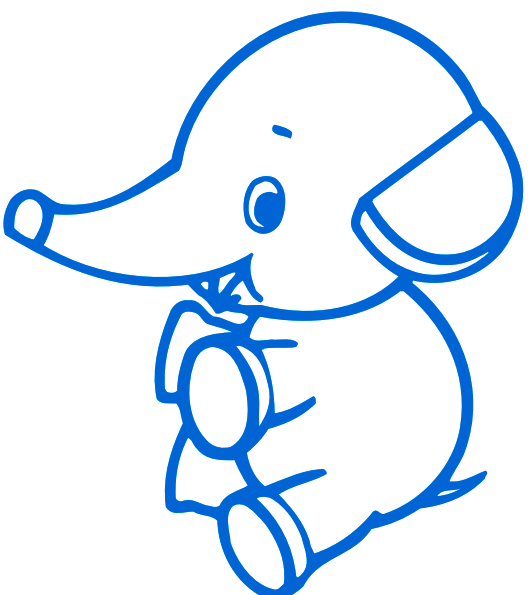


SATO

An Introduction to
Sato Pharmaceutical Co., Ltd.

2010



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When Sato Pharmaceutical was founded in 1915,
the company paid special attention to
the over-the-counter drugs that could provide for
consumers' health in a location close to them and
provided an ongoing stream of products that precisely
met market needs.
As a result it has continued to grow over the years.

Sato's goal is to provide pharmaceuticals that
support people who want to pursue
a healthy life—a lifestyle in which they choose their
own path into the future.
We want to serve society through
the realization of self-medication,
an idea that is based on 90 years of technology,
knowledge and trust. We at Sato Pharmaceutical want
to continue to do our part to protect
the health of people around the world.

Message from the President



Making the best use of Sato Pharmaceutical's strengths to open the road to tomorrow's self-medication society

The creation of a new marketing system for over-the-counter pharmaceuticals resulting from deregulation means that we must build on the new system and increase our activities in the OTC market and invest in new, high-quality products. For Sato Pharmaceutical, there are four major fields and keywords that drive and define us as we promote Healthcare Innovation.

First, to help us provide the technology and products demanded by the self-medication society, last year in November, we released a new Switch OTC herpes labialis treatment, Arasena S, and other products as the first area of pharmaceutical product development. The development of new advanced materials targeting metabolic syndrome and other lifestyle diseases is another way in which we are expanding our product lineup with products that improve people's lives.

The second is to strengthen our IT and marketing strategy, emphasizing the use of major entertainment names such as Seattle Mariners star Ichiro Suzuki and others. We will continue to develop our advertising efforts backed by a reinforced marketing effort that responds to revisions in law which will provide special support to our three main brands—Yunker, Acess and Stona/Stona Rhini. We also want to put IT and our media mix to practical use in our advertising strategy by taking on new themes in advertising.

Our third major area is in the strengthening of our international business activities. This will focus on the further promotion of the Yunker series and medicated plasters, particularly in the North American, European and Asian markets. Our goal is to take a proactive policy in our sales activities for OTC products, the Sato products that are closest to where our customers actually are. In Asia, our goal is to establish the Hakubi brand through our existing bases in Taiwan, Singapore and Hong Kong. We also plan to expand our business activities in China.

Finally, the fourth theme is in continuing to develop our production system. Production is now proceeding very smoothly at the Kazusa Factory for external-use medicines. This, we believe, will ensure a continuous, reliable supply of products with even higher quality. In our environmental efforts, solar panels have been installed at the Kazusa Factory which will allow for at least a portion of the electricity consumed at the plant to be produced internally.

In 2009, the first major revision to the Japanese Pharmaceutical Affairs Law in a half century was completed. This will have a very large impact on our business activities, with the increased OTC business having an effect on both our foundation activities as well as our business.

These effects will continue to motivate us, as we continue to support and help create the new and increasingly important self-medication society. We look forward to continuing to serve you in the best way possible.

Seichi Sato
President and CEO
Sato Pharmaceutical Co., Ltd.

The pursuit of Healthcare Innovation

Healthcare Innovation: this is Sato Pharmaceutical's corporate concept for helping its customers to respond to their important health needs, to create a more beautiful, enjoyable and fulfilling life. Sato's daily work is in providing effective, safe, high quality products that meet the needs of those who are making use of self-medication as part of their daily health maintenance routine. Behind these activities are the four keywords which drive the company's philosophy.

1. Self-Medication

Providing the technology and products that support the Self-Medication society

Under the comprehensive changes which occurred in June of 2009, OTC products are now classified and sold in three different categories. With the high expectations for Sato Pharmaceutical to provide effective products, particularly in the Class 1 range, Sato will continue its OTC R&D activities. These involve the development of treatments for metabolic syndrome and other lifestyle diseases, and the development of new materials and genetic technologies to precisely meet the needs of consumers. This will include an expansion of our Switch OTC products, treatments for the improvement of daily life, herbal products, food series and so on—the development of an even broader product lineup.

