

# Corporate Governance

Santen recognizes that it is vital to upgrade and strengthen corporate governance. Thus Santen is working to raise business performance while maintaining transparent and sound management practices through the development of effective corporate governance systems.

## Governance Institutions

### Board of Directors

In addition to various statutory functions, the Board of Directors formulates management policies and strategies and business plans for Santen, makes decisions relating to the acquisition or disposal of major financial assets and to important organizational or personnel-related moves, and also oversees the execution of business at Santen and its subsidiaries. The Board convenes in principle once a month. As of the end of July 2006, the Board comprised seven members, including three non-executive directors. The Board of Directors convened 11 times during the year ended March 31, 2006.

### Board of Corporate Auditors

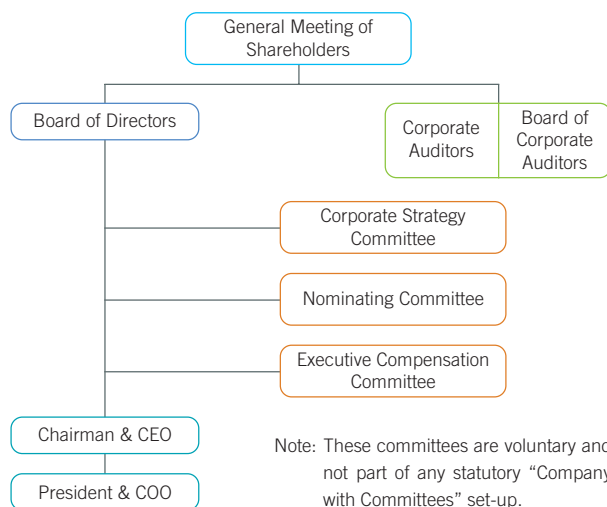
Santen has adopted a governance system using corporate auditors. This system relies on cooperation between the corporate auditors and the internal audit function to maintain high standards of auditing accuracy and efficiency.

Santen has a four-member Board of Corporate Auditors, including outside auditors. Besides formulating auditing policies and plans and attending important business meetings, notably those of the Board of Directors, the corporate auditors oversee the execution of duties by directors through audits of the operational and financial status of Santen's head office, major operating sites and subsidiaries. The Board of Corporate Auditors convened seven times during the year ended March 31, 2006.

### Voluntary Committees

Santen has established three committees composed of executive and non-executive directors as deliberative bodies to strengthen corporate governance and to improve management transparency and objectivity. The Corporate Strategy Committee deliberates on key strategic issues such as business strategy. The Nominating Committee sets the criteria for the selection and appointment of directors, clarifies the decision-making process, and submits nominations to the Board of Directors based on its deliberations. The Executive Compensation Committee makes proposals for establishing and revising remuneration policies and related compensation systems for senior executives and deliberates on the setting of actual compensation. Note that these voluntary committees are of a different nature to the committees that a Japanese company would establish on adoption of the alternative "Company with Committees" system as laid down in the former Commercial Code of Japan.

## Santen Internal Governance System (as of June 27, 2006)



## Corporate Officer System

Santen has introduced a corporate officer system to strengthen management while improving the quality and speed of strategic decision-making processes. There were eight corporate officers at the end of July 2006, including some serving concurrently as directors.

## Internal Governance System

As a company active in the pharmaceutical industry, Santen aims to maintain high ethical standards in all corporate activities undertaken by directors and employees.

## Compliance

The Santen Corporate Ethics Mission, a statement of the corporate behavioral standards to which the company adheres, defines strict ethical standards governing corporate activities. The Compliance Group is in charge of coordinating internal compliance programs in cooperation with the Compliance Committee, which operates as a company-wide cross-functional group. Santen uses online programs and other types of training courses to educate its workforce on compliance-related issues on an ongoing basis.

Santen maintains an internal help line for employees to inquire about compliance-related issues. An external independent direct help line to an attorney is also available to all employees to report any suspected compliance violations or to receive advice.

## Risk Management

Santen has compiled an internal risk management manual that defines basic policies in crisis management situations, based on the company's business philosophy. The manual also lists internal action standards for crisis management in emergency situations. Specific internal units are responsible for managing the major risks associated with operating activities, by gathering daily information for risk management purposes, and coordinating ongoing efforts to prevent key risk-related occurrences.

The Risk Evaluation Committee meets regularly to assess risks and to analyze any risk-related phenomena identified through internal or external information sources. This committee is also responsible for studying and overseeing the implementation of related preventative measures.

In line with internal guidelines, the occurrence of an emergency situation triggers the creation of a Crisis Response Committee headed by a representative director. Based on Santen's crisis management policies and related action standards, this Committee coordinates efforts to minimize any losses or damage and institutes measures to prevent recurrence.

## Operating and Financial Controls

To maintain proper operating controls within the consolidated Santen Group, which is made up of the parent company and subsidiaries, Santen has created a system specifying in what situations subsidiaries must seek the final approval of Santen for important business transactions, based on internal approval criteria. Monthly operating and financial reporting controls are also in place.

Major overseas subsidiaries exchange information with the parent company through regular function-specific meetings as well as certain cross-functional forums. The appointment of presidents of these subsidiaries as corporate officers of Santen has built stronger links with the parent. Furthermore, formal operating and financial reports for all major overseas subsidiaries are submitted to the Board of Directors on a quarterly basis.

In November 2005, Santen established a new internal audit function as part of the Compliance Group to implement measures to verify that internal control systems work properly and efficiently. Santen is taking all necessary precautions to ensure that this function can operate on a strictly independent basis.

Santen continues to promote activities aimed at developing internal controls to boost the reliability of financial reporting. It is also engaged in actions to respond to the new system under the Securities and Exchange Law in Japan.

## Cooperation Between Auditing Groups

The corporate auditors hold a meeting with the independent auditors at the start of each fiscal year to receive presentations on the financial auditing plans for the year and any key audit-related issues, and to exchange opinions. The independent auditors present audit findings to the corporate auditors at meetings twice a year, held after the interim and final results for exchanging opinions. In addition, the corporate auditors attend a meeting convened by the independent auditors after the conclusion of the year-end audit to share comments on the audit results. During the year, the corporate auditors undertake various audits of the auditing methods used by the independent auditors, such as internal audits and the witnessing of inventory checks.

The corporate auditors inform the internal audit function in the Compliance Group of any specific audit-related issues or future risk-related items that may be identified in the course of auditing Santen's head office or operating sites. The internal audit function also reports to the corporate auditors any important information gained from internal audits and related measures. As deemed necessary, the corporate auditors may provide support to the internal audit function in implementing countermeasures after receiving explanations.

## Compensation for Directors and Corporate Auditors

Total remuneration for directors and corporate auditors for the year ended March 31, 2006 equaled ¥195 million.

1. Compensation paid to directors	¥145 million
2. Compensation paid to corporate auditors	¥ 49 million
3. Employee salary (including bonuses)	
paid to directors for the work undertaken in employee capacities	¥ 36 million
4. Executive bonuses paid out of the previous fiscal year's retained earnings	¥ 24 million

Executives have been granted subscription rights equivalent to 120,000 shares under a stock option scheme governed by the terms of Article 280-19 of the former Commercial Code and a total of 2,793 stock acquisition rights under a stock option scheme governed by the terms of Articles 280-20 and 280-21 of the former Commercial Code that was revised in 2001. Of these total figures, the portions that had already been exercised as of March 31, 2006 corresponded to 21,000 shares and 419 acquisition rights, respectively.