

[Disclaimer: The following is meant to be an accurate translation from the original Financial Report of Santen Pharmaceutical Co., Ltd., written Japanese, and is prepared for the information disclosure to the Tokyo Stock Exchange. However, in the case of any discrepancy between the English translation and the Japanese original, the latter shall prevail.]

SANTEN PHARMACEUTICAL CO., LTD. (August 2, 2011)

Code: 4536

URL <http://www.santen.com>

First Quarter Financial Results for the Fiscal Year Ending March 31, 2012

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(Figures are rounded down to the nearest million yen)

1. Consolidated Performance for the three months ended June 30, 2011

(1) Operating results	Three months ended June 30, 2011	Three months ended June 30, 2010	% change 2012/2011
Net sales (millions of yen)	27,850	26,212	6.2%
Operating income (millions of yen)	7,762	6,637	17.0%
Ordinary income (millions of yen)	8,188	7,147	14.6%
Net income (millions of yen)	5,526	4,578	20.7%
Net income per share (yen)	63.43	53.79	
Diluted net income per share (yen)	63.36	53.72	

Note: Comprehensive income:

First quarter ended June 30, 2011: ¥ 6,020 million(89.6%)

First quarter ended June 30, 2010: ¥ 3,176 million(-%)

(2) Financial condition

	June 30, 2011	March 31, 2011
Total assets (millions of yen)	182,007	184,801
Net assets (millions of yen)	158,164	156,404
Equity ratio	86.7%	84.5%
Net assets per share (yen)	1,811.99	1,793.15

Reference: Equity (Consolidated):

First quarter ended June 30, 2011: ¥ 157,860 million

Fiscal year ended March 31, 2011: ¥ 156,098 million

2. Dividends

	Year to March 2012	(Forecasts) Year to March 2012	Year to March 2011
First quarter dividends per share (yen)	0.00	—	0.00
Second quarter dividends per share (yen)	—	50.00	40.00
Third quarter dividends per share (yen)	—	0.00	0.00
End-of-period dividends per share (yen)	—	50.00	50.00
Annual dividends per share (yen)	—	100.00	90.00

3. Consolidated Forecasts of results for the year ending March 31, 2012

	First half year	Full year	(Full year) % change 2012/2011
Net sales (millions of yen)	57,300	116,000	4.7%
Operating income (millions of yen)	14,500	30,000	(2.4%)
Ordinary income (millions of yen)	14,800	30,500	(3.1%)
Net income (millions of yen)	10,000	20,500	(3.9%)
Net income per share (yen)	117.05	239.95	

4. Others

(1) No change on consolidated subsidiaries

(2) No alternative methods have been adopted in accounting policy

(3) No change in accounting policy

(4) Number of shares outstanding (common stock)

[i] Number of shares outstanding at the end of period (including treasury stock)

June 30, 2011 : 87,120,803

March 31, 2011 : 87,053,103

[ii] Number of treasury stock at the end of period

June 30, 2011 : 840

March 31, 2011 : 464

[iii] Average number of outstanding shares (during the three months ended June 30)

First quarter ended June 30, 2011 : 87,118,307

First quarter ended June 30, 2010 : 85,118,088

(Caution)

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.

Quarterly consolidated balance sheets

(Millions of yen)

	June 30, 2011	March 31, 2011
Assets		
Current assets		
Cash and deposits	63,455	65,558
Notes and accounts receivable-trade	39,103	38,980
Short-term investment securities	12,126	13,332
Merchandise and finished goods	12,708	11,784
Work in process	593	449
Raw materials and supplies	2,409	2,469
Deferred tax assets	1,143	1,986
Other	3,849	3,106
Allowance for doubtful receivables	(1)	(1)
Total current assets	135,388	137,668
Non-current assets		
Property, plant and equipment		
Buildings and structures	40,811	40,719
Accumulated depreciation and impairment loss	(27,540)	(27,268)
Buildings and structures, net	13,271	13,450
Machinery, equipment and vehicles	11,309	11,153
Accumulated depreciation and impairment loss	(9,687)	(9,520)
Machinery, equipment and vehicles, net	1,622	1,632
Land	8,213	8,216
Lease assets	241	233
Accumulated depreciation and impairment loss	(52)	(47)
Lease assets, net	189	186
Construction in progress	496	186
Other	11,083	10,937
Accumulated depreciation and impairment loss	(9,759)	(9,653)
Other, net	1,324	1,283
Total property, plant and equipment	25,117	24,956
Intangible assets		
Software	842	952
Other	59	39
Total intangible assets	902	991
Investments and other assets		
Investment securities	11,997	12,141
Deferred tax assets	7,149	7,538
Other	1,452	1,505
Total investments and other assets	20,599	21,185
Total non-current assets	46,619	47,133
Total assets	182,007	184,801

