



SANTEN PHARMACEUTICAL CO.,LTD.

# Data Book 2006

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**Year Ended March 31, 2006**

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Forecasts in this report are based on the currently available information.

Actual results may differ materially depending on a number of factors including adverse economic conditions, delays in new products launch, currency exchange rate, legislative and regulatory developments.

# Contents



<b>Financial highlights</b>	<b>2</b>
■ Consolidated financial summary	2
■ Consolidated balance sheets summary	2
■ Consolidated financial indexes	2
■ Consolidated - other figures	2
■ Non-consolidated financial summary	2
<b>Consolidated information</b>	<b>4</b>
Consolidated income statements	4
Income statements details	5
■ Major change in net sales	5
■ Selling, general and administrative expenses	5
■ Non-operating income and expenses	5
■ Extraordinary gain and loss	5
Sales details	6
■ Sales of major prescription pharmaceuticals	6
■ Sales for JJVCI	7
■ Sales by division	8
Breakdown by geographic segment	9
■ Breakdown by geographic segment	9
■ Overseas sales	9
Consolidated balance sheets	10
■ Assets	10
■ Liabilities and shareholders' equity	11
Consolidated statements of cash flows	12
Capital expenditures and number of employees	13
■ Capital expenditures	13
■ Depreciation and amortization	13
■ Lease expenses	13
■ Number of employees	13
Affiliated companies	14
■ Santen group	14
■ Consolidated subsidiaries	14
<b>Non-consolidated information</b>	<b>16</b>
Non-consolidated income statements	16
■ Selling, general and administrative expenses	16
■ Sales by division	17
■ Sales of merchandises and products	17
Non-consolidated balance sheets	18
■ Assets	18
■ Liabilities and shareholders' equity	19
<b>Reference information</b>	<b>20</b>
Research & development	20
■ Pipeline of prescription pharmaceuticals(Clinical studies)	20
■ Pipeline of prescription pharmaceuticals	21
■ Medical Device	21
■ License out	21
■ Changes from November 1, 2005	21
Pharmaceutical market in Japan	22
■ Revision of National Health Insurance (NHI) drug prices	22
■ Major healthcare reforms	22
■ Market shares	23
■ Market shares by therapeutic area - prescription ophthalmic	23
Stock information	24
■ Stock price	24
■ Major shareholders	24
■ Shares and stock option	24
■ Extinguishment of Treasury stock	24
■ Breakdown of shareholding by number of shares	25
■ Breakdown of shareholding by number of shareholders	25
News releases	26

# Financial highlights

## 【Consolidated】

### ■ Financial summary

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005	2007 Estimate	% Change 2007/2006
Net sales	88,966	90,252	89,857	92,696	98,397	6.2	100,000	1.6
Operating income	11,790	12,697	14,525	18,982	20,995	10.6	20,000	-4.7
Ordinary income	12,107	12,899	15,790	18,837	21,507	14.2	20,000	-7.0
Net income	5,305	8,502	6,321	11,022	13,022	18.1	13,000	-0.2
Dividends per share (yen)	20	20	40	50	60	—	60	—
Payout ratio (%)	34.9	21.4	55.8	39.7	39.9	—	—	—

### ■ Balance sheets summary

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005
Total assets	152,103	147,147	150,237	139,979	150,458	7.5
Shareholders' equity	95,101	97,125	103,499	108,239	118,637	9.6
Interest-bearing debts	24,466	23,047	12,686	6,882	5,614	-18.4

### ■ Financial indexes

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005	2007 Estimate	% Change
EPS (yen)	57.34	93.67	71.65	125.85	150.26	19.4	149.93	-0.2
BPS (yen)	1,048.51	1,104.21	1,176.83	1,249.32	1,368.27	9.5	—	—
Debt equity ratio (times)	0.25	0.23	0.12	0.06	0.05	—	—	—
PER (times)	25.3	12.3	24.3	18.3	18.8	—	—	—
PBR (times)	1.38	1.04	1.50	1.84	2.07	—	—	—
ROE (%)	5.6	8.8	6.3	10.4	11.5	—	—	—
ROA (%)	3.5	5.7	4.3	7.6	9.0	—	—	—
* Free cash flows (millions of yen)	356	8,762	19,971	1,713	18,772	995.9	—	—
* EBITDA (millions of yen)	18,479	14,738	18,660	23,367	25,258	8.1	—	—

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

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

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

### ■ Other figures

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005	2007 Estimate	% Change 2007/2006
R&D expenses (millions of yen)	12,186	12,719	11,853	12,619	13,971	10.7	14,300	2.4
Capital expenditures (millions of yen)	8,516	4,134	2,871	1,674	1,420	-15.2	2,920	105.6
Depreciation and amortization (millions of yen)	3,837	3,638	3,914	3,696	3,343	-9.6	3,420	2.3
Number of employees	2,463	2,500	2,335	2,308	2,312	—	—	—

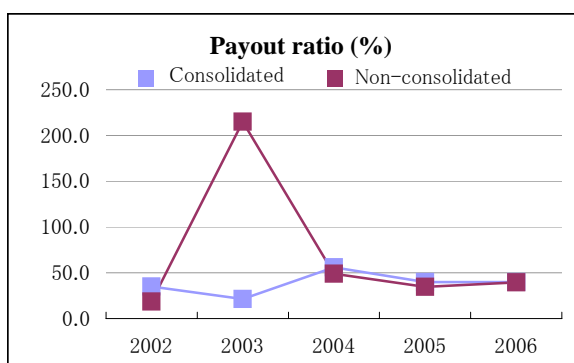
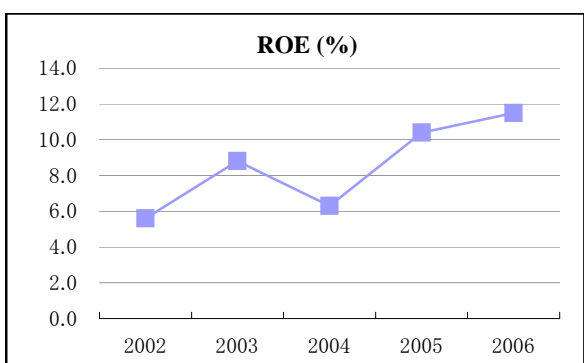
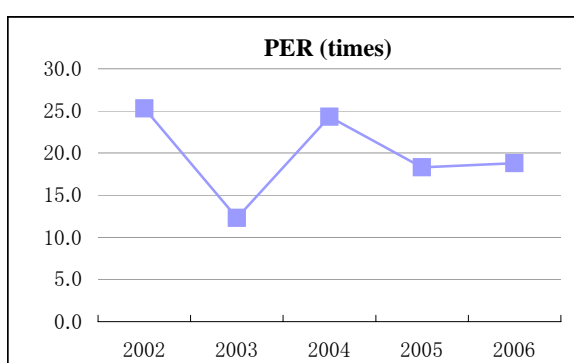
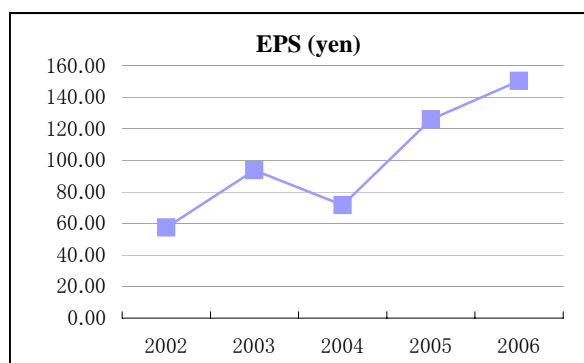
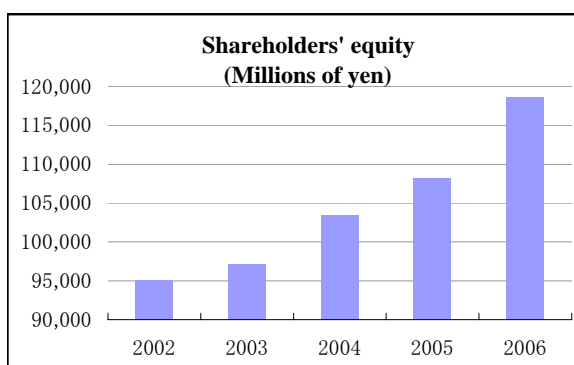
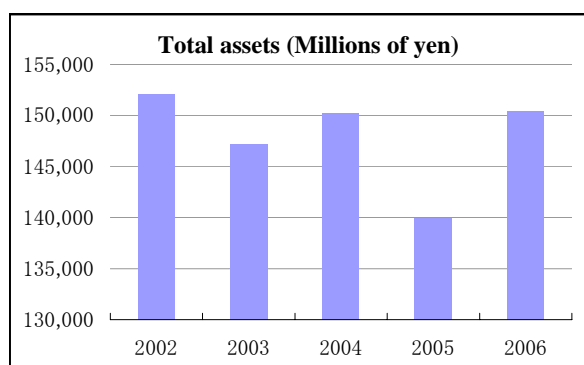
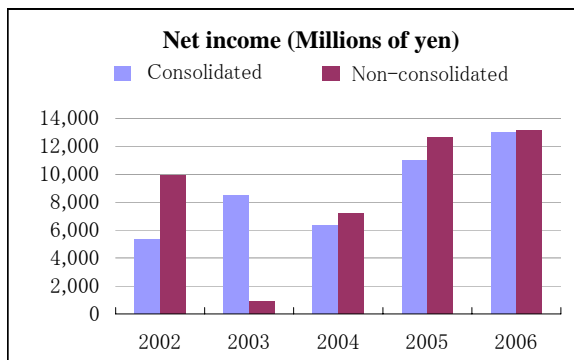
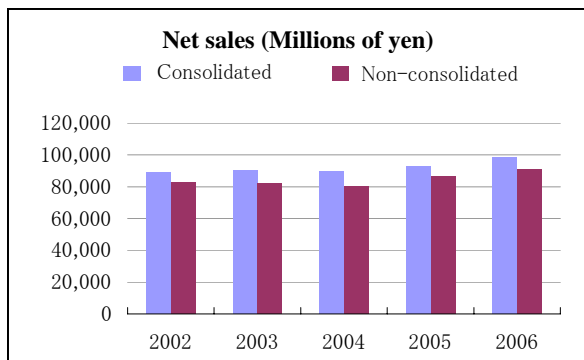
## 【Non-consolidated】

