

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.

(1) Governance Systems

1. Board of Directors

In addition to various statutory functions, the Board of Directors formulates management policies, strategies and business plans for Santen, makes decisions relating to the acquisition or disposal of major financial assets and important organizational or personnel-related moves, and oversees the execution of business at Santen and its subsidiaries. The Board convenes once a month in principle. As of July 31, 2007, the Board comprised seven members, consisting of three outside directors. The Board of Directors convened 13 times during the year ended March 31, 2007.

2. Board of Corporate Auditors

Santen has adopted a governance system using corporate auditors. The Board of Corporate Auditors consists of four members including outside auditors. Corporate Auditors not only formulate auditing policies and plans, attend the Board of Directors' and other important business meetings, but also oversee the execution of duties by directors through auditing the operational and financial status of Santen's head office, major operating sites and subsidiaries. The Board of Corporate Auditors convened nine times during the year ended March 31, 2007.

3. Voluntary Committees

Santen has established the following three committees composed of inside and outside directors as deliberative bodies to further strengthen corporate governance and to improve management transparency and objectivity.

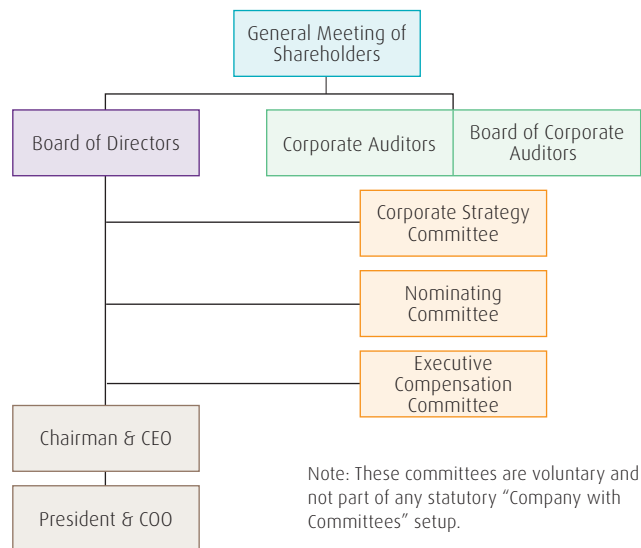
- The Corporate Strategy Committee deliberates on key strategic issues such as business strategies.
- The Nominating Committee sets the criteria for the selection and appointment of directors, clarifies the decision-making process and submits nominations to the Board of Directors based on its deliberations.
- The Executive Compensation Committee develops proposals for establishing and revising remuneration policies and related compensation systems for senior executives and deliberates on determining levels of actual compensation.

Note that these committees are not part of any statutory "Company with Committees" setup.

4. 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 nine corporate officers

Santen Internal Governance System (as of June 26, 2007)



at the end of July 2007, including some serving concurrently as directors.

(2) Internal Governance System

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

Our compliance system, the Santen Corporate Ethics Mission, which was formulated in December 1999 and revised in line with changing social conditions, consists of a corporate action declaration and a corporate code of conduct that defines strict ethical standards governing corporate activities. We also strive for thorough compliance through the Compliance Group, which specializes in compliance; the Compliance Committee, which operates as a companywide cross-functional group; and online programs and other types of training courses to educate the workforce on compliance-related issues on an ongoing basis.

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

As a risk management system, Santen has compiled an internal risk management manual that defines basic policies in crisis management situations, based on the company's business philosophy, and lists internal action standards for crisis management. 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,

analyze any risk-related phenomena identified through internal or external information sources, review current preventive measures and implement appropriate measures.

The occurrence of an emergency situation triggers the creation of a Crisis Response Committee headed by a representative director according to the extent of the impact. 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.

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 that its 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.

By appointing presidents of major subsidiaries as Santen corporate officers, Santen builds strong links with its major subsidiaries. Santen directors in charge of subsidiaries and the corporate officers (the subsidiaries' presidents) meet monthly to exchange information and report on important issues. Furthermore, formal operating and financial reports for all major subsidiaries are submitted to the Board of Directors on a quarterly basis.

The internal audit function, established in November 2005 as part of the Compliance Group to implement measures to verify that the aforementioned internal control systems work properly and efficiently, was updated as an independent organization—the Internal Audit Group—in April 2007.

Santen continues to promote activities aimed at disseminating internal controls to boost the reliability of financial reporting throughout the Santen Group. We are also preparing to respond to the new system under the Financial Products Exchange Law.

(3) Internal Audits and Corporate Auditors' Audits

1. Cooperation between Corporate Auditors and Independent Auditors

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 including corporate auditors' requests. The independent auditors present audit findings to the corporate auditors at meetings twice a year, held after the interim and final results, to exchange 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 and exchange information with independent auditors.

2. Cooperation between Corporate Auditors and the Internal Audit Group

The corporate auditors inform the Internal Audit 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 Group also reports to the corporate auditors any important information gained from internal audits and related measures. The corporate auditors may provide support to the Internal Audit Group in implementing countermeasures as deemed necessary.

(4) Compensation for Directors and Corporate Auditors

Total remuneration for directors and corporate auditors for the year ended March 31, 2007 equaled ¥238 million. The breakdown is as follows:

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| 1. Compensation paid to directors: | ¥188 million |
| (of which ¥29 million was paid to outside directors) | |
| 2. Compensation paid to corporate auditors: | ¥50 million |
| (of which ¥12 million was paid to outside auditors) | |
| 3. Employee salary (including bonuses) paid to directors for the work undertaken in employee capacities (including bonuses): | ¥6 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, Paragraph 1, of the former Commercial Code, a total of 2,333 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, and a total of 615 stock acquisition rights under a stock option scheme governed by the terms of Articles 361 and 238 of the Company Law. Of these total figures, the portions that had already been exercised as of March 31, 2007, corresponded to 21,000 shares and 458 acquisition rights, respectively.

(5) Relationships between the Company and Its Outside Directors and Outside Auditors

There are no special interest relationships between the Company and its outside directors and outside auditors.

(6) Outline of Agreements to Limit Responsibilities

To invite competent experts to work for the Company as outside directors or outside auditors to ensure further management transparency and objectivity and further reinforce the audit system, the Company stipulates in its Articles of Incorporation that it can enter into an agreement with outside directors and outside auditors to limit their liabilities for compensation of damage they might incur within a certain range.