(Millions of yen)		
	June 30, 2011	March 31, 2011
<u>Liabilities</u>		
Current liabilities		
Notes and accounts payable -trade	5,942	6,031
Other payables	7,733	8,444
Income taxes payable	1,701	4,631
Provision for bonuses	1,313	2,712
Other	3,261	2,285
Total current liabilities	19,951	24,104
Non-current liabilities		
Retirement and severance benefits for employee	3,279	3,266
Retirement and severance benefits for directors and auditors	164	453
Asset retirement obligations	160	160
Other	286	412
Total non-current liabilities	3,891	4,292
Total liabilities	23,843	28,397
<u>Net assets</u>		
Shareholders' equity		
Common stock	6,662	6,614
Capital surplus	8,016	7,968
Retained earnings	148,752	147,578
Treasury stock, at cost	(3)	(1)
Total shareholders' equity	163,428	162,159
Accumulated other comprehensive income		
Unrealized losses on securities, net of taxes	(339)	(443)
Foreign currency translation adjustments	(5,227)	(5,618)
Total accumulated other comprehensive income	(5,567)	(6,061)
Stock subscription rights	303	305
Total net assets	158,164	156,404
Total liabilities and net assets	182,007	184,801

Quarterly consolidated statements of income and comprehensive income

	(Millions of yen)	
	Three months ended June 30, 2010	Three months ended June 30, 2011
Net sales	26,212	27,850
Cost of sales	8,540	8,652
Gross profit	17,672	19,198
Selling, general and administrative expenses	11,034	11,435
Operating income	6,637	7,762
Non-operating income		
Interest income	8	11
Dividend income	222	220
Dividends income of life insurance	117	143
Exchange gains	52	3
Other	127	60
Total non-operating income	528	439
Non-operating expenses		
Interest expenses	12	5
Other	5	7
Total non-operating expenses	18	13
Ordinary income	7,147	8,188
Extraordinary income		
Gain on sales of fixed assets	5	—
Gain on sales of investment securities	—	10
Total extraordinary income	5	10
Extraordinary loss		
Loss on sales of non-current assets	3	1
Loss on sales of investment securities	—	15
Loss on adjustment for changes of accounting standard for asset retirement obligations	108	—
Total extraordinary losses	111	17
Income before income taxes	7,040	8,182
Income taxes - current	1,231	1,429
Income taxes - deferred	1,230	1,226
Total income taxes	2,462	2,656
Income before minority interests	4,578	5,526
Net income	4,578	5,526
Income before minority interests	4,578	5,526
Other comprehensive income		
Unrealized gains(losses) on securities, net of taxes	(764)	104
Foreign currency translation adjustments	(638)	390
Other comprehensive income	(1,402)	494
Total comprehensive income	3,176	6,020
Total comprehensive income attributable to :		
Owners of the parent	3,176	6,020
Minority interests	—	—

Quarterly consolidated statements of cash flows

(Millions of yen)

	Three months ended June 30, 2010	Three months ended June 30, 2011
<u>Cash flows from operating activities:</u>		
Income before income taxes	7,040	8,182
Depreciation and amortization	739	664
Increase in retirement and severance benefits	135	12
Interest and dividend income	(230)	(232)
Interest expenses	12	5
Increase in notes and accounts receivable-trade	(2,611)	(31)
Increase in inventories	(211)	(937)
Decrease in notes and accounts payable-trade	(375)	(282)
Other, net	(1,595)	(2,028)
Subtotal	2,902	5,352
Interest and dividend income received	230	230
Interest expenses paid	(10)	(4)
Income taxes paid	(6,505)	(4,509)
Net cash (used in) provided by operating activities	(3,382)	1,069
<u>Cash flows from investing activities:</u>		
Increase in fixed deposits	(495)	(8)
Proceeds from withdrawal of fixed deposits	674	1,895
Purchase of short-term investment securities	—	(708)
Proceeds from sales of short-term investment securities	—	1,007
Capital expenditures	(307)	(655)
Proceeds from sales of fixed assets	185	—
Purchase of investment securities	(1)	(1)
Proceeds from sales of investment securities	1	322
Other	0	0
Net cash provided by investing activities	56	1,850
<u>Cash flows from financing activities:</u>		
Dividends paid	(3,276)	(4,225)
Other, net	63	90
Net cash used in financing activities	(3,213)	(4,134)
Effect of exchange rate changes on cash and cash equivalents	(298)	(4)
Net decrease in cash and cash equivalents	(6,837)	(1,218)
Cash and cash equivalents at beginning of period	64,348	72,482
Cash and cash equivalents at end of period	57,511	71,264

