Reaching Out for the Future

2010

Annual Report 2010
Year Ended March 31, 2010

SANTEN PHARMACEUTICAL CO., LTD.

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.

Santen's Values

Core Value

*Tenki ni sanyo suru**

We think carefully about what is essential, decide clearly what we should do, and act quickly.

Mission Statement

By focusing our efforts on ophthalmology and related areas, we develop scientific knowledge and organizational capabilities which are unique and original to Santen.

We use our unique capabilities to contribute to patients and their loved ones, and consequently to society.

* Santen's original interpretation of a passage from chapter 22 of *Zhongyong* (*The Doctrine of the Mean*) by Confucius, meaning "exploring the secrets and mechanisms of nature in order to contribute to people's health"

Contents

NOTE CONCERNING REFERENCE TO FISCAL YEARS
"Fiscal 2009" refers to our fiscal year ended March 31, 2010, and other fiscal years are referred to in a corresponding manner in this annual report.

NOTE CONCERNING GRAPHS
Graphs in this annual report are based on fiscal years ended March 31, if no note is specified.

NOTE CONCERNING DATA
Some information in this annual report is based on IMS data (JPM, MIDAS).
Period: January 2006 to March 2010

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.

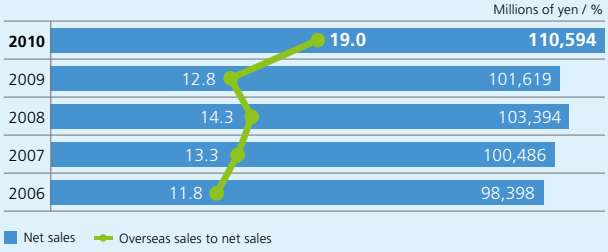
Consolidated Financial Highlights

Santen Pharmaceutical Co., Ltd. and Subsidiaries
Years ended March 31, 2010 and 2009

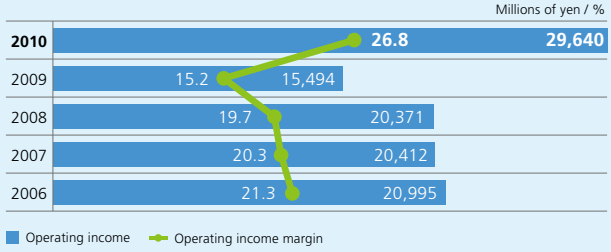
	Millions of yen		Change	Thousands of U.S. dollars
	2010	2009	2010/2009	2010
For the year:				
Net sales	¥ 110,594	¥ 101,619	8.8%	$1,188,678
Operating income	29,640	15,494	91.3	318,577
Net income	18,723	10,123	84.9	201,233
R&D expenditures	14,123	18,458	(23.5)	151,797
Capital expenditures	1,315	2,953	(55.5)	14,131
Depreciation and amortization	3,421	4,210	(18.7)	36,774
At year-end:				
Total assets	¥ 166,878	¥ 151,012	10.5%	$1,793,620
Long-term debt	75	154	(51.5)	801
Equity	137,343	125,181	9.7	1,476,169
Per share data (yen and U.S. dollars):				
Net income – basic	¥ 220.10	¥ 119.08	84.8%	$ 2.37
Net income – diluted	219.85	118.97	84.8	2.36
Equity	1,614.08	1,472.32	9.6	17.35
Cash dividends, applicable to period	80.00	80.00	—	0.86
Other financial data:				
Operating income margin (%)	26.8	15.2		
Overseas sales to net sales (%)	19.0	12.8		
R&D expenditures to net sales (%)	12.8	18.2		
Return on equity (ROE) (%)	14.3	8.0		
Dividend on equity (DOE) (%)	5.2	5.4		
Number of employees	2,756	2,690		

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate of ¥93.04 to U.S.$1 prevailing on March 31, 2010.
2. See Notes 2. 13) and 11 of Notes to Consolidated Financial Statements in respect of per share data.
3. Figures in parentheses indicate a decrease.
4. Equity comprises shareholders' equity and total accumulated (losses) gains on evaluation and translation.

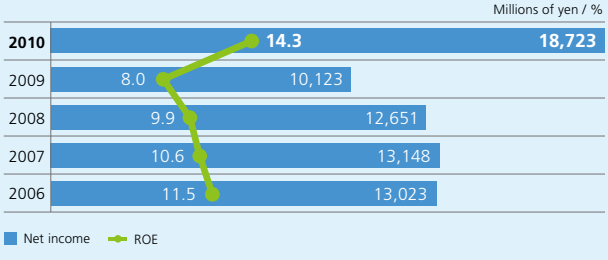
Net sales and Overseas sales to net sales



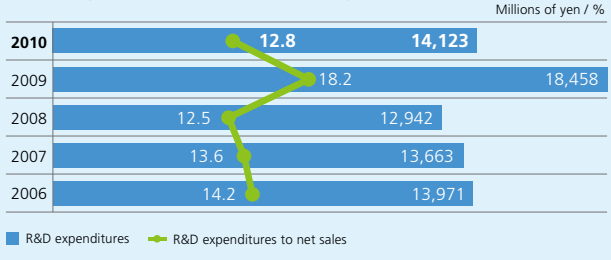
Operating income and Operating income margin



Net income and ROE



R&D expenditures and R&D expenditures to net sales



Reaching Out for the Future

Santen's Business

Since 1890, Santen has been researching, developing, manufacturing, and marketing pharmaceuticals to protect and improve people's eyesight and health. Initially, our mainstay products were cold medicines. Then, we launched *Daigaku Eye Drops* in 1899 and entered the prescription ophthalmic pharmaceutical field in 1958. Today, the ophthalmic business has become our core business, generating approximately 80% of our sales. In addition, we have outstanding pharmaceuticals in the area of rheumatoid arthritis. As a unique company specializing in the areas of ophthalmology and rheumatoid arthritis, we are advancing operations not only in Japan but also in Europe, North America, and Asia. With this record of achievement, in 2010, Santen celebrates the 120th anniversary of its founding.

Santen Has Built…

Higher Standing in the Japanese Market

Santen has established a leading position in Japan's markets for prescription ophthalmic pharmaceuticals and anti-rheumatic pharmaceuticals. Santen provides information to meet the needs of the medical community through approximately 400 medical representatives (MRs) and has a lineup of outstanding pharmaceuticals for the treatment of a broad range of ophthalmologic diseases. Reflecting those advantages, Santen has maintained the largest share in both markets—with a 37.3% share of Japan's prescription ophthalmic pharmaceutical market and, at 43.9%, a considerable share of Japan's market for disease-modifying anti-rheumatic drugs (DMARDs).

Higher Market Presence Globally

Santen has enhanced a global presence based on solid foundations established in Japan through prescription ophthalmic pharmaceutical operations. The first step in those efforts was our 1993 establishment of a U.S. subsidiary, Santen Inc. Since then, we have entered into Europe and Asia, and we now expand our business in seven countries. Growth in overseas prescription ophthalmic markets continues to outpace that of Japan's market. This trend is particularly evident in China's market, where dynamic economic development is driving an annualized growth rate of more than 15%. In 2005, we established Santen Pharmaceutical (China) Co., Ltd., and in 2009, we began direct marketing in China. Going forward, intending to grow in such promising markets, we will concentrate our efforts on expanding global operations.

Higher R&D Capabilities

Santen is focusing its R&D efforts on growth areas where its strengths can be fully utilized and where there is significant growth potential, as an R&D-oriented pharmaceutical company. By concentrating management resources on these areas, Santen aims to develop new drugs even more efficiently and rapidly. We have built a clinical development system that extends from Japan to the U.S. and Europe. We are also undertaking clinical development in Asia and steadily progressing in the further globalization of clinical trials. Furthermore, Santen actively fosters products by working to ensure their competitive superiority and maximizing their value.

A Message from the President and CEO

Becoming a Specialty Company with a Global Presence

Santen aims to become a specialty company with global presence through corporate activity based on Santen's Values. In accordance with these values, we focus our efforts on ophthalmology and related areas, developing scientific knowledge and technologies, and contributing to patients and their loved ones and consequently to society.

In Japan and other developed countries, the business environment for pharmaceuticals is becoming tougher due to cost containment measures for prescription drugs and declining birthrates. However, there are still unmet medical needs in the glaucoma, corneal disorders, and retinal disorders segments. Also, the ophthalmic pharmaceutical markets in China and other developing countries are expected to grow rapidly due to changes and improvements in their healthcare environments.

As the first step toward achieving our long-term vision of becoming a global company by fiscal 2015, we are taking measures under our 2006–2010 Medium-term Management Plan. Based on this plan, we have sought continuous growth by investing actively in R&D while developing our businesses in regions where we can utilize our strengths. We continued to strengthen our business in Japan and Europe, mainly driven by sales of the glaucoma and ocular hypertension treatment tafluprost (sold as *Tapros* in Japan and *Taflotan* in Europe and Asia), which we launched in 2008. We are also making steady progress in China, with our establishment of Suzhou Plant and start of direct marketing.

We expect the achievements of the 2006–2010 Medium-term Management Plan will allow us to realize our goal of becoming a global company.

Aiming to Contribute to Society through Our Business Activities

In accordance with Santen's Values, we provide excellent products and services to ensure that patients have complete confidence in our products. We believe that our mission is to improve the quality of life of patients and their loved ones around the world.

Santen is also actively involved in social initiatives. As well as supporting the development of new medical treatments and providing donations and aid to ophthalmology and rheumatoid arthritis-related causes, we contribute to large-scale natural disaster relief projects and promote in-house environmental initiatives.

Realizing Stable Returns to Shareholders

Santen returns profits to shareholders through dividends and improvement in capital efficiency and uses the dividend on equity (DOE) ratio as an indicator for determining dividends. For fiscal 2009, Santen paid a full-year dividend of ¥80 per share, achieving a DOE of 5.2%. In fiscal 2010, the final year of the 2006–2010 Medium-term Management Plan, Santen will continue the stable return of profits and target DOE of 5.0%.

Santen is committed to becoming a specialty company with a global presence. As we move forward, I would like to ask our shareholders for their continued understanding and support.

August 2010

Akira Kurokawa
President and Chief Executive Officer

An Interview with the President and CEO

Q **Fiscal 2009 was the fourth year of the 2006–2010 Medium-term Management Plan. How do you assess the fiscal year?**

"We posted record revenues and earnings. The measures we have been taking based on the 2006–2010 Medium-term Management Plan are resulting in vigorous growth."

Santen achieved record revenues and earnings in fiscal 2009, with increases of 8.8% in net sales, to ¥110.6 billion; 91.3% in operating income, to ¥29.6 billion; and 84.9% in net income, to ¥18.7 billion. Measures we have been implementing under the 2006–2010 Medium-term Management Plan are resulting in vigorous growth.

One of the drivers of fiscal 2009 results was the glaucoma and ocular hypertension treatment tafluprost (sold as *Tapros* in Japan and *Taflotan* in Europe and Asia). We launched *Tapros* in Japan in December 2008 and achieved rapid market penetration by actively providing high-quality medical information to doctors throughout Japan. Thanks to these efforts, *Tapros* got off to a start in line with our expectations in the highly competitive glaucoma segment and its sales reached ¥4.7 billion. In Europe, we are conducting direct marketing of *Taflotan* in 12 countries. In Asia, we have also launched and marketed tafluprost in Hong Kong and Korea since March 2010. Moreover, based on licensing agreements concluded with Merck & Co., Inc., of the U.S., in April 2009, tafluprost (sold under different product names in different countries) has been launched in countries where Santen does not have a strong sales platform, such as the United Kingdom, Spain, the Netherlands, and Italy. Also, another mainstay product, the corneal and conjunctival epithelial disorder treatment *Hyalein,* performed solidly. In December 2009, Santen launched an intraocular lens (IOL), *Eternity Natural,* which has made a favorable start. In addition, other major contributors to business results were up-front payments received pursuant to licensing agreements for tafluprost and an IOL, MD-14 (sold as *Eternity* in Japan).

Our R&D efforts are also steadily bearing fruit. In fiscal 2009, we received approval for DE-085 (tafluprost) in 18 European countries. Currently, we are proceeding with clinical development in China. Meanwhile, in Japan we filed an NDA in February 2010 for a bacterial conjunctivitis treatment, DE-108 (levofloxacin (1.5%)). In another initiative, in December 2009, Santen began clinical trials in the U.S. for a treatment for corneal and conjunctival epithelial disorder associated with dry eye as well as for allergic conjunctivitis, the selective glucocorticoid receptor agonist DE-110.

Q How do you see business conditions developing from fiscal 2010 onward? Based on these expectations, what tasks does Santen face?

"Santen needs to maintain a strong presence in the Japanese market while accelerating the development of overseas businesses."

In fiscal 2010 and beyond, we expect the tough business conditions to continue. In April 2010, Japan's prescription pharmaceutical industry saw a reduction of around 6.5% in product prices on average. In addition, growth in Japan's prescription pharmaceutical market is likely to remain weak due to the government's cost-containment policies aimed at reducing medical costs. Also, I expect competition will intensify due to other competitors launching new pharmaceuticals and an increase in the use of generic pharmaceuticals encouraged by the government.

As in Japan, a trend toward the curbing of prescription costs is clearly emerging in other developed countries. This trend together with falling birthrates means the pharmaceuticals markets of these developed countries are unlikely to grow significantly. Nevertheless, segments with unmet medical needs—corneal disorders, glaucoma, and retinal disorders—promise strong growth. Further, China and other emerging countries continue to grow rapidly. I am confident that succeeding in these fast-growing developing markets will help us achieve our long-term vision of becoming a global company. With this in mind, I believe our tasks going forward are to maintain a solid position in Japan while accelerating the pace of overseas business development. To achieve this, Santen needs to develop competitive new products for which there are significant medical needs and further strengthen the provision of medical information by medical representatives (MRs).

Q What are your priorities for fiscal 2010, the final year of the 2006–2010 Medium-term Management Plan? Can you begin by explaining your R&D initiatives?

"Santen will concentrate management resources on the corneal segment, the glaucoma disorders segment, and the retinal disorders segment. Through these initiatives, we steadily advance the development of new drug candidates."

In R&D, we will continue pursuing our basic strategy. We will concentrate our management resources on areas that promise growth and segments, such as corneal disorders, glaucoma, and retinal disorders, where we can take advantage of our strengths. At the same time, we will accelerate the process from development through to commercialization and sales. In accordance with this basic strategy, we will steadily advance the development of new drug candidates. Specifically, we will focus on the clinical development of DE-101 (rivoglitazone), a drug for corneal and conjunctival epithelial disorders; DE-104, a drug for glaucoma and ocular hypertension; and DE-110, a drug for anterior segment conditions. In Japan, we received approval in April 2010 for DE-089 (diquafosol sodium, to be sold in Japan as *Diquas*). We intend to seek early approval for DE-108, for which we have filed an NDA. Also, we will continue concentrating efforts on the clinical development of DE-105, a treatment for intractable persistent corneal epithelial defects, and DE-109 (sirolimus), a treatment for wet age-related macular degeneration (wet AMD) and diabetic macular edema (DME).

Also, in order to strengthen our pipeline for long-term growth, we will proactively in-license promising compounds in areas where we can utilize our strengths. In April 2010, we concluded an agreement with Clinical Data, Inc., of the U.S., for the in-licensing of the adenosine A_{2a} agonist compound ATL313. We expect this compound along with sirolimus, which we in-licensed in June 2008, to become promising new drug candidates in the glaucoma and the retinal disorders segments.

Q Next, please explain your sales and marketing of pharmaceuticals in Japan.

"Going forward, we will build even stronger relationships with doctors and medical professionals by strengthening our sales capabilities so that we are better able to understand the needs of each doctor and provide high-quality medical information to meet conditions of each patients."

The stable growth of our business in Japan, our earnings base, is indispensable if we are to achieve further globalization and become a global company. In fiscal 2010, National Health Insurance (NHI) drug price revisions and the aggressive use of generic pharmaceuticals stipulated by the government are likely to continue affecting our prescription ophthalmic pharmaceutical business. However, the glaucoma and corneal disorders segments are expected to continue growing. In these segments, our MRs will provide high-quality medical information in order to maximize the market value of our treatments. These initiatives will concentrate on *Tapros* and *Diquas* (diquafosol sodium), which we are currently preparing for launch. In June 2010, we launched the glaucoma and ocular hypertension treatment *Cosopt Combination Ophthalmic Solution,* for which we concluded a co-promotion agreement with Banyu Pharmaceutical, Co., Ltd., of Japan, in March 2010. Continuing to enrich our product lineup in this way will enable us to provide new prescription products in the glaucoma segment.

In addition, we will build even stronger relationships with doctors and medical professionals by strengthening our sales capabilities so that we are better able to understand the needs of each doctor and provide high-quality medical information to meet conditions of each patients.

As for anti-rheumatic pharmaceuticals, we intend to advance promotional campaigns and establish an even more solid presence in the market for disease-modifying anti-rheumatic drugs (DMARDs). Further, our medical devices business will make an all-out effort to penetrate markets, concentrating on the *Eternity* series. Also, we expect a contribution to earnings based on a licensing agreement concluded with Bausch & Lomb Inc., of the U.S.

Q In overseas businesses, which markets will you concentrate on and what strategies will you pursue in various markets?

"In the current fiscal year, I want to pave the way toward becoming a global company by further strengthening the business foundations we have established under the 2006–2010 Medium-term Management Plan."

We will expand our overseas businesses mainly in China, Northern Europe, Eastern Europe, and Russia. These are fast-growing regions where we have strong sales platforms.

In China, we expect that the prescription ophthalmic pharmaceutical market will grow approximately 15% annually for the immediate future. China is also likely to see changes in the health insurance policy and the medical environment. By stepping up our efforts, we aim to achieve further market penetration for our products and the Santen brand. As a result, we hope to grow operations at a rate surpassing market growth. Moreover, we are working to achieve the early marketing of DE-085 (tafluprost) and DE-089, which are currently under clinical development in China.

In Korea, we launched our first glaucoma and ocular hypertension treatment *Taflotan* (tafluprost) in May 2010. We consider Korea as an important market for Santen in Asia. To coincide with the launch of *Taflotan,* we will begin building a direct marketing business model.

In Europe, tafluprost has been approved in 27 countries, and launched in 16 of these countries. In fiscal 2010, we will strengthen our competitiveness by concentrating efforts on providing high-quality medical information and preparing for early launches in the countries where we are planning to introduce the product. Through these initiatives, I want to pave the way toward becoming a global company from fiscal 2011 onward by further strengthening the business foundations we have established under the 2006–2010 Medium-term Management Plan.

Q Lastly, please explain how Santen will become a global company from fiscal 2011 onward.

"By exploiting our strengths and providing beneficial products and services to customers worldwide, we want to become a company recognized as playing a significant role in the world."

Santen has developed into a unique pharmaceutical company specializing in the fields of ophthalmology and rheumatology. Looking ahead, by leveraging our strengths and providing beneficial products and services to customers worldwide, we want to become a company recognized as playing a significant role in the world.

