



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

天機に参与する

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
2. Medium-term Management Plan for FY2011-2013
Summary
3. Medium-term Management Plan for FY 2014-2017
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.

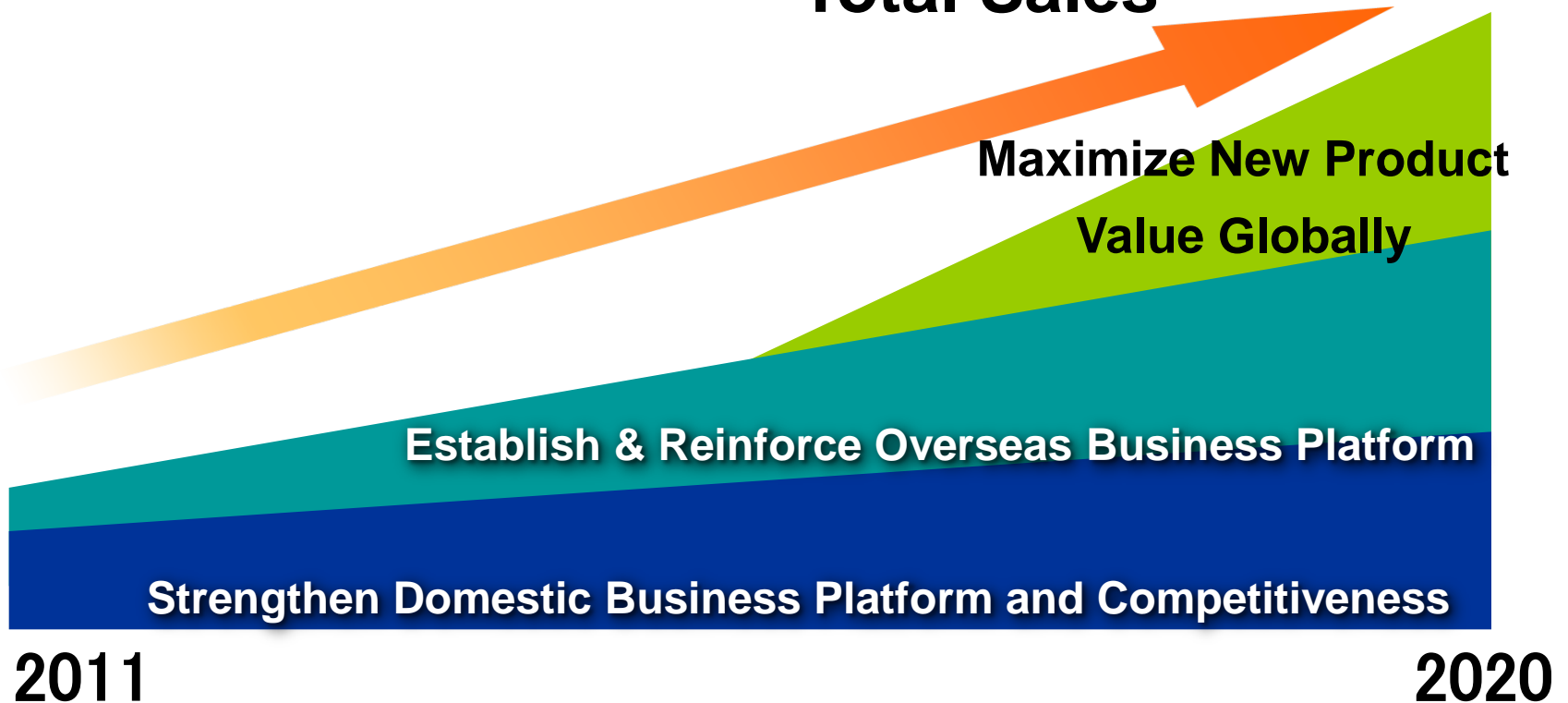
Sustained Business Growth toward FY2020

**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**



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”



2. Medium-term Management Plan for FY2011-2013 Summary

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.

