

## BASIC POLICY ON CORPORATE GOVERNANCE

### 1. General Provisions

#### <Purpose of this Policy>

Santen Pharmaceutical Co., Ltd. (“Santen”) hereby establishes this Basic Policy on Corporate Governance (this “Policy”) based on “Santen’s Values” to achieve sustainable growth and the mid- and long-term enhancement of our corporate value, and shall commit to the continuous upgrade of corporate governance.

#### <Santen’s Values>

“*Tenki ni sanyo suru*” (meaning “exploring the secrets and mechanisms of nature in order to contribute to people’s health”)

We think carefully about what is essential, decide clearly what we should do, and act quickly.

By focusing our efforts on ophthalmology and related areas, we develop scientific knowledge and organizational capabilities which are unique and original to Santen. We use our unique capabilities to contribute to patients and their loved ones, and consequently to society.

#### <Basic Approach to Corporate Governance>

Santen believes that it is vital to upgrade and strengthen corporate governance systems in order to achieve and enhance corporate value, and thus returns to shareholders.

Santen has adopted a “Company with Board of Company Auditors” system as defined in Japan’s Companies Act. Santen will continuously be working to upgrade and strengthen corporate governance by making the most of the current system.

First, the function of the Board of Directors is to make decisions concerning the vital execution of the business as well as to monitor the execution of the business by the management and Directors. Santen will operate with a focus on swift and appropriate managerial decision-making.

Santen expects its Outside Directors to be actively involved in the Board of Directors in decision making on individual managerial issues, taking advantage of their wide range of experience and knowledge. Santen will also ask for their opinions from the view of strengthening the function of monitoring Santen’s management.

Furthermore, Santen has taken some specific steps such as establishing the Corporate Strategy Committee, the Nominating Committee and the Executive Compensation Committee, which are all voluntary committees made up of Inside and Outside Directors, and introducing a corporate officer system to strengthen management and improve the speed of business execution. Santen will go forward with the aim of improving management transparency and objectivity.

Corporate Auditors audit the Board of Directors and executive sections by utilizing the Corporate Auditor’s Group or collaborating with the Internal Auditing Group, bringing into view not only the legality but also the appropriateness and effectiveness of the performance of their duties, and Santen will endeavor to strengthen their function.

### < Establishment, Amendment and Repeal of this Policy >

The establishment, amendment and repeal of this Policy shall be made by a resolution of the Board of Directors.

## 2. Ensuring the Right and Equality of Shareholders

- (1) Santen endeavors to develop an environment that will allow shareholders an equal and smooth exercise of their voting rights in order to substantially secure the rights of shareholders.
- (2) Santen acknowledges that the General Meeting of Shareholders is an opportunity for constructive dialogue with the shareholders, and therefore, will develop an environment where shareholders will feel at ease in exercising their voting rights at such meeting.
- (3) Considering that the trend of the capital policy may have a significant effect on the interest of shareholders, Santen will explain the basic strategy concerning its capital policy.
- (4) As to strategic-shareholdings, Santen shall hold shares as strategic-shareholdings when it determines that they will entail medium- to long-term strengthening of business relationships with Santen and contribute to enhancing its corporate value. Upon shareholding, Santen will verify the propriety of holding each particular brand at least once a year at the Board of Directors, taking into consideration the economic rationality based on circumstances such as collaborative contracts, business development and business environment or the like, and sell out brands that are deemed to be rarely meaningful. Furthermore, with regard to the exercise of voting rights pertaining to strategic-shareholdings, Santen will, upon exercise thereof, determine whether or not to approve the items to be resolved based on a comprehensive assessment, taking into account whether or not it would lead to an enhancement of the corporate value of the issuing company or Santen.
- (5) If Santen wishes to implement a capital policy that may result in any change of control or a wide-scale dilution, then Santen will thoroughly examine the necessity and rationality thereof; and promptly disclose and sufficiently explain information regarding the same including the process of such examination and the purpose of such implementation, in order to avoid any unfair harm to the existing shareholders.
- (6) In case Santen is to engage in transactions with its officers or major shareholders (*i.e.*, related party transactions), then the Board of Directors will make a resolution thereon after deliberating on the material facts, manner of the transaction and other matters, in order to ensure that such transactions do not harm the interests of Santen or the common interests of its shareholders, and to prevent causing any concern with respect to such harm.

## 3. Cooperation with Stakeholders other than Shareholders

- (1) Santen has formulated Santen's Values: "*Tenki ni sanyo suru*" (meaning "exploring the secrets and mechanisms of nature in order to contribute to people's health"). Based on these values, Santen will endeavor to cooperate with a variety of stakeholders while recognizing that it is essential to commit to maintain sustainable growth, and the mid- and long-term enhancement of corporate value as well as contribute to the society through the business.
- (2) Based on Santen's Values, Santen will establish and put into practice codes of conduct such as organizational principles as well as principles governing individual actions in order to pursue its corporate activities with a common standpoint.
- (3) Through the continuous conduct of business and CSR activities such as development and supply

of excellent products, provision of information and services related to products and diseases, as well as countermeasures against global warming, measures relating to waste and emissions, and environmental conservation, Santen will take appropriate measures to address sustainability issues, including social and environmental matters.