### ■ Financial summary

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005	2007 Estimate	% Change 2007/2006
Net sales	82,990	82,372	80,227	86,340	90,840	5.2	91,800	1.1
Operating income	15,586	17,329	17,469	19,692	20,644	4.8	19,600	-5.1
Ordinary income	16,060	17,011	18,680	20,266	21,376	5.5	20,000	-6.4
Net income	9,932	871	7,176	12,602	13,118	4.1	13,000	-0.9
Dividends per share (yen)	20	20	40	50	60	—	60	—
Payout ratio (%)	18.5	215.1	49.0	34.7	39.6	—	—	—
Total amount of dividends	1,834	1,786	3,517	4,357	5,201	—	—	—

\*Forecasts in this report are based on the currently available information. Actual results may differ materially depending on a number of factors including adverse economic conditions etc.



## Consolidated information

# Consolidated income statements

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005
<b>Net sales</b>	<b>88,966</b>	<b>90,252</b>	<b>89,857</b>	<b>92,696</b>	<b>98,397</b>	6.2
Cost of sales	32,699	32,271	31,857	33,709	34,534	2.4
(Percentage of net sales)	36.8%	35.7%	35.4%	36.4%	35.1%	
<b>Gross profit</b>	<b>56,266</b>	<b>57,981</b>	<b>58,000</b>	<b>58,986</b>	<b>63,863</b>	8.3
(Percentage of net sales)	63.2%	64.3%	64.6%	63.6%	64.9%	
Selling, general and administrative expenses	44,475	45,284	43,474	40,003	42,868	7.2
(Percentage of net sales)	50.0%	50.2%	48.4%	43.1%	43.6%	
R&D expenses	12,186	12,719	11,853	12,619	13,971	10.7
(Percentage of net sales)	13.7%	14.1%	13.2%	13.6%	14.2%	
<b>Operating income</b>	<b>11,790</b>	<b>12,697</b>	<b>14,525</b>	<b>18,982</b>	<b>20,995</b>	10.6
(Percentage of net sales)	13.2%	14.1%	16.2%	20.5%	21.3%	
Non-operating income	1,128	1,269	2,908	803	1,024	27.5
Non-operating expenses	811	1,066	1,643	948	511	-46.1
<b>Ordinary income</b>	<b>12,107</b>	<b>12,899</b>	<b>15,790</b>	<b>18,837</b>	<b>21,507</b>	14.2
(Percentage of net sales)	13.6%	14.3%	17.6%	20.3%	21.9%	
Extraordinary gain	952	17	682	1,137	53	-95.3
Extraordinary loss	380	2,969	2,698	1,538	1,219	-20.7
<b>Income before income taxes</b>	<b>12,678</b>	<b>9,947</b>	<b>13,774</b>	<b>18,436</b>	<b>20,341</b>	10.3
(Percentage of net sales)	14.3%	11.0%	15.3%	19.9%	20.7%	
Income taxes - current	6,932	463	8,750	6,446	7,999	24.1
Income taxes - deferred	440	981	-1,297	966	-679	-170.3
<b>Net income</b>	<b>5,305</b>	<b>8,502</b>	<b>6,321</b>	<b>11,022</b>	<b>13,022</b>	18.1
(Percentage of net sales)	6.0%	9.4%	7.0%	11.9%	13.2%	

## Exchange rates

(Yen)

Year ended March 31	2002	2003	2004	2005	2006	2007 Estimate
Exchange rate: US dollar	125.57	121.87	113.29	107.19	113.42	115.00
Euro	110.07	119.93	132.40	134.64	137.77	138.00

\*Forecasts in this report are based on the currently available information. Actual results may differ materially depending on a number of factors including adverse economic conditions etc.

## ■ Major change in net sales

[Prescription pharmaceuticals]

Domestic:

Sales of prescription ophthalmics amounted to 71,215 million yen and increased by 4.1% from the corresponding period of the previous year due to the contribution of the newly introduced product for anti-glaucoma and the favorable sales growth for corneal disease treatments, despite the decrease in the sales of anti-allergy ophthalmics by the lower airborne pollen count and of anti-infective ophthalmics due to the downturn of the market and the competitive products.

Sales of anti-rheumatic ophthalmics amounted to 8,869 million yen and increased by 7.6% from the corresponding period of the previous year due to the steady penetration to the market.

Overseas:

due to the increase in the sales in the U.S., Europe and Asia. No adjustment of the trade inventory from the previous term resulted in the sales increase in the U.S. despite the intensifying competition for anti-infective in the U.S.

[OTC pharmaceuticals]

Sales amounted to 5,247 million yen and slightly decreased by 0.6% from the corresponding period of the previous year despite the continuing sales promotion from the previous term.

[Others]

Sales amounted to 2,260 million yen and decreased by 4.5% from the corresponding period of the previous year due to the decrease in contract manufacturing in the U.S. and Europe.

## ■ Selling, general and administrative expenses

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005
Personnel expenses	11,919	12,084	11,313	11,109	11,195	0.8
Sales promotion expenses	4,014	4,253	4,201	3,057	3,662	19.8
Royalty expenses	2,457	2,173	2,279	2,113	2,058	-2.6
Advertising expenses	2,189	2,218	1,948	1,616	1,623	0.4
R&D expenses	12,186	12,719	11,853	12,619	13,971	10.7

## ■ Non-operating income and expenses

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005
Interest and dividend income	304	268	239	249	261	5.1
Gains on distribution of investment limited partnership	—	—	—	—	135	—
Interest expense	465	480	365	182	93	-48.7
Amortization expenses of goodwill	263	287	317	322	330	2.3

## ■ Extraordinary gain and loss

(Millions of yen)

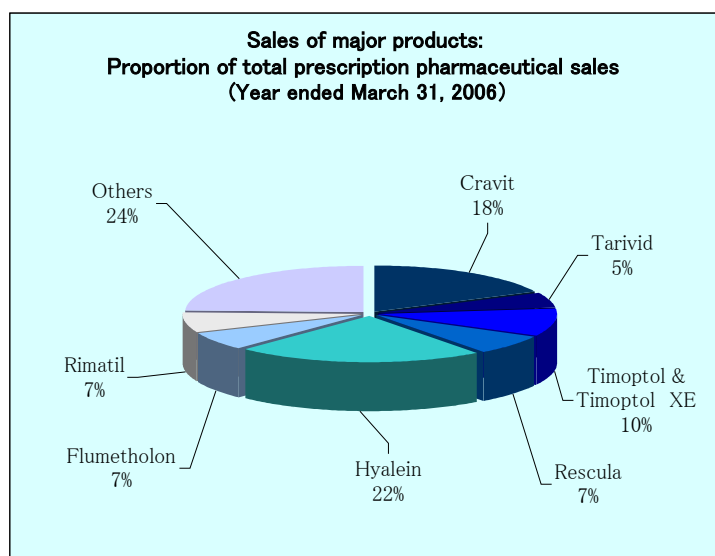
Year ended March 31	2002	2003	2004	2005	2006
Gain on settlement of suit regarding Princeton Bonds	886	—	—	—	—
Gain on sale of fixed assets	19	1	5	340	3
Gain on sale of investment securities	32	15	675	0	0
Gain and loss on change of retirement benefit scheme	—	—	—	316	—
Gain on establishment of retirement benefit trust	—	—	—	210	—
Gain on prior period adjustment	—	—	—	265	—
Loss on valuation of investment securities	178	601	200	50	—
Special premium payment incurred upon secession from pension fund	—	2,202	—	—	—
Retirement benefit for carrier development support	—	—	719	—	—
Loss on discontinued operation of affiliates	—	—	855	—	—
Restructuring change for U.S. business	—	—	386	440	—
Loss on impairment of fixed assets	—	—	376	823	909

# Sales details

## ■ Sales of major prescription pharmaceuticals

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

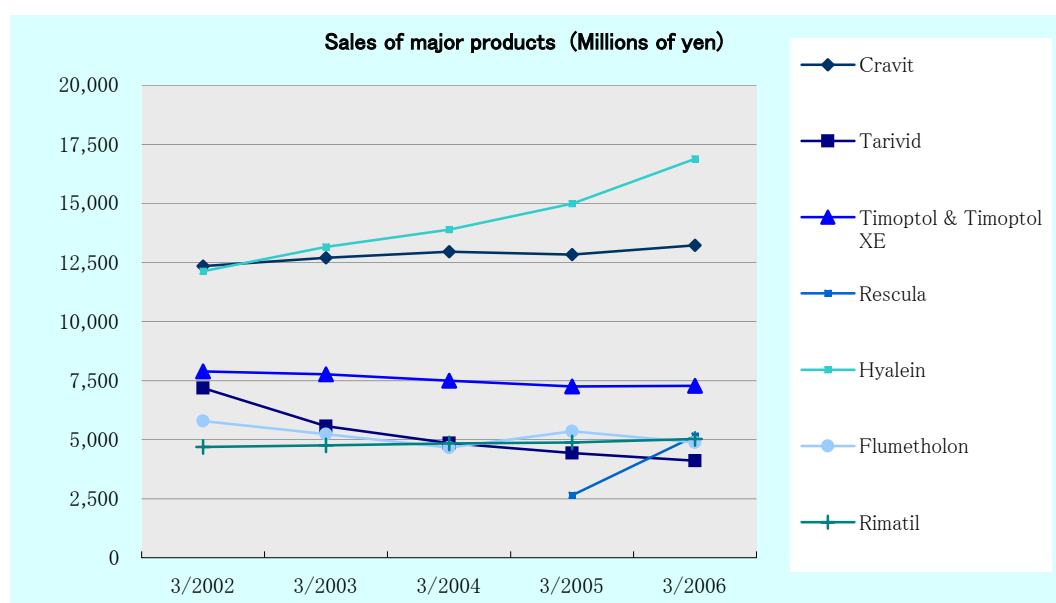
※Rescula: This product, which was launched in October 1994, is to be sold by Santen Pharmaceutical Co., Ltd. in October 2004.