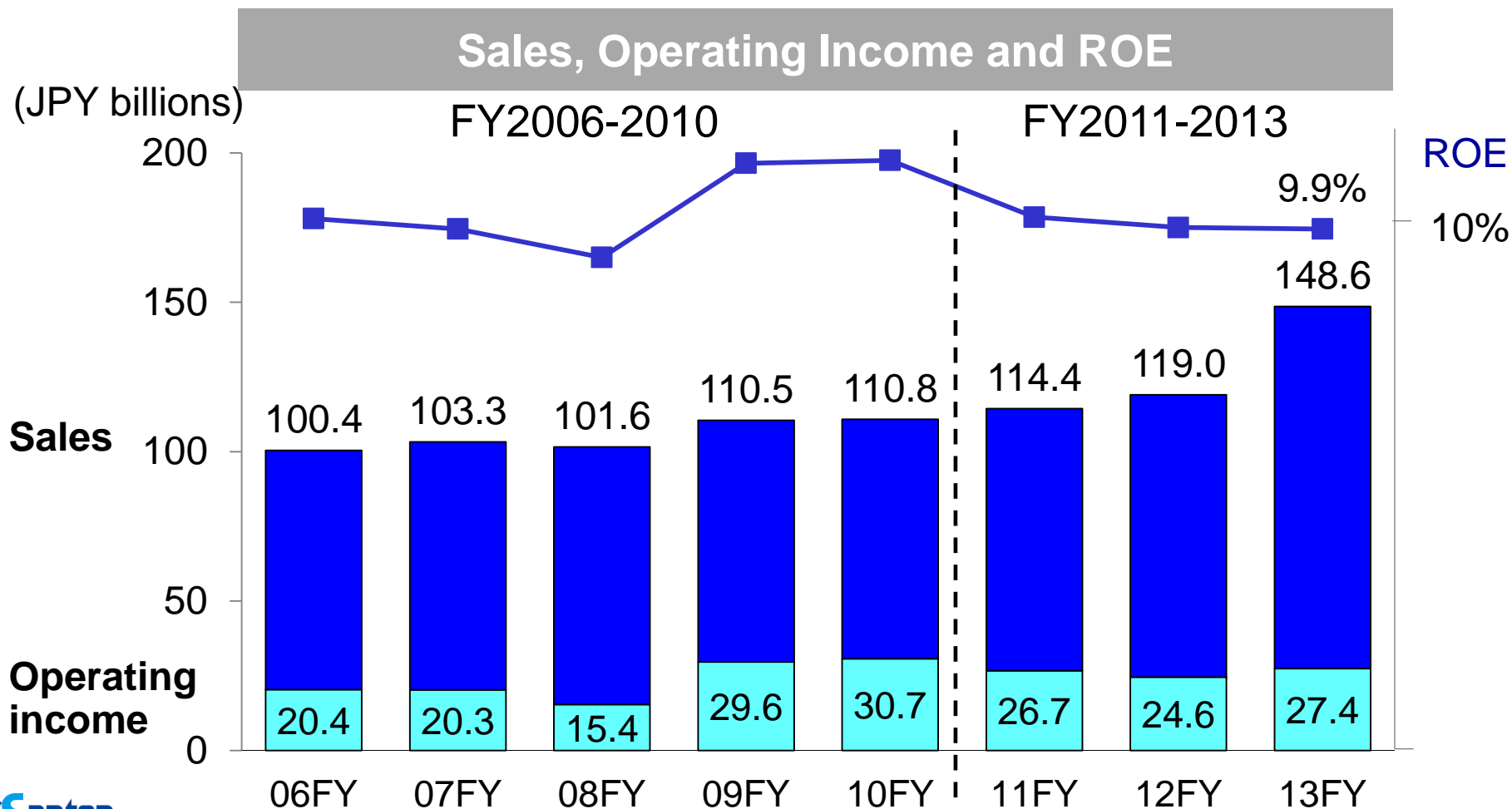
5. Organization & Talents

- Implemented an organizational management system in line with business globalization.

Earnings and ROE(Return On Equity) for FY2011-2013

(JPY billions)

	Target	Results	Achievement %
■ Sales in FY13:	121.0	148.6	122%
■ Operating income in FY13:	31.0	27.4	88%