2. IT & Marketing

Reinforcing IT activities and marketing strategy

Sato Pharmaceutical's plans for rebuilding the brand after the changes coming with the enforcement of regulations for a new sales system include the continued development of promotional activities, particularly for the three main OTC products—Yunker, Acess, Stona/Stona Rhini—using advertising featuring Ichiro Suzuki and other major media figures. Sato will also strengthen the marketing activities for the next tier of brands, such as Salomethyl and Ringl IB. For consumers, a broader information distribution program covering the new sales system will be developed, as well as for OTC use and effectiveness. For drug stores and pharmacies, the support system is being strengthened through activities such as offering solutions for point-of-sale facilities that meet the new sales system.

3. Global Strategy

Entering into strategic alliances to further globalization

To further the development of Switch OTC products and new types of medical products and to achieve the goal of effective international business development, Sato actively joins in strategic alliances with domestic and international corporations and research institutes. The company has expanded its international business to include seven bases in six different countries. The company is also entering the emerging markets of Eastern Europe and the Middle East. Through these activities, we are better able to develop and provide the products needed by local markets and ensure healthy daily life for people around the world.

4. Production Efficiency

A production and distribution system that provides high efficiency and concern for the environment

New equipment has been introduced at the Hachioji Factory, Sato Pharmaceutical's main production facility, where such products as the orally-dissolving SATAB tablets and Nasal Spray are produced. At the Kazusa Factory, the second phase of construction for external medicine production has been completed, with solar power generation panels installed there in 2009. This will help reduce CO₂ emissions and the amount of externally-generated electricity used, as well as reduce costs. Both factories have been certified to the ISO14001 standard. The five distribution centers nationwide in Japan make use of a centrally-controlled product information system that further increases distribution efficiency.



Ichiro Suzuki, featured in television commercials for Yunker



www.yunker.jp

Yunker: supporting the active life of baseball star Ichiro Suzuki

Ichiro Suzuki (known simply as “Ichiro”) is a baseball player who consistently breaks records and thrills fans with his outstanding play. Since becoming the spokesman in Japan for Yunker TV commercials in 2002, the image has been firmly established that Yunker = Ichiro. Ichiro has been an enthusiastic user of Yunker since his high-school days, and through the catchphrase “My condition, my Yunker!” the connection is clearly made of Yunker’s role in supporting Ichiro’s consistently high performance. In recent years, Ichiro’s influence has been seen as other Major League players and athletes in other sports have become users as well, furthering the awareness of “Yunker Power.” Ichiro’s message that, “Together with Yunker, I want to keep on giving my best” is an encouragement for us at Sato Pharmaceutical to continue to develop and strengthen the Yunker lineup.

BUSINESS AREAS



Increasingly high expectations are being made of Sato’s self-medication business area, supporting as it does the self-medication society, and because of the changes coming with the revisions of the Pharmaceutical Affairs Law. Drawing on its traditional strength and years of experience in dermatology, Sato is developing new, epoch-making products in the medical products business field. These two business areas are the pillars for the corporate philosophy of Healthcare Innovation—a concept incorporated in every product Sato delivers to markets around the globe.

Self-medication

- OTC products, supplements, foods for specified health uses
- Quasi-drugs, cosmetics
- OTC Self-Medication Promotion Foundation, World Self-Medication Industry

Ethical Pharmaceuticals

Self-medication

Self-medication business activities include OTC products, supplements, and foods for specified health uses



With the revision of the Pharmaceutical Affairs Law on June 1, 2009, OTC products are divided into and sold in three different categories, from Class 1 to 3. Sato Pharmaceutical, a leader in self-medication, is putting most of its research and development efforts into Class 1 pharmaceuticals, the class for which the greatest expectations for effectiveness exist. The company is also strengthening marketing activities for its major brands.

Promoting R&D of Class 1 pharmaceuticals, part of the new sales system

With the revision of the Pharmaceutical Affairs Law, Switch OTC and other products are classified as Class 1, a designation that has brought greater attention by consumers. The materials used in Switch OTC products have few side effects, so these highly safe materials are now being used in OTC products. The background to the increased interest in Switch OTC products comes with the awareness of health issues that have come with the increase in lifestyle diseases. Among Sato Pharmaceutical's Class 1 pharmaceuticals are the stomatitis treatment Aftach A, containing triamcinolone acetonide; and Inosea One Block, with the new-generation H₂ blocker roxatidine acetate. In November of 2009, sales began of the Switch OTC herpes labialis treatment Arasena S, containing vidarabine in the same concentration as for ethical pharmaceuticals. In March of 2010, the stomach medicine Inosea Balance, containing the medical ingredient troxipide, will be

the first of a number of Switch OTC products planned to be brought to the market. Keeping close watch on market needs and trends, Sato will continue to exert increased efforts in the research and development of Class 1 pharmaceuticals.