In Japan, we will fully utilize the experience and expertise that we have accumulated over many years in the areas of ophthalmic and anti-rheumatic pharmaceuticals to further consolidate our market position.

We aim to increase the percentage of sales of overseas businesses. To achieve this, we will concentrate on maximizing the product value of such mainstay products as tafluprost and enhancing our global capabilities. In order to prevail amid intensifying competition, we will set our sights on unmet needs over the medium-to-long term and move forward with global efforts to develop competitive new products. Also, Santen needs to flexibly consider alliances with major companies as a means of achieving market penetration for products and generating earnings in regions where Santen does not have a strong sales platform. In addition, and this may be our most important initiative, we will build organizations and develop and hire personnel to support the ongoing expansion of overseas businesses.

Reaching Out Globally

Enhancing Competitive Strengths Globally

Santen's long-term vision is to become a global company by fiscal 2015. As the first step toward realizing this vision, we have been steadily increasing our competitiveness in overseas markets based on the 2006–2010 Medium-term Management Plan. This section focuses on Santen's overseas business development initiatives and achievements—which are key to the Company's growth going forward.

Becoming a Global Company

2015
Long-term Vision
- Become a global company
- Leader in ophthalmic and anti-rheumatic fields
- R&D oriented pharmaceutical company specializing in ophthalmology and other areas where we can leverage our strengths

2010
Second Step
The R&D investment will generate products that will allow Santen to accelerate global growth.

2006
First Step
2006–2010 Medium-term Management Plan

Creating new drug candidates and generating growth in promising regions by leveraging strengths

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

Aiming to Grow Overseas with a Strong Foundation in Japan

Calendar years (January 1 through December 31) have been used. Yen amounts have been translated into U.S. dollar amounts at a rate of US$1 = ¥93.04, the foreign exchange rate on March 31, 2010.

Santen maintains a strong position in Japan's prescription ophthalmic pharmaceutical market. Medical needs for the treatment of ocular diseases have increased as Japan's society ages, and we have utilized our strong sales capabilities to steadily grow sales of prescription ophthalmic pharmaceuticals in Japan. For the past six fiscal years, Santen has increased revenues year on year.

However, due to the bi-annual NHI drug price revisions and promotion for the increase usage of generic pharmaceuticals by the Japanese government, growth in Japan's prescription ophthalmic pharmaceutical market is likely to decline. Moreover, competition with other pharmaceutical companies is intensifying, and Japan's population is projected to decline due to a lower birthrate. Santen must maintain its market share in Japan while strengthening business development in overseas markets with greater growth potential in order to achieve further growth.

With this in mind, we are implementing the 2006–2010 Medium-term Management Plan. The basic policy of this plan is "Santen's Global Development: Creating New Drug Candidates, and Generating Growth in Promising Regions by Leveraging Strengths." Putting this policy into practice, Santen has steadily strengthened its competitiveness in overseas markets.

Creating New Drugs with Worldwide Competitiveness

The Nara Research and Development Center leads Santen's R&D initiatives.

For an R&D-oriented pharmaceutical company, new drug launches are a significant growth driver. Accordingly, under the 2006–2010 Medium-term Management Plan, we strive to accelerate product development and launch new drugs as quickly as possible. We have concentrated our R&D resources on segments with growth potential—the corneal disorders segment, the glaucoma segment, and the retinal disorders segment. Also, we introduced "network-based drug discovery." This method involves combining the knowledge and experience in ophthalmology and rheumatology that Santen has developed as a specialty company with the leading-edge technologies of other pharmaceutical companies and research institutions. Conducting joint research from the drug discovery stage helps us to reduce costs and thereby develop drugs that contribute significantly to profits. We used the "network-based drug discovery" method to develop the glaucoma and ocular hypertension treatment tafluprost (sold as *Tapros* in Japan and *Taflotan* in Europe and Asia), launched in 2008. Santen simultaneously conducted the clinical development of tafluprost in Japan, the U.S., Europe, and Asia. This new drug is sold in 19 countries and has become a major contributor to earnings.

Strengthening Overseas Business Foundations

Establishing a Direct Marketing System in China

The 2006–2010 Medium-term Management Plan calls on Santen to seek growth in regions by leveraging its strengths. Accordingly, in overseas markets we have concentrated our efforts on developing our businesses in China, Northern Europe, Eastern Europe, and Russia where we have already established sales platforms. Also, the prescription ophthalmic pharmaceutical markets in these regions promise higher growth rates than Japan. Among these regions, China's market continues outstanding growth of roughly 15% annually.

Establishing a direct marketing system in China has been a major achievement of the 2006–2010 Medium-term Management Plan. We entered China's prescription ophthalmic pharmaceutical market in 1988 using local sales agents. In 2005, we established Santen Pharmaceutical (China) Co., Ltd., as the next step in building a direct marketing system. In 2007, we completed construction of a plant in the city of Suzhou and started up operations in the following year. In conjunction with these efforts, we deployed locally hired medical representatives (MRs) in China's principal cities, and then began direct marketing in 2009.

At present, we have a team of about 120 MRs, who are working to increase sales. Including the period before we began direct marketing, we have held the largest share of China's prescription ophthalmic pharmaceutical market for almost 10 years.

Further, we have introduced the doctor marketing (DM) strategy* that we use in Japan to China in order to provide doctors with scientific information that reflects their needs. At the same time, we have built a medical information support system that enables MRs to efficiently perform high-quality sales activities. MRs can accumulate information received from doctors in the course of their daily activities and utilize the database. One year has passed since we started direct marketing activities, and our business in China is on course to become profitable.

* The doctor marketing (DM) strategy is Santen's original marketing strategy. Under this strategy, we provide solutions suited to the needs of each doctor and offer appropriate recommendations for prescriptions. This develops closer relationships with doctors and thereby secures a competitive advantage, which leads to favorable business results. Santen began this strategy in Japan in 2005.

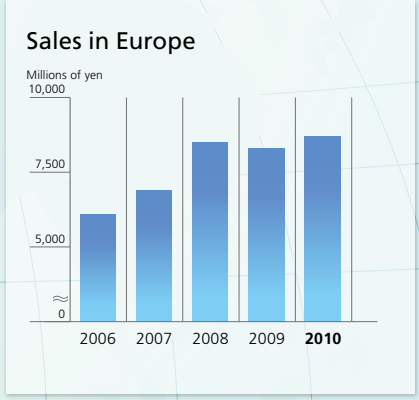
Supporting Santen's direct marketing, the Suzhou Plant of Santen Pharmaceutical (China) Co., Ltd.

Further Expanding Businesses in Europe

We are steadily expanding our businesses in Northern Europe, Eastern Europe, and Russia. In fiscal 2009, sales in Europe reached ¥8.7 billion. This represents an increase of approximately 1.5 times over the preceding four years. The higher sales reflect growing markets in the respective countries, successful promotional campaigns, and new product launches. For example, Santen launched the anti-infective ophthalmic solution *Oftaquix* (sold as *Cravit* in Japan) in Russia in fiscal 2007 and launched *Taflotan* (tafluprost) in Europe in fiscal 2008.

Meanwhile, we concluded a licensing agreement for tafluprost with Merck & Co. in April 2009. This agreement grants sales rights to Merck & Co. in regions where Santen does not have a strong sales platform, including Western Europe (excluding Germany), North America, South America, and Africa. As a result, since September 2009, *Taflotan* has been launched in the United Kingdom, Spain, the Netherlands, and Italy and has achieved further market penetration in Europe.

Taflotan has been approved in 27 European countries and, including marketing by Merck & Co., is sold in 16 of them. In the large German market, *Taflotan* is achieving further market penetration and has become a driver of expansion in our European operations.



Becoming a Specialty Company with Global Presence

We will continue strengthening our businesses in China, Europe, and other regions where we can utilize our strengths. In China, we will strive to grow faster than the market growth, by providing tailored medical information and expanding our product lineup. In Europe, we will seek further market penetration for *Taflotan* and prepare to launch it in the remaining countries as soon as possible to boost earnings.

In addition, we launched tafluprost in Hong Kong in March 2010 and in Korea in May 2010. Concurrently with the launch of tafluprost, we strengthened direct marketing in Korea.

Setting our sights on opening up new markets, we will accelerate globalization. To achieve this goal, it is critical to rapidly launch or introduce competitive new pharmaceuticals for which there are significant medical needs. With this in mind, in Japan and the U.S we will continue efficient clinical development of DE-101, a drug for corneal and conjunctival epithelial disorders; DE-104, a drug for glaucoma and ocular hypertension; and DE-110, a drug for anterior segment conditions. At the same time, in Japan and overseas we aim to proceed with clinical development of DE-109, a drug for wet age-related macular degeneration (wet AMD) and diabetic macular edema, which we purchased worldwide development, manufacturing and sales rights from MacuSight, Inc., of the U.S., in June 2010. Also, in order to shorten development periods even further, we intend to strengthen our clinical development organization globally. Using the experience we gained from the development of tafluprost, we will prepare development plans based on the consideration of differences among countries relating to organizations and business environments. We are confident this approach will increase the likelihood of successful clinical development.

Through such initiatives, Santen will continue to strengthen its business in overseas markets while developing competitive new drugs. Our overriding goal in these efforts is to become a specialty company with global presence.

Status of Medium-term Management Plan

	FY2006–09 achievements	FY2010 plans
1 Enhance global strategic pipeline		
1-1. Development of global strategic product candidates * To be applied and launched mainly in Japan	DE-101: Phase 1 and 2 (U.S.) Phase 2b (Japan)	Phase 2b or later
	DE-104: Phase 1 and 2 (U.S.) Phase 2 (Japan)	
	DE-110: Phase 1 (U.S.)	Phase 2a or later
	DE-085: Approved (Japan, Asia, Europe)*	Increase applications, approval*
	DE-089: Applied*	Approval*
	MD-14: Approved* MD-14: Improved injector* MD-14N: Approved*	
2 Generate growth in Japan, Northern/Eastern Europe, Russia and China Focus U.S. activities on clinical and business development		
2-1. Japan: Successful launch of new glaucoma, corneal and IOL products and early maximization of their product value		
Glaucoma (New product)	DE-085 launched November 2008	Early maximization of product value of DE-085
Glaucoma (Existing product)	Implemented promotional campaigns, increased sales	Implement promotional campaigns, increase sales (Continue)
Corneal disorders (New product)		DE-089 launch expected
Corneal disorders (Existing product)	Disease awareness campaign for dry eye	Increase prescriptions by further improving ability to provide prescription recommendations
Intraocular lens (IOL)	Launched MD-14 and MD-14N	Increase sales of MD-14 and MD-14N
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	
	Launched *Oftaquix* (Russia)	Early maximization of product value of *Oftaquix* (Continue)
* Including two countries in which Merck & Co. marketed the product	Launched DE-085 (in 12 European countries*) and licensed it	Early maximization of product value of DE-085 (Continue)
2-3. China: Strengthen business base and competitiveness by starting local production and establishing direct sales organization		
Establish direct sales organization	Began direct marketing	Increase and strengthen direct marketing
	Increased prescriptions by providing specialist academic information	Further increase prescriptions
2-4. U.S.: Focus on clinical 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 (contingency planning)	Formulated reorganization plan for production lines	Reorganize production lines
	Began and completed construction of plant in China Started packaging operations	
4 Strengthen human resources and organizational capabilities on a global basis (Develop human resources; reorganization)		
4-1. Develop core human resources	Assessed HR and formulated HR development plan	Assess HR and implement HR development plan
4-2. Develop organizational capabilities	Enhanced planning and business development	Enhance global organization

120 Years of Progress

Since its foundation, Santen has grown by providing excellent products and services based on a philosophy of always considering things from the customer's perspective. Santen's Values, the Japanese phrase *tenki ni sanyo suru*, is derived from Santen's original interpretation of a passage from a Chinese classic text, *The Doctrine of the Mean**. This passage means that we should explore the secrets and mechanisms of nature and thereby contribute to improving people's health. Based on Santen's Values, we have constantly created and innovated products and services over the 120 years since our foundation in order to remain ahead of the times and benefit society.

* One of the Chinese classic texts comprising the *Four Books of Confucianism,* which also includes *The Analects of Confucius, The Mencius,* and *The Great Learning*

A Summarized History of Santen's Product Innovation

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

1890 ▶ *Heburin-gan,* a cold medicine

1899 ▶ ***Daigaku Eye Drops***

Taguchi Santendo, which later became Santen, cultivated a scientific image for its products at a time when most eye drops were considered to be mysterious items sold by shrines or temples. It incorporated the word daigaku, or university, into a product name and emphasized that the product was prescribed at Tokyo Imperial University. Moreover, Taguchi Santendo used an innovative marketing strategy that included Japan's first newspaper advertisements for eye drops. Thanks to these efforts, *Daigaku Eye Drops* quickly became popular throughout Japan even though it was relatively expensive. To this day, we sell *Daigaku Eye Drops,* which has been a trusted brand for more than 100 years.

1956 ▶ *Sante de U*

1962 ▶ **Mydriatic drug *Mydrin-P***

We in-licensed this cycloplegic mydriatic ophthalmic solution from the Swiss pharmaceutical company Roche. *Mydrin-P* contributed to the advancement of ophthalmic surgery and diagnostic technology. And, it began to establish Santen's favorable reputation in the field of prescription ophthalmic pharmaceuticals.

▶ ***Super Sante***

This product featured the world's first plastic container for eye drops. It earned strong endorsement from consumers because it was easy to carry and use.

1963 ▶ **Liver detoxification agent *Thiola***

This was the first drug Santen successfully created. It laid the foundation for Santen's evolution as an R&D-oriented pharmaceutical company. *Thiola* significantly contributed to Santen's subsequent development of new drugs. For example, based on a compound synthesized from *Thiola,* we developed the anti-rheumatic *Rimatil.*

1970 ▶ Antibiotic ophthalmic *Ecolicin*

1975 ▶ Anti-inflammatory ophthalmic *Flumetholon*

1981 ▶ *Timoptol,* a treatment for glaucoma and ocular hypertension

1985 ▶ *Sante 40 NE*

1987 ▶ **Anti-infective ophthalmic solution *Tarivid***

The world's first anti-infective ophthalmic in the quinolone class, this product has established a strong reputation among medical professionals due to its powerful anti-infective properties.

▶ Anti-rheumatic *Rimatil*

1991 ▶ ***Sante FX***

Santen launched *Sante FX,* an eye drop with a powerful refreshing effect that was revolutionary among over-the-counter products at the time. Also, unique commercials helped heighten public awareness. Current products *Sante FX Neo* and *Sante FX V Plus* still use the signature *Sante FX* container.

1992 ▶ *BSS PLUS,* an ophthalmic perfusion and bathing solution

▶ *Kary Uni,* a treatment for early-stage senile cataracts

1995 ▶ **Corneal and conjunctival epithelial disorder treatment *Hyalein***

This product attracted attention by establishing a new therapeutic area: treatment for corneal and conjunctival epithelial disorders associated with dry eye. Since its launch, *Hyalein* has helped improve the quality of life of many patients.

▶ Anti-allergy ophthalmic *Alegysal*

▶ Anti-rheumatic *Azulfidine EN*

▶ *OPEGAN Hi,* an adjuvant for ophthalmic operations

1999 ▶ *Timoptol XE,* a treatment for glaucoma and ocular hypertension

▶ *Sante FX Neo*

2000 ▶ **Anti-infective ophthalmic solution *Cravit***

This has become the first-choice treatment for eye infections thanks to powerful anti-infective properties and excellent intraocular penetration. This product is also known as *Oftaquix* or *Quixin* in some markets outside Japan.

2001 ▶ *Detantol,* a treatment for glaucoma

▶ Anti-allergy ophthalmic *Livostin*

2002 ▶ *Sante de U Plus E Alpha*

▶ **Introduction of the Dimple Bottle ophthalmic solution container**

The Dimple Bottle was Santen's first independently developed container for prescription ophthalmics. The product of uncompromising efforts to achieve patient friendliness, the Dimple Bottle has received strong approval from patients and medical professionals. In 2008, it won a Good Design Award.

2004 ▶ Anti-rheumatic *Metolate*

2006 ▶ *PAPILOCK Mini*, a treatment for vernal keratoconjunctivitis

▶ *Sante Medical 10*

2008 ▶ Nutritional supplement *Sante Lutax*

▶ *Sante 40i*

▶ *Eternity* foldable intraocular lens

▶ **Glaucoma and ocular hypertension treatment *Tapros***

This treatment resulted from Santen's first ever global development of a drug in four regional centers—Japan, the U.S., Europe, and Asia. It is currently sold in 19 countries. In prescription ophthalmic pharmaceutical markets in Japan and overseas, *Tapros* has become a focus of attention as a new drug that addresses unmet needs in the glaucoma segment.

2009 ▶ *Sante FX V Plus*

▶ *Eternity Natural* foldable intraocular lens

2010 ▶ *Cosopt,* a treatment for glaucoma and ocular hypertension

Aiming to Contribute to Healthcare Based on Santen's Values

Santen has conducted its business activities based on Santen's Values: "By focusing our efforts on ophthalmology and related areas, we develop scientific knowledge and organizational capabilities which are unique and original to Santen. We use our unique capabilities to contribute to patients and their loved ones, and consequently to society." This year, Santen is celebrating its 120th anniversary. First and foremost, we would like to sincerely thank our customers and stakeholders, who have supported our progress.

Over the past 120 years, business conditions have changed dramatically. However, we have continued to grow by tirelessly creating and innovating in accordance with Santen's Values. Moreover, Santen is passing on these values to a new generation as part of its corporate DNA. I hope that Santen always approaches business from the customer's perspective and continues to provide pharmaceuticals and services that meet the needs of society.

Takakazu Morita
Director, Senior Advisor

Research and Development

Basic R&D Strategy

The fundamental R&D strategy of Santen is to focus its resources on growth areas where its strengths can be fully utilized and where there is significant growth potential. Based on this strategy, we have specialized in R&D in the fields of ophthalmology and rheumatoid arthritis. Our R&D base is the Nara Research and Development Center, which consolidates preclinical divisions and develops new drugs efficiently and rapidly. Within ophthalmology, we narrowed our focus on the three therapeutic areas of corneal disorders, glaucoma, and retinal disorders to enable us to advance quality, increase volume, and enhance speed for ophthalmology research initiatives.

The markets for corneal disorders, glaucoma and retinal disorders treatments are expanding as the global population ages, and consequently the number of patients in these segments grows. There are few retinal disorders treatments available. This results in a considerable need to develop effective new drugs. Therefore, Santen will develop new drugs in these important fields to fulfill unmet medical needs and help enhance patients' quality of life.

Enriching Our Development Pipeline

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 engage in joint research efforts to develop strong candidate compounds based on in-house ideas, including the glaucoma and ocular hypertension treatments *Tapros* (tafluprost) and DE-104, which is currently under development.