Segment information

Segment information

Three months ended June 30, 2010 (Millions of yen)

	<Reporting segment> Pharmaceuticals	Other (Note 1)	Total	Adjustments	Consolidated total (Note 2)
Net sales:					
External costumers	25,759	453	26,212	—	26,212
Intersegment	—	32	32	(32)	—
Total	25,759	485	26,245	(32)	26,212
Segment income (loss)	6,730	(93)	6,637	—	6,637

- Notes: 1. Other segment mainly includes medical equipments.
 2. Segment income (loss) was adjusted to agree with operating income in quarterly consolidated statements of income and comprehensive income.

Three months ended June 30, 2011 (Millions of yen)

	<Reporting segment> Pharmaceuticals	Other (Note 1)	Total	Adjustments	Consolidated total (Note 2)
Net sales:					
External costumers	27,080	770	27,850	—	27,850
Intersegment	—	29	29	(29)	—
Total	27,080	800	27,880	(29)	27,850
Segment income	7,547	215	7,762	—	7,762

- Notes: 1. Other segment mainly includes medical equipments.
 2. Segment income was adjusted to agree with operating income in quarterly consolidated statements of income and comprehensive income.

<Reference>

■ Sales of major pharmaceuticals

(Millions of yen)

Brand name Generic name/formulation	Therapeutic category	Three months ended June 30, 2010 Actual	Six months ended September 30, 2010 Actual	Year ended March 31, 2011 Actual	Three months ended June 30, 2011 Actual	Six months ending September 30, 2011 Forecasts	Year ending March 31, 2012 Forecasts
Cravit levofloxacin/ophthalmic solution	Bacterial conjunctivitis	3,284 5.9 %	6,950 4.7 %	12,904 5.4 %	3,226 (1.8) %	6,939 (0.2) %	12,917 0.1 %
Tarivid ofloxacin/ophthalmic solution	Bacterial conjunctivitis	606 (19.8) %	1,254 (13.0) %	2,419 (0.2) %	461 (23.8) %	1,157 (7.7) %	2,157 (10.8) %
Tapros tafluprost/ophthalmic solution	Glaucoma	1,631 90.3 %	3,306 66.6 %	6,633 41.5 %	1,779 9.1 %	3,993 20.8 %	8,438 27.2 %
Cosopt Dorzolamide hydrochloride/ timolol maleate Ophthalmic Solution	Glaucoma	417 — %	1,003 — %	2,935 — %	1,347 223.2 %	2,540 153.1 %	5,521 88.1 %
Timoptol timolol maleate/ophthalmic solution	Glaucoma	624 (18.5) %	1,174 (22.4) %	2,152 (24.0) %	467 (25.1) %	775 (34.0) %	1,254 (41.7) %
Timoptol XE timolol maleate/ long-acting ophthalmic solution	Glaucoma	848 (5.9) %	1,579 (11.7) %	2,891 (16.8) %	657 (22.5) %	1,250 (20.8) %	2,367 (18.1) %
Detantol bunazosin hydrochloride	Glaucoma	549 (4.5) %	1,079 (4.2) %	2,064 (4.8) %	509 (7.2) %	1,029 (4.6) %	2,054 (0.5) %
Rescula isopropyl unoprostone	Glaucoma	770 (24.0) %	1,471 (25.7) %	2,777 (24.3) %	647 (15.9) %	1,102 (25.1) %	2,146 (22.7) %
Livostin levocabastine hydrochloride/ ophthalmic solution	Allergy	511 (9.6) %	1,090 (14.3) %	3,800 17.7 %	585 14.7 %	1,395 28.0 %	3,065 (19.4) %
Hyalain sodium hyaluronate/ophthalmic solution	Corneal disease	5,212 (3.5) %	10,639 (3.1) %	21,257 0.2 %	5,528 6.1 %	11,274 6.0 %	22,132 4.1 %
Diquas diquafosol sodium/ophthalmic solution	Corneal disease	— — %	— — %	745 — %	520 — %	1,353 — %	3,298 342.7 %
Flumetholon fluorometholone/ophthalmic solution	Inflammation	1,051 (6.6) %	2,179 (5.5) %	4,753 7.2 %	921 (12.3) %	2,095 (3.8) %	4,145 (12.8) %
Kary Uni pirenoxine/ophthalmic solution	Early-stage senile cataract	934 (0.6) %	1,939 0.3 %	3,728 0.0 %	935 0.0 %	1,829 (5.7) %	3,757 0.8 %
Opegan Hi sodium hyaluronate/ adjuvant for ophthalmic operations	Adjuvant for ophthalmic operations	830 (5.1) %	1,650 (6.7) %	3,226 (6.0) %	762 (8.2) %	1,690 2.5 %	3,301 2.3 %
Rimatil bucillamine/tablet	Rheumatoid arthritis	1,055 (8.6) %	2,062 (9.6) %	3,944 (9.4) %	1,009 (4.4) %	1,946 (5.6) %	3,725 (5.6) %
Azulfidine EN salazosulfapyridine/enteric coated tablet	Rheumatoid arthritis	1,082 (1.2) %	2,109 (3.3) %	4,106 (2.6) %	1,056 (2.4) %	2,104 (0.3) %	4,097 (0.2) %
Metolate methotrexate/tablet	Rheumatoid arthritis	299 27.8 %	608 24.8 %	1,250 25.6 %	398 32.9 %	786 29.3 %	1,584 26.7 %
OTC pharmaceuticals		986 (24.0) %	2,507 (10.2) %	4,723 (10.1) %	1,149 16.5 %	2,447 (2.4) %	4,657 (1.4) %