Results for Medium-term Management Plan FY2011-2013

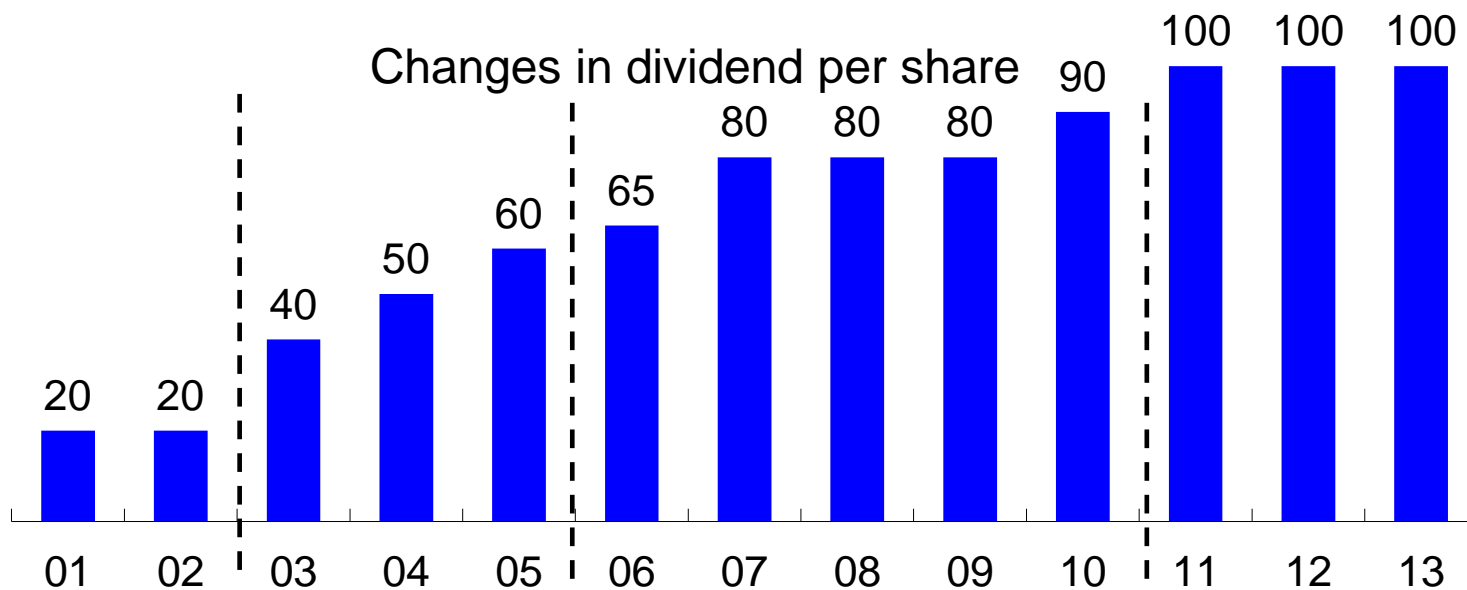
(Unit: JPY billions)	Target for FY13	Results for FY13	Achievement (%)
Sales	121.0	148.6	122%
Operating income	31.0	27.4	88%
R&D expenses	15.5	19.0	-
ROE (%)	10%	9.9%	-

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.

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.