By applying these drug discovery methods, we aim to create a rich development pipeline that will generate a steady flow of marketable new products. Further, Santen also secures backup compounds for each development candidate to reduce the inherent risk of additional R&D activities and expenses.

Accelerating and Globalizing R&D Capabilities

Aiming to rapidly develop and market innovative new drugs that are competitive worldwide, we place a strong emphasis on accelerating and globalizing our R&D.

Through efforts to accelerate R&D, Santen has worked steadily 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 and clinical testing to five years. The 2006–2010 Medium-term Management Plan highlights continuous reviews of in-house R&D processes. Aiming to build an even more efficient R&D system, we are working to accelerate R&D activities through such initiatives as consolidating preclinical divisions in the Nara Research and Development Center.

In globalizing efforts, we now have a clinical development network spanning three centers—Japan, the U.S. and Europe. In addition to these centers, we are developing a system for simultaneous international joint development including China and other major Asian countries in order to move forward with measures to realize joint international trials. Further, we aim to continue reducing clinical development lead times and costs by standardizing clinical trial protocols and sharing data among regions.

Moreover, in order to develop marketed products, we generate clinical evidence to enable us to recommend prescriptions and treatments that take advantage of product characteristics.

Development Advances

Santen focuses R&D on three core therapeutic fields: corneal disorders, glaucoma and retinal disorders. The progress of our development efforts as of July 31, 2010, is as follows.

Corneal Conjunctival Disorders Segment

In April 2010 in Japan, we received approval for DE-089 (diquafosol sodium), a treatment for dry eye. Currently, we are preparing to market in Japan, and Phase 3 clinical trials are underway in China. Regarding DE-101 (rivoglitazone), a treatment for corneal and conjunctival epithelial disorders associated with dry eye, given the results of Phase 2a clinical trials in the U.S. and Japan, we are conducting Phase 2b clinical trials in Japan and additional Phase 1 and Phase 2 clinical trials in the U.S. with higher dosages. As for DE-105, a treatment for persistent corneal epithelial defects, Phase 2 clinical trials are currently underway in Japan. Further, in the U.S. we are preparing for Phase 2a clinical trials of DE-110, a treatment for corneal and conjunctival epithelial disorders associated with dry eye as well as for allergic conjunctivitis. DE-110 is a selective glucocorticoid receptor agonist for anterior segment conditions.

Glaucoma Segment

In Japan, we began sales of the prostaglandin derivative DE-085 (tafluprost, sold as *Tapros* in Japan and *Taflotan* in Europe) in December 2008. Santen launched sales in Germany in June 2008, and it markets directly in 12 countries in Europe at present. Following a March 2010 launch in Hong Kong, the product was introduced in Korea in May 2010. Phase 3 clinical trials are underway in China. Through another initiative, in April 2009, we concluded a licensing agreement with Merck & Co., Inc., granting it sales rights in Western Europe (except Germany), North America, South America, and Africa. Accordingly, Merck & Co. has marketed tafluprost in the United Kingdom, Spain, the Netherlands, and Italy since September 2009. Tafluprost is also in the clinical development process in the U.S. by Merck & Co.

As for the ROCK inhibitor DE-104, given the results of Phase 2a clinical trials in Japan and the U.S., we are aiming to increase efficacy for reduction of intraocular pressure through additional Phase 1 and Phase 2a clinical trials based on higher dosages, which are finished in the U.S.

Further, in April 2010, Santen in-licensed a highly selective adenosine A_{2a} agonist compound, ATL313, for the development of topical treatments for certain ophthalmic diseases including glaucoma from Clinical Data, Inc.

Retinal Disorders Segment

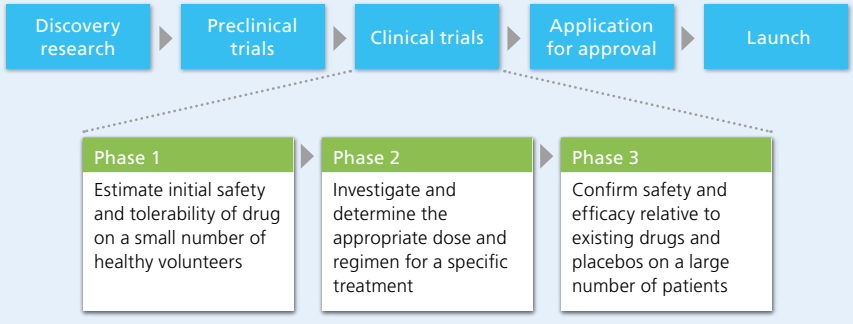
A treatment for diabetic macular edema (DME), DE-102, is in Phase 1 and Phase 2a clinical trials in Japan to determine safety and efficacy in patients. Also, for DE-109 (sirolimus) Phase 1 and Phase 2a clinical trials are underway in Japan to determine safety and efficacy for patients with wet age-related macular degeneration (wet AMD) and with DME. In June 2010, Santen acquired global rights from MacuSight, Inc. for the development, manufacturing, and marketing of sirolimus. Accordingly, we aim to develop sirolimus globally.

Other Areas

In Japan, we completed Phase 3 clinical trials for the bacterial conjunctivitis treatment DE-108 (levofloxacin (1.5%)) and filed an NDA in February 2010. This application is currently under evaluation. Further, the anti-APO-1 antibody rheumatoid arthritis treatment DE-098 is in Phase 1 and Phase 2 clinical trials in Europe and Japan to determine safety and efficacy.

About Research and Development

After passing preclinical trials for safety and efficacy, new drug candidates are put through the clinical trial phases outlined on the right. Upon receiving manufacturing and marketing approval, they can be sold as prescription pharmaceuticals.



Pipeline of Prescription Pharmaceuticals (Clinical Development)

As of July 31, 2010

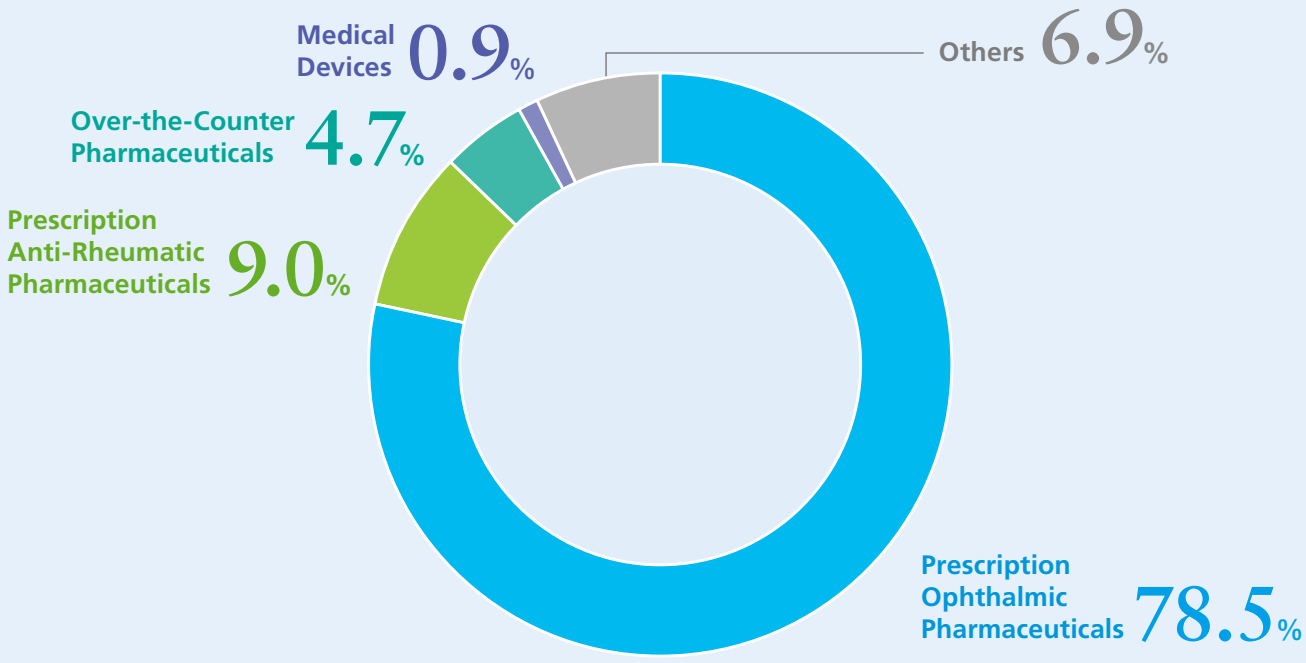
Category
- Global strategic product
- Global product
- Japan and Asian product

Dev. Code / Generic Name (Original/Licensor)	Indication	Region	Phase 1	Phase 2	Phase 3	NDA Filed	Approved	Characteristics
Corneal and conjunctival epithelial disorders								
DE-089 Diquafosol sodium (Inspire Pharm.)	Dry eye	Japan					April 2010	A treatment for dry eye that stimulates the ocular surface to secrete mucin and tear fluid. It has a different mechanism of action from existing treatments. It was approved for manufacturing and marketing in Japan in April, 2010 and is in preparation for commercial launch. Phase 3 clinical trials are being conducted in China. * excluding Japan
		Asia*						
DE-101 Rivoglitazone (Daiichi Sankyo)	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	U.S.			Phase 1/2			Expected to show a potent effect on corneal and conjunctival epithelial disorder mostly associated with dry eye by directly acting on the corneal and conjunctival epithelial cells. It has a unique mechanism of action which differs from existing treatments.
		Japan						
DE-105 Undetermined (Original)	Persistent corneal epithelial defects	U.S.						Expected to accelerate corneal epithelial migration and demonstrate high safety for intractable persistent corneal epithelial defects compared with existing therapy.
		Japan						
DE-110 Undetermined (Original)	Corneal and conjunctival epithelial disorder associated with dry eye, etc. Allergic conjunctivitis	U.S.			In preparation			A new type of anti-allergic agent with non-steroidal chemical structure. A selective glucocorticoid receptor agonist (SEGRA). Phase 2a clinical trials are in preparation in the U.S. for the treatment of anterior eye disorders such as corneal and conjunctival epithelial disorder associated with dry eye, etc. and allergic conjunctivitis.
Glaucoma								
DE-085 Tafluprost (Co-development with Asahi Glass)	Glaucoma Ocular hypertension	Japan					Launched, December 2008	Prostaglandin derivative for treatment of glaucoma and ocular hypertension. Commercially launched in Japan in December 2008. Also launched in Europe such as in Germany, Denmark, etc. and in Asia, Hong Kong and Korea. Phase 3 clinical trials are currently being conducted in China. Development rights in the U.S. were granted to Merck & Co. in April 2009. * excluding Japan
		Europe					Launched, June 2008	
		U.S.			(License out)			
		Asia*					Launched, March 2010	
DE-090 Lomerizine HCl (Schering-Plough)	Glaucoma	Japan			In preparation			A new type of glaucoma treatment studied for inhibiting the progression of visual field defects. The only calcium antagonist in development as an oral glaucoma treatment. Compared with NMDA receptor antagonists, fewer systemic side effects are expected, thus having excellent safety. Marketed by Schering-Plough as a migraine treatment.
DE-104 Undetermined (Co-development with Ube Industries)	Glaucoma Ocular hypertension	U.S.			Phase 1/2			A ROCK inhibitor co-developed with Ube Industries for treatment of glaucoma and ocular hypertension has a different action mechanism from any other existing drugs. Expected to show a strong intraocular pressure reduction by promoting aqueous humor outflow by acting directly on trabecular meshwork cells.
		Japan						
Retinal disorders								
DE-102 Undetermined (Co-development with Oakwood)	Diabetic macular edema	Japan			Phase 1/2			A steroid microsphere product for a sustained release injection. Animal studies demonstrated sustained efficacy when injected around the affected area. Collaborated with Oakwood Laboratories (U.S.) for technical development on a commercial scale.
DE-109 Sirolimus (Original)	Wet age-related macular degeneration (wet AMD) Diabetic macular edema	Japan			Phase 1/2			Subconjunctival or intravitreal injection with immunosuppressive effect, anti-angiogenic effect, etc. Santen acquired development, manufacturing and marketing rights of sirolimus from MacuSight in June 2010.
Ophthalmic infections								
DE-108 Levofloxacin (1.5%) (Daiichi Sankyo)	Bacterial conjunctivitis	Japan					February 2010	A fluoroquinolone antibacterial agent with higher-concentration. Filed for manufacturing and marketing approval.
Rheumatoid arthritis								
DE-098 Undetermined (Centocor)	Rheumatoid arthritis	Japan			Phase 1/2			Joint injection that induces apoptosis in diseased joints of rheumatoid arthritis patients. Bulk pharmaceutical manufacturing process for actual production scalehas been established. The compound had been in-licensed from Centocor. Clinical trials are being conducted in Japan and Europe.
		Europe			Phase 1/2			

Review of Operations

Year ended March 31, 2010

Consolidated Net Sales ¥110,594 million +8.8%



Prescription Ophthalmic Pharmaceuticals

Share of Japanese Market 37.3% Position in Japanese Market No. 1[1]

In Japan, approximately 400 medical representatives (MRs) implement promotional campaigns. Marketing a broad range of ophthalmic pharmaceutical products, such as treatments for corneal and conjunctival epithelial disorders, glaucoma, anti-infective ophthalmics, and anti-allergy ophthalmics, Santen has secured market-leading positions.

Overseas, Santen markets *Hyalein, Cravit* and *Tapros* (brand names differ according to region) and other products through sales networks in the U.S., Europe and Asia.

Over-the-Counter Pharmaceuticals

Share of Japanese Market 19.9% Position in Japanese Market No. 2[3]

Our OTC pharmaceutical business markets eye drop brands in Japan, such as the *Sante FX* series, one of Japan's leading eye drop brands; the *Sante 40* series, which improves blurred vision; and the *Sante de U* series, for tired eyes.

Prescription Anti-Rheumatic Pharmaceuticals

Share of Japanese Market 43.9% Position in Japanese Market No. 1[1]

In Japan, we offer *Rimatil* and *Azulfidine EN,* the doctors' disease modifying anti-rheumatic drugs (DMARDs)[2] of choice for treating rheumatoid arthritis.

Medical Devices

In Japan, Santen handles medical devices used in cataract surgery, including the intraocular lenses *Eternity* and *Eternity Natural.*

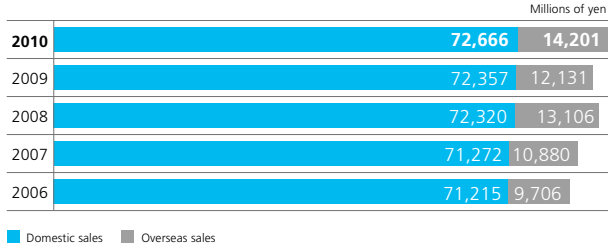
Notes: 1. Market share and market position in Japan for the year ended March 31, 2010. The share and position for anti-rheumatic pharmaceuticals represent those in the DMARDs segment.
Source: Santen analysis based on IMS data.
2. A class of medicines that are used not only to alleviate symptoms but also 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, 2010.
Source: Santen Pharmaceutical Co., Ltd.

Prescription Pharmaceuticals: Ophthalmic Pharmaceuticals

Net Sales

¥86,867 million +2.8%

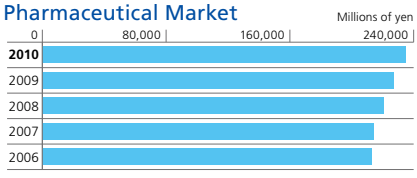
Sales of Prescription Ophthalmic Pharmaceuticals



JAPAN

In fiscal 2009, the Japanese prescription ophthalmic pharmaceutical market grew 3.5%, to ¥234,900 million, due to growth in sales of products for corneal disorders, glaucoma, and retinal disorders. Amid these market conditions, Santen's domestic prescription ophthalmic pharmaceutical net sales edged up 0.4%, to ¥72,666 million. This increase was due to our advancement of promotional activities in which our MRs provided individual doctors and medical facilities with scientific information tailored to their changing needs.

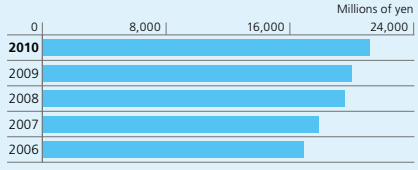
Prescription Ophthalmic Pharmaceutical Market



Treatments for Corneal and Conjunctival Epithelial Disorders

Hyalein

Sales of *Hyalein*



Including sales in Asia

Santen products hold close to an 80% share of the market for the treatment of corneal and conjunctival disorders associated with dry eye. This market expanded 3.9%, to ¥31,700 million, in fiscal 2009. 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 dry eye is correctly diagnosed and treated through regular consultations with an ophthalmologist. As this condition is not widely recognized, 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 and contact lenses and the aging of Japan's population. As a result, the market for effective treatments for corneal and conjunctival disorders is expected to continue growing.

Santen's mainstay product *Hyalein,* a treatment for corneal and conjunctival epithelial disorders, has earned unequivocal endorsement as the first choice in the treatment for dry eye. It 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 dry eye. In fiscal 2009, sales of *Hyalein* grew steadily, increasing 2.6%, to ¥19,018 million, thanks to these product characteristics and Santen's dry eye awareness campaign targeting patients and medical professionals.

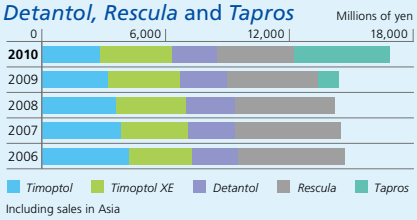
Santen plans to continue promoting greater understanding of the diagnosis and treatment of dry eye to further raise awareness, and expects that, as a result, new patients will consult their doctors and existing patients will maintain appropriate courses of treatment. We believe this will contribute to expanded awareness of dry eye treatment as well as strengthen our presence in that market. Furthermore, in April 2010, we received approval for a new product for dry eye, *Diquas*. Moving forward, we will continue efforts to expand and improve our development pipeline to further enhance our product lineup.

Treatments for Glaucoma

Tapros

Detantol

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



Including sales in Asia

Treatments for glaucoma represent the largest sector of Japan's prescription ophthalmic pharmaceutical market, accounting for approximately 38% of the total. 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. Glaucoma is one of the most common causes of blindness in people with ophthalmic disease. According to epidemiological studies, there are a large number of individuals with glaucoma who have not been diagnosed by doctors. Early detection and treatment of the disorder has become a major issue. Combined with increasing patient numbers from Japan's aging population, the glaucoma market has expanded steadily, growing 4.1%, to ¥88.5 million, in fiscal 2009.

In December 2008, Santen introduced *Tapros,* which meets the treatment needs of patients with glaucoma and ocular hypertension in Japan. Reflecting advancing market penetration, *Tapros* sales reached ¥4,685 million in fiscal 2009. As a result, the combined sales of our five leading products—*Tapros, Rescula, Detantol, Timoptol XE* and *Timoptol*—rose 18.4% year on year, to ¥16,831 million.

