

Securities code: 4536

June 1, 2010

**CONVOCATION NOTICE OF
THE 98TH ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholder:

We hereby inform you of the 98th Annual General Meeting of Shareholders of the Company to be held as set forth below. Your presence at the meeting will be highly appreciated.

If you will be unable to attend the Meeting, you are entitled to exercise your voting rights by written form or via the Internet*. In such case, we request you to exercise your voting rights, after reviewing the attached "Reference Materials for the General Meeting of Shareholders," by: filling up the Voting Card, indicating your assent or dissent to the items on the agenda, and returning the card to us by mail before 17:30 on Tuesday, June 22, 2010; or, accessing the website (<http://www.evotep.jp/>) designated by the Company for voting using your personal computer, and exercising your voting right before 17:30 of the aforementioned day.

Yours very truly,

Akira Kurokawa
President & CEO
SANTEN PHARMACEUTICAL CO., LTD.
9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku, Osaka, Japan

*Please note that shareholders outside Japan may not directly use this means outside Japan.

AGENDA

1. **Date and Time: Wednesday, June 23, 2010 at 10:00 a.m.**
2. **Place: Century Hall at the 5th Floor of the Headquarters Bldg. of SANTEN PHARMACEUTICAL CO., LTD.
9-19, Shimoshinjo 3-chome, Higashiyodogawa-ku, Osaka, Japan**
3. **Agenda**
Reports:
 1. Business Report, Consolidated Financial Statements and Financial Statements for the 98th Business Term (April 1, 2009 to March 31, 2010)
 2. Independent Auditor Report and Corporate Auditor Report on the Consolidated Financial Statements for the 98th Business Term (April 1, 2009 to March 31, 2010)

Items for Resolution:

- Proposal No. 1** Appropriation of Surplus
- Proposal No. 2** Appointment of Seven (7) Directors
- Proposal No. 3** Appointment of Two (2) Corporate Auditors
- Proposal No. 4** Grant of Retirement Allowance to the Retiring Corporate Auditor
- Proposal No. 5** Amendment to the Amount of Director's Remuneration
- Proposal No. 6** Issuance of Rights to Subscribe for New Shares as Stock Options in favor of the Directors
- Proposal No.7** Issuance of Rights to Subscribe for New Shares as Stock Options in favor of the Corporate Officers
- Proposal No.8** Renewal of the Countermeasures to Large-scale Purchases of the Corporation's Shares (Takeover Defense Measures)

4. Matters Determined concerning the Convocation

Please see the "Information concerning the Exercise of Voting Rights, Etc." on page 34*.

If you will be attending the Meeting, upon arrival, please present the enclosed Voting Card to a receptionist at the Meeting.

Changes in the Reference Materials for the General Meeting of Shareholders, Business Report, Consolidated Financial Statements or Financial Statements, if any, shall be publicized via the Internet on the website of the Company (<http://www.santen.co.jp/>).

*Japanese version only.

**REFERENCE MATERIALS FOR
THE GENERAL MEETING OF SHAREHOLDERS**

Proposals and Reference Information

Proposal No. 1 Appropriation of Surplus

The Board of Directors proposes to appropriate the surplus as follows:

Matters regarding Term-End Dividends of Profits

Basic Policy on Term-End Dividends of Profits

The Company treats the distribution of profits to shareholders as a key management focus. The Company's policy is to set dividends at a level that is commensurate with the performance while, at the same time, maintaining capital efficiency and keeping a sound and flexible financial position that will allow the Company to invest on research and development, which will enhance the corporate value and build up sufficient retained earnings to facilitate our long-term growth strategy. In addition, the Company continues to consider the acquisition and cancellation of its treasury shares as appropriate.

With the aim of generating a future stream of profits to fund more consistent and stable dividends to shareholders, we have adopted the Dividend-on-Equity (DOE) ratio¹ as a performance indicator to measure dividends. DOE is calculated by multiplying the payout ratio with the Return on Equity (ROE). Under the 2006-2010 Medium-term Management Plan, the Company aims to raise DOE to 5.0%, giving consideration to the distribution of profits to shareholders as well as maintaining capital efficiency.

Term-End Dividends of Profits for the 98th Business Term

For the 98th Business Term, the Board of Directors proposes term-end dividends of profits as follows:

Upon the approval of the term-end dividends of profits, the DOE for the current term will be 5.2 %.