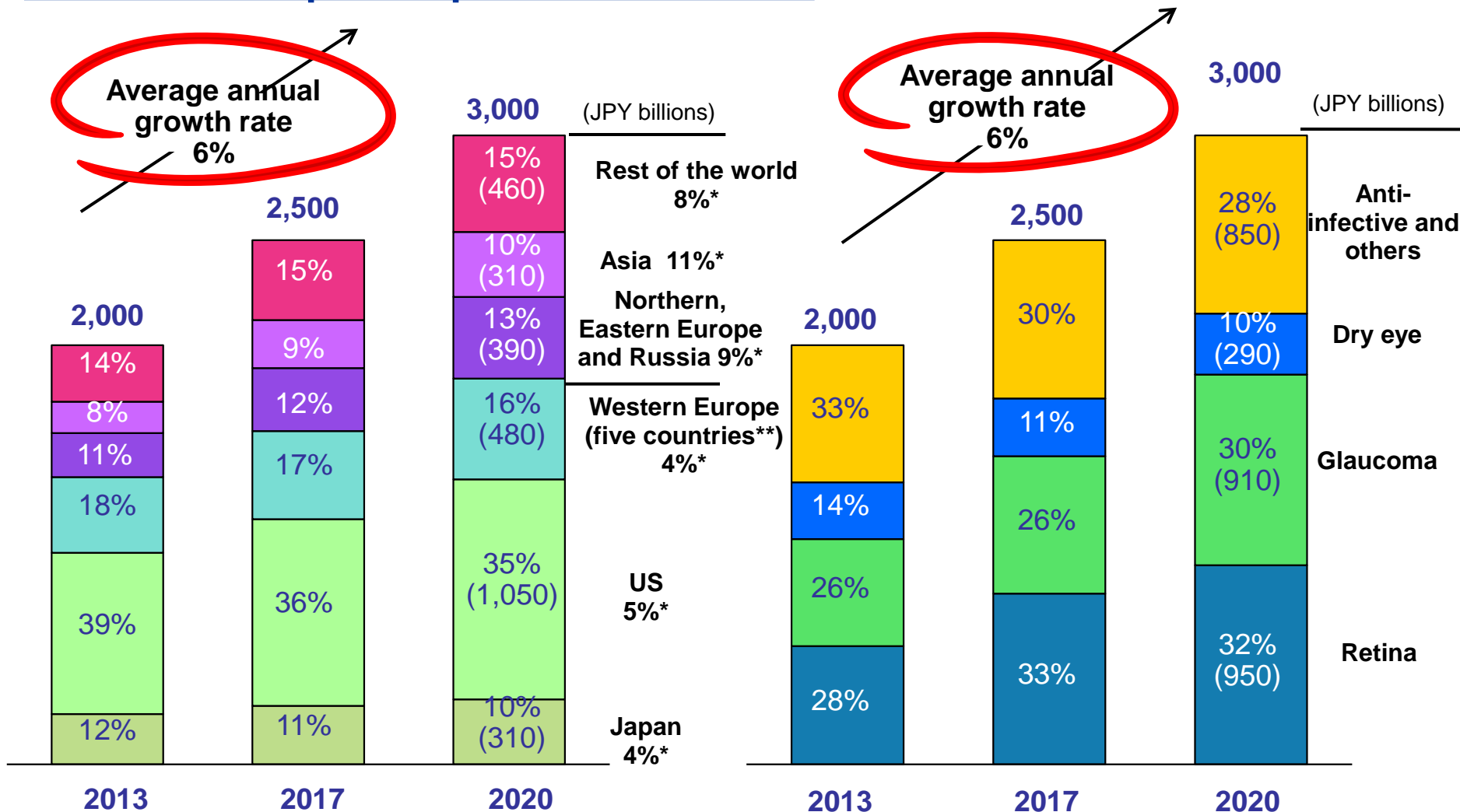
(JPY billions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Dividend payout ratio (%)	34.9	21.4	55.8	39.7	39.9	42.9	54.7	67.2	36.3	36.0	50.8	51.1	48.2
Share buybacks	3.2	3.2	0	2.6	0	0	4.8	0	0	0	0	13.7	0
Total return ratio (%)	96.4	59.5	55.8	63.3	39.9	42.9	85.8	67.2	36.3	36.0	50.8	134.4	48.2



