

Question & Answer

Q-1-1

I had the impression that the content of today's presentation was similar to that of the Long-Term Vision presentation. It seems a little difficult to understand how to realize these objectives in terms of KPIs and quantitative targets, since no numbers were presented today.

Given the current approach of setting a time frame for ESG and back casting, it is difficult to follow up on today's explanation alone, but I would like to ask if you could increase disclosure about quantitative goals in this area.

A-1-1

Taniuchi :

Taniuchi here. Thank you for your comment.

We have begun to set quantitative targets where they can be set. Although I was not able to discuss all of them during today's briefing, some, such as environmental targets, have already been disclosed. We are also steadily setting organizational and other targets.

Today we spoke mainly in a holistic sense, but I would like to actively discuss such quantitative aspects in the future, including at briefings and in the Integrated Report. Thank you for your comment.

Q-1-2

Today, we heard about the materiality, and I think that KPIs linked to it and linked to executive compensation are probably the other elements of the set.

The second question is about governance, which was not mentioned today. In Mr. Taniuchi's explanation, he mentioned that the executive structure will be slightly changed and strengthened. With the announcement that the representative director will also be changed, I believe that governance is very important.

Naturally, ESG initiatives like this are done to expand corporate value, and I think that governance is extremely important. On the other hand, I think that your company's corporate value continues to show little significant change compared to a year ago.

So, my question is, what kind of discussions are you having with outside directors about the current corporate value, or what is lacking? Secondly, why did you make this bold choice to change the structure in the middle of the mid-term plan? Normally, I would think that the executive structure would be decided on before launching a new plan, and it would run with that structure for a long time. I would appreciate a brief explanation on this point. That is all.

A-1-2

Taniuchi:

Thank you.

First of all, including the outside directors, we naturally have in-depth discussions about the current stock price and business performance. We also have serious discussions about what measures we should take in both the short and long term. Outside directors and executive officers offer a variety of suggestions and directions for discussion, including some very pertinent points for improvement.

I will not go into all the details here, but I think you can get a general image.

As for the executive structure, as you pointed out, it is one thing to do it all at once at the time of the mid-term plan, but we will strengthen and renew the executive structure this April, just in time for the mid-term plan to be changed, or at the time of various successions.

We are steadily implementing these changes as we flesh out our image of the medium-term direction of the Company.

Q-2-1

Since I am in charge of ESG engagement for our Company's stock holdings, I would like to ask you two questions.

The first is this. Your Company has a very high level of diversity and inclusion, especially for the visually impaired, and you devoted a lot of space to that in your presentation today. I believe that you are one of the few companies that have achieved such a high level of excellence in this area, which is linked to the strength of your core business.

In the past, your company conducted a lot of ESG presentations (Post-script by Santen: This is the first ESG briefing session) , but to be honest, the ratio of employees with disabilities is a little high despite the very high level of ESG implementation. Of course, the statutory requirement has been exceeded, with a figure of 2.42% in 2019, and 2.88% from the latest figure. This is against a legally mandated 2.3%. I believe this is proof of the steady progress your company has made.

I'm sorry for going on, but I'd like to make a point about the target value set for the employment ratio of people with disabilities. I have seen the consolidated report so far. Regarding the ratio of women in management positions within Japan, you have set a target of raising the ratio from 13% to 25%.

The first question I would like to ask is whether your company is considering setting a target for the ratio of employees with disabilities. Also, since your company is naturally focused on the visually impaired, do you have any thoughts on setting targets for them? I would like to ask you about the employment ratio of people with disabilities and your thoughts on setting targets. That's my first question.

A-2-1

Morita :

I will answer your question.

We have not set a target for the overall ratio of persons with disabilities. However, as I explained earlier, we would like to explore new opportunities for the visually impaired in the future, with the

people we currently employ as a reference to see what kind of situations and opportunities are available for them.

In these areas, we would like to identify various things related to the visually impaired, which is one of our strengths. We would like to take an advanced approach in this area while seeking further development within our company.

That is all.