- (1) Kind of dividend property: cash
- (2) Matters concerning the distribution of the dividend property to shareholders and the aggregate amount thereof: JPY40 per share of the common stocks of the Company, which amounts to JPY 3,403,619,080 in the aggregate. Consequently, the total dividends for the annual business term, including the interim dividends previously distributed (JPY40 per share), will be JPY 80 per share.
- (3) Effective date of distribution of the dividends from the surplus: June 24, 2010

¹ Equity is the aggregate sum of the shareholder's equity and the difference of the valuation and conversion.

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Proposal No. 2 Appointment of Seven (7) Directors

The terms of office of all the Directors will expire at the close of this Annual General Meeting of Shareholders. The Board of Directors proposes the appointment of the seven (7) Directors specified below.

The candidates for Director are as follows:

Candidate No.	Name (Date of birth)	Profile (Positions and responsibilities at the Company and material representative posts currently held in other juridical persons.)	Number of Santen shares owned
1	Akira KUROKAWA (September 5, 1952)	<p>April 1977 Joined the Company April 1997 General Manager, Office of the Head of Sales & Marketing Division - Prescription Pharmaceuticals June 1997 Director June 1998 Deputy Head of Sales & Marketing Division – Prescription Pharmaceuticals May 2001 Head of Sales & Marketing Division, Prescription Pharmaceuticals June 2001 Corporate Officer July 2004 Senior Corporate Officer June 2006 President & COO June 2008 President of Santen Holdings U.S., Inc. (incumbent) June 2008 President & CEO (incumbent)</p> <p>Material representative position held in another juridical person: Representative Director of Santen Holdings U.S., Inc. Director of Santen Inc. Director of Santen Oy</p>	20,000 shares
2	Masahiro MITA (November 13, 1949)	<p>April 1980 Joined the Company April 1981 Head of Marketing Management July 1983 Director June 1995 Managing Director (incumbent) May 2001 In charge of Corporate Management, Regulatory Affairs and Public Relations January 2004 In charge of Corporate Management, Social/Environmental and Regulatory Affairs July 2005 In charge of Corporate and Regulatory Affairs (incumbent)</p>	234,000 shares
3	Takakazu MORITA (February 10, 1945)	<p>April 1980 Joined the Company November 1980 Head of Office of the President July 1981 Director July 1983 Managing Director July 1987 Senior Managing Director October 1990 President & CEO May 2002 President and CEO of Santen Holdings U.S., Inc. September 2005 Representative Director of Santen Pharmaceutical (China) Co., Ltd. June 2006 Chairman & CEO June 2008 Chairman (incumbent)</p> <p>Material representative position held in another juridical person: Director of Santen Holdings U.S., Inc. Director of Santen Inc. Director of Santen Oy Director of Santen Pharmaceutical (China) Co., Ltd.</p>	133,400 shares

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4	Toshiaki NISHIHATA (November 4, 1948)	<p>August 1990 March 1996 July 1999 May 2001</p> <p>December 2002 July 2004 April 2010</p> <p>Material representative position held in another juridical person: Director of Santen Holdings U.S., Inc.</p>	<p>Department Manager, Pharmaceutical Development Department, Upjohn Pharmaceuticals Limited Tsukuba Research Laboratories Joined the Company Corporate Officer Corporate Officer, Head of QA/QC & Environmental Auditing Division and Head of R& D Strategic Integration Division Head of R&D Division (incumbent) Senior Corporate Officer (incumbent) President and C.E.O. of Santen Inc. (incumbent)</p>	12,100 shares
5	Isao MURAMATSU (August 14, 1939)	<p>January 1984 July 1991</p> <p>December 1992</p> <p>April 2001</p> <p>April 2002</p> <p>June 2005</p> <p>June 2007</p> <p>Material representative position held in another juridical person: Representative Director, Pinecrest Company External Director, Sosei Group Corporation</p>	<p>Vice President, Sales, Pfizer Japan Representative Director, Executive Vice President and General Manager, Pharmaceuticals, Bristol-Myers Squibb Japan President and Representative Director, SmithKline Beecham Japan Board Member, Senior Advisor, GlaxoSmithKline Japan Representative Director, Pinecrest Company (incumbent) Outside Director of the Company (incumbent) External Director, Sosei Group Corporation (incumbent)</p>	Nil
6	Noboru KOTANI (November 13, 1956)	<p>June 2000 April 2005</p> <p>June 2005</p> <p>June 2005</p> <p>December 2006</p> <p>Material representative position held in another juridical person: Representative Director, Vehicle Inc. Outside Director of Combi Corporation Outside Director of JIN CO., LTD</p>	<p>Director, Dream Incubator Inc. Representative Director, Vehicle Inc. (incumbent) Outside Director of the Company (incumbent) Outside Director of Combi Corporation (incumbent) Outside Director of JIN CO., LTD (incumbent)</p>	Nil
7	Tatsuhiko HAMAMOTO (September 9, 1940)	<p>June 1995</p> <p>June 1998</p> <p>May 2006</p> <p>January 2007</p> <p>June 2008</p>	<p>Corporate Auditor on the Board of Kawasaki Steel Corporation Chairman of the Board of Directors, California Steel Industry Inc. Outside Auditor, the Daiei, Inc. Outside Auditor, JAPAN JOB POSTING SERVICE, INC. Outside Director of the Company (incumbent)</p>	Nil