lower: year on year percentage change

Percentages in parentheses indicate a decrease.

*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.

<Reference>

■ Pipeline of prescription pharmaceuticals (Clinical Stage)

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Tafluprost	DE-085	Glaucoma/ Ocular hypertension	Co-development with Asahi Glass	Japan						Dec-08
				Europe						Jun-08
				U.S.	(Licensed Out)					
				Latin America	(Licensed Out)					Aug-10
				Asia					Mar-10	

Prostaglandin derivative for the treatment of glaucoma and ocular hypertension. Launched in Japan in December, 2008. In Europe, it is marketed in Germany, Denmark, etc. In U.S., development rights were granted to Merck in April, 2009. In Asia, it is marketed in Hong Kong, Korea, Indonesia, Singapore. NDA filed in China.

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Diquafosol sodium	DE-089	Dry eye	Inspire Pharm	Japan						Dec-10
				Asia						Mar-11

A dry eye treatment drug which stimulates secretion of mucin and aqueous components-from the corneal epithelium. Its mechanism of action is different from other existing treatments. Launched in Japan in December, 2010. Phase 3 clinical trials are being conducted in China and NDA filed in Korea.

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Lomerizine HCl	DE-090	Glaucoma	MSD	Japan						

A new type of glaucoma treatment which inhibits the progression of visual field defects. It is the only calcium antagonist being development as an oral glaucoma treatment. Compared to NMDA receptor antagonists, systemic adverse drug reactions are mild and has excellent safety profile. Marketed by MSD in Japan as a migraine treatment drug.

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Rivoglitazone	DE-101	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	Daiichi Sankyo	U.S.		(Phase 2) under preparation				

Based on its anti-inflammatory properties, quantitative and qualitative tear film improvement effect is expected. P2 study newly under preparation in U.S.

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Betamethasone DDS	DE-102	Diabetic macular edema	Co-development with Oakwood	Japan		(Phase 2/3)				

A steroid microsphere product for sustained release injection. Animal studies demonstrated sustained efficacy when injected around the affected area. Collaborating with Oakwood Laboratories (U.S.) for manufacturing technology development on commercial scale.

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
(Undetermined)	DE-105	Persistent corneal epithelial defects	Original	U.S.						
				Japan						

Expected to accelerate corneal epithelial migration and demonstrate high safety profile in treatment-resistant, persistent corneal epithelial defects.

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Levofloxacin (1.5%)	DE-108	Bacterial conjunctivitis	Daiichi Sankyo	Japan						Jun-11

A high-concentration fluoroquinolone antibacterial agent. Launched in Japan in June 2011.