Santen aims to rapidly maximize the value of *Tapros* while continuing to highlight the particular benefits of *Rescula* and *Detantol*.

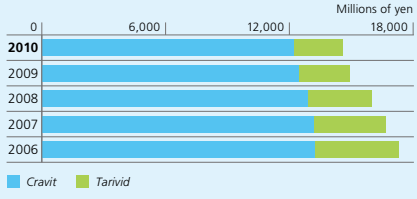
Additionally, in June 2010, we launched *Cosopt Combination Ophthalmic Solution,* for which we concluded a co-promotion agreement with Banyu Pharmaceutical Co., Ltd. By enhancing our product lineup in the field of glaucoma, we will further facilitate our ability to propose new treatment methods for glaucoma and ocular hypertension. We will heighten our presence in the glaucoma treatment sector by providing the latest glaucoma-related information and advice on prescribing pharmaceuticals to meet the needs of medical professionals.

Anti-Infective Ophthalmics

Cravit

Tarivid

Sales of *Cravit and Tarivid*



Including sales in Asia

The anti-infective ophthalmic pharmaceutical market is trending downward due to the shortening of the treatment duration for anti-infective ophthalmic products after cataract and other ocular surgeries.

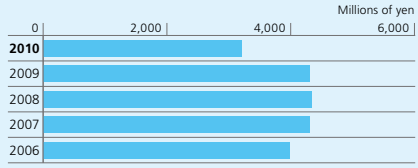
Santen dominates the anti-infective ophthalmic pharmaceutical market with a share of 70%, supported by its two key products, *Cravit* and *Tarivid,* which both display strong antibacterial properties, broad-spectrum coverage (effective against a wide range of infections) and excellent intraocular penetration and safety. Both are widely used for conjunctivitis, keratitis and preventing pre-operative and post-operative eye infection. As a result of market contraction and increased competition, combined sales of *Cravit* and *Tarivid* declined by 6.3%, to ¥12,966 million, in fiscal 2009.

We will continue to promote *Cravit,* highlighting the scientific data supporting its superior clinical efficacy and safety. In addition, providing the latest information on ophthalmic disease will help reinforce the position of *Cravit* 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.

Anti-Allergy Ophthalmics

Livostin

Sales of *Livostin*



Because cedar pollen levels, a cause of allergic conjunctivitis, were lower in Japan during fiscal 2009, the anti-allergy ophthalmic pharmaceutical market decreased by 15.0%, to ¥24,000 million.

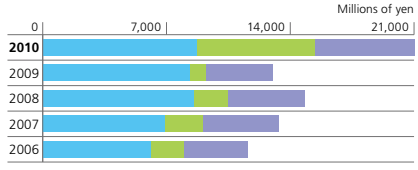
Santen maintained its strong presence in the anti-allergy ophthalmic pharmaceutical market, holding a 19.8% share. Against this backdrop, we continued strong product marketing and disease-related educational efforts. However, partly due to increased competition in this sector, *Livostin* sales declined by 24.9% year on year, to ¥3,229 million.

Livostin provides rapid relief from year-round and seasonal allergy symptoms such as itching and redness and thus contributes to an improved patient quality of life. By continuing to emphasize these product characteristics, we aim to expand both sales and market share of this product.

OVERSEAS

In fiscal 2009, although markets for prescription ophthalmic pharmaceuticals contracted in the U.S., they were solid overall in Europe and Asia. Amid these conditions, Santen focused efforts on promotional campaigns for its products by providing medical information. Consequently, sales increased in Europe and Asia, centered on China, and after conversion into yen, total overseas sales of prescription ophthalmic pharmaceuticals rose 17.1%, to ¥14,201 million.

Overseas Sales



Including prescription ophthalmics and other products

Europe

The European market for prescription ophthalmic pharmaceuticals has been growing for several years at over 10% per year, triggered by a combination of rising numbers of patients diagnosed 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 healthcare cost-containment policies, so conditions surrounding the European prescription ophthalmic pharmaceutical market are becoming increasingly challenging. 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 is advancing its sales and marketing activities in 33 European countries, including Russia, Germany and those in Northern and Eastern Europe. The anti-infective ophthalmic solution preparation *Oftaquix* (sold as *Cravit* in Japan) has gained an excellent reputation among ophthalmologist surgeons for its superior reliability in preventing and healing eye infections and is now available in 27 countries. Additionally, Santen has obtained approval for *Taflotan* (tafluprost, sold as *Tapros* in Japan) in 27 countries. Currently, we market this product directly in 12 countries including Germany. In April 2009, we concluded a licensing agreement with Merck & Co., Inc., granting tafluprost sales rights in Western Europe (except Germany), an area in which Santen does not have a strong sales platform. Also, we have enabled a wider-ranging

overseas rollout by also granting that company sales rights in North America, South America and Africa. Furthermore, our subsidiary in Finland, Santen Oy, manufactures pharmaceuticals for the European and the U.S. markets, and it also conducts R&D and clinical development as our European R&D center.

Santen will continue promotional campaigns for its core products, expecting continuous sales increases of *Taflotan*. At the same time, we will advance preparations to develop and launch new products in Europe.

World Ophthalmology Congress held in Berlin, Germany, in June 2010

Asia

In Asia, Santen operates in China, Korea and the ASEAN nations. Our vision for the Asian market is to become the top ophthalmic drug manufacturer. Accordingly, we are striving to enhance trust-based relationships with patients and medical professionals, thereby contributing to the improvement of ophthalmic treatment in the region.

The Chinese market is expected to see strong sales growth in the medium to long term as the country continues its upward economic trend and the numbers of doctors and patients increase in line with the development of the medical infrastructure. In September 2005, we established Santen Pharmaceutical (China) Co., Ltd., which started up operations at our manufacturing plant in Suzhou in October 2008 and began direct marketing in January 2009. Santen Pharmaceutical (China) has branches in Beijing, Shanghai, and Guangzhou as well as 30 sales offices throughout China. The company sells prescription ophthalmic pharmaceutical products, such as *Cravit* anti-infective eye drops, and *Hyalein,* a corneal and conjunctival epithelial disorder treatment. Concentrating on urban centers in China, we provide specialists with high-quality academic information on ophthalmic disease.

Also, we are working to increase the penetration of the Santen brand in the Korean and ASEAN markets through Santen Pharmaceutical Korea, Co., Ltd. and local agencies. In May 2010, we launched glaucoma treatment *Taflotan* in Korea. We have started sales through Santen Pharmaceutical Korea and are providing academic information on ophthalmic disease through our own MRs.


The Suzhou Plant, started up by Santen Pharmaceutical (China) Co., Ltd. in October 2008

North America

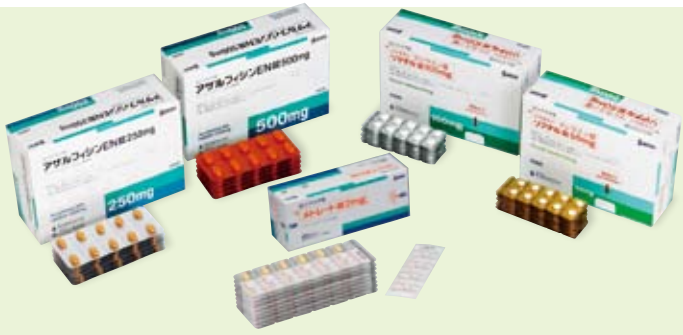
In the U.S., where it has one of its R&D bases, Santen is advancing the clinical development of DE-101 (rivoglitazone), DE-104, DE-105, and DE-110. In conjunction with these initiatives, we are increasing business development activities to expand and improve our development pipeline. Further, we market the following products under a licensing agreement with VISTAKON Pharmaceuticals, LLC, of the U.S.: 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 high-concentration levofloxacin ophthalmic solution *IQUIX*.

Prescription Pharmaceuticals: Anti-Rheumatic Pharmaceuticals

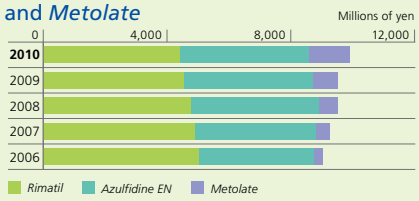
Net Sales

¥9,908 million +1.7%

Sales of Prescription Anti-Rheumatic Pharmaceuticals



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



Although the causes of rheumatoid arthritis (RA) are not yet well understood, RA 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 ¥25,700 million, in fiscal 2009, due to progress in diagnostic technologies, greater availability of those technologies, an increase in the number of patients in line with the population aging, and increased prescriptions of higher-priced medications.

Santen has built its leading position in the prescription anti-rheumatic pharmaceutical market through active promotion of *Rimatil, Azulfidine EN* and *Metolate* in hospitals and clinics. Among the sales results of core products in the period under review, *Rimatil* declined by 4.1%; *Azulfidine EN,* which displays early-onset effect characteristics, edged up 0.7%; and *Metolate,* launched in July 2004, made good inroads in the market. As a result, net sales of prescription anti-rheumatic pharmaceuticals increased 1.7% year on year, to ¥9,908 million, and Santen maintained its position as leader of the DMARDs market with a 43.9% share.

The Manual on the Medical Treatment of Rheumatoid Arthritis and Medical Treatment Guidelines Based on EBM, compiled by a study group of the Ministry of Health, Labour and Welfare and published by the Japan Rheumatism Foundation, recommends treating RA with DMARDs from the early stages to improve patients' quality of life by retarding the progress of joint destruction and in doing 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 RA.

Over-the-Counter Pharmaceuticals

Net Sales

¥5,251 million +0.5%

Sales of OTC Pharmaceuticals

Santen's OTC pharmaceutical sales are almost entirely generated in the Japanese OTC ophthalmic market. In fiscal 2009, this market shrank overall despite growth of ophthalmic solutions that refresh the eyes.

Our OTC business is centered on a range of ophthalmic products, including *Sante FX* series, one of Japan's top-selling ophthalmic solution brands, and the *Sante 40* series, highly effective in improving blurred vision. In fiscal 2009, we concentrated efforts on promotional activities for an ophthalmic solution that refreshes the eyes, *Sante FX V Plus*; an ophthalmic solution that improves blurred vision, *Sante 40i*; and an ophthalmic solution for eye fatigue, *Sante Medical 10*. As a result of such efforts, OTC pharmaceutical net sales edged up 0.5% year on year, to ¥5,251 million. With fierce competition set to continue in this market, we will continue promoting sales of new products while maintaining the market share of our existing product range, concentrating on ophthalmic products for eye refreshment, blurred vision, and eye fatigue.

Sante 40i

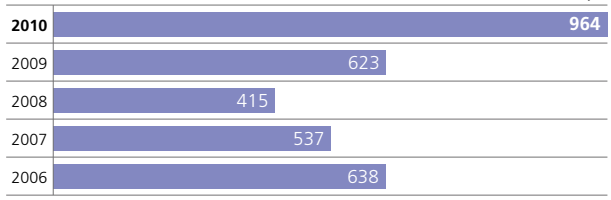
Sante FX V Plus

Medical Devices

Net Sales

¥964 million +54.8%

Sales of Medical Devices



Santen's medical device business specializes in the cataract surgery field, focusing primarily on intraocular lenses (IOLs). In recent years, IOL demand has shifted primarily to foldable lenses that can be inserted through a small incision. Targeting this trend, Santen sells the *Eternity* foldable IOL, which is made of a new highly refractive optical material and manufactured by Advanced Vision Science, Inc., a U.S. subsidiary of Santen. Moreover, in March 2009, we granted worldwide rights, excluding Japan, for the development, manufacturing and marketing rights for *Eternity* and its materials to Bausch & Lomb Inc. In alliance with Bausch & Lomb, Santen is advancing commercialization efforts that will enable the new product to market in the U.S. and other mainstay countries as early as possible. In fiscal 2009, we strengthened our product lineup by launching a foldable, yellow-colored IOL blocking harmful blue light, *Eternity Natural,* in December 2009 and conducted a promotional campaign for *Eternity*. We also improved the injector used to insert the *Eternity* IOL, which accelerated market penetration. Thanks to these initiatives, net sales of medical devices were up 54.8% year on year, to ¥964 million. Santen will continue efforts to grow sales of *Eternity* series and thereby increase sales of medical devices.

Society and the Environment

Earning the Trust of Society

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

Aiming to deepen the relationship of trust that we have fostered with society at large as well as fulfill our corporate duties and responsibilities through robust business practices, we formulated the Santen Corporate Ethics Mission in 1999. 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 makes a variety of social contributions, which support advances in medical treatment and contribute to local communities.

To develop personnel that will advance leading-edge science and technology, Santen has formed a joint lecture program with the Nara Institute of Science and Technology. In that program, researchers of the Nara Research and Development Center instruct students and give them the opportunity to use the Company's facilities. Also, aiming to contribute to other ophthalmic treatments, Santen continuously donates to a number of charities, including the Japan Eye Bank Association, the Japan National Society for the Prevention of Blindness, and the non-profit organization Helen Keller International, which is devoted to fighting and treating preventable blindness in developing countries.

In those Asian countries and regions where standards of medical treatment have not yet reached globally accepted levels, we support the education of ophthalmologists. We also support the Chinese Ophthalmology Scholarship Program and the Ophthalmology Training Fund in Korea.

Santen makes a donation to help victims of the Qinghai Earthquake in China in April 2010

Santen also contributes to local communities through concerted efforts to beautify and promote the greening of the areas surrounding its research facilities, manufacturing plants, and offices as well as active participation in crime prevention campaigns. In 2009, we cooperated with the crime prevention activities of the police and the ward office in Higashiyodogawa Ward, where our head office is located. This cooperation involved installing security cameras. We also make donations and provide free supplies of pharmaceuticals in response to relief efforts for large-scale natural disasters, including the recent earthquakes in Haiti and Qinghai Province, China, that occurred in 2010.

Relationship with Customers

Santen strives to discover innovative new drugs that improve the quality of life of patients and their loved ones and that can be used by patients in a safe and appropriate manner.

Santen is continually working to maintain the quality of its pharmaceuticals. Japan's Medicine Act stipulates strict standards for pharmaceutical quality control and post-marketing safety supervision. In addition to adhering to these standards, Santen has established a world-class quality assurance system based on its own specifications and standards. It is necessary to provide medical professionals with information about indications, side effects, and method of use in order to ensure correct usage of products. With that in mind, Santen has a sales force of approximately 400 medical representatives (MRs) in Japan that can rapidly provide accurate and pertinent information to healthcare professionals. Moreover, we continuously update MR professional training to ensure the highest of standards are maintained.

Further, we established the Customer Service Center to deal comprehensively and sincerely with customer inquiries and suggestions. Using this feedback, we improve our products and enhance our information services. An example of such efforts is our Dimple Bottle, a container we developed based on patient needs. The Dimple Bottle

has earned high acclaim for its patient-friendliness, and it won a Good Design Award in 2008.

Relationship with Employees

Promoting the creation of a pleasant workplace, Santen strives to develop and maintain safe, clean, and comfortable workplace environments. In conjunction with those efforts, we are developing systems that accommodate the individuality of each employee as well as help employees balance the commitments of their professional and private lives.

To ensure that employees are not subject to discriminatory treatment in the workplace, we promote human rights awareness campaigns and education to further understanding of human rights issues. Meanwhile, we have introduced an employee performance evaluation system that better recognizes individual achievement and have developed various training systems. These evaluation and training systems heighten employee motivation. To assist employees in balancing commitments to work and raising children, we actively support the responsibilities employees have to their families. In October 2007, we received an approval from the Ministry of Health, Labour and Welfare for Industry Participant status in Supporting the Development of the Next Generation. Further, in October 2008 we received an award from the Ministry of Health, Labour and Welfare, in the Family-Friendly Company category, in recognition of our initiatives to support employees combining work and child rearing or nursing care of family members.

Santen personnel undergoing human rights training

Inspection for ISO 14001 certification (Santen Oy)

Conserving the Global Environment

Santen has placed environmental conservation activities high on its list of management goals. The Basic Environmental Policy and the Environmental Guidelines underscore our environmental conservation activities. To increase the effectiveness of these activities, the environmental management systems of all of our manufacturing plants in Japan and our overseas subsidiary, Santen Oy, have received certification under the international standard ISO 14001. We maintain that certification through appropriate operational management. Major activities include taking steps to reduce CO_2 emissions, water resource use, and waste. These efforts are steadily producing benefits. Moreover, we are advancing green procurement based on the understanding and cooperation of our suppliers, and we endeavor to purchase environment-friendly office supplies. Further, in an effort to make our environmental management more efficient, we are working to reduce our environmental burden by analyzing the costs and benefits of environmental conservation.

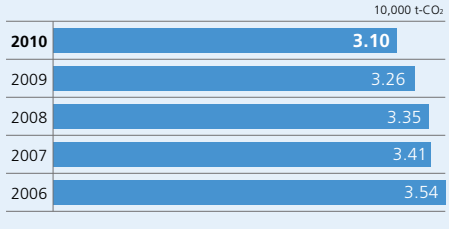
Also, to make our environmental conservation activities even more effective, we strive to inspire all our employees to be more environmentally aware. We conduct environmental education and environmental awareness campaigns as well as encourage employees to participate in regional environmental conservation activities.

Initiatives to Prevent Global Warming

Aiming to help prevent global warming, Santen takes continuous measures to reduce CO_2 emissions. In fiscal 2009, Santen steadily implemented energy-saving measures at its manufacturing plants and research facilities and replaced vehicles used for sales activities with hybrid vehicles. As a result, we achieved a 4.9% year-on-year reduction in CO_2 emission volume, to 31,017 t-CO_2.

Hybrid vehicles for sales activities

CO_2 Emission Volumes



Corporate Governance

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

Santen Internal Governance System (as of July 2010)

* These committees are voluntary and not part of any statutory "Company with Committees" under Japanese Corporate Law.

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. The Board of Directors makes decisions relating to the acquisition or disposal of major financial assets and important organizational or personnel-related matters, as well as oversees the execution of business at Santen and its subsidiaries. The Board convenes once a month in principle. As of July 31, 2010, the Board comprised seven members including three outside directors. The Board of Directors convened 12 times during fiscal 2009.

Board of Corporate Auditors

Santen has adopted a governance system using corporate auditors. Santen will continue to further heighten the effectiveness and efficiency of this auditing system in collaboration with internal audit divisions. The Board of Corporate Auditors consists of four members, including outside auditors. Corporate auditors formulate auditing policies and plans as well as attend meetings of the Board of Directors and other important business meetings. In addition, corporate auditors oversee the execution of duties by directors through auditing the operational and financial status of Santen's headquarters, major operating sites, and subsidiaries. The Board of Corporate Auditors convened eight times during fiscal 2009.

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 deliberates on the selection of directors and submits recommendations to the Board of Directors as well as deliberates on the selection of corporate officers and corporate auditors and submits recommendations to the Board of Directors.
- The Executive Compensation Committee deliberates on the compensation of directors and corporate officers as well as submits recommendations to the Board of Directors.