(Note 1) None of the above candidates for Director has a special conflict of interest with the Company.

(Note 2) Among the candidates for Director, Isao Muramatsu, Noboru Kotani and Tatsuhiko Hamamoto are candidates for Outside Directors.

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(Note 3) The Company designated Isao Muramatsu, Noboru Kotani and Tatsuhiko Hamamoto as Independent Officers among the candidates for Director as set forth under Article 436-2, Paragraph 1 of the Securities Listing Regulations of the Tokyo Stock Exchange, Inc. and Article 7, Paragraph 1 of the Regulations on Codes of Corporate Conduct of the Osaka Securities Exchange (hereinafter the same shall apply), and has filed their names therewith respectively.

(Note 4) Reasons for the appointment of the candidates for Outside Directors; and, an agreement with Outside Directors:

(1) Reasons for the appointment of the candidates for Outside Directors:

(i) As regards Isao Muramatsu, considering that he has extensive knowledge and experience amassed through long years of involvement in management in the pharmaceutical industry, the Board of Directors believes that he is well-qualified to be an Outside Director, and, proposes his appointment as such. His term of office as an Outside Director of the Company will have been for five (5) years when this Annual General Meeting of Shareholders closes.

(ii) As regards Noboru Kotani, considering that he has extensive knowledge and experience in corporate management as a management consultant, the Board of Directors believes that he is well-qualified to be an Outside Director, and, proposes his appointment as such. His term of office as an Outside Director of the Company will have been for four (4) years when this Annual General Meeting of Shareholders closes.

(iii) As regards Tatsuhiko Hamamoto, considering that he has extensive knowledge and experience amassed through long years of involvement in the management of companies both in Japan and abroad, the Board of Directors believes that he is well-qualified to be an Outside Director, and, proposes his appointment as such. His term of office as an Outside Director of the Company will have been for two (2) years when this Annual General Meeting of Shareholders closes.

(2) Agreement with the Outside Directors to limit their liability:

In order to further ensure the Company's objective and transparent management through the invitation and appointment of capable and competent persons for the post of Outside Corporate Directors, it is provided, in Article 27 of the Company's current Articles of Incorporation, that the Company may enter into an agreement with any Outside Director to limit his or her liability for any damage that may be caused by his or her negligence in the performance of his or her duty. Pursuant to such provision, the Company has previously entered into an agreement with Isao Muramatsu, Noboru Kotani, and Tatsuhiko Hamamoto, the candidates for Outside Director, respectively, to limit their liability for any such damage. Upon the approval of the reappointment of these three Outside Directors, it is intended that the foregoing agreements will be renewed. The outline of such agreement is as follows:

- In case an Outside Director becomes liable for damages suffered by the Company due to his or her negligence in the performance of his or her duty,

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he or she shall be liable for such damages only up to the maximum amount set forth in Article 427, Paragraph 1 of the Companies Act.

- The aforementioned limitation on liability shall be allowed an Outside Director only if he or she executed his or her duty, which caused the damages, in good faith and without gross negligence.

Proposal No. 3 Appointment of Two (2) Corporate Auditors

The term of office of Yasuo Sato as Corporate Auditor expires at the close of this Annual General Meeting of Shareholders. Also Yukinori Mizumoto will resign from his office as Corporate Auditor at the close of this Annual General Meeting of Shareholders. Accordingly, the Board of Directors proposes the appointment of two (2) Corporate Auditors.