(Millions of yen)

Year ended March 31					Year ended March 31			Brand name
2002	2003	2004	2005	2006	% Change 2006/2005	2007 Estimate	% Change 2007/2006	
12,338	12,691	12,957	12,833	13,227	3.1	12,870	-2.7	Cravit
7,184	5,566	4,847	4,429	4,100	-7.4	3,420	-16.6	Tarivid
5,745	5,289	4,846	4,415	4,210	-4.6	3,780	-10.2	Timoptol
2,145	2,477	2,654	2,837	3,072	8.3	3,090	0.6	Timoptol XE
848	628	472	394	324	-17.6	270	-16.7	Pivalephrine
593	1,498	1,917	2,155	2,226	3.3	2,310	3.8	Detantol
—	—	—	2,645	5,152	94.7	5,300	2.9	Rescula
2,225	3,028	2,729	4,917	3,984	-19.0	4,480	12.4	Livostin
865	848	699	954	749	-21.5	720	-3.9	Alegysal
12,130	13,156	13,893	14,987	16,879	12.6	17,750	5.2	Hyalein
5,792	5,234	4,658	5,354	4,879	-8.9	4,910	0.6	Flumetholon
3,092	3,326	3,295	3,220	3,341	3.8	3,530	5.7	Kary Uni
2,319	2,305	2,267	2,374	2,746	15.7	2,680	-2.4	Opegan Hi
2,010	1,505	1,358	1,274	1,316	3.3	1,290	-2.0	BSS Plus
4,685	4,751	4,836	4,881	5,033	3.1	4,850	-3.6	Rimatil
2,605	2,880	3,132	3,376	3,717	10.1	3,740	0.6	Azulfidine EN



■ Sales for JJVCI

(Millions of yen)

Year ended March 31					Year ended March 31		
2002	2003	2004	2005	2006	% Change 2006/2005	2007 Estimate	% Change 2007/2006
—	—	—	781	1,149	47.0	920	-19.9

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

\*Forecasts in this report are based on the currently available information.Actual results may differ materially depending on a number of factors including adverse economic conditions etc.

# Sales details

## ■ Sales by division

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005
Prescription pharmaceuticals	78,149	79,345	80,061	84,298	90,251	7.1
Ophthalmic	70,043	71,122	71,744	75,624	80,922	7.0
Anti-rheumatic drugs	7,291	7,631	7,969	8,353	9,041	8.2
Other prescription pharmaceuticals	814	591	347	319	287	-10.0
OTC pharmaceuticals	6,592	5,656	4,672	5,277	5,247	-0.6
Medical devices	916	918	914	754	638	-15.4
Others	3,308	4,332	4,209	2,366	2,260	-4.5
Total net sales	88,966	90,252	89,857	92,696	98,397	6.2

## [Domestic]

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005
Prescription pharmaceuticals	72,270	72,010	70,868	76,895	80,308	4.4
Ophthalmic	64,425	64,009	62,717	68,383	71,215	4.1
Anti-rheumatic drugs	7,156	7,537	7,862	8,244	8,869	7.6
Other prescription pharmaceuticals	688	463	288	267	223	-16.4
OTC pharmaceuticals	6,555	5,623	4,657	5,260	5,227	-0.6
Medical devices	839	853	877	726	618	-14.9
Others	982	1,245	1,073	562	629	11.9
Total net sales	80,647	79,732	77,477	83,446	86,784	4.0
(Percentage of total net sales)	90.7%	88.3%	86.2%	90.0%	88.2%	—

## [Overseas]

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005
Prescription pharmaceuticals	5,878	7,335	9,193	7,402	9,942	34.3
Ophthalmic	5,617	7,112	9,027	7,241	9,706	34.0
Anti-rheumatic drugs	134	94	106	108	172	58.3
Other prescription pharmaceuticals	126	128	58	52	64	22.4
OTC pharmaceuticals	36	32	14	16	20	20.9
Medical devices	76	65	37	27	19	-28.5
Others	2,325	3,086	3,135	1,803	1,631	-9.6
Total overseas sales	8,318	10,519	12,380	9,250	11,613	25.5
(Percentage of total net sales)	9.3%	11.7%	13.8%	10.0%	11.8%	—

# Breakdown by geographic segment



## ■ Breakdown by geographic segment

Year ended March 31		2002		2003		2004		2005		2006	
		Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Net sales by geographic segment	Japan	82,623	92.9	81,857	90.7	79,338	88.3	85,837	92.6	89,881	91.3
	Europe	4,844	5.4	6,642	7.4	8,848	9.8	6,374	6.9	8,155	8.3
	Others	1,497	1.7	1,752	1.9	1,671	1.9	484	0.5	360	0.4
	Total	88,966	100.0	90,252	100.0	89,857	100.0	92,696	100.0	98,397	100.0
Operating expenses by geographic segment	Japan	64,263		61,865		60,004		64,216		68,244	
	Europe	9,327		11,442		12,603		8,148		9,192	
	Others	9,385		10,482		8,255		3,798		3,927	
	Total	82,976		83,790		80,863		76,162		81,364	
	Corporate and eliminations	-5,800		-6,234		-5,531		-2,448		-3,961	
	Consolidated total	77,175		77,555		75,332		73,713		77,402	
Operating income by geographic segment	Japan	18,879		20,652		20,351		22,169		22,623	
	Europe	-3,384		-3,816		-2,599		-149		951	
	Others	-473		-1,082		-548		-743		-708	
	Total	15,021		15,753		17,204		21,276		22,866	
	Corporate and eliminations	-3,230		-3,056		-2,678		-2,294		-1,871	
	Consolidated total	11,790		12,697		14,525		18,982		20,995	

Europe: Finland, Germany and Sweden

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

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

## ■ Overseas sales

Year ended March 31	2002		2003		2004		2005		2006	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Europe	3,009	36.2	3,505	33.3	4,370	35.3	4,794	51.8	6,089	52.4
North America	3,499	42.1	4,649	44.2	5,813	47.0	1,703	18.4	1,915	16.5
Others	1,809	21.7	2,364	22.5	2,196	17.7	2,752	29.8	3,608	31.1
Total	8,318	100.0	10,519	100.0	12,380	100.0	9,250	100.0	11,613	100.0

Europe: Finland, Russia, Sweden, Germany and Norway

North America: U.S.A. and Canada

Others: Asian countries

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

# Consolidated balance sheets

## ■ Assets

(Millions of yen)

March 31	2002		2003		2004		2005		2006	
		%		%		%		%		%
<b>Current assets</b>	<b>86,064</b>	<b>56.6</b>	<b>83,431</b>	<b>56.7</b>	<b>91,230</b>	<b>60.7</b>	<b>82,735</b>	<b>59.1</b>	<b>93,892</b>	<b>62.4</b>
Cash and deposits	24,185		23,136		33,629		23,948		34,583	
Notes and accounts receivable-trade	39,415		32,516		32,456		35,625		34,423	
Marketable securities	4,131		7,771		9,303		9,046		11,201	
Inventories	12,371		11,684		10,393		9,826		9,837	
Deferred tax assets	1,870		1,201		2,255		1,625		1,651	
Other current assets	4,157		7,262		3,448		2,681		2,196	
Allowance for doubtful receivables	-67		-141		-256		-18		-1	
<b>Fixed assets</b>	<b>66,038</b>	<b>43.4</b>	<b>63,716</b>	<b>43.3</b>	<b>59,006</b>	<b>39.3</b>	<b>57,244</b>	<b>40.9</b>	<b>56,552</b>	<b>37.6</b>
Tangible assets	42,159	27.7	40,850	27.8	37,237	24.8	32,676	23.3	30,395	20.2
Buildings and structures	18,562		20,351		20,577		18,826		17,119	
Machinery, equipment and vehicles	1,926		1,958		1,882		2,114		2,021	
Land	11,009		10,990		10,645		9,486		9,063	
Construction in progress	8,200		4,966		1,750		181		274	
Other tangibles	2,460		2,582		2,382		2,067		1,916	
Intangible assets	5,164	3.4	4,781	3.2	4,000	2.7	3,318	2.4	2,951	2.0
Goodwill	2,260		1,598		1,323		1,015		709	
Software	992		911		1,207		1,182		1,035	
Consolidation adjustments	17		13		10		6		2	
Other intangibles	1,893		2,256		1,458		1,113		1,204	
Investments and other assets	18,715	12.3	18,085	12.3	17,769	11.8	21,250	15.2	23,205	15.4
Investment securities	9,821		9,945		11,482		14,313		17,715	
Deferred tax assets	2,515		2,331		1,814		1,051		379	
Other assets	6,392		5,808		4,476		5,885		5,109	
Allowance for doubtful receivables	-13		-0		-3		—		—	
<b>Deferred assets</b>	<b>—</b>		<b>—</b>		<b>—</b>		<b>—</b>		<b>13</b>	<b>0.0</b>
<b>Total assets</b>	<b>152,103</b>	<b>100.0</b>	<b>147,147</b>	<b>100.0</b>	<b>150,237</b>	<b>100.0</b>	<b>139,979</b>	<b>100.0</b>	<b>150,458</b>	<b>100.0</b>

### 【Major variances between March 31, 2005 and March 31, 2006】

<b>Cash and deposits :</b>	Due to the increase in income before income taxes and the decrease in the payment of income taxes.
<b>Notes and accounts receivable-trade:</b>	Due to the decrease in the sales of anti-allergy ophthalmics for the 4 <sup>th</sup> quarter, 2006 mainly.
<b>Marketable securities:</b>	Due to the purchase of commercial paper of 1,800 million yen.
<b>Tangible assets:</b>	Due to the impairment loss of 909 million yen on the property for the distribution service.
<b>Investment securities:</b>	Due to the increase in fair value of investment securities.

