Santen Pharmaceutical Co., Ltd.

Medium-term Management Plan
FY2014-2017

August 6, 2014
Akira Kurokawa
President & CEO
Santen’s Values

Core Value

Tenki ni sanyo-suru

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

Mission Statement

By focusing our efforts on ophthalmology and related areas, we develop scientific knowledge and organizational capabilities which are unique and original to Santen. We use our unique capabilities to contribute to patients and their loved ones, and consequently to society.
Contents

1. Long-term Strategic Vision toward 2020
   Summary
4. Return to Shareholders Policy
1. Long-term Strategic Vision toward 2020
Long-term Strategic Vision

To become a Specialized Pharmaceutical Company with a Global Presence

- Deep Understanding of True Customer Needs*
- Distinct Advantage Against Competitors
- Global Competitiveness and Presence

*True customer needs: Unmet medical needs of patients, consumers, doctors and healthcare professionals.
Sustained Business Growth toward FY2020

Prescription Ophthalmic Business in Market

#1 in Japan and Asia
Top 3 position globally

Overseas sales in 2020
Up to 40 - 50% of Total Sales

Establish & Reinforce Overseas Business Platform

Maximize New Product Value Globally

Strengthen Domestic Business Platform and Competitiveness

2011 2020
5 Steps toward the Achievement of a Long-term Strategic Vision

1. Develop products that meet true customer needs swiftly
2. Transform domestic business for further growth
3. Accelerate business expansion in Asia and promote market entry in Western Europe/U.S.
4. Establish competitive global product supply and quality assurance systems
5. Strengthen talents and organizational capabilities to promote “Creation and Innovation”
Medium-term Policies FY2011-2013

1. Promote globally oriented research and development.
2. Boost domestic business by maximizing new product value and implementing sales/marketing strategies.
3. Accelerate growth in both Asia and Europe by reinforcing the marketing platform.
4. Establish a global product supply system with four existing plants,* which enables us to meet emerging market needs.
5. Develop talents and organizational capabilities to promote “Creation and Innovation” on a global level.

*Four plants located in Noto, Shiga, Suzhou (China) and Tampere (Finland)
Major Achievements of the Medium-term Management Plan FY2011-2013

1. Product Development
   - Established a global clinical development system
   - Reinforced product pipeline through business development and acquisitions

2. Domestic Business
   - Achieved sales growth driven by new products including Tapros, Diquas, Eylea, Cosopt, etc.
   - Long-listed drugs ratio declined due to new product growths.
     ➔ From the upper 60% range to about 40% in FY2013

3. Oversea Business
   - Achieved strong sales growth in China. Asia business turned to profitability.

4. Product Supply
   - Executed measures to reduce manufacturing cost. Structural reforms were conducted in Europe in order to enhance efficient global product supply system.

5. Organization & Talents
   - Implemented an organizational management system in line with business globalization.
Earnings and ROE (Return On Equity) for FY2011-2013

(JPY billions)

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>Results</th>
<th>Achievement %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales in FY13:</td>
<td>121.0</td>
<td>148.6</td>
<td>122%</td>
</tr>
<tr>
<td>Operating income in FY13:</td>
<td>31.0</td>
<td>27.4</td>
<td>88%</td>
</tr>
</tbody>
</table>

Sales, Operating Income and ROE

FY2006-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td>06FY</td>
<td>100.4</td>
<td>20.4</td>
</tr>
<tr>
<td>07FY</td>
<td>103.3</td>
<td>20.3</td>
</tr>
<tr>
<td>08FY</td>
<td>101.6</td>
<td>15.4</td>
</tr>
<tr>
<td>09FY</td>
<td>110.5</td>
<td>29.6</td>
</tr>
<tr>
<td>10FY</td>
<td>110.8</td>
<td>30.7</td>
</tr>
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</table>

FY2011-2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td>11FY</td>
<td>114.4</td>
<td>26.7</td>
</tr>
<tr>
<td>12FY</td>
<td>119.0</td>
<td>24.6</td>
</tr>
<tr>
<td>13FY</td>
<td>148.6</td>
<td>27.4</td>
</tr>
</tbody>
</table>