The Board of Corporate Auditors has consented to the submission of this item for resolution.

The candidates for Corporate Auditor are as follows:

A candidate who is to be newly appointed is shown with an asterisk (*) mark.

Candidate No.	Name (Date of birth)	Profile (Positions and responsibilities at the Company and material representative posts currently held in other juridical persons.)	Number of Santen shares owned
1	Yasuo SATO (September 30, 1942)	April 1999 Representative Director, AIR LIQUIDE Japan Ltd. January 2003 President and Chairperson of the Auditing Committee, JAPAN AIR GASES Co. March 2005 Director and Senior Advisor of AIR LIQUIDE Japan Ltd. May 2006 President, I.B.ASSOCIATES Co., Ltd. (incumbent) June 2006 Outside Corporate Auditor of the Company (incumbent) September 2007 Senior Advisor of AIR LIQUIDE Japan Ltd. Material representative position held in another juridical person: President, I.B.ASSOCIATES Co., Ltd.	Nil
2	Yoshihiro NOUTSUKA (March 21, 1953)	April 1976 Joined the Company May 1999 Group Manager of Accounting & Finance Group May 2006 Vice Head of Corporate Development Division (in charge of corporate management information planning, communication & control), Group Manager of Corporate Planning & Finance Group and Group Manager of Compliance Group June 2006 Head of Planning & Control Division and Group Manager of Corporate Planning & Finance Group July 2006 Corporate Officer, Head of Planning & Control Division October 2008 Corporate Officer, Community and Environment Relations (incumbent)	1,218 shares

(Note 1) The above candidates for Corporate Auditor have no special conflict of interest with the Company.

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(Note 2) Among the candidates for Corporate Auditor, Yasuo Sato is a candidate for Outside Corporate Auditor.

(Note 3) The Company designated Yasuo Sato as an Independent Officer among the candidates for Corporate Auditor and has filed his name with the Tokyo Stock Exchange, Inc. and Osaka Securities Exchange, respectively.

(Note 4) Reasons for the appointment of the Outside Corporate Auditor; and, an agreement with the Outside Corporate Auditor:

(1) Reasons for the appointment of the Outside Corporate Auditor:

As regards Yasuo Sato, considering that he has all-around managerial experience and expertise as an executive and chairperson of the Auditing Committee of a company, and since there is no issue as to his independence in relation to the Company, the Board of Directors believes that he is well-qualified to be an Outside Corporate Auditor, and proposes his appointment as such. His term of office as an Outside Corporate Auditor of the Company will have been for four (4) years when this Annual General Meeting of Shareholders closes.

(2) Agreement with Outside Corporate Auditor to limit liability:

In order to further ensure the Company's objectives and transparent management through the invitation and appointment of capable and competent persons for the post of Outside Corporate Auditor, it is provided, in Article 35 of the Company's current Articles of Incorporation, that the Company may enter into an agreement with any Outside Corporate Auditor to limit his or her liability for any damage that may be caused by his or her negligence in the performance of his or her duty. Pursuant to such provision, the Company has previously entered into an agreement with Yasuo Sato, a candidate for Outside Corporate Auditor, to limit his liability for any such damage. Upon the approval of the reappointment of the Outside Corporate Auditor, it is intended that the foregoing agreement will be renewed. The outline of such agreement will be as follows:

- In case an Outside Corporate Auditor becomes liable for damages to the Company due to his or her negligence in the performance of his or her duties, he or she shall be liable for such damages to the maximum amount set forth in Article 427, Paragraph 1 of the Companies Act.
- The aforementioned limitation on the liability of an Outside Corporate Auditor shall be allowed only if he or she executed his or her duty, which caused the damages, in good faith and without gross negligence.

Proposal No.4 Grant of Retirement Allowance to the Retiring Corporate Auditor

The Board of Directors proposes to grant, within the reasonable amounts allowed under the regulations of the Company, a retirement allowance to Yukinori Mizumoto as compensation for his invaluable service to the Company during his term. Yukinori Mizumoto will retire as Corporate Auditor at the close of this Annual General Meeting of Shareholders.

It is proposed that the amount, date and procedure of the grant be entrusted to the

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determination of the Corporate Auditors upon their consultations.