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Sirolimus	DE-109	Uveitis	Original	U.S.						

Intravitreal injection with immunosuppressive effect, anti-angiogenic effect, etc. Santen acquired global development, manufacturing and marketing rights in June 2010.

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
(Undetermined)	DE-110	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	Original	U.S.						

A selective glucocorticoid receptor agonist (SEGRA). Phase 2 clinical trials are being conducted in the U.S. for the treatment of corneal and conjunctival epithelial disorders including dry eye.

<Reference>

■ Pipeline of prescription pharmaceuticals (Clinical Stage)

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Tafluprost/ timolol maleate	DE-111	Glaucoma/ Ocular hypertension	Original	Japan						
			Co-development	Europe						
A combination drug of a prostaglandin derivative and a beta-adrenergic receptor blocker for the treatment of glaucoma and ocular hypertension.										

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
(Undetermined)	DE-112	Glaucoma/ Ocular hypertension	Clinical Data	U.S.	(Phase 1/2a)					
A highly selective adenosine A _{2A} receptor agonist for the treatment of glaucoma and ocular hypertension. A new mechanism of action different from prostaglandin derivative, and is expected to promote aqueous humor outflow from trabecular meshwork.										

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Epinastine HCl	DE-114	Allergic conjunctivitis	Boehringer Ingelheim (Japan)	Japan						
An H1 receptor antagonist with membrane-stabilizing function, as treatment for allergy conjunctivitis.										

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
(Undetermined)	DE-098 (Anti-APO-1 antibody)	Rheumatoid arthritis	Centocor	Japan						
Joint injection inducing apoptosis in diseased joints of rheumatoid arthritis patients. Santen acquired domestic and international development and marketing rights of Anti-APO-1 antibody from Centocor.										

■ Changes from May 10, 2011

Dev. code	Indication	Stage	Region	Changes
DE-085	Glaucoma/Ocular hypertension	Launched	Asia	Added launched countries

Dev. code	Indication	Stage	Region	Changes
DE-101	Corneal and conjunctival epithelial disorder associated with dry eye, etc.	Phase 2b completed	Japan	Phase 2b completed
		Phase 1/2 completed	US	Phase 1/2 completed
		P2* under preparation	US	P2* under preparation

Dev. code	Indication	Stage	Region	Changes
DE-102	Diabetic macular edema	Phase 2/3	Japan	Phase 2/3 started

Dev. code	Indication	Stage	Region	Changes
DE-108	Bacterial conjunctivitis	Launched	Japan	Launched

*Study with a new target profile

<Reference>

■Capital expenditures

(Millions of yen)

	Three months ended June 30, 2010 Actual	Six months ended September 30, 2010 Actual	Year ended March 31, 2011 Actual	Three months ended June 30, 2011 Actual	Six months ending September 30, 2011 Forecasts	Year ending March 31, 2012 Forecasts
Capital expenditures	192	497	1,709	630	2,670	6,210

■Depreciation and amortization

(Millions of yen)

	Three months ended June 30, 2010 Actual	Six months ended September 30, 2010 Actual	Year ended March 31, 2011 Actual	Three months ended June 30, 2011 Actual	Six months ending September 30, 2011 Forecasts	Year ending March 31, 2012 Forecasts
Consolidated total	687	1,379	2,808	646	1,380	2,950
Manufacturing cost	365	730	1,532	337	730	1,530
Selling, general and administrative expenses	137	274	512	141	280	630
R&D expenses	185	303	762	167	370	790

■Lease expenses

(Millions of yen)

	Three months ended June 30, 2010 Actual	Six months ended September 30, 2010 Actual	Year ended March 31, 2011 Actual	Three months ended June 30, 2011 Actual	Six months ending September 30, 2011 Forecasts	Year ending March 31, 2012 Forecasts
Consolidated total	66	128	156	10	80	160
Manufacturing cost	46	92	94	0	0	10

■R&D expenses

(Millions of yen)

	Three months ended June 30, 2010 Actual	Six months ended September 30, 2010 Actual	Year ended March 31, 2011 Actual	Three months ended June 30, 2011 Actual	Six months ending September 30, 2011 Forecasts	Year ending March 31, 2012 Forecasts
R&D expenses	3,380	6,379	13,221	3,119	7,600	16,000
Net sales ratio	12.9%	11.8%	11.9%	11.2%	13.3%	13.8%

*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.