**■ Liabilities and shareholders' equity**

(Millions of yen)

March 31	2002		2003		2004		2005		2006	
		%		%		%		%		%
<b>Current liabilities</b>	<b>26,334</b>	<b>17.3</b>	<b>39,637</b>	<b>26.9</b>	<b>27,153</b>	<b>18.1</b>	<b>22,221</b>	<b>15.9</b>	<b>24,110</b>	<b>16.0</b>
Accounts payable-trade	4,798		5,476		5,039		6,122		5,630	
Current portion of convertible bonds	—		19,945		—		—		—	
Current portion of long-term	1,417		416		416		268		168	
Other payables	11,754		9,117		8,853		8,577		9,308	
Income taxes payable	3,428		1		8,132		3,413		4,946	
Consumption taxes payable	484		283		566		475		468	
Reserve for bonuses	2,311		2,432		2,228		2,481		2,483	
Other reserves	1,067		741		650		199		81	
Other current liabilities	1,071		1,222		1,265		682		1,023	
<b>Noncurrent liabilities</b>	<b>30,668</b>	<b>20.2</b>	<b>10,384</b>	<b>7.1</b>	<b>19,584</b>	<b>13.0</b>	<b>9,518</b>	<b>6.8</b>	<b>7,710</b>	<b>5.1</b>
Convertible bonds	19,945		—		—		—		—	
Long-term debt	3,103		2,686		12,270		6,614		5,446	
Other payables - long-term	—		86		84		636		381	
Retirement and severance benefits for employee	5,156		5,288		5,331		1,455		1,243	
Retirement and severance benefits for directors and auditors	444		465		441		402		462	
Deffered tax liabilities	34		32		26		23		20	
Other liabilities	1,983		1,825		1,429		386		155	
<b>Total liabilities</b>	<b>57,002</b>	<b>37.5</b>	<b>50,021</b>	<b>34.0</b>	<b>46,737</b>	<b>31.1</b>	<b>31,740</b>	<b>22.7</b>	<b>31,820</b>	<b>21.1</b>
Common stock	6,214		6,214		6,214		6,247		6,319	
Additional paid-in capital	6,908		6,908		6,908		6,942		7,014	
Retained earnings	83,892		90,551		91,844		95,901		104,133	
Unrealized holding gains on securities	474		293		1,426		2,048		3,995	
Foreign currency translation adjustments	-2,382		-3,566		-2,853		-2,826		-2,735	
Treasury stock at cost	-5		-3,276		-40		-74		-90	
<b>Total shareholders' equity</b>	<b>95,101</b>	<b>62.5</b>	<b>97,125</b>	<b>66.0</b>	<b>103,499</b>	<b>68.9</b>	<b>108,239</b>	<b>77.3</b>	<b>118,637</b>	<b>78.9</b>
<b>Total liabilities and shareholders' equity</b>	<b>152,103</b>	<b>100.0</b>	<b>147,147</b>	<b>100.0</b>	<b>150,237</b>	<b>100.0</b>	<b>139,979</b>	<b>100.0</b>	<b>150,458</b>	<b>100.0</b>

**【Major variances between March 31, 2005 and March 31, 2006】**
**Income taxes payable:** Due to the increase in income taxes driven by the increase in income before income taxes.

**Long-term debt:** Due to the repayment of the bank loan ahead of schedule.

# Consolidated statements of cash flows

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006
<b>I. Cash flows from operating activities:</b>					
Income before income taxes	12,678	9,947	13,774	18,436	20,341
Depreciation and amortization	5,333	4,311	4,521	4,749	4,824
Loss on impairment of fixed assets	—	—	376	823	909
Increase/decrease for retirement and severance benefits	97	132	43	-2,550	-212
Interest and dividend income	-304	-268	-239	-249	-261
Gains on insurance received	—	—	-1,712	-114	-74
Interest expense	465	480	365	182	93
Increase/decrease in trade receivables	1,804	6,965	-315	-3,082	1,407
Increase/decrease in inventories	-183	647	1,342	594	-18
Increase/decrease in trade accounts payable	-2,137	660	-440	1,065	-495
Other, net	-2,509	-753	1,045	-2,262	570
Subtotal	15,244	22,122	18,761	17,592	27,085
Interest and dividend income received	227	140	232	246	265
Interest expense paid	-464	-458	-328	-183	-95
Insurance received	—	—	3,003	198	129
Income taxes paid	-8,065	-5,996	-453	-11,235	-6,507
Income taxes refunded	—	—	1,980	—	—
Net cash provided by operating activities	6,941	15,807	23,196	6,619	20,878
<b>II. Cash flows from investing activities:</b>					
Increase in fixed deposits	-2,840	-1,251	-622	-1,548	-803
Decrease in fixed deposits	1,697	1,810	915	2,904	1,041
Payments for acquisition of marketable securities	-0	-4,000	-6,399	-4,499	—
Proceeds from sale of marketable securities	200	3,043	10,604	4,817	504
Payments for acquisition of fixed assets	-6,585	-7,045	-3,225	-4,906	-2,106
Proceeds from sale of fixed assets	—	—	3,770	2,488	29
Purchase of investment securities	-267	-3,703	-510	-3,229	-57
Proceeds from sale of investment securities	856	472	1,073	1,059	20
Payment for acquisition of shares of subsidiaries due to change in consolidation	-537	—	—	—	—
Other, net	1,101	723	-359	7	41
Net cash provided by investing activities	-6,373	-9,951	5,246	-2,907	-1,330
<b>III. Cash flows from financing activities:</b>					
Proceeds from long-term debt	—	—	10,000	—	—
Repayment of long-term debt	-624	-1,420	-416	-5,804	-1,268
Redemption of convertible bonds	—	—	-19,945	—	—
Purchase of treasury stock	-3,313	-3,273	-3	-2,582	-15
Proceeds from sale of treasury stock	90	—	—	0	0
Dividends paid	-1,854	-1,812	-1,758	-4,393	-4,759
Other, net	17	—	—	68	143
Net cash provided by financing activities	-5,683	-6,507	-12,122	-12,711	-5,900
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	<b>176</b>	<b>84</b>	<b>49</b>	<b>-42</b>	<b>75</b>
<b>V. Net increase/decrease in cash and cash equivalents</b>	<b>-4,939</b>	<b>-566</b>	<b>16,369</b>	<b>-9,042</b>	<b>13,723</b>
<b>VI. Cash and cash equivalents, beginning of year</b>	<b>30,555</b>	<b>25,619</b>	<b>25,053</b>	<b>41,422</b>	<b>32,380</b>
<b>VII. Effect from consolidating subsidiaries previously unconsolidated on cash and cash equivalents</b>	<b>4</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>VIII. Cash and cash equivalents, end of year</b>	<b>25,619</b>	<b>25,053</b>	<b>41,422</b>	<b>32,380</b>	<b>46,104</b>

# Capital expenditures and number of employees

## ■ Capital expenditures

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	2007 Estimate
Consolidated	8,516	4,134	2,871	1,674	1,420	2,920
Non-consolidated	7,507	3,820	2,291	1,178	1,232	2,280

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

### 【Major items】

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

## ■ Depreciation and amortization

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	2007 Estimate
Manufacturing cost	1,783	1,549	1,626	1,613	1,546	1,530
Selling, general and administrative expenses	829	699	746	740	626	560
R&D expenses	1,190	1,224	1,499	1,312	1,157	1,230
Others	34	164	40	30	12	100
Consolidated	3,837	3,638	3,914	3,696	3,343	3,420
Non-consolidated	3,347	2,967	3,219	3,005	2,674	2,700

## ■ Lease expenses

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	2007 Estimate
Consolidated	1,879	675	784	1,012	1,104	1,100
Manufacturing cost	1,817	588	656	891	994	940
Non-consolidated	1,879	675	784	1,012	1,104	1,100