The following is the profile of Yukinori Mizumoto:

Name	Profile
Yukinori MIZUMOTO	June 2004 Corporate Auditor (incumbent)

Proposal No. 5 Amendment to the Amount of Directors' Remuneration

The current amount of remuneration of the Directors was resolved during the 94th Annual General Meeting of Shareholders held on June 27, 2006 and is being observed up to the present, which amount is “not more than 312 million yen per year.” Considering the changes in the economic climate and other various factors, the Board of Directors proposes the amendment of the current amount to “not more than 430 million yen (out of which, not more than 40 million yen will be allotted to the Outside Directors) per year.”

Please be advised that the number of Directors will be seven (7) (among which, three (3) will be Outside Directors) if Proposal No. 2 is passed through a resolution in its original form.

Proposal No. 6 Issuance of Rights to Subscribe for New Shares as Stock Options in favor of the Directors

Aiming to directly link the remuneration of the Directors to the creation of medium-and long-term shareholder value; to raise the motivation and morale of the Directors of the Company to improve the Company's business results; and to further enhance shareholder value and customer satisfaction; pursuant to the provisions of Articles 238, etc. of the Companies Act, the Board of Directors proposes: (i) to issue rights to subscribe for new shares as stock options in accordance with the terms and conditions appearing below, without consideration, and to authorize the Board of Directors of the Company to determine the matters regarding the offering of shares; and (ii) the details of the stock options to be allotted to the four (4) Directors (excluding the Outside Directors) of the Company as remuneration, other than in the form of cash, pursuant to the provisions of Article 361 of the Companies Act. The specific content of the aforementioned rights to subscribe for new shares as stock options has been made in accordance with the purpose to issue such rights to subscribe for new shares as stock options, as it appears above. Considering the identical purpose, the Company considers that the said specific content is appropriate.

1. Purpose of the issuance of rights to subscribe for new shares without consideration

The Company plans to issue rights to subscribe for new shares of the Company without consideration to directly link the remuneration of Directors to the creation of medium-and long-term shareholder value; to raise the motivation and morale of the Directors of the

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Company to improve the Company's business results; and to further enhance shareholder value and customer satisfaction.

2. Details of rights to subscribe for new shares

(1) Grantees of rights to subscribe for new shares

Directors of the Company (excluding the Outside Directors)

(2) Class and number of shares to be issued for rights to subscribe for new shares

Maximum of 98,800 shares of common stock of the Company.

The number of shares of common stock to be issued for one (1) right to subscribe for new shares shall be 100 shares. In the event the Company conducts a free share allotment, a splitting of shares or consolidation of shares, the number of shares to be issued shall be adjusted in accordance with the formula appearing below; however, the adjustment shall be made only on the number of shares to be issued for rights to subscribe for new shares that have not yet been issued upon the exercise of rights to subscribe for new shares at the time of the free share allotment, the splitting of shares or consolidation of shares, and any fraction of a share that is less-than-one-share arising out of such adjustment shall be disregarded.

$$\begin{array}{l} \text{Number of shares} \\ \text{after adjustment} \end{array} = \begin{array}{l} \text{Number of shares} \\ \text{before adjustment} \end{array} \times \begin{array}{l} \text{Percentage of free share allotment,} \\ \text{splitting of shares, or consolidation} \end{array}$$

Also, in the event that it is appropriate to change the number of shares by means of a merger, or a reduction of the stated capital other than those described in the above, the Company may adjust the number of shares to be issued for rights to subscribe for new shares as it deems necessary.

(3) Aggregate number of rights to subscribe for new shares

A maximum of 988 rights to subscribe for new shares shall be issued within one (1) year after the date of this Annual General Meeting of Shareholders.

(4) Amount to be paid for rights to subscribe for new shares

As regards the rights to subscribe for new shares for which the matters pertaining to the placing of shares may be determined by the Board of Directors based on the authorization to be issued through this Annual General Meeting of Shareholders, no amount shall be paid therefor (i.e., there will be no requirement to pay any amount of money in return for the right to subscribe for new shares).

(5) Value of the property to be contributed upon the exercise of each right to subscribe for new shares

The value of the property to be contributed upon the exercise of each right to subscribe for new shares shall be the amount to be paid per share, to be determined as set forth below (the "Exercise Price" in this Proposal), multiplied by the number of shares to be allotted for one

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right to subscribe for new shares as provided under sub-section (2) above.

