

Corporate Governance and Risk Management

Santen believes strong corporate governance is essential for maximizing corporate value. We therefore seek to establish a governance system that ensures sound and transparent management as we strive to improve business performance.

Board of Directors

As of August 2005, our Board of Directors consists of eight directors, five internal and three outside. The Santen Board of Directors is intentionally small to facilitate thorough discussions and swift decision-making. In addition, Santen shortened the office term of directors to one year, which not only provides for flexibility in appointment and dismissal—and thus immediate response to change in the business environment—but also clarifies the responsibilities of each director during a given fiscal year.

The Board of Directors met 15 times during the year ended March 31, 2005, and made decisions on issues including the Santen Group's management policies and strategies, business plans, and the acquisition and disposal of important assets, as well as key organizational and personnel changes. In addition, the Board of Directors supervised and directed the execution of business at Santen and its subsidiaries.

Board of Corporate Auditors

As of August 2005, our Board of Corporate Auditors consists of four members, one internal and three outside. The Board of Corporate Auditors met eight times during the year ended March 31, 2005. Corporate auditors establish audit policies and plans, attend Board of Directors and other important meetings, and audit the management performance of directors by examining the business and financial condition of the Head Office, major offices, and subsidiaries. In addition, the Board of Corporate Auditors met with independent accounting auditors five times during the year under review to receive reports on the results and methods of the independent audit.

The Board of Corporate Auditors regularly reports the result of its audits to the Board of Directors, and submitted their annual report to the Board of Directors on May 7, 2005.

There are no relationships between outside auditors and Santen that represent conflicts of interest.

Compensation for Directors and Auditors

► COMPENSATION FOR DIRECTORS AND CORPORATE AUDITORS

Compensation paid to directors and corporate auditors during the year ended March 31, 2005 totaled ¥255 million, distributed as follows:

1. Compensation paid to directors	¥97 million
2. Compensation paid to corporate auditors	¥50 million
3. Employee salary (including bonuses) paid to directors who also work as general employees	¥34 million
4. Bonus to directors out of retained earnings from the previous year	¥21 million
5. Retirement benefits for directors as approved at the shareholders meeting	¥53 million

Santen also provided executives with subscription rights of 120,000 shares under Article 280-19 of the old Commercial Code and 1,666 units of stock acquisition rights under Articles 280-20 and 280-21 of the current Commercial Code. A total of 21,000 shares of subscription rights and 95 units of acquisition rights have already been exercised.

Name, affiliation and audit period for certified public accountants (CPA) responsible for executing operations

CPA responsible for audit		Affiliation
Designated employee	Masahiro Mekada	KPMG AZSA & Co.
Operating employee	Yoshishige Umeda	

The audit period is less than seven years and has therefore been omitted.

Assistants involved in auditing operations are selected based on the accounting firm's standards, and are primarily CPAs and assistant CPAs, with the added support of systems experts and others.

► COMPENSATION FOR INDEPENDENT AUDITOR

The following compensation was paid to KPMG AZSA & Co, the auditing firm.

Compensation for auditing attestation as contracted	¥20 million
Compensation for operations exclusive of auditing	¥3 million

Committees

Santen established the Executive Compensation Committee to plan, revise, and make decisions related to policies and systems for executive compensation as a deliberative arm of the Board of Directors, and the Management Advisory Committee, comprised of executives and external members, to advise the president and to study and discuss issues that may have a significant medium-term impact on the company.

The Executive Compensation Committee has three members—the president, a managing director and an outside director—who determine policies for the compensation of executives, plan and review the executive compensation system, supervise impartial resolution of compensation issues, and ensure the fair implementation of the system. This committee met four times during the year. In April 1999, we implemented a performance-based executive compensation system that clearly links company objectives and executive compensation.

The Management Advisory Committee had five members—the president, a managing director, a corporate officer and two members from outside Santen—who discuss actions that might have a significant medium-term impact on the company. This committee met 12 times during the year to deliberate on the directions and strategies for achieving the 2003-2005

Medium-Term Management Plan, among other matters.

The management structure was reconfigured in 2005 in order to strengthen Santen's corporate governance and improve the transparency, objectiveness, and soundness of management. We established the following three committees, each comprising both internal and outside directors.

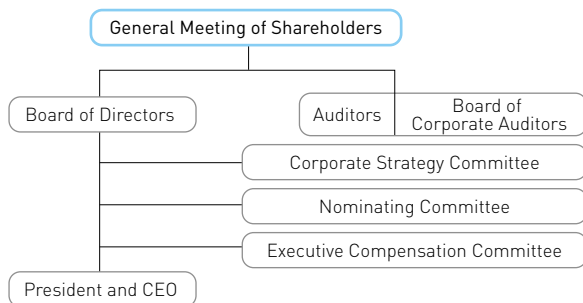
The new **Nominating Committee** establishes the standards for selecting director candidates, clarifies the decision-making process, holds deliberations based on the decisions, and nominates members for the Board of Directors. We also dissolved the Management Advisory Committee, and restructured its functions into the new **Corporate Strategy Committee** which was created to deliberate on major strategic issues.

The **Executive Compensation Committee** remains unchanged.

Our committees differ from those under the "Committee System" within the revised Commercial Code of Japan.

▶ SANTEN INTERNAL GOVERNANCE SYSTEM

Organization as of July 2005



Corporate Officer System

We introduced the Corporate Officer System in July 1999 to strengthen management and to improve the quality and speed of decision-making.

In 2004, the presidents of Santen Oy in Finland and Santen Inc. in the United States were appointed as corporate officers. In addition, we appointed a corporate officer in charge of businesses in Europe and the U.S. who receives reports and monitors the status of business operations of the respective regions.

Strengthening Compliance

▶ STRUCTURE

We firmly believe business in the pharmaceutical industry must be conducted under the highest ethical standards. Therefore, in December 1999, we created the Santen Corporate Ethics Mission and established compliance guidelines for business activities. In order to strengthen and ensure thorough compliance by directors and employees, we set up a new organizational structure and internal help line. Furthermore, in 2002, we es-

tablished the Compliance Promotion Committee, chaired by a corporate officer, and started the Santen Compliance Program, which includes regular training, seminars and internal regulations. The committee plays a pivotal role in developing compliance policies, action plans, preventive measures, and countermeasures for violations.

▶ OPENING OUTSIDE HELP LINE

One measure for strengthening our compliance program was the opening of an external help line in September 2003. An external attorney with no vested interest in Santen is available to provide consultation and receive reports from employees on possible legal violations. This service is designed to prevent compliance violations and is available to all employees, from directors to employees on short-term contracts and temporary workers.

▶ TRAINING

Each and every employee must be aware of compliance requirements. To this end, Santen's Compliance Group under the Corporate Development and Administration Division is in charge of conducting regular training for new employees, temporary workers, and new managers.

During the year under review, we trained all Japanese employees on compliance with the personal information protection law. We utilize a case-study method to help managers exercise appropriate discretion in the application of compliance standards. In addition, the Sales and Marketing Division of Prescription Pharmaceuticals conducts training for sales and marketing staff on the promotion code and fair competition.

For the fiscal year ending March 31, 2006, we plan to utilize a computer-based e-learning system to instill basic knowledge on compliance.

Others

We have established the Risk Management Committee to identify, minimize, and manage risks.