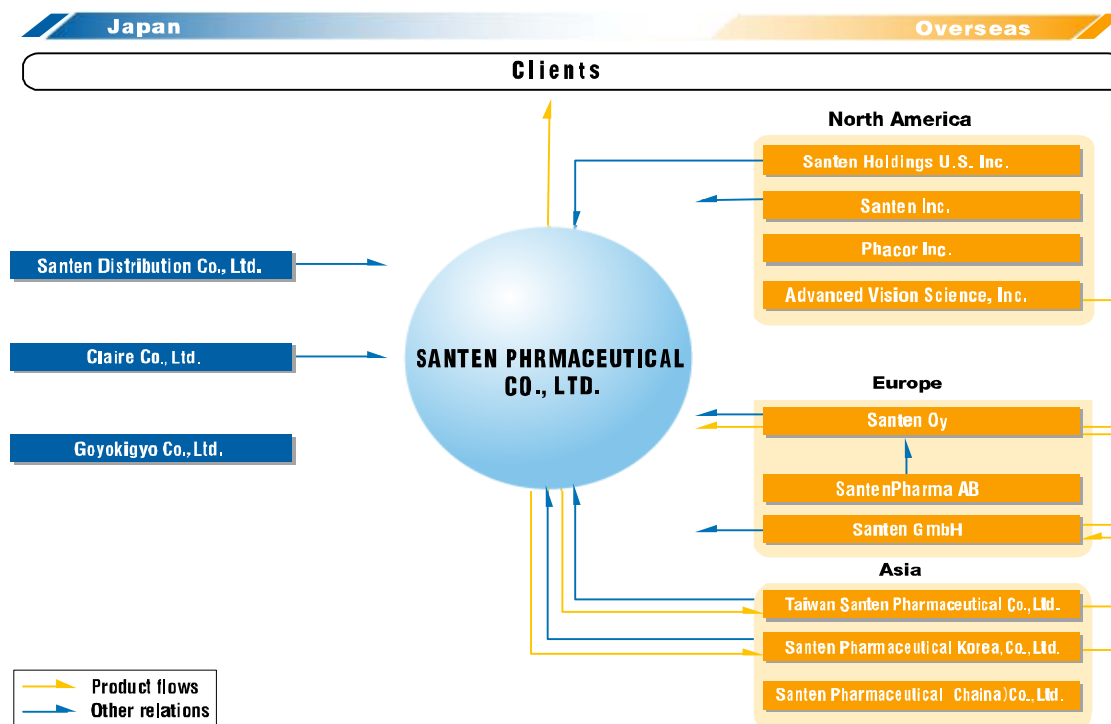
## ■ Number of employees

Year ended March 31	2002	2003	2004	2005	2006
Consolidated	2,463	2,500	2,335	2,308	2,312
Sales division	884	862	771	790	785
Production division	878	909	883	827	787
R&D division	479	485	455	460	483
Corporate or back-office division	222	244	226	231	257
Non-consolidated	1,702	1,740	1,694	1,691	1,695

\*Forecasts in this report are based on the currently available information. Actual results may differ materially depending on a number of factors including adverse economic conditions etc.

# Affiliated companies

## ■ Santen group



## ■ Consolidated subsidiaries 【Domestic】

Santen Distribution Co., Ltd.					
Main business	Storage and shipping of pharmaceuticals				
Location	Osaka, Japan	Paid-in capital	30 million yen	Equity owned	100%
Claire Co., Ltd.					
Main business	Cleaning of antidust and sterilized clothing				
Location	Shiga, Japan	Paid-in capital	90 million yen	Equity owned	100%
Goyokigyo Co., Ltd.					
Main business	—				
Location	Osaka, Japan	Paid-in capital	90 million yen	Equity owned	100%



## 【Overseas】

Santen Holdings U.S. Inc.					
Main business	Holding company for North American business				
Location	California, U.S.A.	Paid-in capital	24,784 thousand US\$	Equity owned	100%
Santen Inc.					
Main business	Clinical development of pharmaceuticals				
Location	California, U.S.A.	Paid-in capital	8,765 thousand US\$	Equity owned	100%*
Phacor Inc.					
Main business	—				
Location	California, U.S.A.	Paid-in capital	10 thousand US\$	Equity owned	100%*
Advanced Vision Science, Inc.					
Main business	Research and development of medical devices				
Location	California, U.S.A.	Paid-in capital	10 thousand US\$	Equity owned	100%*
Santen Oy					
Main business	Development, production and marketing of pharmaceuticals				
Location	Tampere, Finland	Paid-in capital	20,000 thousand euros	Equity owned	100%
SantenPharma AB					
Main business	Marketing support of pharmaceuticals				
Location	Stockholm, Sweden	Paid-in capital	500 thousand S.KR	Equity owned	100%
Santen GmbH					
Main business	Marketing of pharmaceuticals and business development				
Location	Germaring, Germany	Paid-in capital	25 thousand euros	Equity owned	100%
Taiwan Santen Pharmaceutical Co., Ltd.					
Main business	Import and marketing of pharmaceuticals				
Location	Taipei, Taiwan	Paid-in capital	42,000 thousand Taiwan dollars	Equity owned	100%
Santen Pharmaceutical Korea, Co., Ltd.					
Main business	Import and marketing of pharmaceuticals				
Location	Seoul, Korea	Paid-in capital	1,500,000 thousand won	Equity owned	100%
Santen Pharmaceutical (China) Co., Ltd.					
Main business	—				
Location	Suzhou, China	Paid-in capital	345 million yen	Equity owned	100%

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

## Non-consolidated Information

# Non-consolidated income statements

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005
<b>Net sales</b>	<b>82,990</b>	<b>82,372</b>	<b>80,227</b>	<b>86,340</b>	<b>90,840</b>	5.2
Cost of sales	29,829	28,901	27,653	29,964	30,798	2.8
(Percentage of net sales)	35.9%	35.1%	34.5%	34.7%	33.9%	
<b>Gross profit</b>	<b>53,161</b>	<b>53,471</b>	<b>52,573</b>	<b>56,376</b>	<b>60,042</b>	6.5
(Percentage of net sales)	64.1%	64.9%	65.5%	65.3%	66.1%	
Selling, general and administrative expenses	37,575	36,141	35,103	36,684	39,397	7.4
(Percentage of net sales)	45.3%	43.9%	43.7%	42.5%	43.4%	
R&D expenses	12,809	12,109	12,023	13,302	14,553	9.4
(Percentage of net sales)	15.4%	14.7%	15.0%	15.4%	16.0%	
<b>Operating income</b>	<b>15,586</b>	<b>17,329</b>	<b>17,469</b>	<b>19,692</b>	<b>20,644</b>	4.8
(Percentage of net sales)	18.8%	21.0%	21.8%	22.8%	22.7%	
Non-operating income	932	719	2,651	809	888	9.8
Non-operating expenses	458	1,037	1,439	234	156	-33.3
<b>Ordinary income</b>	<b>16,060</b>	<b>17,011</b>	<b>18,680</b>	<b>20,266</b>	<b>21,376</b>	5.5
(Percentage of net sales)	19.3%	20.7%	23.3%	23.5%	23.5%	
Extraordinary gain	952	16	682	766	41	-94.6
Extraordinary loss	263	14,728	5,058	1,080	1,035	-4.2
<b>Income before income taxes</b>	<b>16,749</b>	<b>2,299</b>	<b>14,305</b>	<b>19,952</b>	<b>20,382</b>	2.2
(Percentage of net sales)	20.2%	2.8%	17.8%	23.1%	22.4%	
Income taxes - current	6,515	442	8,662	6,362	7,987	25.5
Income taxes - deferred	300	985	-1,533	987	-723	-173.3
<b>Net income</b>	<b>9,932</b>	<b>871</b>	<b>7,176</b>	<b>12,602</b>	<b>13,118</b>	4.1
(Percentage of net sales)	12.0%	1.1%	8.9%	14.6%	14.4%	

### ■ Selling, general and administrative expenses

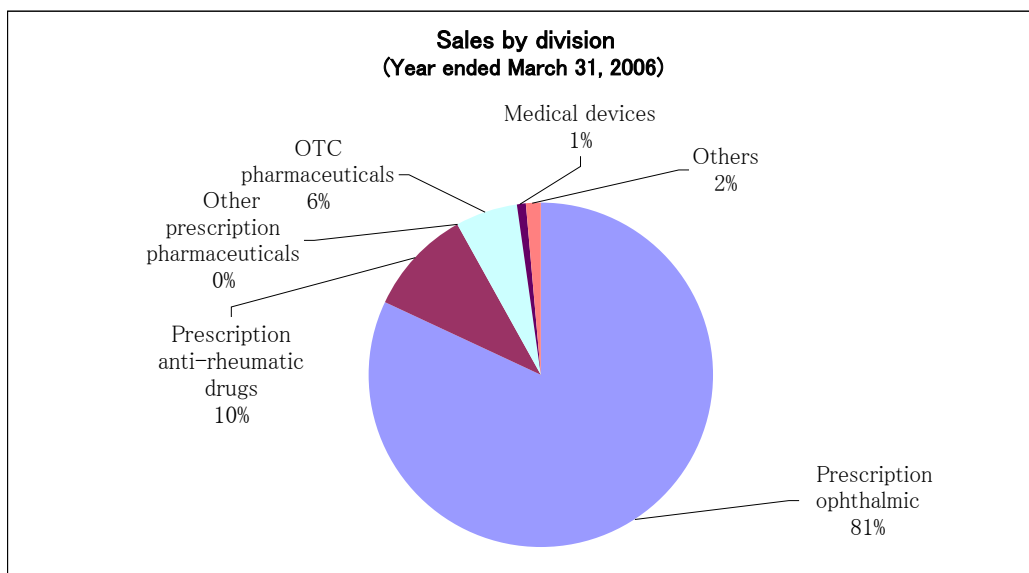
(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005
Personnel expenses	8,626	8,746	8,432	9,149	9,240	1.0
Sales promotion expenses	2,676	2,399	2,212	2,345	2,952	25.9
Royalty expenses	2,358	1,951	1,943	1,941	1,862	-4.0
Advertising expenses	1,869	1,655	1,542	1,457	1,469	0.8
R&D expenses	12,809	12,109	12,023	13,302	14,553	9.4