Yunker, Acess, Stona/Stona Rhini: Strengthening the big three brands

Self-medication is the main business area driving Sato Pharmaceutical's OTC business activities. The wide healthcare coverage provided by some 400 company products includes everything from OTC pharmaceuticals to supplements, quasi-drugs, foods with nutrient function claims and foods for specified health uses to cosmetics. Among these, the three major products capturing the greatest attention are the herbal-based nutritional tonic Yunker series; the anti-gingivitis, anti-peridontitis Acess series—which holds a 60-percent share of Japan's medicated toothpaste market; and the popular, symptom-specific Stona



Supplements, foods for specified health uses, quasi-drugs are areas of customer expectation. Sato provides these products in locations close to the consumer and supports healthcare by producing high-quality products while at the same time putting effort into bringing established global brands to the Japanese market.

series and Stona Rhini nasal medicines. Yunker and Acess are Sato's core products, and the ones which are receiving special promotional attention to even further expand their user base.

Apart from these, many other highly original products have been released into the market, including the topical analgesic Salomethyl; the antipyretic analgesic Ringl IB; the laxative Satolax; worldwide long-seller Bayer Aspirin, in a cooperative sales activity with Bayer that began in October of 2008; and the liver ursodeoxycholic acid compound Liverurso—all contributing to the self-medication of consumers.

Another Sato Pharmaceutical OTC product is the orally-dissolving SATAB tablet, which requires no water, and the soluble Gel Capsule and other products using new, unique, easy-to-use delivery systems which make them very popular with consumers.

Sato's herbal and food series: applying high-function materials

Sato Pharmaceutical's herbal and food series is recognized in Europe as pharmaceutical. Making use of highly functional materials in their manufacture, the series is now a lineup of 11 products. Supporting OTC products, in the development of supplement products, Sato established a tie-up with Merck KGaA in June 2007 for the sale in Japan of the Bion 3 probiotic multi-vitamin and mineral combination. In November 2009 a new version of Bion 3 with added lactic-acid bacilli was put on sale. Plans also exist to further promote self-medication through the sale of global brands from around the world in the Japan market. Also, extra efforts are being made in the development of foods for specified health uses. For the future, Sato will focus on effective, highly evidence-based products aimed at diseases related to aging and lifestyle.

Self-medication

Self-Medication Business Activities: Quasi-drugs, cosmetics



Stronger sales for Sato products in convenience stores and other general retail outlets

With the deregulation of pharmaceutical sales, OTC products which formerly could only be sold in pharmacies and drugstores can now be sold in convenience stores and other general retail outlets. Very favorable results have been seen for the sale of Sato products in these outlets, including Yunker Royal C₂, containing polygonati rhizoma, royal jelly, vitamin C and thiocctic acid; and Yunker Royal F, containing taurine and vitamins. Sales also began in April 2009 for the sales of Yunker Royal S, the first Yunker product sold in an aluminum can. Sato Pharmaceutical will continue to actively introduce new products that meet market needs.

Using our pharmaceutical experience for effective aging-care cosmetics: Marketing begins for Excellula and Sato The Cream

Sales began in September of 2009 of Sato's exclusively-developed, high-function aging-care treatment, Excellula. This contains the first-ever use of siratro extract, which activates the skin's basal membrane. Excellula makes use of Deep Delivery System, a technology with a strong medical background—it is the kind of skin care series that can only be provided by a true pharmaceutical company. Sato also earlier introduced Uriage, a series of sensitive-skin cosmetics using natural spring water from Uriage Spa in France, that has been very warmly received by consumers. Sato Pharmaceutical plans to increase the number of products in the lineup, as well as advertising to further raise market awareness for the company's products.

Self-medication

Self-Medication Business Activities: OTC Self-Medication Promotion Foundation, World Self-Medication Industry

(left) 2009 Self-Medication Symposium; (right, above) panel discussion at the Symposium; (right, below) Self-Medication Promotion Services Prize award winners



To contribute to the nation's health and promote the concept of self-medication, Sato Pharmaceutical is actively taking part in a number of industry organizations and associations. The OTC Self-Medication Promotion Foundation (OSPF) is engaged in a variety of research seminars, lectures, informational exchange meetings and other activities.

OTC Self-Medication Promotion Foundation—helping promote self-medication

In March of 2006, former Honorary Chairman Susumu Sato established the OTC Self-Medication Promotion Foundation (OSPF). Its objective is to promote self-medication through research seminars, lectures, informational meetings and other activities. On October 8, 2009, the 2009 OTC Self-Medication Symposium was held. The first half was devoted to a presentation by three researchers; the second included a report on self-medication research made on several categories, including primary, high school and college students, as well as the general public. A panel discussion was held on “Methods for the provision of information on the correct use of OTC pharmaceuticals.” Sato plans to continue to hold these seminars, lectures, information-sharing sessions and other activities both domestically and internationally. Through these activities, the company hopes to do its part to help create an environment where illness can be prevented and medical treatments continue to advance.

World Self-Medication Industry activities: promoting information exchange with Europe and North America



The World Self-Medication Industry (WSMI) was founded in April, 1970 in Washington D.C., as a federation of OTC manufacturers from Europe, the US and Canada. Today WSMI includes 55 different countries and regions, including Japan. In the November 2008 Asia-Pacific area meeting of the WSMI, held in Beijing, China, Sato President Seiichi Sato was made Asia-Pacific Vice Chairman by the WSMI board. Sato will continue to actively promote the self-medication concept.