3. Medium-term Management Plan for FY2014-2017

Global Market Outlook

Global Prescription Ophthalmics Market



*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

Ranks #5 globally
Overseas sales: 16%
of total sales

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

Santen

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

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”

Basic Policy of Medium-term Management Plan for FY2014-2017

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

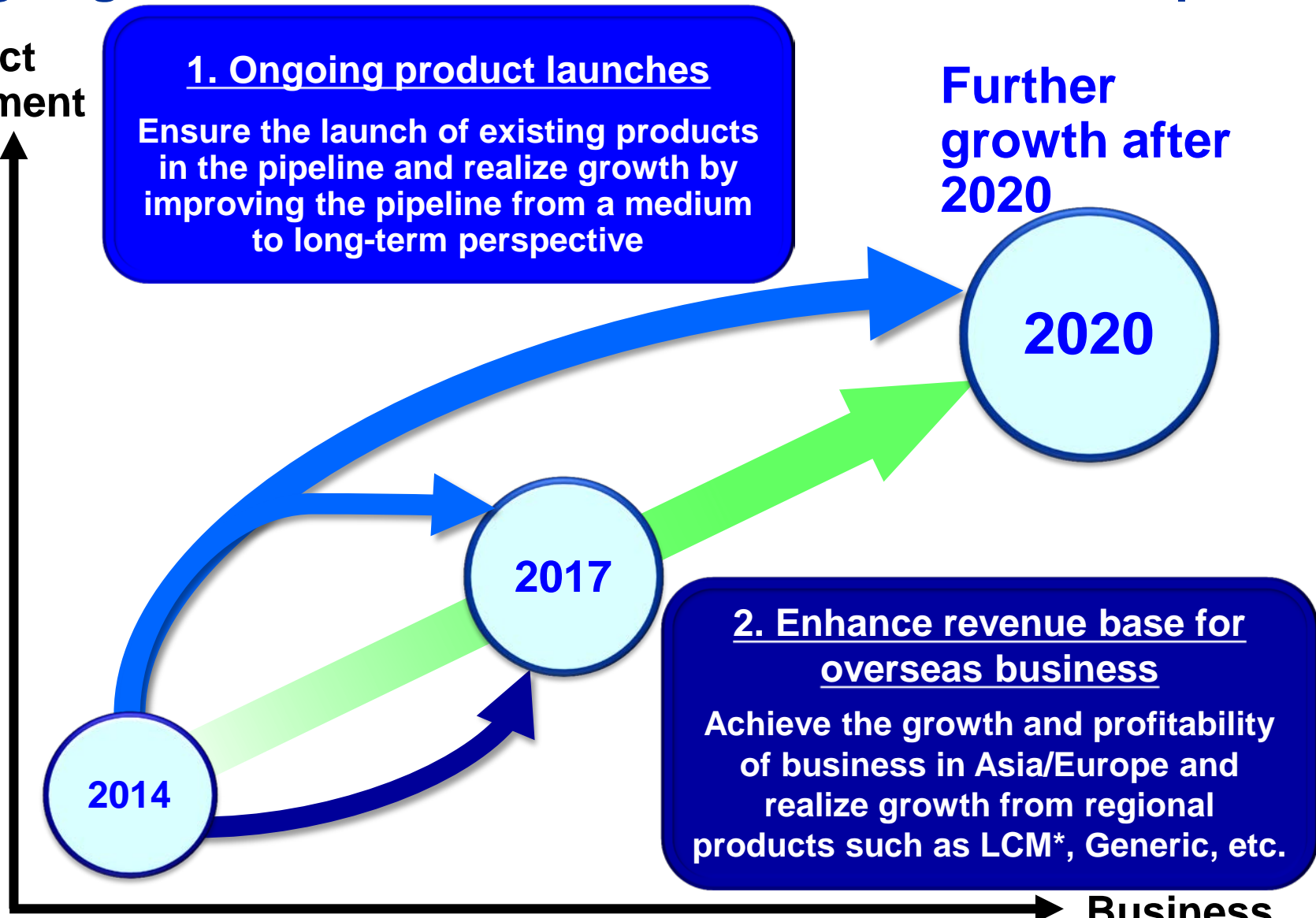
Organization and talents

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

Product development



*LCM: Life Cycle Management

Medium-term Financial Targets

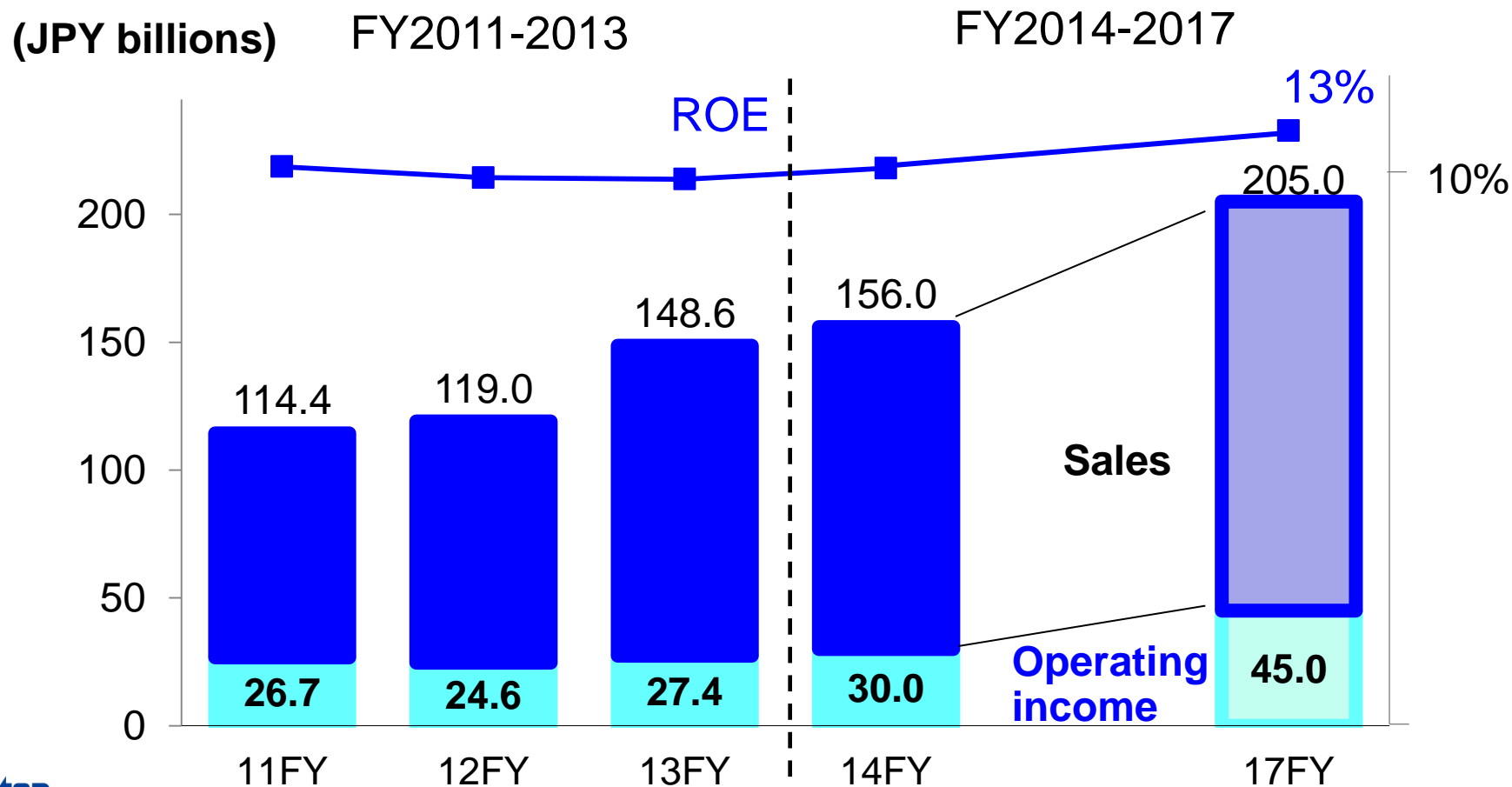
Sales	JPY 205.0 billion over	<ul style="list-style-type: none"> • Sustained growth • CAGR: 8% over
Operating income	JPY 45.0 billion over	<ul style="list-style-type: none"> • Focus on reduction of the cost-to-sales ratio and adequate expense control • Operating profit before amortization: JPY 54.5 billion over • Enhance capital efficiency through improved profitability
Net income	JPY 31.0 billion over	
ROE	13% over	
R&D expenses	Approx. JPY 21.0 billion	<ul style="list-style-type: none"> • Continue to invest in R&D proactively to realize sustained growth
Dividend payout ratio	Around 40%	<ul style="list-style-type: none"> • Stable and sustained return to shareholders • Secure funds required for future growth such as R&D, alliances, etc.