The Exercise Price shall be the average of the closing prices of the Company's shares of common stock on the Osaka Securities Exchange on each day (other than any day on which no sales are reported) of the month immediately preceding the month during which the date of the allotment of rights to subscribe for new shares falls (the "Closing Price" in this Proposal). Any amount less than one yen arising out of this calculation shall be rounded upward to the nearest yen.

Notwithstanding the foregoing, if such amount is less than the Closing Price as of the date immediately preceding the date on which the rights to subscribe for new shares are allotted (in case there is no Closing Price on such date, on the most immediate date prior to such date), then the Closing Price reported on the date immediately preceding the date on which the rights to subscribe for new shares are allotted shall be the amount to be paid.

In the event the Company conducts a free share allotment, a splitting of shares or consolidation of shares, the Exercise Price shall be adjusted in accordance with the following formula and any amount less than one yen arising out of such adjustment shall be rounded upward to the nearest yen:

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment} \times 1}{\text{Percentage of free share allotment, splitting of shares or consolidation of shares}}$$

In the event the Company issues new shares at a price less than the current market price (excluding the case in which new shares are issued upon exercise of rights to subscribe for new shares) or conducts a disposition of treasury stock after the allotment date, the Exercise Price shall be adjusted in accordance with the following formula and any amount less than one yen arising out of such adjustment shall be rounded upward to the nearest yen:

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment} \times \frac{\text{Number of shares issued}}{\text{Number of shares issued} + \frac{\text{Number of new Shares issued} \times \text{Amount to be paid per share}}{\text{Market price before issuance of new shares}}}}{\text{Number of shares issued} + \text{Number of new shares to be issued}}$$

Please be informed that the number of treasury stock held by the Company shall be deducted from the "number of shares issued" set forth in the above formula; also, in the event that the Company conducts a disposition of treasury stock, the "number of new shares issued" shall be deemed to be replaced with the "number of shares of treasury stock disposed of," and the "market price before issuance of new shares" shall be deemed to be replaced with the "market price before disposition of treasury shares."

Furthermore, in case of unavoidable circumstances, including a reduction of the stated capital of the Company, the Exercise Price shall be appropriately adjusted to a reasonable extent

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considering the relevant conditions.

(6) Period during which rights to subscribe for new shares may be exercised:

From June 25, 2012 to June 23, 2020

(7) Conditions for exercising rights to subscribe for new shares

- (i) A person who has been granted rights to subscribe for new shares shall be required to hold the post of Director of the Company during the period for exercising the rights to subscribe for new shares; however, the grantee may exercise the right to subscribe for new shares even if he or she no longer holds the post of Director in the event that the grantee retires for legitimate reasons, such as expiry of the term of office.
- (ii) Partial exercise of one right to subscribe for new shares can only be exercised as long as the number of shares to be issued for the right to subscribe for new shares is an integral multiple of the number of shares for one stock trade unit of the Company.
- (iii) In the event of the death of a holder of rights to subscribe for new shares, a successor may exercise rights to subscribe for new shares.
- (iv) Other details relating to the exercise of rights to subscribe for new shares shall be determined in accordance with the agreement with respect to the granting of rights to subscribe for new shares, which shall be concluded between the Company and the grantees, pursuant to resolutions to be made at this Annual General Meeting of Shareholders and the meeting of the Board of Directors regarding the issuance of rights to subscribe for new shares.

(8) Amount of stated capital and capital reserve to be increased in the event that new shares are issued upon exercise of rights to subscribe for new shares

- (i) The amount of the stated capital to be increased in the event that new shares are issued upon exercise of rights to subscribe for new shares shall be one half of the maximum increased amount of the stated capital, etc., calculated pursuant to Article 17, Paragraph 1 of the Ordinance for Accounting of Companies. Any amount less than one yen arising out of this calculation shall be rounded upward to the nearest yen.
- (ii) The amount of the capital reserve to be increased in the event that new shares are issued upon exercise of rights to subscribe for new shares shall be the aforementioned maximum increased amount of the stated capital, etc., deducted by the amount of the stated capital to be increased as provided under sub-section (1) above.

(9) Events and conditions relating to the revocation of rights to subscribe for new shares

- (i) If a merger agreement, under which the Company becomes the dissolved company, is approved, or if a proposal for approval of a share-for-share exchange agreement or a proposal for a share transfer under which the Company shall become a wholly-owned subsidiary is approved at a General Meeting of Shareholders or the Board of Directors of the Company, the Company may revoke the rights to subscribe for new shares without consideration on a day separately determined by the Board of Directors of the Company.

