

[Disclaimer: The following is meant to be an accurate translation from the original Financial Report of Santen Pharmaceutical Co., Ltd., written in 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. (February 5, 2013)

Code: 4536

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

Third Quarter Financial Results for the Fiscal Year Ending March 31, 2013

Akira Kurokawa, President and Chief Executive Officer

Contact: Takashi Hibi, General Manager, Corporate Communication Group

Tel: 06-6321-7007

E-mail: ir@santen.co.jp

(Figures are rounded down to the nearest million yen)

1. Consolidated Performance for the Third Quarter ended December 31, 2012

(1) Operating results	Third quarter ended December 31, 2012	Third quarter ended December 31, 2011	% change 2013/2012
Net sales (millions of yen)	88,425	86,438	2.3%
Operating income (millions of yen)	20,572	22,220	(7.4%)
Ordinary income (millions of yen)	21,269	23,032	(7.7%)
Net income (millions of yen)	14,136	14,766	(4.3%)
Net income per share (yen)	166.30	169.49	
Diluted net income per share (yen)	166.09	169.33	

Note: Comprehensive income:

Third quarter ended December 31, 2012: ¥ 13,910million((0.2%))

Third quarter ended December 31, 2011: ¥ 13,934million(6.5%)

(2) Financial condition

	December 31, 2012	March 31, 2012
Total assets (millions of yen)	184,610	198,801
Net assets (millions of yen)	156,905	164,861
Equity ratio	84.8%	82.8%
Net assets per share (yen)	1,901.50	1,887.81

Reference: Equity (Consolidated):

Third quarter ended December 31, 2012: ¥ 156,534million

Fiscal year ended March 31, 2012: ¥ 164,514 million

2. Dividends

	Year to March 2013	(Forecasts) Year to March 2013	Year to March 2012
First quarter dividends per share (yen)	—	—	—
Second quarter dividends per share (yen)	50.00	—	50.00
Third quarter dividends per share (yen)	—	—	—
End-of-period dividends per share (yen)	—	50.00	50.00
Annual dividends per share (yen)	—	100.00	100.00

3. Consolidated Forecasts of results for the year ending March 31, 2013

	Full year	(Full year) % change 2013/2012
Net sales (millions of yen)	114,500	0.1%
Operating income (millions of yen)	23,500	(12.1%)
Ordinary income (millions of yen)	24,000	(13.6%)
Net income (millions of yen)	16,000	(6.8%)
Net income per share (yen)	189.81	

***Notes**

(1) Significant change in subsidiaries during the term (change in designated subsidiaries resulting in adjustment to the scope of consolidation): No

(2) Application of special accounting method in the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, accounting estimates and restatements

[i] Changes in the accounting policies resulting from amendments to accounting standards: Yes

- Change in depreciation method for property and equipment

In accordance with the amendment of the Corporation Tax Law, effective from the first quarter of fiscal year ending March 31, 2013, the Company and its domestic consolidated subsidiary have changed their depreciation method for those property and equipment acquired on or after April 1, 2012. As a result of this change, operating income, ordinary income and income before income taxes increased by 25million yen each.

[ii] Changes other than [i] above: No

[iii] Changes in the accounting estimates: Yes

[iv] Restatements: No

(Note) This change falls under Article 10 (5) of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements.

(4) Number of shares outstanding (common stock)

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

December 31, 2012 : 82,322,003

March 31, 2012 : 87,146,803

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

December 31, 2012 : 840

March 31, 2012 : 1,246

[iii] Average number of outstanding shares (during the Third quarter ended December 31)

Third quarter ended December 31, 2012 : 84,999,207

Third quarter ended December 31, 2011 : 87,122,363

(Information regarding the implementation of quarterly review procedures)

These quarterly financial results are not subject to quarterly review procedures. Thus, at the time of disclosure of these financial results, the quarterly consolidated financial statement review procedures based on the Financial Instruments and Exchange Law, are in progress.