■ Sales by division

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005
Prescription pharmaceuticals	74,221	74,130	72,781	79,380	83,586	5.3
Ophthalmic	66,379	66,207	64,749	70,987	74,520	5.0
Anti-rheumatic drugs	7,291	7,631	7,969	8,353	9,041	8.2
Other prescription pharmaceuticals	551	291	62	40	24	-39.6
OTC pharmaceuticals	6,592	5,656	4,672	5,277	5,247	-0.6
Medical devices	842	855	877	726	618	-14.9
Others	1,334	1,730	1,896	955	1,387	45.3
Total net sales	82,990	82,372	80,227	86,340	90,840	5.2



■ Sales of merchandises and products

(Millions of yen)

Year ended March 31	2002	2003	2004	2005	2006	% Change 2006/2005
Sales of products	63,742	62,606	60,936	61,979	63,223	2.0
Sales of merchandises	19,248	19,765	19,290	24,360	27,616	13.4
Total	82,990	82,372	80,227	86,340	90,840	5.2
Sales of products ratio(%)	76.8	76.0	75.9	71.8	69.6	—

# Non-consolidated balance sheets

## ■ Assets

(Millions of yen)

March 31	2002		2003		2004		2005		2006	
		%		%		%		%		%
<b>Current assets</b>	<b>78,800</b>	<b>49.7</b>	<b>75,794</b>	<b>51.3</b>	<b>84,293</b>	<b>56.1</b>	<b>78,075</b>	<b>54.7</b>	<b>88,004</b>	<b>57.4</b>
Cash and deposits	19,594		18,353		28,577		21,924		31,655	
Notes and accounts receivable-trade	37,852		31,300		30,874		34,572		33,022	
Income taxes receivable	—		2,114		—		—		—	
Marketable securities	4,797		7,745		9,303		9,046		11,201	
Inventories	10,997		10,348		8,860		8,328		8,613	
Deferred tax assets	1,859		1,138		2,298		1,609		1,647	
Other current assets	3,765		4,934		4,657		2,612		1,864	
Allowance for doubtful receivables	-66		-141		-258		-18		-0	
<b>Fixed assets</b>	<b>79,656</b>	<b>50.3</b>	<b>72,075</b>	<b>48.7</b>	<b>65,946</b>	<b>43.9</b>	<b>64,687</b>	<b>45.3</b>	<b>65,296</b>	<b>42.6</b>
<b>Tangible assets</b>	<b>37,539</b>	<b>23.7</b>	<b>36,304</b>	<b>24.5</b>	<b>32,660</b>	<b>21.7</b>	<b>28,459</b>	<b>19.9</b>	<b>26,489</b>	<b>17.3</b>
Buildings and structures	16,040		17,887		18,289		16,483		14,854	
Machinery, equipment and vehicles	965		857		805		981		1,058	
Tools, furniture and fixtures	1,724		1,932		1,875		1,611		1,520	
Land	10,666		10,666		10,343		9,227		8,786	
Construction in progress	8,142		4,959		1,346		156		269	
<b>Intangible assets</b>	<b>3,446</b>	<b>2.2</b>	<b>3,129</b>	<b>2.1</b>	<b>2,700</b>	<b>1.8</b>	<b>2,073</b>	<b>1.5</b>	<b>1,961</b>	<b>1.3</b>
Patents	887		736		584		432		280	
Trademarks	962		839		717		596		477	
Goodwill	692		449		206		0		0	
Software	797		719		1,111		966		828	
Other intangibles	106		384		80		78		374	
<b>Investments and other assets</b>	<b>38,670</b>	<b>24.4</b>	<b>32,641</b>	<b>22.1</b>	<b>30,585</b>	<b>20.4</b>	<b>34,154</b>	<b>23.9</b>	<b>36,845</b>	<b>24.0</b>
Investment securities	9,991		10,819		11,425		14,309		17,711	
Investments in subsidiaries and affiliates	15,567		4,618		13,201		13,148		13,855	
Long-term loans	4,671		9,346		1		—		—	
Deferred tax assets	2,185		2,052		1,669		948		312	
Other assets	6,253		5,803		4,288		5,748		4,967	
<b>Total assets</b>	<b>158,456</b>	<b>100.0</b>	<b>147,869</b>	<b>100.0</b>	<b>150,240</b>	<b>100.0</b>	<b>142,762</b>	<b>100.0</b>	<b>153,300</b>	<b>100.0</b>

### 【Major variances between March 31, 2005 and March 31, 2006】

<b>Cash and deposits :</b>	Due to the increase in income before income taxes and the decrease in the payment of income taxes.
<b>Notes and accounts receivable-trade:</b>	Due to the decrease in the sales of anti-allergy ophthalmics for the 4 <sup>th</sup> quarter, 2006 mainly.
<b>Marketable securities:</b>	Due to the purchase of commercial paper of 1,800 million yen.
<b>Tangible assets:</b>	Due to the impairment loss of 908 million yen on the property for the distribution service.
<b>Investment securities:</b>	Due to the increase in fair value of investment securities.

**■ Liabilities and shareholders' equity**

(Millions of yen)

March 31	2002		2003		2004		2005		2006	
		%		%		%		%		%
<b>Current liabilities</b>	<b>24,094</b>	<b>15.2</b>	<b>38,055</b>	<b>25.7</b>	<b>24,337</b>	<b>16.2</b>	<b>20,686</b>	<b>14.5</b>	<b>22,573</b>	<b>14.7</b>
Accounts payable-trade	4,335		5,122		4,436		5,469		5,115	
Current portion of convertible bonds	—		19,945		—		—		—	
Current portion of long-term debt	1,416		416		416		268		168	
Other payables	11,242		9,449		8,228		8,732		9,672	
Income taxes payable	3,412		—		8,075		3,372		4,910	
Consumption taxes payable	478		275		556		460		465	
Reserves	2,886		2,609		2,458		2,237		2,070	
Other current liabilities	323		237		165		145		172	
<b>Noncurrent liabilities</b>	<b>29,654</b>	<b>18.7</b>	<b>9,530</b>	<b>6.5</b>	<b>19,102</b>	<b>12.7</b>	<b>8,983</b>	<b>6.3</b>	<b>7,231</b>	<b>4.7</b>
Convertible bonds	19,945		—		—		—		—	
Long-term debt	3,102		2,686		12,270		6,614		5,446	
Retirement and severance benefits	5,580		5,724		5,744		1,823		1,520	
Other liabilities	1,026		1,120		1,088		546		265	
<b>Total liabilities</b>	<b>53,749</b>	<b>33.9</b>	<b>47,586</b>	<b>32.2</b>	<b>43,440</b>	<b>28.9</b>	<b>29,670</b>	<b>20.8</b>	<b>29,804</b>	<b>19.4</b>
Common stock	6,214	3.9	6,214	4.2	6,214	4.1	6,247	4.4	6,319	4.1
Capital surplus reserves	6,908	4.4	6,908	4.6	6,908	4.6	6,942	4.9	7,014	4.6
Additional paid-in capital	6,908		6,908		6,908		6,942		7,013	
Other capital surplus reserves	—		—		0		0		0	
Retained earnings	91,115	57.5	90,143	61.0	92,291	61.4	97,927	68.6	106,256	69.3
Earnings reserve	1,551		1,551		1,551		1,551		1,551	
Reserve for retirement benefits	372		372		372		372		372	
Special depreciation reserve	250		180		325		294		301	
General reserve	82,109		84,109		84,109		84,109		89,109	
Undivided profits	6,833		3,930		5,933		11,600		14,922	
Unrealized holding gains on securities	474	0.3	293	0.2	1,426	1.0	2,048	1.4	3,995	2.6
Treasury stock at cost	-5	-0.0	-3,276	-2.2	-40	-0.0	-74	-0.1	-90	-0.0
<b>Total shareholders' equity</b>	<b>104,706</b>	<b>66.1</b>	<b>100,283</b>	<b>67.8</b>	<b>106,800</b>	<b>71.1</b>	<b>113,092</b>	<b>79.2</b>	<b>123,495</b>	<b>80.6</b>
<b>Total liabilities and shareholders' equity</b>	<b>158,456</b>	<b>100.0</b>	<b>147,869</b>	<b>100.0</b>	<b>150,240</b>	<b>100.0</b>	<b>142,762</b>	<b>100.0</b>	<b>153,300</b>	<b>100.0</b>

**【Major variances between March 31, 2005 and March 31, 2006】**
**Income taxes payable:**

Due to the increase in income taxes driven by the increase in income before income taxes.

**Long-term debt:**

Due to the repayment of the bank loan ahead of schedule.

## Reference information

# Research & development

### ■ Pipeline of prescription pharmaceuticals (Clinical studies)

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

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

Generic name	Brand name	Indication	Original/licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Pemirolast potassium	Alegysal	Allergic conjunctivitis	Mitsubishi Pharma	Japan						Apr-95
	Alamast			USA						Jul-00
	Alamast			Europe					Dec-99	

Characteristics: A mast cell stabilizer with superior efficacy on allergic conjunctivitis and vernal keratoconjunctivitis.

Generic name	Brand name	Indication	Original/licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Ciclosporin	PAPILOCK Mini	Vernal keratoconjunctivitis	Novartis Pharma	Japan						Jan-06

Characteristics: An orphan drug. Ophthalmic application of immuno-suppressant ciclosporin. Expected to treat advanced vernal keratoconjunctivitis for which existing anti-allergic agents are not effective.