Ethical Pharmaceuticals



Sato Pharmaceutical's ethical pharmaceutical activities will focus on improving its own R&D strength, reinforce its main products, develop new pharmaceutical products and continue to take on new niche markets. The company has long had particular strength in dermatology, and, to further penetrate the hospital market, plans to strengthen its ethical pharmaceuticals sales organization.

Using special strength in dermatology to further expand efforts in the hospital market

The medical business environment in Japan today is experiencing great change, with the country's large- and mid-size manufacturers in a period of industry reorganization and faced with increasingly aggressive foreign players, changes in the medical insurance system and major promotion of generic drugs. In this environment, Sato is carefully considering its ethical pharmaceuticals business activities, and plans to further expand its dermatology lineup while also moving into new niche markets.

Sato first entered the dermatology field in 1978, when it began sales of the urea skin-care preparation Pastaron; the field has since become an area of specialization for the company. Further strengthening its position in the field with the sales of acne medicine Dalacin T Gel 1%, and the new Bonalfa series, demonstrated Sato's focus on unique, original pharmaceutical products. With the success of these dermatology products, Sato has restructured its medical sales organization,

aiming at better approaching the hospital market while strengthening its overall sales strength. Sato has also moved actively into other niche markets such as orphan drugs—treatments for rare diseases.

Dalacin T Gel 1%: the new standard in acne care

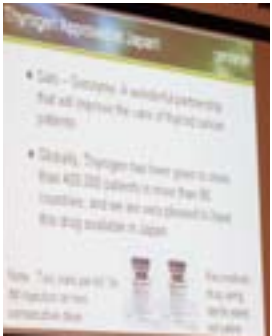
Dalacin T Gel 1%, an acne medication making use of a combination of phosphoric acid and clindamycin phosphate, stems from cooperation with Pfizer, and was first available for sale in Japan in September 2002. This combination of ingredients was first given approval in the US in 1987, and has since become a standard acne treatment around the globe. Introduced in Japan rather late compared to the West, it has had a major impact on acne treatment. A lotion formulation has been developed as well, and went on sale from the beginning of 2010—one more step in our search for the best drug delivery system, one responding to different patient skin conditions and other factors.



Area		Drug name	Disease for which indicated	Active ingredient	Development stage
Dermatology	Acne vulgaris	SKP-05	Acne vulgaris	Clindamycin	Launched in May 2010
	Contact dermatitis	SKM-06	Contact dermatitis diagnosis	Patch test allergen (six allergens)	Launched in May 2010
			Contact dermatitis diagnosis	Patch test allergen (new allergens)	Phase III preparation
	Anesthetic	SKA-01	Topical anesthetic	Lidocaine/prilocaine	Application
			Topical anesthetic	Lidocaine/prilocaine (new formulation)	Phase I preparation
Orphan drug	Thyroid gland	SKG-02	Auxiliary agent for thyroid cancer	Recombinant human thyroid stimulating hormone	Development planned

Using original technologies and ideas for new drug development and entry into new areas

Sales began in February, 2008 for Debrisan Paste, a wound and burn treatment. By creating a paste form of what had formerly been a powder, treatment performance was improved, and the product given high marks by professionals. Clinical testing is also proceeding smoothly on a new



Lecture commemorating Thyrogen launch

local skin anesthetic, which shows good anesthetic effect even on skin that previously did not show good results. In January 2009, sales began of Thyrogen, a recombinant form of human thyroid stimulating hormone used in thyroid cancer diagnosis, and an

orphan drug. University hospitals and other large-scale facilities were early introducers of this product which allows for thorough diagnosis and follow-up of the disease.

Stronger strategic alliances and sales staff cultivation

While strengthening its own ethical pharmaceuticals development skills, Sato knows that training of its sales staff is a critically important issue. The company naturally has its own production skills, particularly in the pathologies of dermatology-related diseases; Sato is introducing an educational system and training to ensure that sales professionals have the knowledge required to do their jobs. At the same time, the company is actively moving into joint introductions of new products, co-marketing and other activities with domestic and international companies.



Izumi Mori, featured in television commercials for ACESS

www.aces.jp

The autumn of 2008 saw the start of a new series of television commercials for the ACESS series featuring the popular actress and model Izumi Mori. In her work as a fashion model, one of the major points in the impression she makes with her smiling face is her teeth. Shining, white teeth and healthy, pink gums are critical to making every smile look better. "If I don't take great care to have both white teeth and healthy gums to support them, I can't count on ensuring a nice smile," she says, noting that it is not simply polishing the teeth but also improving the health of the gums that is important. "To make sure I have healthy gums, I use ACESS," Ms. Mori says in the commercials. It's not just if your job depends on your smile, but for everyone in their relations with others: this is the message that Ms. Mori brings to ACESS E. Whether supporting the dreams of young people like Izumi Mori or everyone else in their hopes for a beautiful smile, Sato is there with the ACESS series.

BUSINESS ACTIVITIES



Research and development that contributes to society, using the most advanced genetic technologies to create the highest level research and new dosage forms. Strengthened marketing, including brand-specific sites to communicate directly with consumers. The Sato brand is now spreading around the world, through the company's international business activities. Being active in production to increase efficiency and deal with environmental issues. A distribution network that makes optimal use of IT technologies. In order to serve consumers, Sato is focused on moving ahead in its many business activities.