Taniuchi: If I may add a little more, there have been discussions within the company, and of course there is a need for such a goal, but as Mr. Morita mentioned earlier, before we do that, we need to think about how we can develop work areas by hiring people with disabilities. We also need to think about how we can help people with disabilities to become more productive in the workplace. We are still searching for the best way to have them join Santen.

We are in the process of not only hiring, but also working together in various jobs and activities as mentioned earlier, while actually helping them to be active in their work. We are currently employing four or five people who are visually impaired or blind, and we would like to get feedback from them so that we can set our next goals, expand our business, and inform other companies about this situation. We are working on it.

Q-2-2

The second question is about page 56 of the Integrated Report for the fiscal year ended March 31, 2021. In the section on evaluation indicators and specific weight from FY2021, there is a section on individual performance and bonuses linked to individual performance. There is another section on company performance under the performance share unit system. Both of those are 0.2, so that would be 20%. The ESG-related indicators have also been revised to include 20% for both of them.

Recently, there have been a number of leading sustainability companies such as your company that have included ESG indicators in their performance evaluation, which is a prerequisite for evaluation of the company and performance-linked pay.

On the buy side, we sometimes use ESG assessments from major information vendors, like MSCI for example, but for a company like ours that actively makes its own investment decisions and is not a passive manager, we simply use the ESG assessments of the major information vendors. Rather than using such vendor data, we use it as a reference and add our own judgment in most cases.

Your company also includes a description based on the results of an evaluation by an external evaluation organization, but then it would be quite difficult to know, for example, which vendor was used and in what form. I think there may be a question as to why this is acceptable, so I would be grateful if you could expand and enhance the disclosure of this area in the future, as well as in terms of raising your company's policy to an even higher level.

Specifically, even if your company uses a specific vendor, there may be a variety of reasons why that vendor is better, or you may not rely on a single vendor, for example, MSCI or FTSE, or you may average a number of vendors. It would be helpful to know about these kinds of issues. It would also be helpful to know about your company's own specific weighting here. I think it would be appropriate for your company to give a higher rating to the visually impaired, and I would like to make such a suggestion.

We would be happy to hear your company's thoughts on the current revision of this section as well.

A-2-2

Taniuchi:

Thank you.

First of all, regarding the ESG evaluation here, the Executive Compensation Committee and other committees discuss and decide on the indicators. Currently, as you pointed out, as a discussion of course, we are wondering if it is enough to have only an external evaluation. There is also the argument that it is not the purpose to do so, and that we should have some kind of unique indicator.

On the other hand, if we are looking at a snapshot of our current situation or checking for improvements, it is still easier to make a quantitative evaluation by using an external evaluation. For the time being, the important thing is whether the Executive Compensation Committee has been able to achieve its goals for this year and next year by using an evaluation by an external evaluation. We have been operating the evaluation of PSUs and so on according to the status of achievement. This is being discussed by the Executive Compensation Committee in the form of a continuation of deliberations.

We would also like to disclose the current situation in more detail in the next integrated report, and we intend to enhance the contents of the report. Thank you for your suggestion.

Q-3-1

One of the things I always say to ESG managers at pharmaceutical companies, or rather to companies that make presentations, is that the social mission of pharmaceutical companies is to contribute to the wellbeing of patients and their families through the development of new drugs.

I fully understand that ESG is a way to achieve this, but to be honest, I feel a little uncomfortable as an analyst when it comes to the question of how the reduction of exhaust gas is related to the development of new drugs. I really felt that your company's philosophy of helping people with disabilities and their integration into society is wonderful, but what is needed to further accelerate the development of new drugs to help and assist them. In other words, it could be social support, perhaps a contribution from chemistry or science, or various other aspects.

Also, I would like to ask Dr. Takahashi about this. I think regenerative medicine is a tremendous idea and an advance in science. After listening to your talk today, I believe that regenerative medicine is extremely important for ophthalmology. It truly restores vision.

On the other hand, it may sound strange to call it systemic medicine, but we are having a hard time deciding how to view regenerative medicine outside of ophthalmology. The cost is extremely high, and if one treatment works, this is worth a lifetime of value to the patient, but how about if it does not work? Also, I think that the fact that regenerative medicine itself is extremely risky may make companies reluctant to develop it.