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(ii) If a grantee is not able to exercise his or her rights to subscribe for new shares because the grantee no longer falls under the conditions stated in sub-section (7) above before he or she is able to exercise his or her rights, the rights to subscribe for new shares may be revoked without consideration on a day separately determined by the Board of Directors of the Company.

(10) Restriction on the transfer of rights to subscribe for new shares

The transfer of rights to subscribe for new shares shall require the approval of the Board of Directors of the Company.

(11) Treatment of fractional shares

Any fractional share that may be included in the number of shares issued to the holder of the right to subscribe for new shares, who has exercised such right, shall be rounded downward to the nearest whole number of shares.

Proposal No. 7 Issuance of Rights to Subscribe for New Shares as Stock Options in favor of the Corporate Officers

Aiming to directly link the remuneration of the Corporate Officers to the creation of medium-and long-term shareholder value; to raise the motivation and morale of the Corporate Officers of the Company to improve the Company's business results; and to further enhance shareholder value and customer satisfaction; pursuant to the provisions of Articles 238, etc. of the Companies Act, the Board of Directors proposes to issue rights to subscribe for new shares without consideration to the Corporate Officers of the Company in accordance with the following terms and conditions, and delegating to the Board of Directors the determination of the matters concerning the invitation for subscription:

1. Purpose of the issuance of rights to subscribe for new shares without compensation

The Company plans to issue rights to subscribe for new shares of the Company without compensation to directly link the remuneration of Corporate Officers to the creation of medium-and long-term shareholder value; to raise the motivation and morale of the Corporate Officers of the Company to improve the Company's business results; and to further enhance shareholder value and customer satisfaction.

2. Details of rights to subscribe for new shares

(1) Grantees of rights to subscribe for new shares

Corporate Officers of the Company

(2) Class and number of shares to be issued for rights to subscribe for new shares

Maximum of 69,600 shares of common stock of the Company.

The number of shares of common stock to be issued for one (1) right to subscribe for new shares shall be 100 shares. In the event the Company conducts a free share allotment, a

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splitting of shares or consolidation of shares, the number of shares to be issued shall be adjusted in accordance with the formula appearing below; however, the adjustment shall be made only on the number of shares to be issued for rights to subscribe for new shares that have not yet been issued upon the exercise of rights to subscribe for new shares at the time of the free share allotment, the splitting of shares or consolidation of shares, and any fraction of a share that is less-than-one-share arising out of such adjustment shall be disregarded.

$$\begin{array}{l} \text{Number of shares} \\ \text{after adjustment} \end{array} = \begin{array}{l} \text{Number of shares} \\ \text{before adjustment} \end{array} \times \begin{array}{l} \text{Percentage of free share allotment,} \\ \text{splitting of shares, or consolidation} \end{array}$$

Also, in the event that it is appropriate to change the number of shares by means of a merger, or a reduction of the stated capital other than those described in the above, the Company may adjust the number of shares to be issued for rights to subscribe for new shares, as it deems necessary.

(3) Aggregate number of rights to subscribe for new shares

A maximum of 696 rights to subscribe for new shares shall be issued within one (1) year after the date of this Annual General Meeting of Shareholders.

(4) Amount to be paid for rights to subscribe for new shares

As regards the rights to subscribe for new shares for which the matters pertaining to the placing of shares may be determined by the Board of Directors based on the authorization to be issued through this Annual General Meeting of Shareholders, no amount shall be paid therefor (i.e., there will be no requirement to pay any amount of money in return for the right to subscribe for new shares).

(5) Value of the property to be contributed upon the exercise of each right to subscribe for new shares

The value of the property to be contributed upon the exercise of each right to subscribe for new shares shall be the amount to be paid per share to be determined as set forth below (the "Exercise Price" in this Proposal) multiplied by the number of shares to be allotted for one right to subscribe for new shares as provided under sub-section (2) above.

The Exercise Price shall be the average of the closing prices of the Company's shares of common stock on the Osaka Securities Exchange on each day (other than any day on which no sales are reported) of the month immediately preceding the month during which the date of the allotment of rights to subscribe for new shares falls (the "Closing Price" in this Proposal). Any amount less than one yen arising out of this calculation shall be rounded upward to the nearest yen.