Note that these committees are not part of any statutory "Company with Committees" system under Japanese 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 six corporate officers at the end of July 2010, excluding some serving concurrently as directors.

Internal Governance System

Santen benefits society through its business activities, with a particular focus on contributing to patients and their loved ones—which incorporates Santen's Values—as a company active in the pharmaceutical industry. At the same time, aiming to heighten society's recognition of our values to society and achieve sustainable growth, we are developing the following internal control systems.

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. The Santen Corporate Ethics Mission stipulates that the Company will not respond to any demands whatsoever made by antisocial forces that threaten the order and stability of civil society.

In addition, we have established the CSR Committee as a Companywide lateral organization tasked with ensuring rigorous compliance. Further, we maintain an internal system for compliance-related inquiries and an external helpline to an independent attorney, which enable employees to report directly any suspected compliance violations or to receive compliance-related advice.

Santen has built a system for responding appropriately to major risks related to its business activities, which is based on a risk

management manual that sets out basic policies and a code of conduct for crisis management. Operating divisions and headquarters avoid or minimize risk by routinely gathering information as well as preparing risk management policies and countermeasures for their operations. Further, the Risk Evaluation Committee discusses risk management policies and countermeasures for significant risks that transcend several divisions.

An emergency situation affecting Santen beyond a certain level triggers the operation of the Crisis Response Committee headed by a representative director. Based on Santen's Risk Management Manual, the committee coordinates efforts to minimize any losses or damages and institutes measures to prevent a recurrence. The Administration Division checks the status of such risk management efforts from a Companywide viewpoint, while the Internal Audit Group examines them from an independent standpoint.

Regarding information control systems, Santen appropriately stores and controls information relating to the execution of duties by directors based on in-house rules for basic information security, decision-making authority, and document control.

Santen aims to increase the appropriateness of the Santen Group's operations, which comprise the operations of the Company and its subsidiaries, by building a control system in which the Company provides recommendations and guidance on increasing appropriateness, developing regulations for the control of Group companies to clarify their roles and responsibilities, and strengthening audit functions at major Group companies.

As a department independent from operating divisions, the Internal Audit Group—comprised of four people including the chief officer—verifies that the above internal control systems work efficiently.

Regarding internal control related to the reliability of financial reports, Santen has established a system whereby divisions and principal subsidiaries check the appropriateness of their systems, while the Internal Audit Group checks the suitability of these self-checks. In fiscal 2009, Santen did not discover any significant deficiencies or omissions that could undermine the reliability of its financial reports. Santen will continue to develop and maintain systems that consistently meet the requirements of the internal control reporting system, which is based on Japan's Financial Instruments and Exchange Law.

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 as well as to exchange opinions, including requests from the corporate auditors. The independent auditors present audit findings to the corporate auditors at meetings three times a year to exchange opinions.

In addition, the corporate auditors attend an audit review meeting with the independent auditors after the conclusion of the quarterly and year-end audit review to exchange opinions 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 countermeasures. The corporate auditors may provide support to the Internal Audit Group in implementing these countermeasures as deemed necessary.

Compensation for Directors and Corporate Auditors

Total remuneration for directors and corporate auditors for fiscal 2009 equaled ¥312 million. The breakdown is as follows:

1. **Compensation paid to 5 (five) directors** (not including outside directors)
   ¥236 million
2. **Compensation paid to 1 (one) corporate auditor** (not including outside auditors)
   ¥22 million
3. **Compensation paid to 6 (six) outside directors and outside auditors**
   ¥53 million

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. Further, the independence of the three outside directors and the three outside auditors is ascertained. It is also judged that there is no risk of conflicts of interest arising between them and general shareholders. This judgment is based on the fact that the said directors and corporate auditors do not originate from affiliates of the Company, major shareholders of the Company, or important business partners of the Company.

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 as well as 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 September 2010

Board of Directors

1 Akira Kurokawa
President and Chief Executive Officer

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

3 Takakazu Morita
Director
Senior Adviser

4 Toshiaki Nishihata, Ph.D.
Member of the Board
Senior Corporate Officer
Head of Research and Development Division

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

Yoshihiro Noutsuka
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 (Not including directors that also serve as corporate officers)

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

9 Kenji Iwamoto
Corporate Officer
Head of Asia Division

10 Masamichi Sato
Corporate Officer
Head of Corporate Development Division

11 Jyrki Liljeroos
Corporate Officer
President of Santen Oy

12 Kenji Morishima
Corporate Officer
Head of Human Resources Development Division

13 Satoshi Harada
Corporate Officer
Head of Administration 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 others. Consolidated net sales for the year ended March 31, 2010 rose 8.8%, to ¥110,594 million, primarily due to higher year-on-year revenues from all segments including the mainstay prescription pharmaceuticals segment.

Prescription Pharmaceuticals

Santen's prescription pharmaceuticals are divided into three categories: ophthalmics, anti-rheumatics and other pharmaceuticals. In the year under review, increases in revenues from ophthalmics and anti-rheumatics resulted in a 2.7% increase in prescription pharmaceutical net sales, to ¥97,049 million, representing 87.8% of consolidated net sales.

(Ophthalmics)

Santen mounted successful promotional campaigns in Japan to provide individual medical facilities with scientific information tailored to their specific and changing needs, and as a result domestic sales of prescription ophthalmic pharmaceuticals edged up 0.4%, to ¥72,666 million.

Overseas, prescription ophthalmic pharmaceutical revenues were up 17.1%, to ¥14,201 million, after conversion to yen. In Europe and Asia, primarily in China, revenues rose thanks to our concentration on promotional campaigns centered on providing medical information to ophthalmic professionals.

As a result, total prescription ophthalmic pharmaceuticals net sales increased 2.8%, to ¥86,867 million.

(Anti-Rheumatics)

Rimatil, Azulfidine EN and *Metolate* are highly recommended under the *Manual on the Medical Treatment of Rheumatoid Arthritis and Medical Treatment Guidelines Based on EBM*, compiled by a study group of the Ministry of Health, Labour and Welfare and published by the Japan Rheumatism Foundation. Partly as a result of that recommendation, and reflecting Santen's initiatives, net sales of anti-rheumatics rose 1.7%, to ¥9,908 million.

OTC Pharmaceuticals

In ophthalmic products for tired eyes, blurred vision and eye refreshment, promotional campaigns focusing on *Sante Medical 10, Sante 40i* and *Sante FX V Plus* resulted in a 0.5% increase in net sales of OTC pharmaceuticals, to ¥5,251 million.

Medical Devices

As a result of focusing initiatives on promotional campaigns for *Eternity* foldable intraocular lens made of a highly refractive acrylic optical material, net sales of medical devices were up 54.8%, to ¥964 million.

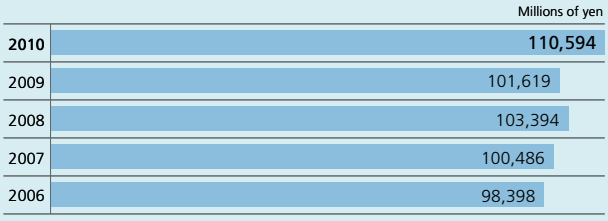
Others

Due to revenue from one-time payments accompanying the conclusion of licensing contracts, net sales of the others segment increased 494.7%, to ¥7,330 million.

Net Sales by Business Segment

	Millions of yen		%
	2010	2009	Change
Prescription pharmaceuticals	**¥ 97,049**	¥ 94,538	2.7
Ophthalmics	**86,867**	84,488	2.8
Anti-rheumatics	**9,908**	9,742	1.7
Other pharmaceuticals	**274**	308	(11.2)
OTC pharmaceuticals	**5,251**	5,225	0.5
Medical devices	**964**	623	54.8
Others	**7,330**	1,233	494.7
Total	**¥ 110,594**	¥ 101,619	8.8

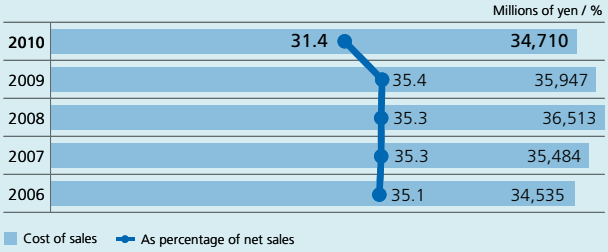
Net sales



COST OF SALES

Cost of sales declined 3.4%, to ¥34,710 million.

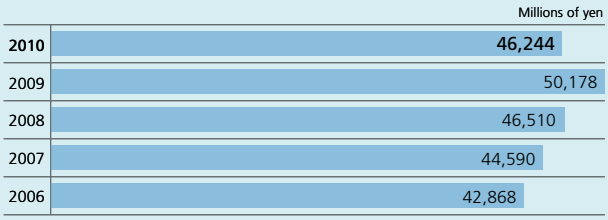
Cost of sales and As percentage of net sales



SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased 7.8%, to ¥46,244 million, which included R&D expenditures of ¥14,123 million.

Selling, general and administrative expenses

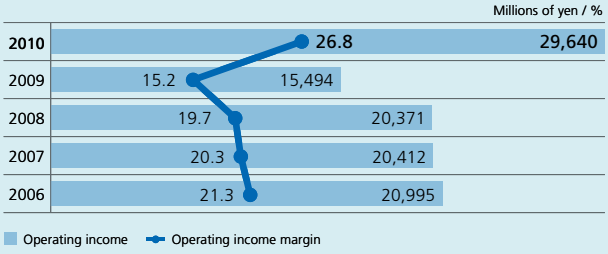


OPERATING INCOME

Operating income was up 91.3%, to ¥29,640 million, which was attributable to higher net sales; the recognition in R&D expenditures of a one-time payment accompanying the conclusion of an in-licensing contract with MacuSight, Inc., in the year ended March 31, 2009; and the recognition in net sales of revenue from one-time payments accompanying the conclusion of licensing contracts with Bausch & Lomb Inc. and Merck & Co., Inc., in the year ended March 31, 2010.

The operating income margin was 26.8%, up 11.6 percentage points from 15.2% for the previous fiscal year.

Operating income and Operating income margin



OTHER INCOME AND EXPENSES

Net other expenses for the year ended March 31, 2010 were ¥1,030 million.

Other income was down ¥606 million year on year, to ¥843 million. Dividends income of insurance of ¥128 million contributed to other income. However, this did not fully offset the absence of the previous fiscal year's net exchange gains of ¥185 million and a decline in interest and dividend income in the year under review.

In other expenses, loss on impairment of fixed assets—a former employee dormitory and a former distribution facility—were ¥397 million, and net exchange losses were ¥383 million. As a result, other expenses rose ¥754 million to ¥1,873 million.

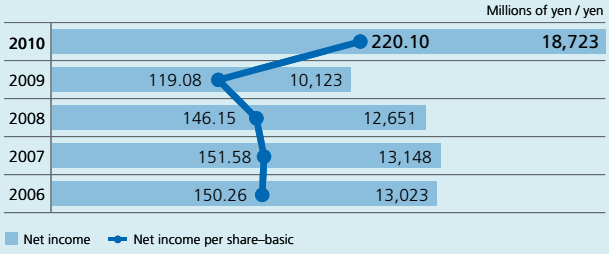
INCOME TAXES

Income taxes totaled ¥9,887 million. The effective tax rate declined to 34.6%, compared with 36.0% for the previous fiscal year.

NET INCOME

Net income was up 84.9%, to ¥18,723 million, for the year ended March 31, 2010. The ratio of net income to net sales was 16.9%, up 6.9 percentage points compared with 10.0% in the previous fiscal year. Basic net income per share was ¥220.10, compared with ¥119.08 in the previous fiscal year, and diluted net income per share was ¥219.85, up from ¥118.97 in the previous fiscal year.

Net income and Net income per share–basic



FINANCIAL CONDITION

ASSETS

As of March 31, 2010, total assets were ¥166,878 million, up ¥15,866 million, or 10.5%, from the previous fiscal year-end, mainly due to an increase in cash and cash equivalents. Return on total assets (ROA) was 11.8%, up 5.2 percentage points, from 6.6% in the previous fiscal year.

Total current assets were ¥118,832 million, and the ratio of total current assets to total assets rose 4.3 percentage points, to 71.2%, from 66.9% in the previous fiscal year. Within fixed assets of ¥48,046 million, net property, plant and equipment totaled ¥26,574 million, and total investments and other assets amounted to ¥21,472 million.

Total assets and ROA

NET ASSETS

Net assets amounted to ¥137,603 million, up ¥12,234 million, or 9.8%, from the previous fiscal year-end, principally reflecting higher retained earnings.

The equity ratio decreased to 82.3%, down 0.6 percentage points, from 82.9% at the previous fiscal year-end. Return on equity (ROE) increased to 14.3%, up 6.3 percentage points, from 8.0% at the previous fiscal year-end. Equity per share was ¥1,614.08, up ¥141.76, or 9.6%, from the previous fiscal year-end.

Equity and ROE

LIABILITIES

Total liabilities at March 31, 2010, were ¥29,275 million, up ¥3,632 million, or 14.2%, from the previous fiscal year-end, which was mainly attributable to an increase in income taxes payable.

Total current liabilities were ¥25,287 million, and total noncurrent liabilities were ¥3,988 million. Interest-bearing debt was ¥618 million, a decline of ¥82 million, or 11.6%, from the previous fiscal year-end.

CAPITAL AND LIQUIDITY

Santen strives to maintain a healthy balance sheet and to ensure an appropriate level of liquidity and sufficient resources to fund its business activities.

Cash and cash equivalents at end of year amounted to ¥64,349 million, up ¥18,392 million, or 40.0%, from the previous fiscal year-end. Net cash provided by operating activities was ¥26,110 million, of which ¥829 million was used in investment activities and ¥6,753 million in financing activities.

CASH FLOWS

Net cash provided by operating activities was ¥26,110 million, which mainly resulted from income before income taxes of ¥28,610 million, depreciation and amortization of ¥3,421 million, and income taxes paid of ¥8,292 million.

Net cash used in investment activities was ¥829 million, mainly attributable to purchase of short-term investments of ¥5,836 million, purchase of investment securities totaling ¥1,028 million, and proceeds from sale of short-term investments of ¥7,036 million.

Net cash used in financing activities was ¥6,753 million, primarily related to dividends paid of ¥6,804 million.

As a result, cash and cash equivalents at end of year were ¥64,349 million, an increase of ¥18,392 million from the previous fiscal year-end.

Cash Flows Summary

	Millions of yen		
	2010	2009	Change
Cash flows from operating activities	**¥ 26,110**	¥ 11,849	¥ 14,261
Cash flows from investing activities	**(829)**	(5,619)	4,790
Cash flows from financing activities	**(6,753)**	(11,373)	4,620
Cash and cash equivalents at end of year	**¥ 64,349**	¥ 45,957	¥ 18,392

Note: Figures in parentheses indicate a decrease.

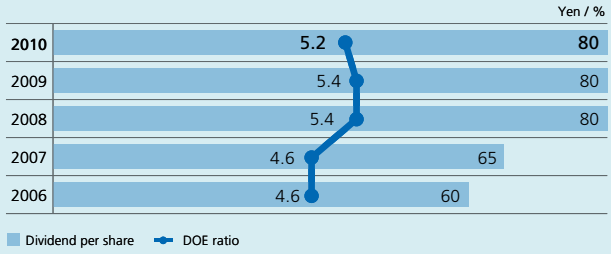
DISTRIBUTION OF PROFITS

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

- To enhance corporate value, we will focus on increasing 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 the Company's financial position.
- We will consider the repurchase and retirement of treasury stock as a flexible method of providing a return to shareholders.

To maintain a stable level of dividends, we target the dividend on equity (DOE) ratio, which combines the dividend payout ratio and ROE. In light of consideration of returns to shareholders through dividends and improvement of capital efficiency, for fiscal 2010, ending March 31, 2011, the final year of the current Medium-term Management Plan, our DOE target is 5.0%. For fiscal 2009, ended March 31, 2010, the annual dividend per share was ¥80, unchanged from the previous fiscal year, and resulted in a DOE ratio of 5.2%.

Dividend per share and 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 condition include, but are not limited to, the factors described below.

EXTERNAL FACTORS

Regulatory Controls

Our prescription pharmaceutical 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 in full consideration of drug price revisions in Japan to the best 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 2010, NHI drug price revisions went into effect, resulting in an average mid-6% reduction for the prescription 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 pressure 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 condition 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 the 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, 2010 accounted for 19.0% 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, 2010. 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*, *Detantol* and *Tapros*. We also have sales rights in Japan for *Timoptol, Timoptol XE, Livostin,* and *Cosopt*, 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 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.

R&D ACTIVITIES

Uncertainties in New Product Development

Years are required to bring new drugs from initial R&D 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 timeline 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 significance in relation to competitor products, safety and efficacy concerns and unexpected side effects—which might lead to discontinued development or delayed product release and thereby negatively affect projected sales of new drugs.

Potentially Insufficient Returns on R&D Investment

The creation of new pharmaceuticals, as well as the development of new indications and formulations, is critical for the future growth of Santen. Every year we invest significantly in R&D, 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 condition.