Target Results Achievement %

- Sales in FY13: 121.0 → 148.6, 122%
- Operating income in FY13: 31.0 → 27.4, 88%

The results for FY2013 are based on a standardized fiscal year.
## Results for Medium-term Management Plan FY2011-2013

<table>
<thead>
<tr>
<th>(Unit: JPY billions)</th>
<th>Target for FY13</th>
<th>Results for FY13</th>
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<tr>
<td>Operating income</td>
<td>31.0</td>
<td>27.4</td>
<td>88%</td>
</tr>
<tr>
<td>R&amp;D expenses</td>
<td>15.5</td>
<td>19.0</td>
<td>-</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>10%</td>
<td>9.9%</td>
<td>-</td>
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</tbody>
</table>

Changes in assumptions in line with changes in operating environment since the formulation of the Medium-term plan.

- Aggressively invested in R&D and business development
- Assumptions regarding changes in foreign exchange rate, etc.

The results for FY2013 are based on a standardized fiscal year.
Return-to-Shareholders Policy: FY2011-2013

- Implemented a stable return-to-shareholders policy.
- FY2011-2013: Average DOE (Dividend on equity ratio): 5.1%
  Average dividend payout ratio: 50.0%
- Conducted share buybacks in FY2012.

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</thead>
<tbody>
<tr>
<td>Dividend payout ratio (%)</td>
<td>34.9</td>
<td>21.4</td>
<td>55.8</td>
<td>39.7</td>
<td>39.9</td>
<td>42.9</td>
<td>54.7</td>
<td>67.2</td>
<td>36.3</td>
<td>36.0</td>
<td>50.8</td>
<td>51.1</td>
<td>48.2</td>
</tr>
<tr>
<td>Share buybacks</td>
<td>3.2</td>
<td>3.2</td>
<td>0</td>
<td>2.6</td>
<td>0</td>
<td>0</td>
<td>4.8</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>13.7</td>
<td>0</td>
</tr>
<tr>
<td>Total return ratio (%)</td>
<td>96.4</td>
<td>59.5</td>
<td>55.8</td>
<td>63.3</td>
<td>39.9</td>
<td>42.9</td>
<td>85.8</td>
<td>67.2</td>
<td>36.3</td>
<td>36.0</td>
<td>50.8</td>
<td>134.4</td>
<td>48.2</td>
</tr>
</tbody>
</table>
Global Market Outlook
Global Prescription Ophthalmics Market

Average annual growth rate 6%

2013 2017 2020

Rest of the world 8%*
Asia 11%*
Northern, Eastern Europe and Russia 9%*
Western Europe (five countries**) 4%*
US 5%*
Japan 4%*

2013 2017 2020

(569x9)Source: Santen's analysis

*Compound annual growth rate
**UK, France, Germany, Spain, Italy
Long-term Growth Targets

FY 2013

- Strengthen the domestic business
- Preparations for business expansion in Asia/Europe

FY 2017

Medium-term Goal

- Grow business in Asia/Europe and improve profitability
- Prepare for business expansion in the U.S. and other regions

Overseas sales: 30% of total sales

2020

What we aim to achieve by 2020

“To become a Specialized Pharmaceutical Company with a Global Presence”

Become global #3

Overseas sales: 40%-50% of total sales

Ranks #5 globally

Overseas sales: 16% of total sales
5 Steps toward the Achievement of a Long-term Strategic Vision

1. Develop products that meet true customer needs swiftly

2. Transform domestic business for further growth

3. Accelerate business expansion in Asia and promote market entry in Western Europe/U.S.

4. Establish competitive global product supply and quality assurance systems

5. Strengthen talents and organizational capabilities to promote “Creation and Innovation”

**Product development**
Transform product development to realize enhanced productivity and achieve sustained growth

**Business expansion**
Grow business in Asia/Europe and strengthen market presence by entering into new markets

**Organization and talents**
Develop talents and organization to realize sustained growth and strengthen the global management system
**Medium-term Strategy:**
Ongoing Product Launches and Growth in Asia/Europe

1. **Ongoing product launches**
   Ensure the launch of existing products in the pipeline and realize growth by improving the pipeline from a medium to long-term perspective.