Generic name	Dev. code	Indication	Original/licensor	Region	Ph I	Ph II	Ph III	NDA Filed	Approved	Launched
Tafluprost	DE-085	Glaucoma/ Ocular hypertension	Co-development with Asahi Glass	Japan						In preparation
				Europe						In preparation
				USA						

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

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

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

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

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

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

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

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

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

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

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

\*Forecasts in this report are based on the currently available information. Actual results may differ materially depending on a number of factors including adverse economic conditions etc.

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

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

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

Generic name (USA)	Dev. code	Indication	Original/in-licensor
Rivoglitazone	DE-101	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	Sankyo

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

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

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

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

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

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

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

■ Medical Device

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

Characteristics: Foldable intraocular lens using new material with high refractive index. Developed by U.S. subsidiary Advanced Vision Science, Inc.. NDA filed in Japan. In clinical trials in USA.

■ License out

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

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

■ Changes from November 1, 2005

[Progress]

Dev. code	Indication	Status change	Clinical trial, NDA filing, Launch Region
DE-076	Vernal keratoconjunctivitis	Approved to launched	Japan

# Pharmaceutical market in Japan

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

(%)

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

(Compiled by Santen)

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

## ■ Major healthcare reforms

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



## ■ Market shares

(Billions of yen)

Year ended March 31	2002	2003	2004	2005	2006
Prescription ophthalmics	40.3% 197.1	38.9% 195.8	39.0% 194.7	39.6% 207.7	40.9% 213.1
Anti-rheumatic drugs	42.8% 20.3	42.1% 21.1	42.5% 22.2	42.9% 23.3	45.2% 23.8

Notes: - On an NHI drug price basis.

- Lower figures indicate market size.

- Anti-rheumatic drugs exclude immunosuppressants and biologic agents.

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Source: Santen analysis based on IMS data

Period: 2001-2006; Unauthorized copy prohibited

## ■ Market shares by therapeutic area - prescription ophthalmics

(Billions of yen)

Year ended March 31	2002	2003	2004	2005	2006
Anti-glaucoma	17.6% 66.1	17.3% 69.0	16.7% 71.7	20.0% 74.9	23.2% 79.0
Anti-infective	81.8% 30.2	80.9% 27.6	81.0% 26.9	80.3% 26.5	78.3% 26.7
Anti-allergy	18.2% 26.5	17.5% 25.0	20.7% 20.8	22.4% 28.4	24.8% 24.6
Agents for surgeries	41.0% 16.0	39.6% 14.8	39.1% 14.5	41.0% 13.6	42.6% 14.4
Corneal disease treatments	89.0% 17.2	85.4% 18.8	82.4% 21.0	81.0% 23.0	80.7% 25.5
Anti-cataract	50.1% 7.7	53.3% 7.7	55.4% 7.1	57.4% 6.8	60.3% 6.5
Corticosteroids	56.0% 12.5	53.1% 11.4	51.6% 10.9	52.8% 11.5	52.6% 11.2

Notes: - On an NHI drug price basis.

- Lower figures indicate market size.

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Source: Santen analysis based on IMS data

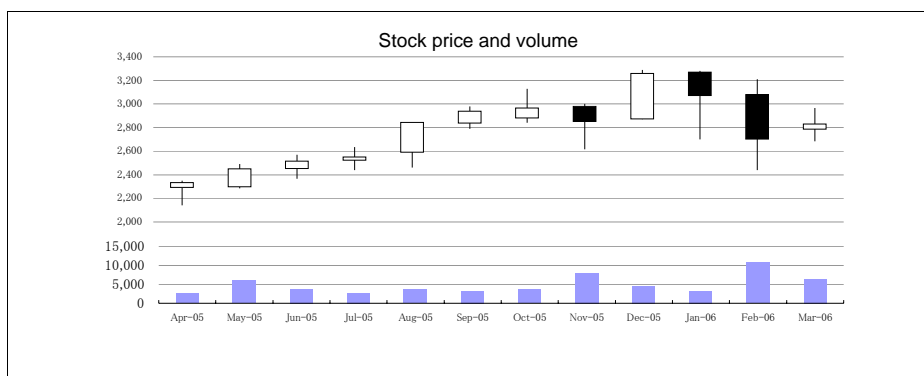
Period: 2001-2006; Unauthorized copy prohibited

# Stock information

## ■ Stock price (Osaka Securities Exchange 1st market)

(Yen and thousand shares)

	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06
Stock price:												
Open	2,290	2,295	2,450	2,520	2,590	2,835	2,880	2,980	2,870	3,270	3,080	2,785
High	2,350	2,490	2,570	2,635	2,845	2,980	3,130	3,000	3,290	3,280	3,210	2,965
Low	2,140	2,285	2,365	2,440	2,460	2,790	2,840	2,615	2,870	2,700	2,440	2,685
End of month	2,335	2,450	2,515	2,550	2,845	2,940	2,965	2,850	3,260	3,070	2,700	2,830
Volume	2,541	5,995	3,848	2,745	3,608	3,204	3,664	7,979	4,545	3,241	10,887	6,326



## ■ Major shareholders

As of March 31, 2006

Name	Number of shares Held	Percentage of voting rights
	Thousand shares	%
Northern Trust CO. (AVFC) Sub-account American Clients	8,030	9.3
Japan Trustee Service Bank, Ltd.	4,912	5.7
Mita Sangyo Co., Ltd.	4,756	5.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,296	5.0
Japan master Trust and Banking Co., Ltd.	3,922	4.5
Trust and Custody Services Bank, Ltd.	2,750	3.2
The Tokio Marine and Nichido Fire Insurance Co., Ltd.	2,668	3.1
Nippon Life Insurance Company	2,661	3.1
Mitsubishi UFJ Trust and Banking Corporation	1,930	2.2
Investors Bank and Trust Company	1,718	2.0

## ■ Shares and stock option

Year ended March 31	2001	2002	2003	2004	2005	2006
Number of shares outstanding (thousand shares)	92,720	90,704	90,704	87,963	86,658	86,751
Stock option balance (thousand shares)	199	243	335	472.6	504.3	541
Granted in June 1998 - 106 thousand shares at 1,540 yen/share	73	62	62	62	35	27
Granted in June 1999 - 66 thousand shares at 2,480 yen/share	66	66	66	66	66	57.3
Granted in June 2000 - 60 thousand shares at 2,705 yen/share	60	60	60	60	60	58
Granted in June 2001 - 55 thousand shares at 2,299 yen/share	-	55	55	55	55	42.6
Granted in June 2002 - 92 thousand shares at 1,326 yen/share	-	-	92	92	72.5	53.7
Granted in June 2003 - 137.6 thousand shares at 1,176 yen/share	-	-	-	137.6	137.6	95
Granted in June 2004 - 78.2 thousand shares at 1,743 yen/share	-	-	-	-	78.2	78.2
Granted in June 2005 - 129.2 thousand shares at 2,480 yen/share	-	-	-	-	-	129.2

Note: The company has a stock-based compensation plans under which stock options are granted to directors and corporate officers.

The grants are fully exercisable after two years.

## ■ Extinguishment of Treasury stock

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

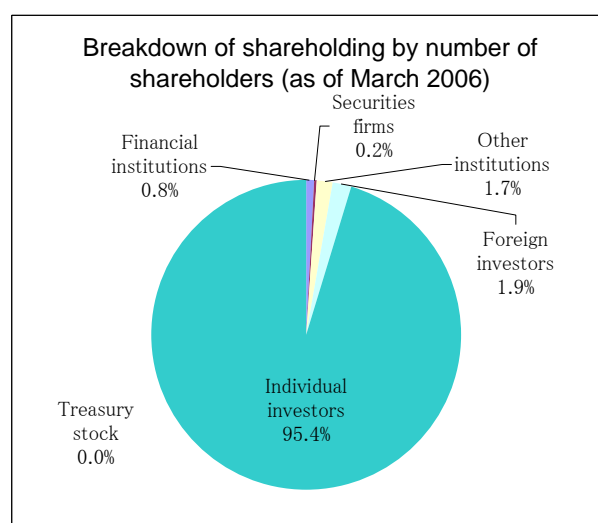
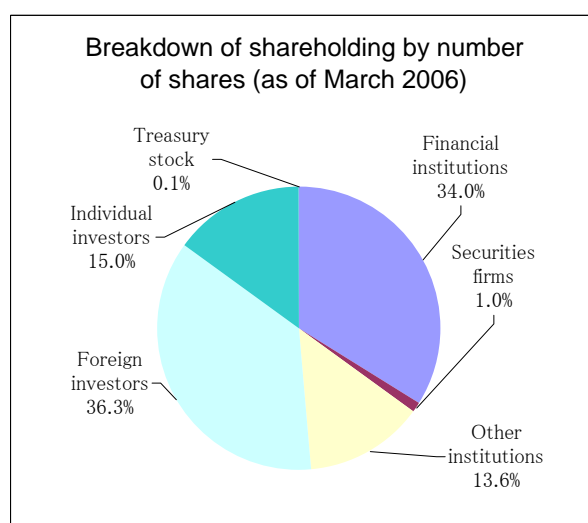
### ■ Breakdown of shareholding by number of shares