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 condition. 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 condition. 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

	2000	2001	2002	2003
For the year:				
Net sales	¥ 83,577	¥ 88,449	¥ 88,966	¥ 90,253
Cost of sales	32,195	33,385	32,701	32,272
Selling, general and administrative expenses	33,894	38,546	44,475	45,284
Operating income	17,488	16,518	11,790	12,697
Interest expense	462	430	465	480
Income before income taxes	14,422	15,521	12,679	9,947
Income taxes	6,481	7,807	7,373	1,444
Net income	7,941	7,714	5,306	8,503
Capital expenditures	2,510	4,943	6,586	7,046
Depreciation and amortization	5,725	5,683	5,334	4,311
R&D expenditures	9,221	10,511	12,187	12,719
Per share data (yen and U.S. dollars):				
Net income – basic	¥ 83.54	¥ 81.32	¥ 57.34	¥ 93.67
Net income – diluted	77.04	75.01	53.07	85.97
Equity	1,006.48	1,022.99	1,048.51	1,104.21
Cash dividends, applicable to period	12.00	20.00	20.00	20.00
Cash flows:				
Net cash provided by operating activities	¥ 9,372	¥ 6,832	¥ 6,941	¥ 15,808
Net cash (used in) provided by investing activities	837	(3,172)	(6,374)	(9,951)
Net cash used in financing activities	(3,817)	(7,193)	(5,684)	(6,507)
Interest coverage ratio (times)	20.3	16.8	14.9	34.5
Debt to cash flow ratio (%)	274.7	367.3	352.5	145.8
At year-end:				
Total current assets	¥ 82,218	¥ 88,025	¥ 86,064	¥ 83,431
Net property, plant and equipment	37,416	36,684	42,159	40,850
Total assets	149,968	153,243	152,103	147,148
Long-term debt	26,491	25,482	24,467	23,047
Equity	95,669	94,834	95,101	97,126
Return on equity (ROE) (%)	8.6	8.1	5.6	8.8
Return on total assets (ROA) (%)	5.4	5.1	3.5	5.7
Equity ratio (%)	63.8	61.9	62.5	66.0
Equity ratio on stock price basis (%)	139.4	134.3	86.6	68.7
Price earnings ratio (PER) (times)	26.3	27.3	25.3	12.3
Dividend on equity (DOE) (%)	1.2	2.0	1.9	1.9
Issued shares (thousands)	95,075	92,721	90,704	90,704
Number of employees	2,093	2,167	2,463	2,500

Notes: 1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate of ¥93.04 to U.S.$1 prevailing on March 31, 2010.
2. See Notes 2. 13) and 11 of Notes to Consolidated Financial Statements in respect of per share data.
3. Net sales in the ten years ended March 31, 2010 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
2004	2005	2006	2007	2008	2009	2010	2010
¥ 89,858	¥ 92,696	¥ 98,398	¥ 100,486	¥ 103,394	¥ 101,619	**¥ 110,594**	**$ 1,188,678**
31,859	33,710	34,535	35,484	36,513	35,947	**34,710**	**373,066**
43,475	40,004	42,868	44,590	46,510	50,178	**46,244**	**497,035**
14,524	18,982	20,995	20,412	20,371	15,494	**29,640**	**318,577**
366	182	94	91	97	65	**53**	**569**
13,775	18,436	20,342	21,039	20,483	15,824	**28,610**	**307,504**
7,454	7,413	7,319	7,891	7,832	5,701	**9,887**	**106,271**
6,321	11,023	13,023	13,148	12,651	10,123	**18,723**	**201,233**
3,226	4,907	2,106	3,556	3,151	2,953	**1,315**	**14,131**
4,521	4,750	4,824	4,761	4,593	4,210	**3,421**	**36,774**
11,853	12,620	13,971	13,663	12,942	18,458	**14,123**	**151,797**
¥ 71.65	¥ 125.85	¥ 150.26	¥ 151.58	¥ 146.15	¥ 119.08	**¥ 220.10**	**$ 2.37**
71.64	125.71	150.01	151.31	145.94	118.97	**219.85**	**2.36**
1,176.83	1,249.32	1,368.27	1,481.83	1,494.48	1,472.32	**1,614.08**	**17.35**
40.00	50.00	60.00	65.00	80.00	80.00	**80.00**	**0.86**
¥ 23,196	¥ 6,619	¥ 20,879	¥ 14,959	¥ 15,468	¥ 11,849	**¥ 26,110**	**$ 280,635**
5,246	(2,907)	(1,330)	(5,846)	(2,083)	(5,619)	**(829)**	**(8,913)**
(12,122)	(12,712)	(5,900)	(5,691)	(11,415)	(11,373)	**(6,753)**	**(72,583)**
70.6	36.1	218.7	164.3	163.6	165.5	**558.1**	
54.7	104.0	26.9	36.4	34.1	5.5	**2.5**	
¥ 91,231	¥ 82,735	¥ 93,893	¥ 100,820	¥ 102,754	¥ 101,053	**¥ 118,832**	**$ 1,277,215**
37,237	32,676	30,395	30,485	29,849	28,665	**26,574**	**285,621**
150,238	139,980	150,458	159,099	156,547	151,012	**166,878**	**1,793,620**
12,686	6,882	5,614	5,446	5,278	154	**75**	**801**
103,500	108,240	118,637	128,587	126,998	125,181	**137,343**	**1,476,169**
6.3	10.4	11.5	10.6	9.9	8.0	**14.3**	
4.3	7.6	9.0	8.5	8.0	6.6	**11.8**	
68.9	77.3	78.9	80.8	81.1	82.9	**82.3**	
101.8	142.3	163.0	165.3	126.2	154.3	**143.1**	
24.3	18.3	18.8	20.0	15.9	23.0	**12.7**	
3.5	4.1	4.6	4.6	5.4	5.4	**5.2**	
87,963	86,659	86,751	86,825	86,867	86,916	**86,992**	
2,335	2,308	2,312	2,409	2,483	2,690	**2,756**	

Consolidated Balance Sheets

Santen Pharmaceutical Co., Ltd. and Subsidiaries
As of March 31, 2010 and 2009

ASSETS	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 3) 2010
Current assets:			
Cash and cash equivalents (Note 4)	¥ 64,349	¥ 45,957	$ 691,627
Short-term investments (Notes 4 and 5)	1,327	2,557	14,266
Trade receivables (Note 4):			
Notes	792	473	8,510
Accounts	34,476	35,538	370,553
Allowance for doubtful receivables	(1)	(1)	(10)
Net trade receivables	35,267	36,010	379,053
Inventories (Note 6)	13,624	12,236	146,426
Deferred tax assets (Note 14)	2,166	1,941	23,287
Other current assets	2,099	2,352	22,556
Total current assets	118,832	101,053	1,277,215
Property, plant and equipment (Notes 7 and 8):			
Land	8,418	8,679	90,481
Buildings and structures	41,569	41,476	446,787
Machinery and equipment	11,039	10,967	118,650
Tools, furniture and vehicles	10,962	10,684	117,809
Lease assets	133	53	1,430
Construction in progress	43	99	464
Total	72,164	71,958	775,621
Accumulated depreciation and impairment loss	(45,590)	(43,293)	(490,000)
Net property, plant and equipment	26,574	28,665	285,621
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates (Note 4)	16	580	168
Investment securities (Notes 4 and 5)	12,223	11,239	131,379
Other intangibles	1,231	1,549	13,234
Deferred tax assets (Note 14)	6,703	6,410	72,041
Other assets	1,299	1,516	13,962
Total investments and other assets	21,472	21,294	230,784
Total assets	¥ 166,878	¥ 151,012	$ 1,793,620

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 3) 2010
Current liabilities:			
Short-term borrowings (Notes 4 and 9)	¥ 543	¥ 546	$ 5,840
Current portion of long-term debt (Notes 4 and 9)	—	110	—
Trade accounts payable (Note 4)	5,600	6,018	60,192
Other payables (Note 4)	7,937	7,414	85,304
Accrued expenses	3,354	3,475	36,042
Income taxes payable (Notes 4 and 14)	6,618	4,164	71,132
Other current liabilities	1,235	713	13,275
Total current liabilities	25,287	22,440	271,785
Noncurrent liabilities:			
Long-term debt (Note 9)	75	44	801
Retirement and severance benefits (Note 10)	2,911	2,394	31,284
Retirement and severance benefits for directors and corporate auditors (Note 10)	456	505	4,902
Deferred tax liabilities (Note 14)	15	20	164
Other liabilities	531	240	5,716
Total noncurrent liabilities	3,988	3,203	42,867
Contingent liabilities (Note 15)			
Total liabilities	29,275	25,643	314,652
Net assets (Note 11):			
Common stock (Note 12): Authorized–220,000,000 shares (220,000,000 shares in 2009) Issued–86,992,503 shares (86,916,203 shares in 2009)	6,539	6,457	70,278
Capital surplus (Note 12)	7,234	7,152	77,749
Retained earnings	133,053	121,134	1,430,063
Treasury stock, at cost: 1,902,026 shares in 2010 and 1,893,769 shares in 2009	(4,958)	(4,934)	(53,294)
Total shareholders' equity	141,868	129,809	1,524,796
Unrealized gains (losses) on securities, net of taxes (Note 5)	136	(247)	1,466
Foreign currency translation adjustments	(4,661)	(4,381)	(50,093)
Total accumulated losses on evaluation and translation	(4,525)	(4,628)	(48,627)
Stock subscription rights (Note 12)	260	188	2,799
Total net assets	137,603	125,369	1,478,968
Total liabilities and net assets	¥ 166,878	¥ 151,012	$ 1,793,620

Consolidated Statements of Income

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2010	2009	2008	2010
Net sales	**¥ 110,594**	¥ 101,619	¥ 103,394	**$ 1,188,678**
Cost of sales	**34,710**	35,947	36,513	**373,066**
Gross profit	**75,884**	65,672	66,881	**815,612**
Selling, general and administrative expenses	**46,244**	50,178	46,510	**497,035**
Operating income	**29,640**	15,494	20,371	**318,577**
Other income (expenses):				
Interest and dividend income	**418**	549	607	**4,491**
Dividends income of insurance	**128**	104	70	**1,378**
Exchange gains (losses), net	**(383)**	185	(746)	**(4,116)**
Interest expense	**(53)**	(65)	(97)	**(569)**
Equity in losses of affiliates	**(564)**	(679)	—	**(6,063)**
Gain on sale of investment securities	**74**	—	237	**800**
Loss on sale of investment securities	**(197)**	(37)	—	**(2,119)**
Write-down of investment securities (Note 5)	**(254)**	—	—	**(2,727)**
Loss on impairment of fixed assets (Note 8)	**(397)**	—	(317)	**(4,272)**
Other, net	**198**	273	358	**2,124**
Income before income taxes	**28,610**	15,824	20,483	**307,504**
Income taxes (Note 14):				
Current	**10,687**	8,269	8,146	**114,870**
Deferred	**(800)**	(2,568)	(314)	**(8,599)**
	9,887	5,701	7,832	**106,271**
Net income	**¥ 18,723**	¥ 10,123	¥ 12,651	**$ 201,233**

	Yen			U.S. dollars (Note 3)
Per share data:	2010	2009	2008	2010
Net income – basic	**¥ 220.10**	¥ 119.08	¥ 146.15	**$ 2.37**
Net income – diluted	**219.85**	118.97	145.94	**2.36**
Cash dividends, applicable to the period	**80.00**	80.00	80.00	**0.86**

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, 2010, 2009 and 2008

	Millions of yen							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Stock subscription rights
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			(6,509)					
Net income			12,651					
Repurchase of treasury stock, net				(4,816)				
Retirement of treasury stock		0		1				
Other, net					(2,930)	(3)	(57)	61
Balance at March 31, 2008	¥ 6,419	¥ 7,114	¥ 117,787	¥ (4,921)	¥ 2,273	¥ —	¥ (1,674)	¥ 120
Effect of changes in accounting policies applied to foreign subsidiaries			210					
Changes during the fiscal year:								
Exercise of stock options	38	38						
Cash dividends			(6,800)					
Net income			10,123					
Repurchase of treasury stock, net				(15)				
Retirement of treasury stock		0		2				
Effect of applying the equity method of accounts			(186)					
Other, net					(2,520)		(2,707)	68
Balance at March 31, 2009	¥ 6,457	¥ 7,152	¥ 121,134	¥ (4,934)	¥ (247)	¥ —	¥ (4,381)	¥ 188
Exercise of stock options	**82**	**82**						
Cash dividends			**(6,804)**					
Net income			**18,723**					
Repurchase of treasury stock, net				**(24)**				
Retirement of treasury stock		**0**		**0**				
Other, net					**383**		**(280)**	**72**
Balance at March 31, 2010	**¥ 6,539**	**¥ 7,234**	**¥ 133,053**	**¥ (4,958)**	**¥ 136**	**¥ —**	**¥ (4,661)**	**¥ 260**

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Foreign currency translation adjustments	Stock subscription rights
Balance at March 31, 2009	$ 69,401	$ 76,873	$ 1,301,952	$ (53,037)	$ (2,651)	$ —	$ (47,092)	$ 2,025
Exercise of stock options	**877**	**876**						
Cash dividends			**(73,122)**					
Net income			**201,233**					
Repurchase of treasury stock, net				**(261)**				
Retirement of treasury stock		**0**		**4**				
Other, net					**4,117**		**(3,001)**	**774**
Balance at March 31, 2010	**$ 70,278**	**$ 77,749**	**$ 1,430,063**	**$ (53,294)**	**$ 1,466**	**$ —**	**$ (50,093)**	**$ 2,799**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2010	2009	2008	2010
Cash flows from operating activities:				
Income before income taxes	**¥ 28,610**	¥ 15,824	¥ 20,483	**$ 307,504**
Depreciation and amortization	**3,421**	4,210	4,593	**36,774**
Loss on impairment of fixed assets (Note 8)	**397**	—	317	**4,272**
Increase in retirement and severance benefits	**517**	554	412	**5,558**
Interest and dividend income	**(418)**	(549)	(607)	**(4,491)**
Interest expense	**53**	65	97	**569**
Equity in losses of affiliates	**564**	679	—	**6,063**
Decrease (increase) in trade receivables	**699**	(916)	(587)	**7,510**
Increase in inventories	**(1,438)**	(1,334)	(1,006)	**(15,460)**
(Decrease) increase in trade accounts payable	**(248)**	509	(430)	**(2,669)**
Other, net	**1,873**	759	(562)	**20,128**
Subtotal	**34,030**	19,801	22,710	**365,758**
Interest and dividend income received	**419**	551	611	**4,501**
Interest expense paid	**(47)**	(72)	(95)	**(503)**
Income taxes paid	**(8,292)**	(8,431)	(7,758)	**(89,121)**
Net cash provided by operating activities	**26,110**	11,849	15,468	**280,635**
Cash flows from investing activities:				
Capital expenditures	**(1,315)**	(2,953)	(3,151)	**(14,131)**
Proceeds from sale of property, plant and equipment	**3**	3	5	**27**
Purchase of investment securities	**(1,028)**	(2,081)	(3,266)	**(11,046)**
Proceeds from sale of investment securities	**309**	463	2,660	**3,322**
Purchase of short-term investments	**(5,836)**	(4,421)	(1,518)	**(62,727)**
Proceeds from sale of short-term investments	**7,036**	3,359	3,160	**75,626**
Increase in loans receivable	**(49)**	(300)	—	**(531)**
Proceeds from collection of loans receivable	**49**	311	—	**531**
Other, net	**2**	0	27	**16**
Net cash used in investing activities	**(829)**	(5,619)	(2,083)	**(8,913)**
Cash flows from financing activities:				
Proceeds from short-term borrowings	**548**	546	—	**5,890**
Repayments of short-term borrowings	**(521)**	—	—	**(5,595)**
Repayments of long-term debt	**(110)**	(5,168)	(168)	**(1,182)**
Repurchases of treasury stock, net	**(24)**	(15)	(4,815)	**(261)**
Dividends paid	**(6,804)**	(6,799)	(6,506)	**(73,122)**
Other, net	**158**	63	74	**1,687**
Net cash used in financing activities	**(6,753)**	(11,373)	(11,415)	**(72,583)**
Effect of exchange rate changes on cash and cash equivalents	**(136)**	(570)	(141)	**(1,457)**
Net increase (decrease) in cash and cash equivalents	**18,392**	(5,713)	1,829	**197,682**
Cash and cash equivalents at beginning of year	**45,957**	51,670	49,841	**493,945**
Cash and cash equivalents at end of year	**¥ 64,349**	¥ 45,957	¥ 51,670	**$ 691,627**

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 consolidated overseas subsidiaries have been prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, as required under Practical Issues Task Force ("PITF") No.18 "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" issued by the Accounting Standards Board of Japan ("ASBJ") on May 17, 2006. In this case, adjustments for the following six items are required in the consolidation process so that their impact on net income are accounted for in accordance with Japanese GAAP unless the impact is not material.

(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
(e) Retrospective treatment of a change in accounting policies
(f) Accounting for net income attributable to minority interests

Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

The consolidated financial statements have been restructured and translated into English (with certain expanded disclosures) 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 is not presented in this 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 unconsolidated subsidiary is accounted for using the equity method.

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 Notes 4 and 5)

The Company and its domestic subsidiary have adopted "Accounting Standard for Financial Instruments" which was issued and revised 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 (losses), 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 4)

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 realized 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 risk exposure 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 of the Company and its domestic subsidiary are stated at the lower of average cost or net realizable value under "Accounting Standard for Measurement of Inventories" which was issued by ASBJ. Prior to April 1, 2008, inventories of the Company and its domestic subsidiary are stated at cost determined principally by the average method.

Inventories of consolidated foreign subsidiaries are principally stated at the lower of first-in, first-out cost or net realizable value.

7) Property, plant and equipment (excluding lease assets)

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 to 8 years
Tools, furniture and vehicles	4 to 10 years

8) Leases (see Note 7)

Finance leases, except for certain immaterial leases, are capitalized and depreciated over the leased property's estimated useful lives or lease terms, as applicable in accordance with "Accounting Standard for Lease Transactions" and "Guidance on Accounting Standard for Lease Transactions" which were issued by ASBJ. As permitted under the accounting standard, the Company and its domestic subsidiary account for finance leases commencing prior to April 1, 2008 which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information.

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 comparing 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 certain 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 Companies have adopted "Accounting Standard for Retirement Benefits" which was issued by the Business Accounting Council. In accordance with this standard, the allowance for retirement benefits for employees is provided based on the estimated retirement benefit obligation and the plan 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.

A certain overseas subsidiary has a retirement benefit scheme which is a combination of a cash balance and defined contribution pension plan, and other overseas subsidiaries have defined contribution pension plan. The amounts contributed under the plans are charged to income.

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 based on internal regulations.

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 its domestic subsidiary 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 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 of five years.

13) Net income and dividends per share

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 85,065 thousand, 85,011 thousand and 86,561 thousand for the years ended March 31, 2010, 2009 and 2008, 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 85,162 thousand, 85,089 thousand and 86,683 thousand for the years ended March 31, 2010, 2009 and 2008, 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, 2010.

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 ¥93.04=US$1, the exchange rate prevailing on March 31, 2010. 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. FINANCIAL INSTRUMENTS

Effective from the year ended March 31, 2010, the Companies adopted the revised Accounting standard, "Accounting Standard for Financial Instruments" (ASBJ Statement No.10 revised on March 10, 2008) and the "Guideline on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 revised on March 10, 2008).

Information on Financial instruments for the year ended March 31, 2010 required pursuant to the revised accounting standards is as follows:

(1) Policies for financing activities

The Companies principally use, highly liquid and safety financial instruments in financing activities. The Companies basically rely on their own resources to finance operations and use derivative financial instruments only to hedge foreign exchange rate risk for foreign currency denominated assets and liabilities and do not use derivative financial instrument for speculative purpose.

(2) Risk management

Trade receivables are exposed to customer credit risk. To manage this risk, the Company performs due date and credit limit controls in accordance with the Companies' credit management rules and periodically assesses the financial reliability of each customer taking into account the customer's financial position and other factors.

Bonds in Short-term investments are exposed to the credit risk of the issuing institution. The Company invests only in high-rated bonds.

Investment securities are exposed to market risk, most of which are stocks of companies with which the Company has business relationships. The Company periodically reviews the fair market values of these securities and report on them at the Company's board meeting.

Trade accounts payable, other payables and income taxes payable (the "operating payables") are due within one year.

Bank loans in Short-term borrowings and Long-term debt do not occur regularly. The Companies use them as short-term funding for business necessities according to the situation.

Operating payables and the bank loans are exposed to liquidity risk. The Company manages the risk by monitoring the monthly cash flows of each group company.