Research and Development

Marketing

International Business

Production

Environmental Activities

Distribution

Research and Development



New wing, Shinagawa Research and Development Center



Shinagawa Research and Development Center, Formulation Research Wing

Work at Sato Pharmaceutical's Shinagawa Research and Development Center is divided into the Medical Research Department, which handles new compound synthesis and drug efficacy research, and the Formulation Research Department, in charge of formulation planning and analytical research. In the Medical Research Department, research using individual evaluations and screening takes place, with research into highly useful materials and development of new combinations.

The new Research Planning Department: strengthening the drug development system

Research and development at Sato Pharmaceutical is concentrated in the Shinagawa Research and Development Center in Tokyo. It is organized into six different wings, including the New Research Wing, Formulation Research Wing, Drug Effect Wing and Composition Research Wing. As part of the process of strengthening the drug development research system, the new Research Planning Department has been established. The Department plans and promotes research, with drug development based on actual medical needs. Joint development with other companies is also conducted, so that higher quality products can be supplied more quickly to society.

High-level research in Switch OTC pharmaceuticals, genetic technology and metabolic syndrome

At Sato Pharmaceutical, it is not simply a matter of redesignating ethical pharmaceutical products as Switch OTC, but of researching combinations of components that provide the most useful results, ensuring safety while also providing maximum effectiveness of OTC products.

In recent years, healthcare product research and development has placed greater importance on genetic and protein analytic research. Sato Pharmaceutical has made use of many technologies in its research, including cell culture in the screening for a new anti-inflammatory, molecular biology and genetic technology. In the new Research Wing, evaluation of existing products such as Yunker and Acess is made at the genetic level on product efficacy, while active research and development continues on new products such as hair restoratives and dermatitis treatments.

In the Lifestyle Laboratory, lifestyle-related disease such as metabolic syndrome are the target of research and development.

New drug delivery systems stressing high drug effectiveness and ease of use

The Research and Development Department's main focuses in new drug delivery system (DDS) research are the ease of drug usage, safety and high effectiveness. In the process of developing new DDS's, exclusive dosage formats and highly absorbable drugs, Sato has already made countless patent applications. SATAB, a Sato-exclusive development, is one such technology. Placed into the mouth, SATAB dissolves in the presence of only a small quantity of saliva and without the need for water; the technology has now been applied to eight different products including cold medicines and nasal decongestants.

A test of SATAB being dissolved in water



On entry to water After 2 seconds After 5 seconds

Another new area of research is a next-generation, film-type DDS with a thickness of just 50 microns. In March of 2009, this was used in Zentrip, a new motion-sickness treatment from Sato on sale in the US incorporating meclizine hydrochloride. Sato is also working on a number of new developments with SATAB and film DDS with masking technologies to minimize the bitterness of some medicines. Other areas of technological activity include external-use treatments, such as a gel-type

treatment that delivers the active ingredients through high permeability, medicated plasters, and a sensitive-skin moisturizer treatment using low-stimulation skin moisture transpiration control.



Natural remedy component research

In the formulation of trial products, ingredient stability, content homogeneity, dissolution tests and other strict material standards are set, and the necessary materials for written application for approval of a product under development are gathered. One area that has been a special strength for Sato Pharmaceutical is natural remedy research, with leading-edge technology that allows for isolation, purification and identification of extremely small quantities of ingredients, so that examination and standardization can be made of important product ingredients to ensure product stability. The analysis and valuable data thus produced is a real asset for the company and something that can be put to practical use in future research as well.

Marketing



2009 Sato Drugstore Conference



Japan Drugstore Show



New Plus-One Corner



Yunker advertising at Safeco Field, Seattle

With the increased awareness of self-medication, pharmacies and drugstores will play an increasing role as centers for the dissemination of healthcare information. Sato Pharmaceutical is responding to this by increasing its support through information activities including seminars and IT activities. At the same time, the Internet and other communications media are being increasingly used to reach the consumer.

Supplying information to pharmacies and drugstores through seminars and symposiums

Sato Pharmaceutical holds a series of seminars and symposiums providing new product and other information to pharmacists and drugstore owners and staff across the nation, as well as activities such as overseas study tours. The company also actively participates in domestic and international drugstore shows as well. At the Sato Symposium, held in February 2009, diplomatic journalist, writer, and former head of broadcaster NHK's Washington D.C. bureau Ryuichi Teshima spoke on "The new Japan-US relationship, and coming trends." In November of that year, the Sato Drugstore Conference was also held, where Mayumi Mochizuki of the Keio University faculty of Pharmacy, and Tatsuo Kurokawa, professor of the Graduate School of Pharmaceutical Sciences, Chiba University, presented a lecture providing several viewpoints on the future outlook for OTC pharmaceuticals. Through these conferences, Sato Pharmaceutical is working to

share information on the new OTC pharmaceutical sales system, and to help support the sales activities of pharmacies and drugstores.

