

## **2006-2010 Medium-term Management Plan**

### **Santen's Global Development: Creating New Drug Candidates and Generating Growth in Promising Regions by Leveraging Strengths**

July 25, 2006 Osaka, Japan -- Santen Pharmaceutical Co., Ltd. announced the formulation of its five-year management plan for the period FY2006 to 2010. The basic policies of the Plan are to develop new drug candidates and to generate growth in promising regions by leveraging Santen's strength in global development. As a step to become a leading global ophthalmic company in the coming decade, Santen will actively address the following goals during the medium-term management plan: enhancement of the global strategic product pipeline; growth in Japan as well as in Northern/Eastern Europe, Russia and China; and a focus on clinical and business development in the U.S.

Over the past decade, Santen has enhanced its pipeline of ophthalmic products for the treatment of glaucoma, corneal disorders and retinal diseases; strengthened Japanese sales and marketing for prescription pharmaceuticals; expanded its global business; and improved profitability through cost structure reforms. As a result of these efforts, Santen has achieved record-level sales and profits in FY2005.

The Japanese ophthalmic pharmaceutical market, where Santen has demonstrated its strength, is the second largest in the world, and is expected to see greater demand in drugs for the treatment of glaucoma as well as corneal and conjunctival diseases due to aging of the population. The United States, the largest market, and Western Europe, are expected to show continuous expansion in the near future. We also project strong growth in markets in Northern/Eastern Europe, Russia and China, and securing a larger presence in these markets represents a major growth opportunity for Santen.

In the 2006-2010 Medium-term Management Plan, Santen will implement the following policies and strategies for our long-term development as a leading global ophthalmic company, leveraging the strengths which we have cultivated over the past decade.

## [Long-term Vision]

- World-class company
- Leader in the ophthalmic and anti-rheumatic fields
- R&D-oriented pharmaceutical company specializing in ophthalmology and other areas where we can leverage our strengths

Santen continues its goal of becoming a leading global ophthalmic company within the next decade. We plan to take the following approach:

1. During the next five years, Santen aims at solid growth through active investment in R&D, as well as growth in Japan, Northern/Eastern Europe, Russia and China, leveraging our strengths.
2. During the second five years (FY2011-2015), R&D pipeline investments will continue to be commercialized, accelerating global growth and further development of the U.S. business.

## [Outline of 2006-2010 Medium-term Management Plan]

### I. Medium-term Policies

#### “Santen’s Global Development: Developing New Drug Candidates and Generating Growth in Promising Regions by Leveraging Strengths”

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

### II. Financial Targets

	FY2010	
<b>Net sales</b>	<b>115 billion yen +</b>	CAGR 3%+*
<b>Operating income</b>	<b>32 billion yen +</b>	CAGR 8%+*
<b>Net income</b>	<b>22 billion yen +</b>	
<b>Return on Equity</b>	<b>13%+</b>	
<b>R&amp;D expense</b>	<b>16 billion yen</b>	

\*Compound annual growth rate from FY2005 to FY2010

### III. Profit Distribution Policy

- Invest for growth in R&D, capital expenditures and strategic alliances
- Improve capital efficiency
- Distribute profits to shareholders via cash dividends and share buybacks/retirements
- Maintain stable and continuous dividends.

Based on the above policies, target dividend-on-equity (DOE) ratio of 5%.

### IV. Strategy

#### 1. R&D Strategy

- Focus on core therapeutic areas: glaucoma, corneal disorders and retinal diseases.
- Conduct network-based drug discovery, utilizing competitive internal resources along with the latest technology from external sources where necessary.
- Create a strong development pipeline including back-up candidates to strengthen our global portfolio.
- Continue improvement of R&D processes.

#### 2. Domestic Business Strategy

Building on our strong promotional platform, we will launch new products and maximize product value for glaucoma and corneal disorders as well as new intraocular lenses, while also generating growth through promotion of existing products. Our FY2010 sales target for prescription pharmaceutical and intraocular lens operations in Japan is 90.0 billion yen (equivalent to a CAGR of approx. 2%).

#### 3. Overseas Business Strategy

- **Prescription pharmaceutical business in Northern/Eastern Europe, Russia and Germany**

We expect these markets to exhibit consistently high growth. We plan to steadily increase our market presence through sales of existing drugs and in-licensing of local European products. Our sales target for FY2010 is 9.0 billion yen (equivalent to a CAGR of approx. 8%).

- **Chinese business**

Being the number one ophthalmic company in China, we will develop a competitive, high-growth business by shifting to operations through a local manufacturing and sales subsidiary. Our sales target for FY2010 is 4.5 billion yen (equivalent to a CAGR of approx. 25%).

- **U.S. operations**

We will focus on clinical trials and business development activities in the largest and fastest growing ophthalmic segments: retina, glaucoma and dry eye.

#### **4. Manufacturing Strategy**

Our goal is to strengthen the internal manufacturing base over the medium and long term by reorganizing production lines on a global basis, including the new manufacturing site under construction in China, while seeking to maintain and improve quality and reduce costs on an ongoing basis.

#### **5. Human Resources and Organizational Strategy**

We will to achieve greater functional integration at the global level to increase operational efficiency across R&D, manufacturing and strategic marketing, and strive to develop global human resources.

[Disclaimer Concerning 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 condition 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 sale 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 condition 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 termination of sales as a result of factors such as patent expiry and 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.