(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)

	March 31, 2012	December 31, 2012
Assets		
Current assets		
Cash and deposits	66,235	47,310
Notes and accounts receivable-trade	37,923	42,105
Short-term investment securities	12,739	12,813
Merchandise and finished goods	14,672	13,762
Work in process	600	639
Raw materials and supplies	2,677	3,519
Deferred tax assets	1,921	1,115
Other	3,521	2,954
Allowance for doubtful receivables	(1)	(1)
Total current assets	140,288	124,220
Non-current assets		
Property, plant and equipment		
Buildings and structures	41,058	41,089
Accumulated depreciation and impairment loss	(28,251)	(28,890)
Buildings and structures, net	12,806	12,199
Machinery, equipment and vehicles	11,363	11,558
Accumulated depreciation and impairment loss	(9,782)	(10,001)
Machinery, equipment and vehicles, net	1,581	1,557
Land	8,213	8,220
Lease assets	241	237
Accumulated depreciation and impairment loss	(75)	(88)
Lease assets, net	166	149
Construction in progress	1,365	2,539
Other	11,214	11,497
Accumulated depreciation and impairment loss	(9,823)	(10,064)
Other, net	1,390	1,433
Total property, plant and equipment	25,523	26,098
Intangible assets		
Goodwill	5,801	5,309
In-process research and development	5,941	5,914
Software	831	841
Other	301	439
Total intangible assets	12,877	12,506
Investments and other assets		
Investment securities	12,411	13,280
Deferred tax assets	6,500	6,096
Other	1,200	2,407
Total investments and other assets	20,112	21,785
Total non-current assets	58,513	60,390
Total assets	198,801	184,610

(Millions of yen)

	March 31, 2012	December 31, 2012
<u>Liabilities</u>		
Current liabilities		
Notes and accounts payable -trade	8,074	7,524
Accounts payable-other	9,009	8,884
Income taxes payable	5,282	925
Provision for bonuses	2,943	1,668
Other	2,115	2,146
Total current liabilities	27,425	21,149
Non-current liabilities		
Deferred tax liabilities	1,996	1,987
Retirement and severance benefits for employee	3,459	3,569
Retirement and severance benefits for directors and auditors	222	205
Asset retirement obligations	161	163
Other	674	631
Total non-current liabilities	6,514	6,556
Total liabilities	33,940	27,705
<u>Net assets</u>		
Shareholders' equity		
Common stock	6,694	6,853
Capital surplus	8,049	7,547
Retained earnings	156,030	148,617
Treasury stock, at cost	(4)	(2)
Total shareholders' equity	170,770	163,015
Accumulated other comprehensive income		
Unrealized losses on securities, net of taxes	51	(106)
Foreign currency translation adjustments	(6,306)	(6,374)
Total accumulated other comprehensive income	(6,255)	(6,481)
Stock subscription rights	347	371
Total net assets	164,861	156,905
Total liabilities and net assets	198,801	184,610

Quarterly consolidated statements of income and comprehensive income

	(Millions of yen)	
	Nine months ended December 31, 2011	Nine months ended December 31, 2012
Net sales	86,438	88,425
Cost of sales	26,950	29,755
Gross profit	59,487	58,669
Selling, general and administrative expenses	37,267	38,096
Operating income	22,220	20,572
Non-operating income		
Interest income	37	50
Dividend income	440	440
Exchange gains	39	—
Other	352	359
Total non-operating income	869	850
Non-operating expenses		
Interest expenses	17	3
Exchange losses	—	45
Other	40	104
Total non-operating expenses	57	153
Ordinary income	23,032	21,269
Extraordinary income		
Gain on sales of fixed assets	4	16
Gain on sales of investment securities	57	—
Total extraordinary income	61	16
Extraordinary loss		
Loss on sales of non-current assets	12	9
Loss on sales of investment securities	15	—
Total extraordinary losses	27	9
Income before income taxes	23,066	21,276
Income taxes - current	6,868	5,875
Income taxes - deferred	1,430	1,265
Total income taxes	8,299	7,140
Income before minority interests	14,766	14,136
Net income	14,766	14,136
Income before minority interests	14,766	14,136
Other comprehensive income		
Unrealized gains(losses) on securities, net of taxes	127	(157)
Foreign currency translation adjustments	(959)	(67)
Other comprehensive income	(832)	(225)
Total comprehensive income	13,934	13,910
Total comprehensive income attributable to :		
Owners of the parent	13,934	13,910
Minority interests	—	—