Year ended March 31	2002		2003		2004		2005		2006	
	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)	Thousand shares	Proportion (%)
Financial institutions	41,005	45.2	36,302	40.0	30,740	34.9	28,423	32.8	29,514	34.0
City & regional banks	9,054	9.9	6,660	7.3	5,428	6.2	4,636	5.3	4,659	5.4
Trust banks	20,641	22.8	19,018	21.0	16,201	18.4	15,768	18.2	16,577	19.1
(concerned in trust works)	18,429		15,743		13,422		13,022		14,039	
Life and non-life insurance	11,033	12.2	10,414	11.5	9,007	10.2	7,973	9.2	8,004	9.2
Other financial institutions	276	0.3	208	0.2	103	0.1	45	0.1	274	0.3
Securities firms	646	0.7	293	0.3	368	0.4	346	0.4	865	1.0
Other institutions	10,300	11.4	10,555	11.6	10,512	12.0	11,788	13.6	11,823	13.6
Foreign investors	23,675	26.1	24,580	27.1	31,306	35.6	32,874	38.0	31,519	36.3
Individual investors	15,073	16.6	16,200	17.9	15,001	17.1	13,187	15.2	12,985	15.0
Treasury stock	2	0.0	2,771	3.1	33	0.0	39	0.0	45	0.1
<b>Total</b>	<b>90,704</b>	<b>100.0</b>	<b>90,704</b>	<b>100.0</b>	<b>87,963</b>	<b>100.0</b>	<b>86,658</b>	<b>100.0</b>	<b>86,751</b>	<b>100.0</b>

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

### ■ Breakdown of shareholding by number of shareholders

Year ended March 31	2002		2003		2004		2005		2006	
	Number of shareholders	Proportion (%)	Number of shareholders	Proportion (%)	Number of shareholders	Proportion (%)	Number of shareholders	Proportion (%)	Number of shareholders	Proportion (%)
Financial institutions	107	1.8	98	1.2	83	1.0	91	1.1	107	0.8
City & regional banks	13	0.2	8	0.1	7	0.1	9	0.1	10	0.1
Trust banks	60	1.0	55	0.7	46	0.6	47	0.6	52	0.4
Life and non-life insurance	28	0.5	29	0.3	27	0.3	31	0.4	32	0.2
Other financial institutions	6	0.1	6	0.1	3	0.0	4	0.0	13	0.1
Securities firms	35	0.6	28	0.4	28	0.4	28	0.3	31	0.2
Other institutions	137	2.3	134	1.7	130	1.7	128	1.5	236	1.7
Foreign investors	148	2.5	119	1.5	122	1.5	172	2.0	255	1.9
Individual investors	5,583	92.9	7,493	95.2	7,498	95.4	8,089	95.1	12,927	95.4
Treasury stock	1	0.0	1	0.0	1	0.0	1	0.0	1	0.0
<b>Total</b>	<b>6,011</b>	<b>100.0</b>	<b>7,873</b>	<b>100.0</b>	<b>7,862</b>	<b>100.0</b>	<b>8,509</b>	<b>100.0</b>	<b>13,557</b>	<b>100.0</b>



# News releases

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## News releases during April 2005-March 2006

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

(Date) (Summary)

2005

**9-May Announcement on the New Management Organization**

The board of directors of the Company was approved to increase the number of inside directors from four to five, and the number of outside directors from one to three at the 93rd Annual General Meeting of Shareholders held on June 24, 2005. Moreover, in July 2005 three committees—a Corporate Strategy Committee, a Nominating Committee and an Executive Compensation Committee—comprising inside and outside directors were reorganized or newly established. Accordingly, these committees are different from ordinary committees and are not "committees" required to be maintained by "companies with committees" (in Japanese: i-inkai tou settchi kaisha) as defined in the revised Commercial Code.

**9-May Santen to Issue Stock Acquisition Rights for the Purpose of Granting Stock Options**

Santen's Board of Directors adopted a resolution to issue stock acquisition rights for the purpose of granting stock options to Santen's directors, corporate officers and directors of major overseas subsidiaries. The resolution was approved at the 93rd Annual General Meeting of Shareholders held on June 24.

**7-Jul Santen Opens its Shanghai Representative Office**

Santen opened the Shanghai Representative Office, covering East China (Shanghai, Zhejiang, Jiangsu, Anhui and Hubei), in China on July 7, 2005.

**25-Jul Santen to Reform the Organization**

Santen reformed its OTC division as of September 1st, 2005. Santen set up Administration Group, Product Development Group and Sales Planning Group at the OTC head office and also relocated the head office to Tokyo. Moreover, Santen modified OTC Sales and Marketing structures to reinforce marketing efficiency and to create value-added marketing and sales activities.

**12-Aug Santen's Car Including PC and Roster with Private Information Stolen**

One of Santen's medical representative's car was stolen. A roster and a mobile computer with private information were taken with the vehicle. Santen's mobile computers have double-security features. Therefore, the possibility of leakage of electronic information is considered to be very low. At the time of publishing, no misuse of private information has been discovered.

**25-Aug Santen to Outsource its Logistics Operations**

In order to ensure high quality customer service by improving efficiency and shortening lead time and to improve capital efficiency by concentrating management resources, Santen decided to outsource its logistics operations in the western part of Japan to Hitachi Transport System, Ltd.

**26-Sep Agreement Concerning CS-011 as Dry Eye Drug Candidate**

Santen and Sankyo Co., Ltd. entered into an agreement concerning the worldwide exclusive development, manufacturing and marketing rights for CS-011 (rivoglitazone) as an ophthalmic treatment for corneal and conjunctival epithelial disorders, including dry eye. The compound is currently under development by Sankyo as an anti-diabetic. Sankyo has the option to co-promote the product in Japan.

**29-Sep Santen Establishes Subsidiary in China**

Santen established Santen Pharmaceutical (China) Co., Ltd., a 100% subsidiary in China. Santen has received an operating license from Jiangsu Administration of Industry and Commerce. The new subsidiary will develop prescription ophthalmic pharmaceuticals, construct a manufacturing plant in Suzhou Industrial Park, and establish a direct sales and marketing organization.

May 10, 2006

## News releases during April 2005-March 2006

(Date) (Summary)

**12-Oct Santen Receives Manufacturing and Marketing Approval for its Vernal Keratoconjunctivitis Treatment, PAPILOCK Mini Ophthalmic Solution 0.1%**

Santen received a manufacturing and marketing approval for its new vernal keratoconjunctivitis treatment PAPILOCK Mini ophthalmic solution 0.1% (generic name: ciclosporin) from the Ministry of Health, Labour and Welfare on October 11. Santen believes PAPILOCK Mini ophthalmic solution 0.1% will make an important contribution to the treatment of patients with vernal keratoconjunctivitis with whom existing anti-allergy drugs are not effective and lead to their improved quality of life.

2006

**23-Jan Santen Launches PAPILOCK Mini Ophthalmic Solution 0.1%**

Santen launched its new vernal keratoconjunctivitis treatment PAPILOCK Mini ophthalmic solution 0.1% (generic name: ciclosporin) on January 23. Santen believes PAPILOCK Mini ophthalmic solution 0.1% will make an important contribution to the treatment of patients with vernal keratoconjunctivitis with whom existing anti-allergy drugs are not effective and lead to their improved quality of life.

**14-Feb Santen Announces Preliminary Results of Overseas Clinical Trials of Two Glaucoma Drug Candidates**

Santen announced preliminary results of the overseas clinical trials of two drug candidates for lowering intraocular pressure in patients with glaucoma and ocular hypertension: an angiotensin II receptor antagonist, DE-092 (International Nonproprietary Name: Olmesartan), and a prostaglandin derivative, DE-085 (INN: Tafluprost).

- In the early Phase II clinical trials of DE-092 in the United States, although data analysis indicated some IOP reduction, the efficacy was insufficient, and no clear dose-response relationship was seen among the DE-092 concentrations.
- In Phase III clinical trials of DE-085 in Europe, the drug did not demonstrate non-inferiority to latanoprost ophthalmic solution 0.005% for the primary endpoint. However, DE-085 demonstrated non-inferiority to latanoprost in Phase III clinical trials in Japan, and progress towards a Japanese NDA filing is continuing as planned.

Santen will announce its future overseas development plans for these two product candidates when a decision is made.

**28-Feb Santen Announces Proposed Dividend Change**

Returning profits to shareholders is an issue of key importance for Santen. Santen actively seeks to return profits through dividends. Taking our forecast of performance of the year ending March 2006 into account, Santen will propose a year-end dividend of ¥35 and an annual total dividend of ¥60 per share, to the company's 94th Annual General Meeting of Shareholders which will be held in June 2006.

**22-Mar Licensing Agreement on PDE4 Inhibitor ONO-6126**

Santen and Ono Pharmaceutical Co., Ltd. entered into a licensing agreement for exclusive development, manufacturing and marketing rights in Japan for ONO-6126 for allergic conjunctivitis. The mechanism of action of ONO-6126 is different from existing drugs for the treatment of allergic conjunctivitis, and Santen expects that ONO-6126 will provide a new option for treatment.

**22-Mar Agreement Concerning Joint Research of Ophthalmic Drug**

Santen and CytoPathfinder, Inc. signed a three-year research agreement to jointly search for target molecules for ophthalmology drug discovery and apply CytoPathfinder's cubic liquid crystal technology to ophthalmic drug formulation as part of Santen's drug discovery process for ophthalmic disorders such as glaucoma and retinal disorders.

**28-Mar Agreement Concerning Microsphere-based Platform Development and License**

Santen signed a development and license agreement with Oakwood Laboratories L.L.C. in the U.S. Oakwood has broad experience and high quality in microsphere-based technologies, for the development of manufacturing technology for a steroid microsphere-based product for diabetic macular edema treatment (development code named DE-102). Under the agreement, Santen will address development of manufacturing technology for DE-102 which has a concept of drug delivery system.