To reduce credit risk, the Company uses derivative instruments according to its policies for hedging, including rules for authorization levels, transaction volumes and entering into transactions only with highly rated banks.

The book value and fair value of the financial instruments on the consolidated balance sheet at March 31, 2010 and 2009 are as follows:

	Millions of yen					
	2010			2009		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and cash equivalents	**¥ 64,349**	**¥ 64,348**	**¥ (1)**	¥ 45,957	¥ 45,956	¥ (1)
Trade receivables	**35,267**	**35,267**	**—**	36,010	36,010	—
Short-term investments and Investment securities:						
Time deposits	**1,327**	**1,327**	**—**	1,058	1,058	—
Maturities of investments	**—**	**—**	**—**	1,499	1,503	4
Other securities	**11,907**	**11,907**	**—**	10,450	10,450	—
Short-term borrowings	**(543)**	**(543)**	**—**	(546)	(546)	—
Current portion of long-term debt	**—**	**—**	**—**	(110)	(110)	—
Trade accounts payable	**(5,600)**	**(5,600)**	**—**	(6,018)	(6,018)	—
Other payables	**(7,937)**	**(7,937)**	**—**	(7,414)	(7,414)	—
Income taxes payable	**(6,618)**	**(6,618)**	**—**	(4,164)	(4,164)	—
Derivatives	**—**	**—**	**—**	—	—	—

	Thousands of U.S. dollars		
	2010		
	Book value	Fair value	Difference
Cash and cash equivalents	**$ 691,627**	**$ 691,622**	**$ (5)**
Trade receivables	**379,053**	**379,053**	**—**
Short-term investments and Investment securities:			
Time deposits	**14,266**	**14,266**	**—**
Maturities of investments	**—**	**—**	**—**
Other securities	**127,982**	**127,982**	**—**
Short-term borrowings	**(5,840)**	**(5,840)**	**—**
Current portion of long-term debt	**—**	**—**	**—**
Trade accounts payable	**(60,192)**	**(60,192)**	**—**
Other payables	**(85,304)**	**(85,304)**	**—**
Income taxes payable	**(71,132)**	**(71,132)**	**—**
Derivatives	**—**	**—**	**—**

Notes: 1. Instruments with no fair market value are excluded in the table above.
2. Figures in parentheses indicate a liability or a decrease.
3. The following methods and assumptions were used to estimate fair value:
Cash and Trade receivables
– As these assets are settled in a short period of time, the fair value approximates book value.
Cash equivalents
– The fair values of held-to-maturity debt securities included in Cash and cash equivalents is based on the quoted market prices or the price provided by corresponding financial institutions.
Short-term investments and Investment securities
– The fair values of listed stocks is based on year-end quoted stock market prices and that of bonds is based on the quoted market prices or the price provided by corresponding financial institutions.
– The fair value of time deposits approximate the book value.
Short-term borrowings, Trade accounts payable, Other payables, Income taxes payable and Current portion of long-term debt
– As these liabilities are settled in a short period, fair value approximates book value.
Derivatives
– There is no outstanding transaction at March 31, 2010 and 2009.

4. Financial Instruments with no fair market value as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Other securities:			
Unlisted securities	**¥ 307**	¥ 1,156	**$ 3,301**
Investment limited partnerships	**25**	213	**263**
	¥ 332	¥ 1,369	**$ 3,564**

These instruments are excluded from investment securities in the above table since there are no fair market values available for these instruments.

5. The maturity profile of the anticipated future contractual cash flows in relation to the Companies' financial assets at March 31, 2010 and 2009 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2010		2009		2010	
	Due within one year	Due after one year	Due within one year	Due after one year	Due within one year	Due after one year
Cash and cash equivalents	**¥ 64,350**	**¥ —**	¥ 45,960	¥ —	**$ 691,639**	**$ —**
Trade receivables	**35,267**	**—**	36,010	—	**379,053**	**—**
Short-term investments and investment securities:						
Time deposits	**1,327**	**—**	1,058	—	**14,266**	**—**
Maturities of investments	**—**	**—**	1,500	—	**—**	**—**
Other securities	**—**	**—**	—	—	**—**	**—**
	¥ 100,944	**¥ —**	¥ 84,528	¥ —	**$ 1,084,958**	**$ —**

6. See Note 9 of Notes to Consolidated Financial Statements in respect to maturities of long-term debt at March 31, 2010 and 2009.

5. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

The following is a summary of other securities at market value at March 31, 2010 and 2009:

	Millions of yen					
	2010			2009		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	**¥ 4,044**	**¥ 4,866**	**¥ 822**	¥ 4,121	¥ 4,989	¥ 868
Securities with book values not exceeding acquisition costs:						
Equity securities	**7,629**	**7,041**	**(588)**	6,693	5,461	(1,232)
	¥ 11,673	**¥ 11,907**	**¥ 234**	¥ 10,814	¥ 10,450	¥ (364)

	Thousands of U.S. dollars		
	2010		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	**$ 43,471**	**$ 52,303**	**$ 8,832**
Securities with book values not exceeding acquisition costs:			
Equity securities	**81,993**	**75,679**	**(6,314)**
	$ 125,464	**$ 127,982**	**$ 2,518**

The market prices in the table above do not include the unlisted securities. The book value of the unlisted securities at March 31, 2010 and 2009 are ¥316 million ($3,396 thousand) and ¥789 million respectively.

The Company recognized ¥254 million ($2,727 thousand) as impairment loss on investment securities.

If the year-end value of an investment security has declined by more than 50% of its acquisition cost, an impairment loss is recognized. When the year-end value has declined by less than 50% but more than 30%, an impairment loss is recognized if there is no possibility that the security will recover its value.

6. INVENTORIES

Inventories at March 31, 2010 and 2009 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Merchandise and finished goods	**¥ 11,211**	¥ 10,236	**$ 120,494**
Work in process	**425**	76	**4,570**
Raw materials and supplies	**1,988**	1,924	**21,362**
	¥ 13,624	¥ 12,236	**$ 146,426**

7. LEASES

Finance leases, commenced prior to April 1, 2008, which do not transfer ownership of the leased assets to lessees, are accounted for as operating leases.

Finance leases

The equivalent purchase amount, accumulated depreciation and future minimum lease payments on an "as if capitalized" basis at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Machinery and equipment:			
Equivalent purchase amount	**¥ 1,038**	¥ 3,147	**$ 11,154**
Equivalent accumulated depreciation amount	**952**	2,727	**10,224**
Equivalent balance at year-end	**86**	420	**930**
Tools, furniture and vehicles:			
Equivalent purchase amount	**262**	356	**2,811**
Equivalent accumulated depreciation amount	**202**	221	**2,171**
Equivalent balance at year-end	**60**	135	**640**
Total:			
Equivalent purchase amount	**1,299**	3,503	**13,965**
Equivalent accumulated depreciation amount	**1,153**	2,948	**12,396**
Equivalent balance at year-end	**¥ 146**	¥ 555	**$ 1,569**
Future minimum lease payments:			
Due within one year	**¥ 141**	¥ 425	**$ 1,521**
Due after one year	**14**	154	**146**
	¥ 155	¥ 579	**$ 1,667**

Lease payments, equivalent depreciation and equivalent interest expense for the three years ended March 31, 2010 are as follows*:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Lease payments	**¥ 432**	¥ 865	¥ 1,013	**$ 4,640**
Equivalent depreciation	**¥ 410**	¥ 821	¥ 942	**$ 4,409**
Equivalent interest expense	**¥ 6**	¥ 18	¥ 33	**$ 69**

* The amount for renewable lease contracts were excluded since the year ended March 31, 2009.

Operating leases

Future minimum rents under non-cancellable operating leases at March 31, 2010 and 2009 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	**¥ 171**	¥ 198	**$ 1,839**
Due after one year	**174**	111	**1,873**
	¥ 345	¥ 309	**$ 3,712**

8. IMPAIRMENT OF FIXED ASSETS

The Company and its domestic subsidiary account for impairment of fixed assets in accordance with "Accounting Standard for Impairment of Fixed Assets."

The Company and its domestic subsidiary review the recorded value of their property, plant and equipment and intangible assets to determine if the future cash flows from these properties will be sufficient to support the asset's covering values.

The impairment losses recognized for the three years ended March 31, 2010 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Land	**¥ 249**	¥ —	¥ 253	**$ 2,679**
Buildings and structures	**147**	—	64	**1,587**
Others	**1**	—	—	**6**
	¥ 397	¥ —	¥ 317	**$ 4,272**

For the year ended March 31, 2010, the Company recorded impairment losses of ¥284 million ($3,055 thousand) relating to land, buildings and structures and others for the closed dormitory which is held for sale. The fair value of the land, buildings and structures and others was based on selling price. The Company also recorded impairment losses of ¥113 million ($1,217 thousand) relating to land of the distribution center since it is not expected to be used and the carrying value exceeded recoverable amount. The fair value of the land of the distribution center was based on disposal value.

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

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2010 and 2009 consist of bank loans executed by Santen Pharmaceutical (China) Co., Ltd.

The weighted average interest rates of short-term borrowings as of March 31, 2010 and 2009 were 5.1% and 5.3%, respectively.

Long-term debt at March 31, 2010 and 2009 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Unsecured yen loans from domestic banks, due in installments through 2009, interest 4.8%	¥ —	¥ 110	$ —
Lease obligation	75	44	801
Total	75	154	801
Current portion shown in current liabilities	—	(110)	—
	¥ 75	¥ 44	$ 801

The aggregate annual maturities of long-term debt at March 31, 2010 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥ 16	$ 165
2013	15	158
2014	12	128
2015	6	67
2016 and thereafter	26	283
	¥ 75	$ 801

As is customary in Japan, short-term borrowings and 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 the bank requests and that the bank shall have the right, as the obligations become due, or in the event of 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.

In March 2010, the Company entered into a commitment line contract with six domestic banks. The maximum aggregate credit facility available to the Company is ¥16,000 million ($171,969 thousand). The credit facility has not been used as of March 31, 2010.

10. RETIREMENT AND SEVERANCE BENEFITS

As discussed 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. A certain overseas subsidiary also has a retirement benefit scheme, which is a combination of cash balance and defined contribution pension plan and other overseas subsidiaries have defined contribution pension plan. The Company has an unfunded retirement benefit plan for directors and corporate auditors. The amounts required under the plan have been fully accrued based on internal regulations.

The following table sets forth the details of benefit obligation, plan assets and funded status of the Companies at March 31, 2010 and 2009.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
For employees:			
Benefit obligation at end of year	**¥ (14,001)**	¥ (13,234)	**$ (150,484)**
Fair value of plan assets at end of year	**9,573**	8,766	**102,893**
Funded status (benefit obligation in excess of plan assets)	**(4,428)**	(4,468)	**(47,591)**
Unrecognized actuarial loss	**1,517**	2,074	**16,307**
For directors and corporate auditors:			
Accrued retirement benefit	**(456)**	(505)	**(4,902)**
Retirement and severance benefits recognized in the consolidated balance sheets	**¥ (3,367)**	¥ (2,899)	**$ (36,186)**

Retirement and severance costs of the Companies include the following components for the three years ended March 31, 2010.

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
For employees:				
Service cost	**¥ 956**	¥ 805	¥ 802	**$ 10,280**
Interest cost	**257**	246	226	**2,761**
Expected return on plan assets	**(145)**	(189)	(187)	**(1,555)**
Recognized actuarial loss	**179**	209	143	**1,926**
Contribution to defined contribution pension plan	**813**	830	901	**8,733**
Net periodic benefit cost	**¥ 2,060**	¥ 1,901	¥ 1,885	**$ 22,145**
For directors and corporate auditors:				
Accrual for retirement benefit	**¥ 16**	¥ 18	¥ 17	**$ 175**

Assumptions used in the accounting for retirement and severance benefits for the three years ended March 31, 2010 are as follows:

	2010	2009	2008
Method of attributing benefit to period of service	**Straight-line basis**	Straight-line basis	Straight-line basis
Discount rate	**mainly, 2.00%**	2.00%	2.00%
Expected return on plan assets	**mainly, 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.

The domestic subsidiary and the overseas subsidiary have a lump-sum severance plan and 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 ($16,675 thousand) and ¥1,551 million as of March 31, 2010 and 2009, respectively.

Cash dividends charged to retained earnings during the three years ended March 31, 2010 represent dividends paid out during the periods. The accompanying consolidated financial statements do not include any provision for the year end dividend of ¥40 ($0.43) per share, aggregating ¥3,403 million ($36,582 thousand) which was approved at the Company's shareholders' meeting on June 23, 2010 in respect of the year ended March 31, 2010.

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 expires ten years from the date of grant.

Stock options existing as of March 31, 2010 are as follows:

Stock options granted	2009	2008	2007	2006
Persons granted	Directors and corporate officers: 12	Directors and corporate officers: 12	Directors and corporate officers: 12	Directors and corporate officers: 15
Number of shares	Common Stock 168,400	Common Stock 161,700	Common Stock 99,300	Common Stock 102,700
Date of grant	July 3, 2009	July 2, 2008	July 3, 2007	July 4, 2006
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, 2011 to June 24, 2019	From June 28, 2010 to June 25, 2018	From June 27, 2009 to June 26, 2017	From June 28, 2008 to June 24, 2016

Stock options granted	2005	2004	2003	2002
Persons granted	Directors and corporate officers: 15	Directors and corporate officers: 11	Directors and corporate officers: 12	Directors and corporate officers: 14
Number of shares	Common Stock 129,200	Common Stock 78,200	Common Stock 137,600	Common Stock 92,000
Date of grant	July 4, 2005	July 5, 2004	July 4, 2003	July 5, 2002
Vesting conditions	No provisions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions	No provisions
Exercise period	From June 25, 2007 to June 23, 2015	From June 26, 2006 to June 24, 2014	From June 27, 2005 to June 25, 2013	From June 27, 2004 to June 25, 2012

Stock options granted	2001	2000	1999
Persons granted	Directors and corporate officers: 14	Directors and corporate officers: 16	Directors: 10 Management: 6
Number of shares	Common Stock 55,000	Common Stock 60,000	Common Stock 66,000
Date of grant	July 9, 2001	July 10, 2000	July 8, 1999
Vesting conditions	No provisions	No provisions	No provisions
Service period	No provisions	No provisions	No provisions
Exercise period	From June 29, 2003 to June 27, 2011	From June 30, 2002 to June 28, 2010	From June 30, 2001 to June 28, 2009

Number, movement and price of stock options for the year ended March 31, 2010 are as follows:

Before vesting options (Number of shares):

Stock options granted	2009	2008	2007	2006	2005	2004
Balance at April 1, 2009	—	—	—	—	—	—
Granted	168,400	—	—	—	—	—
Vested	168,400	—	—	—	—	—
Balance at March 31, 2010	**—**	**—**	**—**	**—**	**—**	**—**

Stock options granted	2003	2002	2001	2000	1999
Balance at April 1, 2009	—	—	—	—	—
Granted	—	—	—	—	—
Vested	—	—	—	—	—
Balance at March 31, 2010	**—**	**—**	**—**	**—**	**—**

After vesting options (Number of shares):

Stock options granted	2009	2008	2007	2006	2005	2004
Balance at April 1, 2009	—	161,700	99,300	102,700	127,500	61,300
Vested	168,400	—	—	—	—	—
Exercised	—	—	—	—	4,800	17,300
Balance at March 31, 2010	**168,400**	**161,700**	**99,300**	**102,700**	**122,700**	**44,000**

Stock options granted	2003	2002	2001	2000	1999
Balance at April 1, 2009	44,800	26,200	34,000	45,200	37,000
Vested	—	—	—	—	—
Exercised	9,000	3,200	4,400	12,600	25,000
Cancelled	—	—	—	—	12,000
Balance at March 31, 2010	**35,800**	**23,000**	**29,600**	**32,600**	**—**

Price information (Yen):

Stock options granted	2009	2008	2007	2006	2005	2004
Option price	2,920	2,734	3,050	2,715	2,480	1,743
Weighted-average stock price	—	—	—	—	3,140	3,017
Fair value at grant date*	427.73	423.16	609.45	579.05	—	—

Stock options granted	2003	2002	2001	2000	1999
Option price	1,176	1,326	2,299	2,705	2,480
Weighted-average stock price	3,085	3,046	3,015	2,993	2,757
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 23, 2010, 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 25, 2012 to June 23, 2020. The maximum number of stock subscription rights that can be exercised is 168,400 common shares.

13. RESEARCH AND DEVELOPMENT EXPENDITURES

Research and development expenditures charged to income for the years ended March 31, 2010, 2009 and 2008 are ¥14,123 million ($151,797 thousand), ¥18,458 and ¥12,942 million, respectively.