Quarterly consolidated statements of cash flows

(Millions of yen)

	Nine months ended December 31, 2011	Nine months ended December 31, 2012
<u>Cash flows from operating activities:</u>		
Income before income taxes	23,066	21,276
Depreciation and amortization	2,075	1,920
Amortization of goodwill	—	471
Increase in retirement and severance benefits	28	107
Interest and dividend income	(477)	(491)
Interest expenses	17	3
Increase in notes and accounts receivable-trade	(1,279)	(4,235)
Increase in inventories	345	13
Decrease in notes and accounts payable-trade	(1,278)	(544)
Other, net	(1,461)	(2,561)
Subtotal	21,035	15,961
Interest and dividends income received	476	501
Interest expenses paid	(12)	(1)
Income taxes paid	(9,262)	(10,255)
Net cash provided by operating activities	12,237	6,206
<u>Cash flows from investing activities:</u>		
Increase in fixed deposits	(150)	(464)
Proceeds from withdrawal of fixed deposits	2,183	589
Purchase of short-term investment securities	(1,416)	(301)
Proceeds from sales of short-term investment securities	3,038	2,136
Capital expenditures	(2,690)	(2,283)
Proceeds from sales of fixed assets	5	30
Purchase of investment securities	(1,007)	(3,027)
Proceeds from sales of investment securities	376	—
Purchase of investment in subsidiaries resulting in change in scope of consolidation	(10,278)	—
Other, net	(6)	0
Net cash used in investing activities	(9,945)	(3,321)
<u>Cash flows from financing activities:</u>		
Purchase of treasury stock	(1)	(13,763)
Dividends paid	(8,591)	(8,369)
Other, net	105	269
Net cash used in financing activities	(8,487)	(21,863)
Effect of exchange rate changes on cash and cash equivalents	(501)	174
Net decrease in cash and cash equivalents	(6,697)	(18,803)
Cash and cash equivalents at beginning of period	72,482	75,035
Cash and cash equivalents at end of period	65,784	56,231

Segment information

Segment information

Nine months ended December 31, 2011

(Millions of yen)

	<Reporting segment> Pharmaceuticals	Other (Note)	Total	Adjustments	Consolidated total
Net sales:					
External customers	84,403	2,034	86,438	—	86,438
Intersegment	—	86	86	(86)	—
Total	84,403	2,120	86,524	(86)	86,438
Segment income	22,011	208	22,220	—	22,220

Note: Other segment mainly includes medical equipment.

Nine months ended December 31, 2012

(Millions of yen)

	<Reporting segment> Pharmaceuticals	Other (Note)	Total	Adjustments	Consolidated total
Net sales:					
External customers	86,811	1,614	88,425	—	88,425
Intersegment	—	86	86	(86)	—
Total	86,811	1,700	88,512	(86)	88,425
Segment income(loss)	21,003	(430)	20,572	—	20,572

Note: Other segment mainly includes medical equipment.