There are many ways to look at it, but there have been advances in regenerative medicine in areas other than ophthalmology. Japan may be a bit unique in terms of iPS cells, but I would be very interested to hear what you think of this initiative from your perspective, what problems it faces, and, if possible, its potential for the future.

These are my two questions.

A-3-1

Taniuchi:

As you said, our first priority is to develop and deliver new drugs, which is what we call our core business. We believe that this is our number one social contribution.

I would like to add to this that I do not think that it is enough if we only develop new drugs. For example, I always use glaucoma in Asia as an example. It is not just a matter of developing new drugs such as DE-117 and DE-126.

Society must have a clear understanding of glaucoma. Hospitals must be equipped with diagnostic equipment, staff must be able to use the equipment, and doctors must be able to formulate and implement treatment strategies that are tailored to the patient's condition. That is where we aim to place our products: a high-quality product, and the right product. Then, the family keeps a close watch. Unless the pieces come together one by one, the problem of blindness caused by glaucoma in Asia will not be solved.

We are, of course, pursuing the delivery of differentiated and innovative products, but we are also making efforts toward society and the ophthalmology community. As you mentioned today, we will continue to make efforts to improve the quality of our products. We will also continue with initiatives involving relevant communities and governments. This is also not about disease awareness in the DTC sense, but awareness of the disease in these local communities. I believe that only by combining these efforts will we be able to ultimately cure diseases and contribute to society.

We are proud of the work we have done in Japan, and we will continue to do the same in the future. We intend to expand our business in Asia and around the world. This is the case not only glaucoma, but also, for example, retinitis pigmentosa, cell therapy, gene therapy, and various allergic conditions and dry eye.

From this perspective, we are naturally focusing on the development of new drugs, but we also place great importance on expanding our activities in this area. This is integrated with ESG management, as I mentioned today.

Takahashi:

Thank you very much. I'm glad to be able to talk about this topic. The goal is to restore sight, but just creating new drugs or cells doesn't make it possible to see, does it? Regenerative medicine is used in conjunction with surgery.

You can think of injectables such as CAR-T and mesenchymal stem cells as similar to drugs, but replacement therapy, which is really regeneration, is more like a medical device: it is done in conjunction with surgery. I think you can understand that this is a third category of medical equipment, but it is a live product.

Japan is the only country to have changed its Pharmaceutical Affairs Law and created drugs, medical devices, and the new category of regenerative medicine. I believe that that is a great decision. It's also one that is not easily understood. Even though it will be common knowledge 10 years from now, only about 20% of people understand what I mean when I say it at first. I think the people at Santen understand it very well.

Coming back to your question, how about regenerative medicine in other parts of the body? Everyone is asking if they can get into a clinical trial, but it is very difficult to say if a clinical trial will be approved and become a treatment. It's only in ophthalmology that we've progressed to the actual treatment stage.

Other organs are not at that stage yet. We can't be said to be creating treatments in other areas at present. Cells are being developed. However, the key point is that it is a live medical device. Therefore, we need to change the way we think about medicine and manufacture. Without that understanding, it may not be an effective treatment. Or it might not sell. Or you'll hit a dead end.

This is a useful way to think about it, because that is exactly what is happening in the US with artificial retinas.

Q-3-2

Thank you very much. I'm sorry to be so graphic, but I don't think there is any discussion in Japan about what kind of drug price or value should be attached to such therapies. In the US, this could lead to huge drug prices. Will there be some harmonization of domestic and international approaches at some point? I think the financial issues involved may make uniformity difficult.

A-3-2

Takahashi:

This may be a little different from what is discussed at the corporate level. I think it's important to identify things we can and can't change. It is a question of whether to apply the existing rules to something that is that new. If the rules were to be applied now, the cost would be enormous and would require huge drug prices. Japan has changed the rules and has adopted a method to quickly produce cures at a reasonable price.