14. INCOME TAXES

The Company and its domestic subsidiary 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, 2010. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The effective rates for the years ended March 31, 2010, 2009 and 2008 differ from the normal tax rates for the following reasons:

	2010	2009	2008
Normal tax rate	**40.4 %**	40.4 %	40.4 %
Expenses not deductible for tax purposes	**0.9**	1.5	1.6
Lower tax rates of subsidiaries	**(0.1)**	1.3	(0.2)
Equity in losses of affiliates	**(1.2)**	1.7	—
Change in valuation allowance allocated to income tax expenses	**(1.4)**	(1.5)	1.6
Tax credit for research and development expenses	**(4.4)**	(8.0)	(5.5)
Others	**0.4**	0.6	0.3
Effective tax rate	**34.6 %**	36.0 %	38.2 %

The tax effects of temporary differences and tax loss carryforwards that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2010 and 2009 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Tax loss carryforwards	**¥ 4,211**	¥ 5,986	**$ 45,260**
Retirement and severance benefits	**2,718**	2,504	**29,215**
Deferred assets for tax purposes	**2,387**	2,222	**25,659**
Accrued expenses	**1,146**	1,139	**12,322**
Depreciation and amortization	**964**	828	**10,360**
Accrued enterprise taxes	**520**	369	**5,586**
Loss on impairment of fixed assets	**432**	271	**4,639**
Loss on valuation of inventories	**211**	193	**2,263**
Loss on impairment of golf membership rights	**210**	209	**2,258**
Retirement and severance benefits for directors and corporate auditors	**185**	204	**1,982**
Loss on valuation of securities	**107**	43	**1,145**
Net unrealized holding losses on securities	**—**	167	**—**
Other	**1,011**	860	**10,879**
Subtotal	**14,102**	14,995	**151,568**
Valuation allowance	**(5,041)**	(6,508)	**(54,185)**
Total gross deferred tax assets	**9,061**	8,487	**97,383**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(94)**	(1)	**(1,010)**
Reserve for special depreciation	**(84)**	(133)	**(906)**
Other	**(29)**	(22)	**(303)**
Total gross deferred tax liabilities	**(207)**	(156)	**(2,219)**
Net deferred tax assets	**¥ 8,854**	¥ 8,331	**$ 95,164**

Net deferred tax assets at March 31, 2010 and 2009 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current assets – deferred tax assets	**¥ 2,166**	¥ 1,941	**$ 23,287**
Investments and other assets – deferred tax assets	**6,703**	6,410	**72,041**
Noncurrent liabilities – deferred tax liabilities	**(15)**	(20)	**(164)**
Net deferred tax assets	**¥ 8,854**	¥ 8,331	**$ 95,164**

15. CONTINGENT LIABILITIES

At March 31, 2010, the Company has provided guarantees to financial institutions covering employee loans totaling ¥279 million ($3,003 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
	2010	2009	2008	2010
Geographic areas:				
Net sales:				
Japan:				
External customers	**¥ 97,408**	¥ 91,405	¥ 92,098	**$ 1,046,950**
Intersegment	**3,136**	2,422	1,978	**33,709**
Total	**100,544**	93,827	94,076	**1,080,659**
Europe:				
External customers	**9,786**	9,453	10,617	**105,187**
Intersegment	**2,065**	1,838	2,041	**22,192**
Total	**11,851**	11,291	12,658	**127,379**
Other:				
External customers	**3,400**	761	679	**36,541**
Intersegment	**2,454**	2,879	2,761	**26,375**
Total	**5,854**	3,640	3,440	**62,916**
Corporate and eliminations	**(7,655)**	(7,139)	(6,780)	**(82,276)**
Consolidated	**¥ 110,594**	¥ 101,619	¥ 103,394	**$ 1,188,678**

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Operating income (loss):				
Japan	**¥ 30,992**	¥ 18,284	¥ 22,633	**$ 333,101**
Europe	**759**	178	555	**8,158**
Other	**456**	(662)	(819)	**4,906**
Corporate and eliminations	**(2,567)**	(2,306)	(1,998)	**(27,588)**
Consolidated	**¥ 29,640**	¥ 15,494	¥ 20,371	**$ 318,577**
Assets:				
Japan	**¥ 153,999**	¥ 138,095	¥ 129,610	**$ 1,655,193**
Europe	**10,541**	10,017	10,908	**113,292**
Other	**6,813**	5,387	5,745	**73,226**
Corporate and eliminations	**(4,475)**	(2,487)	10,284	**(48,091)**
Consolidated	**¥ 166,878**	¥ 151,012	¥ 156,547	**$ 1,793,620**

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 1.Basis of Presentation of Consolidated Financial Statements, the Companies applied the new PITF, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ PITF No.18, May 17, 2006)" commencing with the year ended March 31, 2009. The effect of this adoption was to increase operating income of Europe segment by ¥1 million and other segment by ¥239 million, compared with the prior year.

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Overseas sales:				
Europe	**¥ 8,714**	¥ 8,311	¥ 8,533	**$ 93,663**
North America	**6,715**	938	1,951	**72,171**
Asia	**5,576**	3,748	4,326	**59,927**
Other	**4**	2	17	**41**
Total	**¥ 21,009**	¥ 12,999	¥ 14,827	**$ 225,802**
Consolidated net sales	**¥ 110,594**	¥ 101,619	¥ 103,394	**$ 1,188,678**
Percentage of overseas sales to consolidated net sales	**19.0%**	12.8%	14.3%	

The main countries included in Europe, North America, Asia and Other are as follows:
Europe: Finland, Russia, Germany, Sweden 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 its domestic subsidiary and sales of overseas subsidiaries (intercompany sales between consolidated subsidiaries are eliminated upon consolidation).

Internal Control Report

1 FRAMEWORK OF INTERNAL CONTROL OVER FINANCIAL REPORTING

I, as President and CEO of Santen pharmaceutical Co., Ltd. (the Company), am responsible for the design and operation of internal controls over financial reporting ("ICOFR") and establishing and maintaining an ICOFR based on the framework of ICOFR in Japan in accordance with "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Report (Business Accounting Council (Council Opinions), February 15, 2007)".

Internal control aims at achieving the objectives to a reasonable extent with the organized and integrated function of individual component as a whole. Therefore ICOFR does not provide an absolute assurance for preventing and detecting all errors to consolidated financial statements.

2 ASSESSMENT SCOPE, TIMING AND PROCEDURES

Basis of Presenting Internal Control Report

The report on ICOFR of the consolidated financial statements of the Company ("Internal Control Report") is prepared on the basis of generally accepted assessment standards of internal control over financial reporting in Japan ("Assessment Standards") and is compiled from the Internal Control Report prepared by the Company as required by the Financial Instruments and Exchange Law of Japan ("Law").

The Assessment Standards require management to assess ICOFR, which consists of the internal controls over the consolidated financial statements included in the Annual Securities Report filed under the Law and the internal control over disclosure information and others included in the Annual Securities Report that materially affects the reliability of the financial statements.

The scope of management's assessment of ICOFR in this annual report is different from the scope required by the Assessment Standards. Management assessment of ICOFR in this annual report covers the ICOFR with respect to the accompanying consolidated financial statements only. In addition, as explained in Note 1 on the basis of presentation of consolidated financial statements, the accompanying consolidated financial statements are reclassified and modified from the consolidated financial statements prepared for the purpose of the Law. Supplementary information is also added to the consolidated financial statements. The process of making reclassifications and modifications and the addition of certain information is for the convenience of readers outside Japan. Management voluntarily includes the process in its assessment of ICOFR, even though it is outside the scope of the Assessment Standards.

Scope of Assessment

Management's assessment of ICOFR was conducted as of March 31, 2010 in accordance with the Assessment Standards.

In evaluating internal controls, management first assessed internal controls that have a material impact on overall consolidated financial reporting ("company-level controls") and, based on the results, selected business process to be assessed. For assessment of process level controls management analyzed the selected business processes, identify a key control that would have a material impact on the reliability of financial reporting, and assessed effectiveness of internal controls through assessing design and operation of the key controls.

Management assessed the effectiveness of the ICOFR applicable for the Company, its subsidiaries and its affiliates, to extent necessary in light of their degree of impact on the reliability of financial reporting. Management determined materiality for reliability of financial reporting in light of their degree of quantitative and qualitative impact on financial reporting. From the results of the company-level controls assessment of the Company and a subsidiary, management determined a reasonable scope for process level controls to be assessed.

Management selected the Pharmaceuticals business unit of the Company as the significant business unit for assessing process level controls, as its sales was more than 80% of the previous fiscal year's consolidated net sales. The process related to net sales, account receivables and inventories from the Pharmaceuticals business unit of the Company was selected for process level control assessment as they have significant relation to the business objectives of the Company. Apart from selected significant business units, including other business units, processes whose accounts were determined to have a high risk of misstatement and involves significant use of management estimate and projection, and processes whose businesses or operations included high risk transactions were additionally selected for controls assessment.

3 RESULTS OF ASSESSMENT

Based on our assessment procedures noted above, I concluded the Company's internal control over financial reporting was effective as of March 31, 2010.

4 SUPPLEMENTARY INFORMATION

No subsequent events have arisen that has caused to materially effect our evaluation of the effectiveness on the internal control over financial reporting as of March 31, 2010.

5 OTHER

None.

Akira Kurokawa
President & CEO

June 23, 2010

Independent Auditors' Report

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

Financial statement audit

We have audited the accompanying consolidated balance sheets of Santen Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for each of the three-year in the period ended March 31, 2010, 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 financial position of Santen Pharmaceutical Co., Ltd. and subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for the each of the three-year in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience of the reader. 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.

Internal control audit

We also have audited the accompanying report on internal control over financial reporting of the consolidated financial statements of Santen Pharmaceutical Co., Ltd. as of March 31, 2010 ("Internal Control Report"). The design and operation of internal control over financial reporting and the preparation of the Internal Control Report are the responsibility of the Company's management. Our responsibility is to independently express an opinion on the Internal Control Report based on our audit. Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Internal Control Report is free of material misstatement. An internal control audit is performed on a test basis and includes evaluating the appropriateness of the scope, procedures and result of the assessment determined and presented by management and the overall Internal Control Report presentation. We believe that our internal control audit provides a reasonable basis for our opinion.

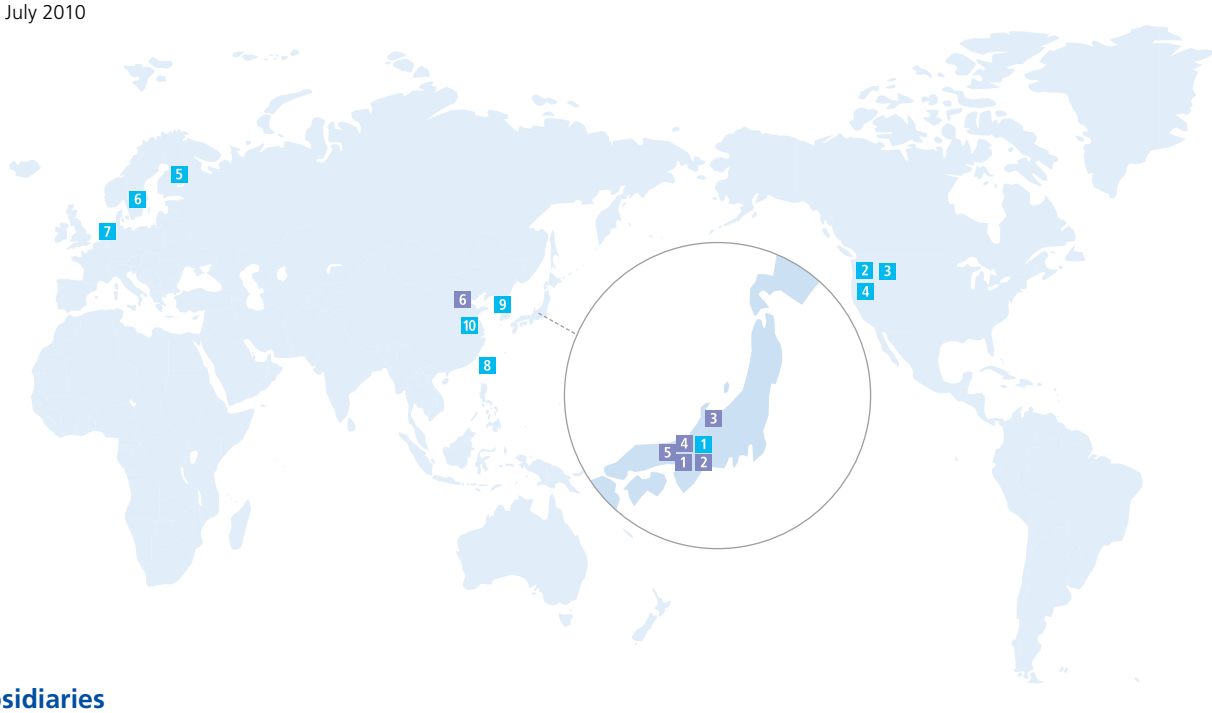
In our opinion, the Internal Control Report referred to above, in which Santen Pharmaceutical Co., Ltd. states that internal control over financial reporting of the consolidated financial statements was effective as of March 31, 2010, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

KPMG AZSA & Co.

Osaka, Japan
June 23, 2010

Major Subsidiaries and Facilities

As of July 2010



Subsidiaries

1 Claire Co., Ltd.
348-3, Aza-suwa, Oaza-shide, Taga-cho, Inukami-gun, Shiga 522-0314, Japan
TEL: +81-749-48-2234 FAX: +81-749-48-2239
Business: Cleaning of antidust and sterilized clothing
Equity Ownership: 100%

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

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

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

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

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

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

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

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

9 Santen Pharmaceutical Korea, Co., Ltd.
3F, Seocho G-WELL Tower, 1678-4, Seocho-dong, Seocho-gu, Seoul 137-070, Korea
TEL: +82-2-754-1434 FAX: +82-2-754-2929
Business: Import and marketing of pharmaceuticals
Equity Ownership: 100%

10 Santen Pharmaceutical (China) Co., Ltd.
No. 169 Tinglan Road, Suzhou Industrial Park, Jiangsu Province, 215026, P.R.C.
TEL: +86-512-6295-7500 FAX: +86-512-6295-7800
Business: Clinical development, production and marketing of pharmaceuticals
Equity Ownership: 100%

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

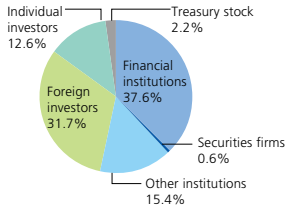
Corporate Information / Stock Information

As of March 31, 2010

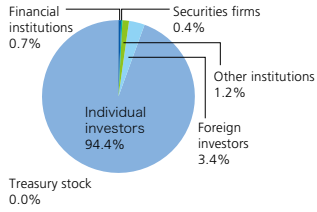
Corporate Headquarters	Santen Pharmaceutical Co., Ltd. 9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku, Osaka 533-8651, Japan URL: http://www.santen.com Investor relations contact: TEL: +81-6-6321-7007 FAX: +81-6-6321-8400 E-MAIL: ir@santen.co.jp
Established	1890
Paid-in Capital	¥6,539 million
Number of Shareholders	10,912
Stock Exchange Listings	Tokyo and Osaka
Ticker Code	4536
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation 6-3, Fushimi-cho 3-chome, Chuo-ku, Osaka 541-8502, Japan
Major Offices	Sendai, Tokyo, Saitama, Nagoya, Osaka, Hiroshima and Fukuoka
Manufacturing Plants	Noto, Shiga and Osaka
Research Laboratory	Nara Research and Development Center
Number of Employees	2,756 (nonconsolidated: 1,914)
Number of Shares Issued	86,992,503

Breakdown of Shareholding

Breakdown of shareholding



Breakdown of shareholding by number of shares



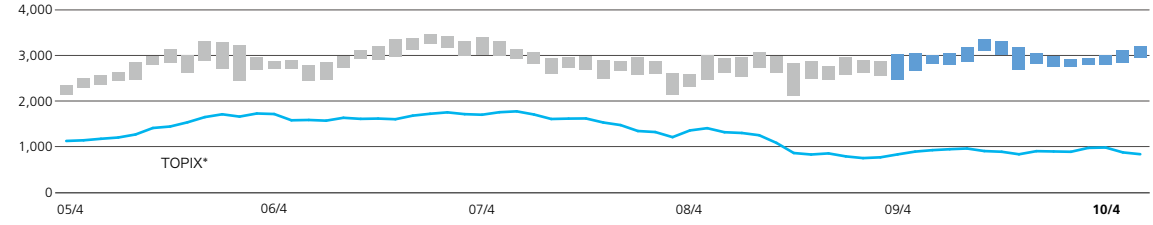
Major Shareholders

Name	Number of shares held (Thousands of shares)	Percentage of investment
Japan Trustee Service Bank, Ltd.	12,925	14.9%
The Master Trust Bank of Japan, Ltd.	5,093	5.9
Mita Sangyo Co., Ltd.	4,756	5.5
Nippon Life Insurance Company	3,022	3.5
State Street Bank and Trust Company 505223	2,694	3.1
Tokio Marine and Nichido Fire Insurance Co., Ltd.	2,668	3.1
Trust and Custody Services Bank, Ltd.	2,147	2.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,120	2.4
RBC Dexia Investor Services, London-lending account	1,685	1.9
DAIICHI SANKYO COMPANY, LIMITED	1,642	1.9

Note: Santen Pharmaceutical Co., Ltd. holds treasury stock (1,902 thousand shares), but is excluded from the major shareholders.

Stock Price Range Yen

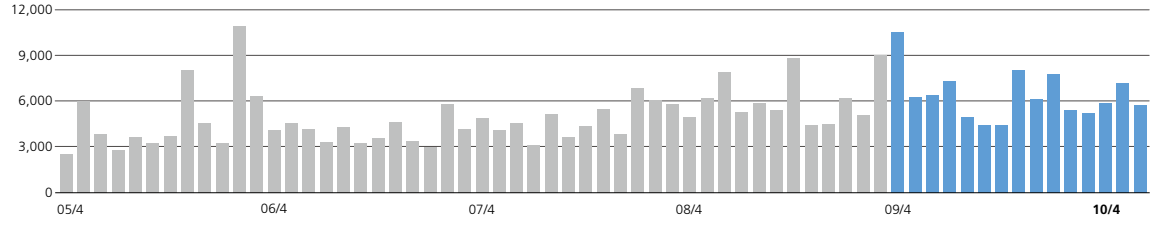
Osaka Securities Exchange (monthly basis)



* TOPIX: Tokyo stock price index

Trading Volume Thousands of shares

Osaka Securities Exchange (monthly basis)



Yearly High and Low Prices

	2006	2007	2008	2009	2010
High (yen)	3,370	3,450	3,050	3,340	**3,195**
Low (yen)	2,440	2,480	2,125	2,460	**2,751**

Note: Calendar years. Stock prices for 2010 are for the period to the end of June.

History

Company History

1890	Founder Kenkichi Taguchi opens Taguchi Santendo in Kitahama, Osaka
1925	Operations incorporated as Santendo Co., Ltd.
1935	Yodogawa Plant established in Higashiyodogawa-ku, Osaka
1944	Head Office transferred to Yodogawa Plant (current site)
1945	Company name changed to Santendo Pharmaceutical Co., Ltd.
1958	Company name changed to current form of Santen Pharmaceutical Co., Ltd. Santen enters prescription pharmaceutical 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
2008	Completion of pharmaceutical development building and ancillary building at Nara Research and Development Center
2009	Santen Pharmaceutical (China) Co., Ltd. commenced direct marketing
2010	Santen Pharmaceutical Korea, Co., Ltd. commenced direct marketing

Product History

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

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 and ocular hypertension
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 *BSS PLUS,* an ophthalmic perfusion and bathing solution Launch of *Kary Uni,* a treatment for early-stage senile cataracts
1995	Launch of *Hyalein,* a treatment for 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 and ocular hypertension Launch of *Sante FX Neo*
2000	Launch of anti-infective ophthalmic *Cravit*
2001	Launch of *Detantol,* a treatment for glaucoma and ocular hypertension 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 and ocular hypertension Launch of anti-rheumatic *Metolate*
2006	Launch of *PAPILOCK Mini*, 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* Launch of *Sante 40i* Launch of *Eternity* foldable intraocular lens Launch of *Tapros,* a treatment for glaucoma and ocular hypertension
2009	Launch of *Sante FX V Plus* Launch of *Eternity Natural* foldable intraocular lens
2010	Launch of *Cosopt,* a treatment for glaucoma and ocular hypertension

SANTEN PHARMACEUTICAL CO., LTD.

www.santen.com

The following are registered trademarks of Santen's alliance partners:
Cravit, Tarivid, Iquix, Oftaquix and *Quixin* (Daiichi Sankyo Company, Limited); *Azulfidine* (Pfizer Inc.);
Alegysal (Mitsubishi Tanabe Pharma Corporation); *ClariFlex* (Abbott Medical Optics Inc.); *Detantol* (Eisai Co., Ltd.);
Timoptol, Cosopt (Merck & Co., Inc.); *Livostin* (Johnson & Johnson); and *Rescula* (R-Tech Ueno).

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