Supporting consumers, pharmacies and drugstores to meet the changes of the revised Pharmaceutical Affairs Law

With the enforcement of the revised Pharmaceutical Affairs Law in June of 2009, Sato has created a wide range of tools for information sharing to help consumers understand the new sales system and the new classifications of OTC pharmaceuticals. For partner pharmacies and drugstores, a wide range of support covering all areas of businesses is being introduced, including the New Plus-One Corner System, which provides store layout and product display examples and sales support to increase sales of new products.

Applying IT for information transmission, administrative support and implementation of education

With the increased awareness of self-medication, Sato Pharmaceutical is using IT as the core for information transmission and the creation of new networks.

One step aimed at consumers has been to establish websites specifically targeted on certain needs. Examples of this are independent sites for the main brands—Yunker, Acess and Stona—and for Uriage, the cosmetic for sensitive skin from France; for women, the Greenhelp and Genki Aging health sites, the latter aimed at middle-aged and older women; and even a site dedicated to the ever-popular Sato-chan elephant mascot character. Sales support for stores has been provided through the use of IT activities such as an online ordering system and a pharmacy and drugstore-specific site providing an online ordering system, new product information and product lookup functions.

An in-house broadband streaming site allows for employee education through the sharing of management and product information, with an "e-learning" online training system and a video conferencing system that better links the different offices.

Expanding marketing activities through the use of major stars

Each of the main Sato brands has its own major talent, with the excitement created helping to expand marketing activities. Yunker is represented by record-setting Seattle Mariners star Ichiro Suzuki. Former baseball manager and television personality Senichi Hoshino is popular with Stona's key purchasers, housewives. In 2008, fashion model and actress Izumi Mori became the face of Acess. Yunker advertising has also been placed at Safeco Field, the home stadium of Ichiro. Highly-regarded actress Rei Kikukawa is appearing in television commercials for Ringl IB, while last year's leading LPGA money winner, Sakura Yokomine, is the face for Salomethyl.



Sakura Yokomine, featured in television commercials for Salomethyl

www.salomethyl.jp

I want to keep at the top of my game

“For an athlete, giving top performance in a match is what we want more than anything else. One thing we have to do to realize this is to take care of our muscles, both before and after play. I always apply some Salomethyl both before and after a match along with a massage. This makes my muscles feel loose and comfortable; the next day I’m really ready to go again. Sato Pharmaceutical marked its 90th anniversary in 2005, the year in which I was very proud to have been selected to represent Salomethyl—a brand that has eighty-year history. My own hope is to be at the top of my game for many years to come.”

Sakura Yokomine

International Business



Advertising in Singapore for the Hakubi series



Yunker advertising in Taiwan

Sato Pharmaceutical continues to develop its international business activities in Asia, North America and Europe through its seven business centers: China, Taiwan, Hong Kong, Singapore, the US, Canada and Germany. Each center is responsible for the marketing and sales activities that are suited to the local market, and which respond to local needs.

Building and expanding awareness of the Sato brand

Sato Pharmaceutical's international business activities began in the 1980s. The original purpose was to provide safe, reliable Sato pharmaceutical products for Japanese living abroad. Following the establishment of the first international affiliate company in Los Angeles in 1981, the company added further subsidiaries in Hong Kong, Singapore, Taiwan and Germany. The establishment of subsidiaries in Vancouver in 2006 and Guangzhou, China in 2007 further strengthened Sato's business networks in North America and Asia.

In the major markets of North America, Europe and Asia, Sato will more actively develop its OTC pharmaceuticals business, particularly the Yunker series, medicated plasters, eye drops, digestive medicines, etc. The Hakubi brand is being strengthened in Asia, with the series being very successfully launched in Singapore in 2007 and Taiwan in 2009. The Hakubi brand is also planned to be launched in China and Hong Kong in 2010. In China, Sato is also looking into launching the Acess and Hakubi brands, along with Yunker and other OTC pharmaceuticals. Following the opening of the Canadian office in 2006, the summer

of 2007 saw the launch of Yunker Kotei Solution in the market, with the Kenzen series following in May 2008. The image being projected in Canada is “Japanese products = quality products,” with Japanese product names and advertising being very well received, and sales being very successful. In the US, packaging for Yunker Kotei Solution was redesigned and localized, and sales expanded, especially to the West Coast. In March 2009, the highly-portable, film-type motion-sickness treatment Zentrip first went on sale. This was followed by introduction from April of that year in the major drugstores of the US, with sales being very successful.

In Europe, Sato's local subsidiary in Germany is the base for expansion into Eastern and other parts of Europe. In Australia, a cooperative relationship with a partner company has seen the introduction of a new medicated plaster product from the start of 2010. Sato is now paying close attention to the maturing OTC markets of Eastern Europe and the Middle East. Working with partner companies, Sato is planning to begin the sales of new products in these markets.