2. **Enhance revenue base for overseas business**
   Achieve the growth and profitability of business in Asia/Europe and realize growth from regional products such as LCM*, Generic, etc.

*LCM: Life Cycle Management*
# Medium-term Financial Targets

<table>
<thead>
<tr>
<th>Category</th>
<th>Target</th>
<th>Notes</th>
</tr>
</thead>
</table>
| Sales                 | JPY 205.0 billion     | - Sustained growth  
- CAGR: 8% over                                                                                                                        |
| Operating income      | JPY 45.0 billion      | - Focus on reduction of the cost-to-sales ratio and adequate expense control  
- Operating profit before amortization: JPY 54.5 billion over                                                                |
| Net income            | JPY 31.0 billion      | - Operating profit before amortization: JPY 54.5 billion over  
- Enhance capital efficiency through improved profitability                                                                 |
| ROE                   | 13% over              |                                                                                                                                 |
| R&D expenses          | Approx. JPY 21.0 billion | - Continue to invest in R&D proactively to realize sustained growth                                                                 |
| Dividend payout ratio | Around 40%            | - Stable and sustained return to shareholders  
- Secure funds required for future growth such as R&D, alliances, etc.                                                                    |
Sales, Operating Income and ROE Targets

- **Sales for FY2017**: JPY 205 billion
- **Operating income for FY2017**: JPY 45 billion

The results for FY2013 are based on a standardized fiscal year.
## Medium-term Financial Targets

<table>
<thead>
<tr>
<th>(JPY billions)</th>
<th>Targets for FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Existing business</td>
</tr>
<tr>
<td>Sales</td>
<td>187.0</td>
</tr>
<tr>
<td>Portion of overseas sales</td>
<td>45.0</td>
</tr>
<tr>
<td>R&amp;D expenses</td>
<td>21.0</td>
</tr>
<tr>
<td>Operating profit before amortization</td>
<td>42.0</td>
</tr>
<tr>
<td>Operating income</td>
<td>38.0</td>
</tr>
<tr>
<td>Operating margin ratio</td>
<td>20%</td>
</tr>
<tr>
<td>Net income</td>
<td>26.0</td>
</tr>
</tbody>
</table>

- *Merck project is indicated the contribution from acquisition of Merck’s ophthalmology asset which Santen contracted as of May 8th, 2014.

### Exchange Rates

<table>
<thead>
<tr>
<th>&lt;Exchange rate&gt;</th>
<th>Forecasts for FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$</td>
<td>JPY 103.00</td>
</tr>
<tr>
<td>Euro</td>
<td>JPY 141.00</td>
</tr>
<tr>
<td>Chinese Yuan</td>
<td>JPY 16.90</td>
</tr>
</tbody>
</table>

### ROE

<table>
<thead>
<tr>
<th>ROE</th>
<th>—</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash ROE</td>
<td>—</td>
</tr>
</tbody>
</table>

- 16% over
- 13% over
## Medium-term Financial Targets

<table>
<thead>
<tr>
<th>(JPY billions)</th>
<th>Targets for FY2017</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales from domestic business</td>
<td>145.0</td>
<td>71%</td>
</tr>
<tr>
<td>Sales from overseas business</td>
<td>60.0</td>
<td>29%</td>
</tr>
<tr>
<td>Sales from Asian business</td>
<td>27.5</td>
<td>-</td>
</tr>
<tr>
<td>Sales from European business</td>
<td>31.0</td>
<td>-</td>
</tr>
<tr>
<td>Consolidated sales</td>
<td>205.0</td>
<td>100%</td>
</tr>
</tbody>
</table>
Breakdown of Increase/Decrease in Sales

(JPY billions)

<table>
<thead>
<tr>
<th>Region</th>
<th>Sales</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan Business</td>
<td>145.0</td>
<td>(+23.0)</td>
</tr>
<tr>
<td></td>
<td>+3.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>+19.5</td>
<td></td>
</tr>
<tr>
<td>Asia Business</td>
<td>27.5</td>
<td>(+14.5)</td>
</tr>
<tr>
<td></td>
<td>+2.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>+12.2</td>
<td></td>
</tr>
<tr>
<td>Europe Business</td>
<td>31.0 (+18.8)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1.5</td>
<td>+0.2</td>
</tr>
</tbody>
</table>

*Merck project is indicated the contribution from acquisition of Merck’s ophthalmology asset which Santen contracted as of May 8th, 2014.