- (4) Personnel affairs of Santen are in principle based on competency and achievement; and Santen will promote diversity of personnel, including the enhancement of the active participation of women.
- (5) Santen will formulate internal rules concerning whistle blowing, establish internal and external offices for inquiries and reporting, and stipulate provisions in the said rules so that whistle blowers do not suffer any disadvantageous treatment.
- (6) Santen is fully aware that the management of the accumulated corporate pension funds impacts asset formation for employees and Santen's own financial standing. As such, in the course of managing the corporate pension funds, Santen has recruited and assigned, in a well-planned manner, qualified persons as the persons in charge, and, in regard to the management, Santen will place importance on the coverage ratio of the projected benefit obligation (PBO) as a measure of the integrity of the funds. Santen will also flexibly make additional contributions to pension assets, and concurrently therewith, implement changes to the portfolio or other measures depending on the circumstances. In addition, Santen will appropriately deal with ensuring the integrity of the pension assets through taking measures, as it thinks proper, including reporting on the operational status of pension assets at meetings of the Board of Directors.

#### **4. Ensuring Appropriate Disclosure of Information and Transparency**

- (1) In addition to disclosing information in compliance with relevant laws and regulations, Santen commits to disclose and proactively provide information other than those statutorily required, from the viewpoint of securing transparency and fairness in decision-making and ensuring effective corporate governance.
- (2) Santen acknowledges that external accounting auditors assume responsibility towards shareholders and investors, and will take appropriate steps to secure the efficient and proper audit by external accounting auditors.

#### **5. Responsibilities of the Board of Directors, etc.**

- (1) The Board of Directors of Santen will make managerial decisions swiftly and appropriately, and will efficiently monitor the management and Directors from an independent and objective standpoint.
- (2) Corporate Auditors and the Board of Corporate Auditors of Santen will, in accordance with their fiduciary responsibility to the shareholders and from an independent and objective standpoint, proactively fulfill and discharge their wide range of roles and responsibilities, including those pertaining to supervising the execution of the duties of the Directors and exercising authority concerning the appointment/removal of and remuneration for external accounting auditors, while appropriately expressing views at the Board of Directors or against the managements.
- (3) Directors, Corporate Auditors and Corporate Officers of Santen shall, with due regard to their fiduciary responsibility to the shareholders, act in the interest of Santen and the common interest of its shareholders.
- (4) Santen will appoint two or more Outside Directors who maintains certain distance from the

execution of the business. Outside Directors, who respectively have a variety of experience and knowledge, will become involved from the viewpoint of enhancing mid- and long-term corporate value, monitor the operation of Santen as well as conflicts of interest between Santen and the Directors or controlling shareholders, and fulfill and discharge their roles and responsibilities from a standpoint that is independent from the management and controlling shareholders.

- (5) Santen will determine and disclose the “Criteria of Independence of Outside Directors and Outside Corporate Auditors”.
- (6) Santen has adopted a “Company with Board of Company Auditors” system as defined in Japan’s Companies Act, and will employ voluntary structures, to enhance governance functions.
- (7) The Board of Directors of Santen will be well balanced in terms of knowledge, experience and skills in order to fulfill and discharge its roles and responsibilities efficiently, and it will be constituted in a manner to achieve both diversity and the appropriate size. In addition, one or more persons with the appropriate expertise on finance and accounting will be appointed as a Corporate Auditor(s). The Board of Directors will endeavor to further improve its function by means such as analyzing and evaluating its effectiveness as a whole.
- (8) As to any and all matters brought up for discussion to be resolved or reported, the Board of Directors of Santen will entertain questions raised by the Outside Directors, exchange views with them and take measures, including improvements, as necessary. Outside Directors will also exchange views and raise their concerns in a similar manner, as well as foster free, open and constructive discussions and exchanges of views.
- (9) Directors and Corporate Auditors of Santen will request information and/or materials necessary to discharge their duties. The section so requested will provide such information and/or materials upon their request. Also, they will attend material internal meetings and proactively collect information. Both the Board of Directors and the Board of Corporate Auditors will verify whether or not smooth provision of the information requested by each Director or Corporate Auditor has been secured.
- (10) Directors and Corporate Auditors of Santen will deepen their understanding of their roles and responsibilities, and endeavor to obtain and update the necessary knowledge and skills in order to fulfill and discharge their roles and responsibilities as expected of them. Santen will provide the opportunities necessary for each Director and Corporate Auditor to fulfill his or her role, in various ways including the provision of the necessary information or knowledge, the expenses for which shall be borne by Santen.

## **6. Dialogue with Shareholders and other Persons**

- (1) Santen will determine the division in charge of IR, and will be thorough in the swift, precise and fair disclosure of corporate information from the standpoint of the shareholders and investors, and commits to disclose information proactively and in a manner easily understandable. In reviewing our management strategy and the like, we will positively take into account the opinions furnished by the shareholders, investors and analysts, and control insider information when dialogues are held with them.
- (2) Santen will formulate a mid-term management plan, disclose target values including those on sales revenue growth rate, core operating profit ratio and ROE as well as capital policy, and concurrently therewith, explain specific measures and policies toward achieving the said targets during the financial results meeting and the like.

Established on: November 25, 2015

Revised on: November 7, 2018