International Business



International sales offices and licensing

- Sales office
 - License in
 - License out
- 1 Pfizer Inc. (US)
 - 2 Genzyme (US)
 - 3 Piedmont Pharmaceuticals (US)
 - 4 Schering-Plough (US)
 - 5 GlaxoSmithKline (UK)
 - 6 Astellas Europe B.V. (Netherlands)
 - 7 Astra Zeneca AB (Sweden)
 - 8 Sanofi Aventis (France)
 - 9 IPSEN (France)
 - 10 MERCK KGaA (Germany)
 - 11 Madaus AG (Germany)
 - 12 Bayer AG (Germany)
 - 13 F. Hoffmann-La Roche Ltd. (Switzerland)
 - 14 Max Zeller Söhne AG (Switzerland)
 - 15 Mekos Laboratories AS (Denmark)
 - 16 LACER, S.A. (Spain)
 - 1 CVS Pharmacy (US)
 - 2 Walgreens (US)
 - 3 London Drugs (Canada)
 - 4 Montefarmaco OTC SpA (Italy)
 - 5 Novartis Consumer Health SA (Switzerland)
 - 6 Eisai (Thailand) Marketing Co., Ltd. (Thailand)
 - 7 PT Kalbe Farma Tbk (Indonesia)
 - 8 South Korea

Building the brand through new product introduction in Asia

Sato is seeing increasingly strong results from the sale of its OTC pharmaceuticals in Asian countries. Of all of its international corporations, Sato Pharmaceutical is seeing the most rapid growth in Singapore, where, after the introduction of the Hakubi brand in November 2009, the company has also continued to build brand awareness through the sales of the vitamin C derivative combination Hakubi C Gel; and the new Nazal brand product, Nazal Wash, from the beginning of 2010. Sales also began in major Chinese drugstores

of Access Solution from November 2009. The sales of the Hakubi drink series is scheduled for spring 2010, to be followed by Yunker and other products.

In Taiwan, advertising featuring Major League star Ichiro Suzuki began in 2008 and has resulted in growing sales in that country. Sales of Hakubi White C also began in May 2009, with the product showing very strong sales growth.

Local business activities will now be expanded in Malaysia, Indonesia, and other areas of Southeast

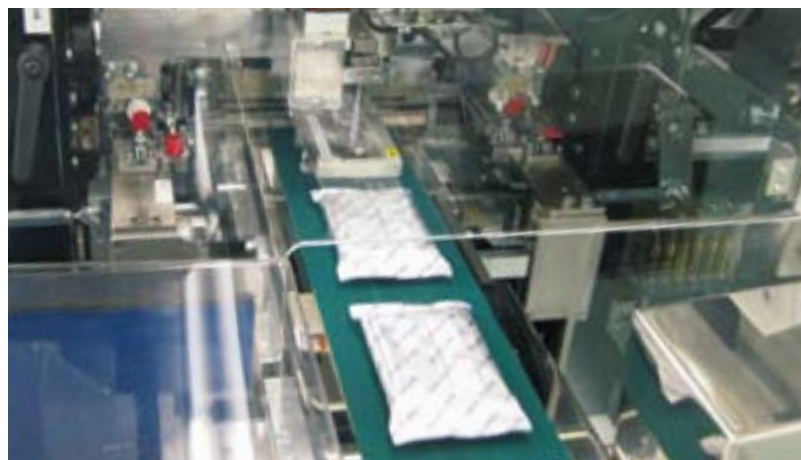
Asia. To even further expand its international business activities, Sato Pharmaceutical will continue to actively engage in strategic alliances with multinational corporations around the world, major drugstore chains and other influential companies. By strengthening these alliances and providing the products that local people demand, we can help to move closer to our goal of bringing the people of the world better daily healthcare.



Production



Hachioji Factory



Pillow packaging equipment



Kazusa Factory



Fully-automated filling line

High-quality products, rapidly and reliably supplied, are an absolute necessity for the promotion of self-medication. Sato has strengthened the cooperation between its main production facility, the Hachioji Factory, and the high-tech facilities of its next-generation production center, the Kazusa Factory, as well as with its main international production facility in Taiwan, to better serve the varied needs of consumers through the most appropriate production system.

The introduction of new equipment marks a new step in the evolution of Sato's main Hachioji Factory

First opened in 1961, the Hachioji Factory has been the center of Sato Pharmaceutical's production from the days of Japan's postwar economic boom. Occupying a 25,000-square-meter site in the western suburbs of Tokyo, the factory can handle a wide range of pharmaceutical formulations in its new production wing, where the most advanced production facilities have been introduced. From 2007 to 2008, with the product lineup expanding and the facilities undergoing reconstruction and expansion, a number of new facilities were introduced to reduce labor and increase production speed. Within the new production wing is an additional production line for SATAB, the orally-dissolving tablet. This line is responsible for meeting the increasing demand for orally-dissolving tablets for motion-sickness, allergy, fever and many other conditions. The push-through packaging (PTP) line has a

robotic high-speed pillow packaging system for the reliable, fast production of pillow-type products such as the Stona series. An additional film coating machine has been added to the tablet production process, with automatic operations that help provide stable film tablet production. Also, in an ISO-certified factory, the machine helps reduce organic solvent usage from previous levels—an important contribution to reducing environmental impact.

In the ointment production building, the line producing the Pastaron series and other ethical pharmaceuticals has been enhanced with a new ointment filling machine and packaging machine. A significant increase in production efficiency has been seen since operations began in June 2008.