We are trying to change the rules. Therefore, we believe that there is an approach that involves following the existing rules, and there is an approach that involves changing the rules to make treatment really fast and accessible.

Q-4-1

As someone with an eye disease, I listened to today's presentations, especially Mr. Morita's presentation on inclusion, with great appreciation. I hope you will continue on this path.

This is my question. In the section on the use of digital technology, you mentioned the promotion of inclusivity and the improvement of employee engagement. How exactly do you plan to improve employee engagement, and how do you monitor employee engagement itself? What do you do to be aware of the challenges?

I understand that some companies use survey scores or other indicators to grasp the situation, but in your case, how precise do you intend to be with DX? That is my question. Thank you.

A-4-1

Hara:

I will answer. Thank you for your question.

Employee engagement efforts at Santen have been a challenge in terms of how to easily connect online and produce good output, regardless of where people work, and regardless of different cultural or professional backgrounds. We provide a forum where discussions can be held. I believe we are now able to contribute in that regard. People are now able to fill in gaps.

For example, before, people would meet and talk. Nowadays, with the use of digital tools, the psychological hurdle to talk in an online meeting, as well as chat and e-mail, is generally lower than it was when these tools were not in widespread use. The number of people who have been working in the industry has been decreasing in general. It is becoming possible to collect information, solve problems, and promote policies that connect with each other in a fairly quick manner.

As I mentioned earlier in my explanation, the lifestyles of each employee are changing rapidly, and I think it is important to realize diversity in the balance between work and life. This could be an employee who values his/her private life, or a talent he/she has, or a talent that cannot transfer to the organization due to family or other circumstances. It could be diversity within the organization that can also be utilized by such people. We believe that we are contributing to the area of securing excellent human resources. I would like to be able to quantify and monitor these things a bit more.

Taniuchi: Indeed. Although we have not recently conducted an engagement survey, we have received qualitative feedback, as Mr. Hara mentioned. We can always do an engagement survey, but we are preparing to be a little more careful in deciding on a hypothesis and testing it. We would like to do this in the near future so that we can present these figures properly.

Q-4-2

And one more thing. This is a bit of a departure from the presentation, but you mentioned the Chinese market as a growth driver. In essence, the Chinese market is a risk given human rights issues.

Please explain the current human rights due diligence system, and if possible, show us the system in a consolidated report, and how the PDCA cycle is being implemented. It would be helpful if it is shown somewhere that you are doing a good job of risk control.

A-4-2

Taniuchi:

Thank you. We do due diligence on our suppliers and vendors, not only in China but in other countries as well, and this includes not only human rights but also the environment. I would like to talk about this situation again in the future, both internally and externally. Thank you very much.

Q-5-1

I would like to ask a question to understand what kind of impact each of the initiatives introduced today will have on changes in corporate value, social value, and the meaning of being a part of society.

Among the various points that your company emphasizes, there is still a great deal of room for improvement in the current situation. You intend to put special emphasis on these points in the future. What are some of the areas where you believe that significant improvements in the near future will lead to increased corporate and social value? Why?

A-5-1

Taniuchi:

Thank you,

If you divide it in terms of defense and offense, as Mr. Sakai's question earlier suggests, for offense we will continue to develop new drugs and introduce new technologies, and we will also continue to make efforts to contribute to the society and to contribute to the development of new technologies. In terms of defense, activities that incorporate medical, welfare, and social contributions integrated with the ophthalmology community will yield results too.

This will, for example, allow for greater access to new technologies and faster implementation within society of the technologies we develop. By working with a globally expanding partner, we believe that we can make a contribution in areas where global expansion is facilitated.

As Mr. Morita mentioned earlier, I believe that this has directly and indirectly contributed to the strengthening of our presence in Japan and other Asian countries, as well as to the expansion of opportunities to introduce various new technologies. We will continue to strive to improve the quality of our products and services.

Another point where we are on the offensive is the acquisition of excellent human resources. I think this is very important. Companies that are making visible efforts in ESG, especially social contributions, environmental initiatives, and sustainability, are always a point of interest for global, rather than just Japanese, talent. These are the reason why they join Santen. I believe that the number of people who want to join us has increased significantly, especially in the last year or two.