Sales: JPY +56.2 billion
Organic: JPY +37.7 billion
Merck projects*: JPY +18.5 billion

Results for FY2013
Unification of financial period

Target for FY2017 (Combined)
Breakdown of Increase/Decrease in Operating Income

Results for FY2013

Unification of financial period

Operating income

27.4

Operating income: JPY +17.6 billion
Existing business: JPY +10.6 billion
Merck projects**: JPY +7.0 billion

*Figures for Japan Business and Overseas Business are income excluding R&D expenses and amortization expenses.

**Merck project is indicated the contribution from acquisition of Merck’s ophthalmology asset which Santen contracted as of May 8th, 2014.

Operating income

45.0

Target for FY2017 (Combined)
5 steps (1). Product Development

- Ensure the launch of existing products in the pipeline and improve productivity.
- Enhance the pipeline for differentiated products based on customer needs.

- Promote product development based on the strategy by therapeutic category.
- Promote targeted “Network Product Development” based on the strategy by therapeutic category.
- Enhance the probability of success through the acceleration of translational research*.
- Promote swift product development and product launches through lifecycle management.
  - Proactive roll-out lifecycle management in line with customer needs in each region.

*Research that links basic research, clinical research, and medical examinations and utilizes the findings from this for effective and efficient practical applications to contribute to healthcare development.
## Approval Obtainment Targets for Product Pipeline

<table>
<thead>
<tr>
<th>Domain</th>
<th>Launched in FY2011-2013</th>
<th>To be Approved in FY2014-2017</th>
<th>To be Approved after FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Glaucoma</strong></td>
<td></td>
<td>DE-111 (Tafluprost/Timolol (combination))</td>
<td>DE-117 (EP2 Agonist)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>DE-090 (Lomerizine HCl)</td>
</tr>
<tr>
<td><strong>Corneal and Conjunctival Disease (Dry Eye)</strong></td>
<td>Tapros Mini</td>
<td>Ikervis (Cyclosporin)</td>
<td></td>
</tr>
<tr>
<td><strong>Retinal Disease, Uveitis</strong></td>
<td>Eylea</td>
<td>DE-109 (Sirolimus)</td>
<td>DE-120 (VEGF/PDGF inhibitor)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>DE-122 (Anti-endoglin antibodies)</td>
</tr>
<tr>
<td><strong>Other Infection, Allergy</strong></td>
<td>Alesion</td>
<td>Vekacia (Cyclosporin)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cravit1.5%</td>
<td></td>
<td></td>
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</tbody>
</table>

*Excluding GE products. With regard to LCM products, those products to be launched in multiple regions are included.

*With regard to other clinical trials of Santen S.A.S., feasibility is being assessed.
5 steps (2). Japan Business

- Achieve continuous business growth by contributing to the treatment of patients with new products and innovative services.
- Establish a revenue base to accelerate global business expansion.

Prescription Ophthalmics
- Establish a competitive advantage and maximize market values through new products including Tapros, Diquas, Eylea, etc.

RA/OTC/Medical Devices
- Strengthen implementation of business strategies
- Pursue OTC business by leveraging strengths specialized in ophthalmology
- Offer products and services by leveraging strengths in the medical devices business

Merck projects*:
- 3.4

*Merck project is indicated the contribution from acquisition of Merck’s ophthalmology asset which Santen contracted as of May 8th, 2014.
5 steps (3). Asia Business

- Maximize sales and profit through new products. Strengthen the business base through Merck projects.
- Strengthen the product pipeline in line with local needs and promote product development.
- Reinforce our sales marketing capability in key countries (China, Korea, Vietnam).
- Achieve full-fledged entry into growth markets in Asia by launching new products.