<Reference>

■ **Sales of major pharmaceuticals**

(Millions of yen)					
Brand name Generic name/formulation	Therapeutic category	Nine months ended December 31, 2011	Year ended March 31, 2012	Nine months ended December 31, 2012	Year ending March 31, 2013
		Actual	Actual	Actual	Forecasts
Cravit levofloxacin/ophthalmic solution	Bacterial conjunctivitis	10,062 (1.7) %	12,368 (4.2) %	8,681 (13.7) %	12,075 (2.4) %
Tarivid ofloxacin/ophthalmic solution	Bacterial conjunctivitis	1,564 (18.4) %	1,932 (20.1) %	1,464 (6.4) %	1,577 (18.4) %
Tapros tafluprost/ophthalmic solution	Glaucoma	5,617 10.6 %	7,351 10.8 %	6,113 8.8 %	8,076 9.9 %
Cosopt Dorzolamide hydrochloride/ timolol maleate Ophthalmic Solution	Glaucoma	4,629 138.5 %	6,271 113.7 %	6,797 46.8 %	8,661 38.1 %
Timoptol timolol maleate/ophthalmic solution	Glaucoma	1,373 (20.5) %	1,701 (20.9) %	1,096 (20.2) %	1,148 (32.5) %
Timoptol XE timolol maleate/ long-acting ophthalmic solution	Glaucoma	1,922 (16.6) %	2,404 (16.9) %	1,653 (14.0) %	1,856 (22.8) %
Detantol bunazosin hydrochloride	Glaucoma	1,546 (4.9) %	1,968 (4.7) %	1,402 (9.3) %	1,789 (9.1) %
Rescula isopropyl unoprostone	Glaucoma	1,980 (10.0) %	2,472 (11.0) %	1,781 (10.0) %	2,351 (4.9) %
Livostin levocabastine hydrochloride/ ophthalmic solution	Allergy	1,852 9.0 %	3,346 (11.9) %	1,827 (1.3) %	3,404 1.7 %
Hyalein sodium hyaluronate/ophthalmic solution	Corneal disease	17,343 5.4 %	22,216 4.5 %	16,745 (3.4) %	20,443 (8.0) %
Diquas diquafosol sodium/ophthalmic solution	Corneal disease	1,929 427.5 %	2,846 281.7 %	4,037 109.2 %	5,299 86.2 %
Flumetholon fluorometholone/ophthalmic solution	Inflammation	3,037 (7.3) %	4,072 (14.3) %	3,008 (0.9) %	3,904 (4.1) %
Kary Uni pirenoxine/ophthalmic solution	Early-stage senile cataract	2,923 (1.6) %	3,690 (1.0) %	2,973 1.7 %	3,849 4.3 %
Opegan Hi sodium hyaluronate/ adjuvant for ophthalmic operations	Adjuvant for ophthalmic operations	2,369 (5.6) %	3,018 (6.5) %	2,236 (5.6) %	3,086 2.3 %
Rimatil bucillamine/tablet	Rheumatoid arthritis	2,915 (5.6) %	3,673 (6.9) %	2,587 (11.2) %	3,211 (12.6) %
Azulfidine EN salazosulfapyridine/enteric coated tablet	Rheumatoid arthritis	3,173 (0.7) %	4,030 (1.9) %	2,960 (6.7) %	3,818 (5.2) %
Metolate methotrexate/tablet	Rheumatoid arthritis	1,293 37.1 %	1,705 36.4 %	1,565 21.1 %	1,859 9.0 %
OTC pharmaceuticals		3,596 (0.5) %	4,597 (2.7) %	5,197 44.5 %	6,164 34.1 %

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 information Research & development

■ 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.								Mar-12
				Latin America								Aug-10
				Asia								Mar-10
				China					Jan-11			

A prostaglandin F_{2α} derivative for the treatment of glaucoma and ocular hypertension. Launched in Japan in December, 2008. In Europe, launched in Germany, Denmark, etc. In the countries including the U.S., development rights were granted to Merck & Co., Inc. (U.S.) in April, 2009. In Asia, launched in Hong Kong, Korea, Indonesia, Singapore. NDA filed in China. In the U.S., launched in March, 2012 by Merck and Co., Inc.

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched	
Diquafosol sodium	DE-089	Dry eye	Inspire (Merck)	Japan						Dec-10	
				Asia							Dec-11
				China							Jan-12

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. Approved in Korea, and NDA filed in China.

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, it has excellent safety profile with mild systemic adverse drug reactions.

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.						

Based on its anti-inflammatory properties, quantitative and qualitative tear film improvement effect is expected.

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Betamethasone	DE-102	Macular edema secondary to diabetes and BRVO*	Co-development with Oakwood	Japan			(Phase 2/3)			

A microsphere product with a new drug delivery concept. Stable and sustained efficacy is expected with a local injection. Collaborating with Oakwood Laboratories (U.S.) for manufacturing technology development on commercial scale. *BRVO: Branch retinal vein occlusion.

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 extension 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
Sirolimus	DE-109	Uveitis	Original	U.S.						
				Japan						
				Europe						

An intravitreal injection with immunosuppressive effect, anti-angiogenic effect, etc. Phase 3 study is ongoing in the U.S. and Japan. Phase 3 study was started in EU.