Sales, Operating Income and ROE Targets

Target

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

Sales, Operating Income and ROE Targets



Medium-term Financial Targets

(JPY billions)	Targets for FY2017		
	Existing business	Merck project*	Total
Sales	187.0	18.5	205.0
Portion of overseas sales	45.0	15.0	60.0
R&D expenses	21.0	—	21.0
Operating profit before amortization	42.0	12.5	54.5
Operating income	38.0	7.0	45.0
Operating margin ratio	20%	39%	22%
Net income	26.0	5.0	31.0

Cash ROE	—	—	16% over
ROE	—	—	13% over

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

<Exchange rate>

US\$

Euro

Chinese Yuan

Forecasts for FY2017

JPY 103.00

JPY 141.00

JPY 16.90

Medium-term Financial Targets

(JPY billions)	Targets for FY2017	Ratio
Sales from domestic business	145.0	71%
Sales from overseas business	60.0	29%
Sales from Asian business	27.5	-
Sales from European business	31.0	-
Consolidated sales	205.0	100%

Breakdown of Increase/Decrease in Sales

(JPY billions)

Merck projects
Organic

Japan Business

145.0
(+23.0)
+3.4

+19.5

Asia Business

27.5
(+14.5)
+2.3

+12.2

Europe Business

31.0
(+18.8)
+12.8

+6.0

Other

1.5

+0.2

Sales
205.0

Sales: JPY +56.2 billion

Organic: JPY +37.7 billion

Merck projects*: JPY +18.5 billion

Sales
148.7

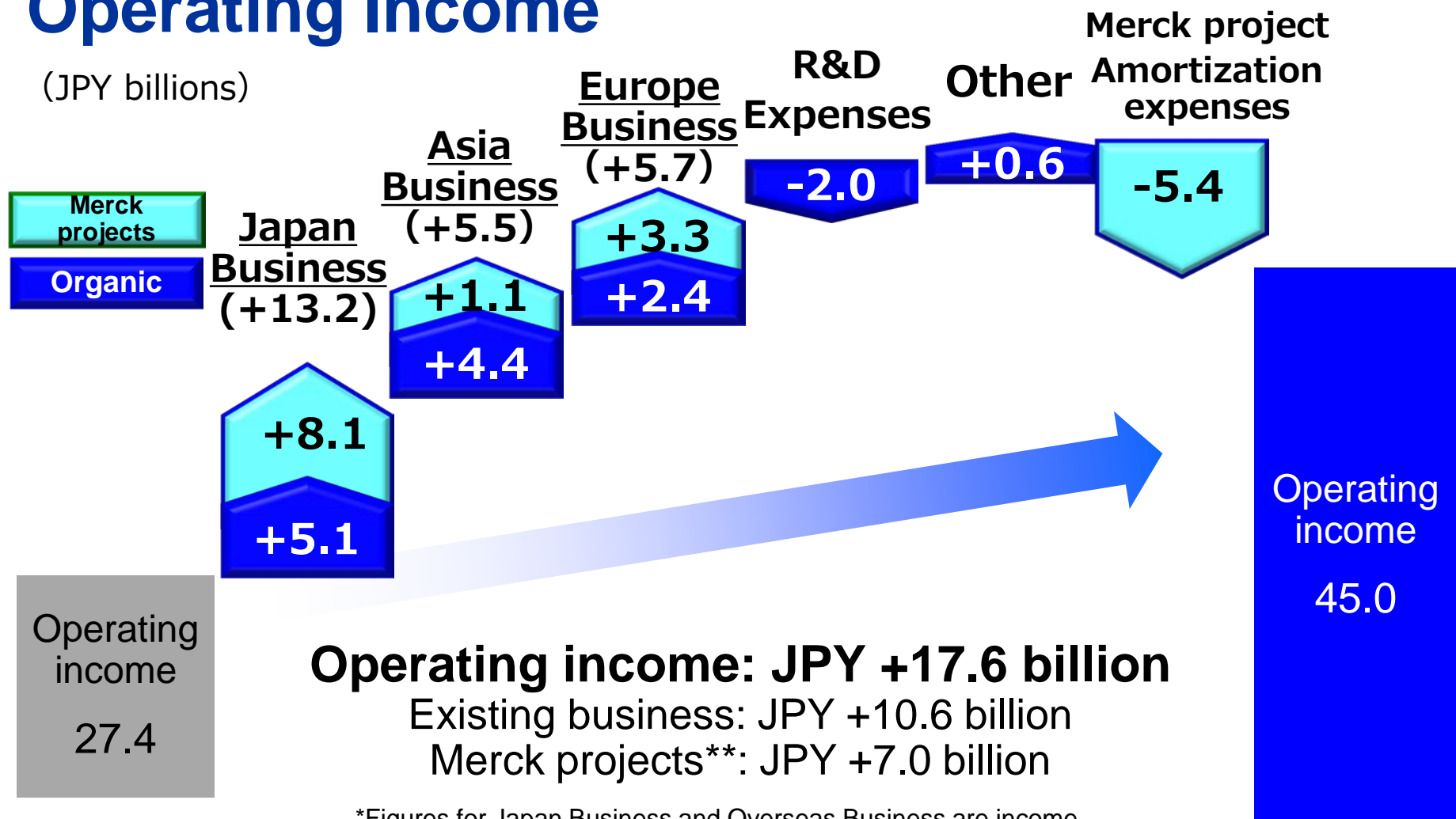
Results for FY2013
Unification of
financial period

Target for FY2017
(Combined)

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

Breakdown of Increase/Decrease in Operating Income

(JPY billions)



Results for FY2013
Unification of
financial period



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

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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.

Approval Obtainment Targets for Product Pipeline

Global Product

Japan (Asia) Product

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

*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.