Kazusa Factory: application of IT makes this a fully-automatic, high-tech production center

Located in a rolling green setting in Chiba Prefecture, across the bay from Tokyo, is the Kazusa Factory, a next-generation facility featuring the latest technologies and high-speed, labor-saving production capabilities. The use of IT technologies has made this almost entirely automatic, so the factory functions like an enormous robot. The drink production line, completed in October 2002, is the center of Yunker production. All manufacturing processes are automatically controlled by computer, with a production speed of 600 bottles per minute. To provide quick response to increasing demand for drink products sold in packs, a two-bottle pack/three-bottle pack high-speed overlap line providing twice the production speed of existing equipment was introduced in April 2007.

The new external medicine wing, which began operations in March 2008, is used primarily for the production of medical-use external treatments. Building on the previously-opened internal-use liquid medicine wing, the introduction of the most advanced equipment means a production capability of 15 million units of ointments and 8.5 million units of external medicines annually. The ointments include ethical pharmaceuticals such as Dalacin T Gel 1% and Texmeten Universal Cream, while external-use medicines include the OTC product Nazal Spray. The external medicine wing makes use of steroids, so the implementation of a production environment that is in keeping with the World Health Organization's Good Manufacturing Practice is now being considered. Sato is working to construct flexible production lines that can produce a variety of materials and packaging in a safe and clean manufacturing environment.

Environmental Activities

Solar power generation panels at the Kazusa Factory



Winner of the Shinagawa Ward Green Prize for 2006



Care of the environment is a key concern in Sato Pharmaceutical's Healthcare Innovation philosophy that goes right along with the desire to provide the pharmaceutical products that help create a healthy society. As part of our environmental efforts, a reduction in the weight of 100ml drink bottles in 2008 was just one of many actions to reduce the environmental impact created by our manufacturing processes. With the new focus changing from factory to refuse, came a thorough recycling system that turns waste into a resource. Another new action was the construction in May 2009 of new solar electric-generation panels at the Kazusa Factory.

Turning refuse into a resource at the Hachioji and Kazusa Factories

At Sato Pharmaceutical's two main production centers in Japan, the Hachioji Factory and Kazusa Factory, work is progressing on converting the waste generated into a resource through recycling. At the Hachioji Factory, a waste measurement control system has been established, with waste paper and plastic sold to recyclers. At the Kazusa Factory, operations began in 2002 for equipment that can both cope with high production volumes and also provide reduced resource use. In drink production, the sludge created from diatomaceous soil, used as a filter, is being used as a fuel source, while packing materials such as cartons are also being recycled. These and other efforts have resulted in a 90-percent recycling rate. To help make sure the production systems at both the Hachioji Factory and Kazusa Factory have the lowest possible environmental impact, both have been certified to the ISO14001 international standard for environmental management.

Implementing reduced environmental impact

As one part of the greater plan for the reduction of environmental impact, the 100ml bottles of Sato's flagship Yunker were reduced in weight by about 10 percent, or 12 grams. This results in a reduction in the CO₂ emissions produced in transporting the bottles from the manufacturer to Sato's factory, and when the finished product is shipped. The installation of 100kW solar electric-generating panels at the Kazusa Factory will also reduce the amount of energy used, as well as cut costs through the sale of surplus electricity. Also, both the Kazusa Factory and Shinagawa Research and Development Center are working to reduce energy consumption and environmental impact through the planting of rooftop greenery.



ISO14001 certificate

Distribution

Automatic picking system



One of Sato's distinctive strengths is its direct sales system—the excellent direct connection with pharmacies and drugstores which has been built up over the years. As orders are received and processed, consumer needs can be quickly assessed. Then, from its five regional distribution centers, Sato can swiftly and efficiently respond and provide the products desired.

Direct-sales system and fast, next-day-delivery of OTC products

Sato Pharmaceutical is directly connected to its pharmacy, drugstore and other customers, so through the process of selling its products, the company is better able to gauge consumer needs and use this feedback for the quick development of new products and services. Product orders are sent from the sales staff's mobile terminals to headquarters' computers, from which orders are sent to Sato's distribution centers in Tokyo and Osaka. This is a next-day-delivery system, in which orders received by evening are received by the pharmacies and drugstores the next day.

Creating new channels and increasing distribution speed

Because of deregulation, nutritional tonics, vitamins and other non-medicinal products can now be sold at convenience stores, supermarkets, train station kiosks and other retail outlets. Because of this easier access to Sato products, a distribution system was created that meant that products were not shipped from the distribution center, but directly from the factory to the

wholesaler and on to the convenience store or other outlet. For ethical pharmaceuticals, Sato has created a network with wholesalers that can cover a wide range of consumer demands.

Introduction of a cooperative delivery system reduces costs and CO₂ emissions

Automated picking lines and other advanced automation technologies are part of the systems in Sato's high-tech distribution centers in Heiwajima, Tokyo, Osaka, and Sendai. As well as these three distribution centers, the Sapporo and Okinawa distribution centers have been equipped with a warehouse management system (WMS) that provides unified product information control and more efficient warehouse management. To increase the efficiency of small volume ordering, a jointly operated delivery system has been created with other companies. This system is intended to reduce costs, as well as the CO₂ emissions produced by delivery trucks.

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