon Life Insurance Company	3,151	3.6
Trust and Custody Services Bank, Ltd.	3,002	3.5
The Silchester International Investors International Value Equity Trust	2,736	3.1
Tokio Marine and Nichido Fire Insurance Co., Ltd.	2,668	3.1
Mitsubishi UFJ Trust and Banking Corporation	1,907	2.2

Stock Price Range Osaka Securities Exchange (monthly basis)



* TOPIX: Tokyo stock price index

Trading Volume Osaka Securities Exchange (monthly basis)



Yearly High and Low Prices

	2004	2005	2006	2007	2008
High (yen)	¥2,240	¥3,290	¥3,370	¥3,450	¥2,990
Low (yen)	1,362	2,050	2,440	2,925	2,140

Note: Calendar years. Stock prices for 2008 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.
1936	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 the U.S.
1994	Subsidiary Santen GmbH established in Germany
1996	Representative office established in Beijing, China
	Nara Research and Development Center and Shiga Plant established
1997	Finnish ophthalmics pharmaceutical company acquired and Santen Oy established
	Subsidiary Taiwan Santen Pharmaceutical Co., Ltd. established
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. (currently: VISTAKON Pharmaceuticals. LLC) started
2005	Representative office established in Shanghai, China
	Subsidiary Santen Pharmaceutical (China) Co., Ltd. established
2006	2006–2010 Medium-term Management Plan formulated
2007	Representative office established in Shenyang, China
	Santen Pharmaceutical (China) Co., Ltd. established Suzhou Plant

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*
2007	Launch of *Sante Uruoi Contact a*
2008	Launch of nutritional supplement *Sante Lutax*

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

SANTEN PHARMACEUTICAL CO., LTD.

www.santen.com

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