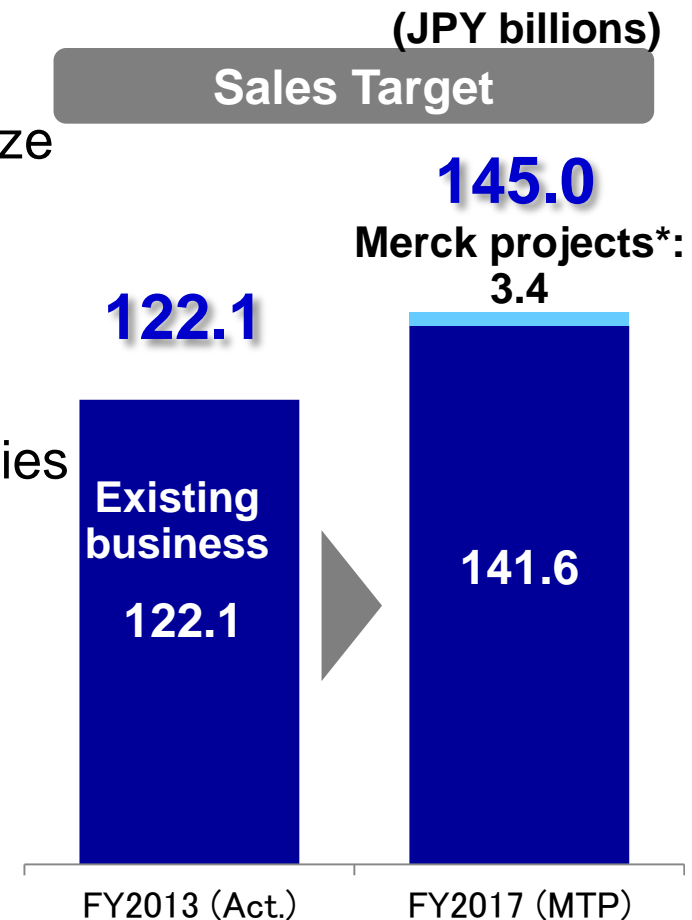
Prescription Ophthalmics

- 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

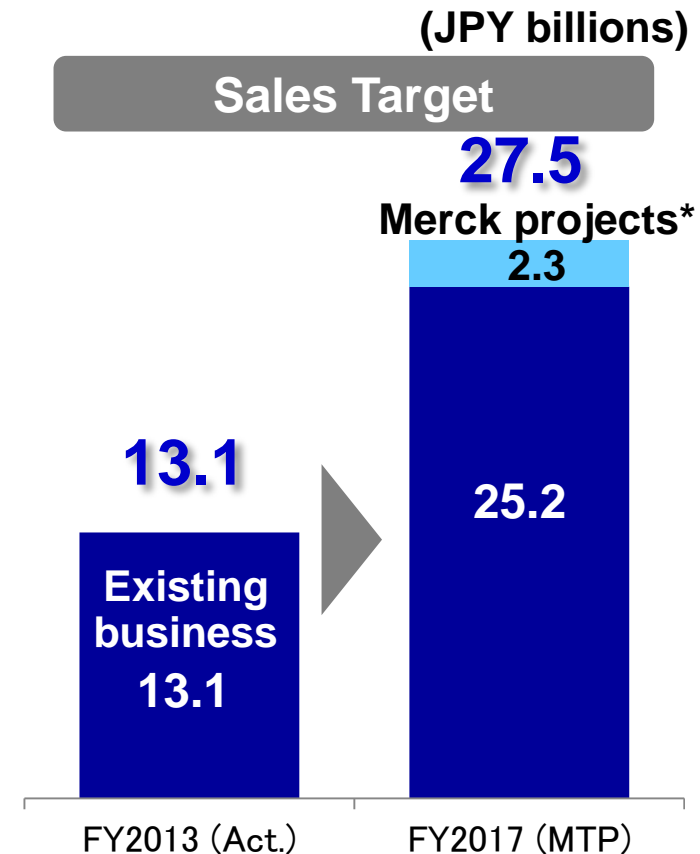
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5 steps (3). Asia Business

- Strengthen the business platform in order to expand market shares in key countries.
- Achieve sales and market share growths exceeding the market growth rate, and enhance profit contribution.

- 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.



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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

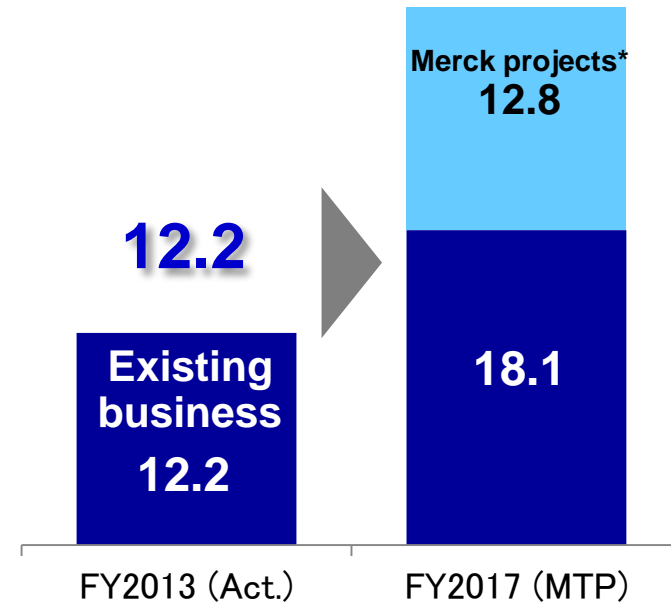
- Strengthen the product lineup in the glaucoma domain.
- Enter into new markets with a focus on major West European countries.

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(JPY billions)

Sales Target

31.0



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

- Invest in business growth for the future.

- 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.

Santen