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Tafluprost/ timolol maleate	DE-111	Glaucoma/ Ocular hypertension	Co-development with Asahi Glass	Japan						Oct-12
			Co-development	Europe						

A combination drug of a prostaglandin F_{2α} derivative and a beta-adrenergic receptor blocker.

Reference information Research & development

■ Pipeline of prescription pharmaceuticals (Clinical Stage)

Generic name	Dev. code	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Epinastine HCl	DE-114	Allergic conjunctivitis	Nippon Boehringer Ingelheim	Japan				Nov-12		
An H1 receptor antagonist with membrane-stabilizing function, as treatment for allergic conjunctivitis. NDA filed in November, 2012 in Japan.										
(Undetermined)	DE-117	Glaucoma/ Ocular hypertension	Co-development with Ube Industries	U.S.	(Phase 1/2a)					
A prostaglandin EP2 agonist with a new mechanism of action. Phase 1/2a was started in the U.S.										
Tafuprost	DE-118	Glaucoma/ Ocular hypertension	Co-development with Asahi Glass	Japan				Jan-13		
A prostaglandin F2 α derivative for the treatment of glaucoma and ocular hypertension. Preservative-free, unit-dose type product. Approved in January, 2013 in Japan.										
(Undetermined)	DE-098 (Anti-APO-1 antibody)	Rheumatoid arthritis	Janssen Biotech	Japan						
A joint injection inducing apoptosis in diseased joints of rheumatoid arthritis patients. Next development plan is under evaluation based on Phase 2 study results.										

■ Novagali's pipeline of prescription pharmaceuticals (Clinical Stage)

Generic name	Dev. name	Indication	Original/Licensor	Region	P1	P2	P3	NDA Filed	Approved	Launched
Ciclosporin	Cyclokot	Severe dry eye	Original	Europe						
				U.S.						
An ophthalmic emulsion which improves symptoms and signs of severe dry eye by immunosuppressive effect. Cationic emulsion technology has enhanced ocular tissue absorption.										
Ciclosporin	Vekacia	Vernal Keratoconjunctivitis	Original	Europe						
An ophthalmic emulsion which improves the symptoms of vernal keratoconjunctivitis by immunosuppressive effect. Cationic emulsion technology has enhanced ocular tissue absorption.										
Latanoprost	Catioprost	Glaucoma/ Ocular hypertension	Original	Europe						
An ophthalmic emulsion of a prostaglandin F2 α derivative, for the treatment of glaucoma and ocular hypertension.										
Dexamethasone Palmitate	Cortiject	Diabetic macular edema	Original	U.S.	(Phase 1/2)					
An intravitreal injection with anti-inflammatory effect.										

*Catioprost and Cortiject are under project evaluation.

■ Changes from 12FY2Q (November 1, 2012)

Dev. code	Changes
DE-114	NDA filed (Japan)
DE-118	Marketing approval obtained (Japan)

<Reference>

■ **Capital expenditures**

(Millions of yen)

	Nine months ended December 31, 2011 Actual	Year ended March 31, 2012 Actual	Nine months ended December 31, 2012 Actual	Year ending March 31, 2013 Forecasts
Capital expenditures	2,700	3,492	2,594	5,000

■ **Depreciation and amortization**

(Millions of yen)

	Nine months ended December 31, 2011 Actual	Year ended March 31, 2012 Actual	Nine months ended December 31, 2012 Actual	Year ending March 31, 2013 Forecasts
Consolidated total	2,022	2,717	1,835	2,840
Manufacturing cost	1,030	1,400	884	1,290
Selling, general and administrative expenses	330	553	394	640
R&D expenses	661	764	556	910

■ **Lease expenses**

(Millions of yen)

	Nine months ended December 31, 2011 Actual	Year ended March 31, 2012 Actual	Nine months ended December 31, 2012 Actual	Year ending March 31, 2013 Forecasts
Consolidated total	20	23	6	10
Manufacturing cost	2	2	2	5

■ **R&D expenses**

(Millions of yen)

	Nine months ended December 31, 2011 Actual	Year ended March 31, 2012 Actual	Nine months ended December 31, 2012 Actual	Year ending March 31, 2013 Forecasts
R&D expenses	12,243	17,225	12,099	17,500
Net sales ratio	14.2%	15.1%	13.7%	15.3%

*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.