That's not just leadership, but also acquiring the best people for each role. This is a very important point for a small company like Santen.

Regarding defense, one point is governance and internal control. That is, to strengthen governance, including information security, and digital governance. This is very important to protect the efficiency of our business as we develop our business globally, and we are doing our utmost to ensure this.

Another area that I am not sure if "defensive" is the right word, but in our industry, the environmental area is closer to defensive. In the case of pharmaceutical companies, there may be a difference of opinion as to whether or not the use of renewable energy and efforts to reduce environmental burdens are linked to the enhancement of corporate value or to protection of the environment.

In fact, while I don't think Santen is a business type that has a large CO2 load, on the other hand, that doesn't mean we should ignore the issue. I believe that we must become carbon neutral and reduce plastic waste, which will ultimately lead to corporate value.

We are continuing to move forward and develop in these areas.

Q-5-2

Thank you. Among the various points you have just introduced, the ones that I myself could not quite grasp were those related to internal control, governance enhancement, and information security.

What are some of the specific points that you and your company recognize as having significant room for improvement in this area? I'd like to know what you think can be improved in the near future.

A-5-2

Taniuchi:

First of all, let's start with digital, which is now rated at the world level. This is at a very high level. Of course, we will not be complacent and will continue to strengthen our corporate governance in general, which has been well received outside the company, by referring to exemplary companies in Japan and overseas.

We believe that there is room for continued improvement in areas such as strengthening the effectiveness of the Board of Directors and clarifying the roles of management supervision and execution, and we are discussing these issues with outside directors.

Q-6-1

Two questions.

First of all, you mentioned smart factories in the digital section. Currently, we recognize that even within the field of pharmaceuticals, manufacture is important for your company. I think it is important to work to reduce not only environmental costs but also actual costs through overall management of factories in China, Europe, and various other places through the smart factory concept. When do you see this moving toward completion?

A-6-1

Hara: I will address this point. First, here is what the smart factory program is trying to address. In order to realize a high-speed PDCA cycle centered on this concept, we are not only trying to be environmentally friendly, but also to improve quality in manufacturing through data utilization.

We are now beginning to move forward with projects for new buildings at the Shiga Plant in Japan and the Suzhou Plant in China. This is our plan for the next several years, and we plan to incorporate smart factory elements into that plan.

I don't have the specific date on hand right now, but I believe the construction of this new building is to be completed in 2023. (Post-script by Santen: New building operation will start in 2023) We are in the process of examining how much of the degree to which smart elements will be incorporated into the new building as construction continues.

Q-6-2

One more question, this time for Dr. Takahashi. In the slide on the concept behind the Kobe Eye Center, you mentioned regenerative medicine RPE and regenerative medicine photoreceptor cells. I understand that you have been working on research and development in this area for a long time, but I think you were talking about how far you think you can go or not go with this approach, as you mentioned earlier about the "visible and invisible" part.

At present, if these RPE or photoreceptor therapies is successful, to what extent do you envision the technology will be able to achieve the results you are aiming for? You mentioned that it may be

impossible to drive a car, for example, but what is the technological impact in this area? Can you tell us what you think about RPE and photoreceptors?

A-6-2

Takahashi :

We are talking about categorized medicine at the Society for Regenerative Medicine. The effectiveness depends on the patient. There are some people whose vision improves tremendously, and there are others whose vision is only maintained for the most part, even with the same product. From the product point of view, this could be seen as a mistake.

Q-6-3

But in terms of impact, of course, it seems to me that photoreceptor cells would have more impact than RPE, in general, but not so much.

A-6-3

Takahashi:

Yes, that's right. That's the difference, actually. It's amazing and scientifically unprecedented because the photoreceptor cells have never healed before and people who couldn't see can see a little bit, but the eyesight does not improve so much. Actually, if you have pigment epithelium and just have weak photoreceptor cells, it's possible to heal up to 1.0. Because of these issues, predicting the efficiency isn't a simple matter.