*Merck project is indicated the contribution from acquisition of Merck’s ophthalmology asset which Santen contracted as of May 8th, 2014.
5 steps (3). Europe Business

- Aim to become a “Value Player” who has distinguishable presence in specific treatment categories such as dry eye and glaucoma.

- Achieve sustained growth and improve profitability.

Europe Business

- Strengthen presence in emerging markets in Europe.

Business reinforcement through Merck projects

- Strengthen the product lineup in the glaucoma domain.

- Enter into new markets with a focus on major West European countries.

Sales Target (JPY billions)

<table>
<thead>
<tr>
<th>Sales Target</th>
<th>FY2013 (Act.)</th>
<th>FY2017 (MTP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing business</td>
<td>12.2</td>
<td>18.1</td>
</tr>
<tr>
<td>Merck projects*</td>
<td>12.8</td>
<td></td>
</tr>
</tbody>
</table>

*Merck project is indicated the contribution from acquisition of Merck’s ophthalmology asset which Santen contracted as of May 8th, 2014.
Merck Projects:

- Boost sales and improve profitability through reinforcement of the global glaucoma business.
- Accelerate business expansion in Europe and Asia.

- Strengthen market presence.
  - Shift of focus from individual Glaucoma products to domain marketing
- Maximize product value through lifecycle management.
- Generate synergy effects for future business expansion.
  - Establish a marketing platform for new drugs under development, etc.

*Merck project is indicated the contribution from acquisition of Merck’s ophthalmology asset which Santen contracted as of May 8th, 2014.*
5 steps (4). Product Supply

- Establish a product supply system with global competitiveness.

- Simultaneously realize globally competitive manufacturing cost and quality.

- Focus on ongoing measures to drastically reduce the cost of sales.
  - Realize a competitive cost structure for emerging markets.
5 steps (5). Organization and Talents

- Establish organization and strengthen the human resources pipeline towards the realization of sustainable growth.

- Build optimal organization for executing strategies.
- Establish a global management system.
- Develop an assessment system, etc., in line with the global organizational structure.
Investment Strategy

Focus on R&D and business development.
- Enhance the product development pipeline through focused investment in business development and licensing activities.

Expand the business base in Asia and Europe.
- Expand sales coverage in growing regions in Asia and Europe.
- Realize efficient investment with a focus on profitability.

Capital investment
- Renewal and reorganization of manufacturing facilities, etc.
4. Return-to-Shareholders Policy
Policy for Return to Shareholders

- Stable and sustained return to shareholders
- Maintain a sound and flexible financial position to enable product acquisitions and M&As for future growth.
- Consider share buybacks in a flexible manner.
- Aim to maintain a dividend payout ratio of around 40%.
Forward-Looking Statements

• Information given in this announcement and accompanying documentation contains certain forward-looking statements concerning forecasts, projections and plans, whose realization is subject to risk and uncertainty from a variety of sources. Actual results may differ significantly from forecasts.

• Business performance and financial conditions are subject to the effects of medical regulatory changes made by the governments of Japan and other nations concerning medical insurance, drug pricing and other systems, and to fluctuations in market variables such as interest rates and foreign exchange rates.

• The process of drug research and development from discovery to final approval and sales is long, complex and uncertain. Individual compounds are subject to a multitude of uncertainties, including the termination of clinical development at various stages and the non-approval of products after a regulatory filing has been submitted. Forecasts and projections concerning new products take into account assumptions concerning the development pipelines of other companies and any co-promotion agreements, existing or planned. The success or failure of such agreements could affect business performance and financial conditions significantly.

• Business performance and financial conditions could be affected significantly by a substantial drop in sales of a major drug, either currently marketed or expected to be launched, due to the termination of sales as a result of factors such as patent expiry or complications, product defects, or unforeseen side effects. Santen Pharmaceutical also sells numerous products under sales and/or manufacturing license from other companies. Business performance could be affected significantly by changes in the terms and conditions of agreements and/or the non-renewal of agreements.

• Santen Pharmaceutical is reliant on specific companies for supplies of certain raw materials used in production. Business performance could be affected significantly by the suspension or termination of supplies of such raw materials, if such an event were to adversely affect supply capabilities for related final products.