Notwithstanding the foregoing, if such amount is less than the Closing Price as of the date immediately preceding the date on which the rights to subscribe for new shares are allotted (in case there is no Closing Price on such date, on the most immediate date prior to such date),

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then the Closing Price reported on the date immediately preceding the date on which the rights to subscribe for new shares are allotted shall be the amount to be paid.

In the event the Company conducts a free share allotment, a splitting of shares or consolidation of shares, the Exercise Price shall be adjusted in accordance with the following formula and any amount less than one yen arising out of such adjustment shall be rounded upward to the nearest yen:

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment} \times 1}{\text{Percentage of free share allotment, splitting of shares or consolidation of shares}}$$

In the event the Company issues new shares at a price less than the current market price (excluding the case in which new shares are issued upon exercise of rights to subscribe for new shares) or conducts a disposition of treasury stock after the allotment date, the Exercise Price shall be adjusted in accordance with the following formula and any amount less than one yen arising out of such adjustment shall be rounded upward to the nearest yen:

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment} \times \frac{\text{Number of new Shares issued} \times \text{Amount to be paid per share}}{\text{Market price before issuance of new shares}}}{\text{Number of shares issued} + \text{Number of new shares to be issued}}$$

Please be informed that the number of treasury stock held by the Company shall be deducted from the “number of shares issued” set forth in the above formula; also, in the event that the Company conducts a disposition of treasury stock, the “number of new shares issued” shall be deemed to be replaced with the “number of shares of treasury stock disposed of,” and the “market price before issuance of new shares” shall be deemed to be replaced with the “market price before disposition of treasury shares.”

Furthermore, in case of unavoidable circumstances, including a reduction of the stated capital of the Company, the Exercise Price shall be appropriately adjusted to a reasonable extent considering the relevant conditions.

(6) Period during which rights to subscribe for new shares may be exercised:

From June 25, 2012 to June 23, 2020

(7) Conditions for exercising rights to subscribe for new shares

- (i) A person who has been granted rights to subscribe for new shares shall be required to hold the post of Corporate Officer of the Company during the period for exercising the rights to subscribe for new shares; however, the grantee may exercise the right to subscribe for new shares even if he or she no longer holds the post of Corporate Officer in the event that the grantee retires for legitimate reasons, such as expiry of the term of office.

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- (ii) Partial exercise of one right to subscribe for new shares can only be exercised as long as the number of shares to be issued for the right to subscribe for new shares is an integral multiple of the number of shares for one stock trade unit of the Company.
 - (iii) In the event of the death of a holder of rights to subscribe for new shares, a successor may exercise rights to subscribe for new shares.
 - (iv) Other details relating to the exercise of rights to subscribe for new shares shall be determined in accordance with the agreement with respect to the granting of rights to subscribe for new shares, which shall be concluded between the Company and the grantees, pursuant to resolutions to be made at this Annual General Meeting of Shareholders and the meeting of the Board of Directors regarding the issuance of rights to subscribe for new shares.
- (8) Amount of stated capital and capital reserve to be increased in the event that new shares are issued upon exercise of rights to subscribe for new shares
- (i) The amount of the stated capital to be increased in the event that new shares are issued upon exercise of rights to subscribe for new shares shall be one half of the maximum increased amount of the stated capital, etc., calculated pursuant to Article 17, Paragraph 1 of the Ordinance for Accounting of Companies. Any amount less than one yen arising out of this calculation shall be rounded upward to the nearest yen.
 - (ii) The amount of the capital reserve to be increased in the event that new shares are issued upon exercise of rights to subscribe for new shares shall be the aforementioned maximum increased amount of the stated capital, etc., deducted by the amount of the stated capital to be increased as provided under sub-section (1) above.
- (9) Events and conditions relating to the revocation of rights to subscribe for new shares
- (i) If a merger agreement, under which the Company becomes the dissolved company, is approved, or if a proposal for approval of a share-for-share exchange agreement or a proposal for a share transfer under which the Company shall become a wholly-owned subsidiary is approved at a General Meeting of Shareholders or the Board of Directors of the Company, the Company may revoke the rights to subscribe for new shares without consideration on a day separately determined by the Board of Directors of the Company.
 - (ii) If a grantee is not able to exercise his or her rights to subscribe for new shares because the grantee no longer falls under the conditions stated in sub-section (7) above before he or she is able to exercise his or her rights, the rights to subscribe for new shares may be revoked without consideration on a day separately determined by the Board of Directors of the Company.
- (10) Restriction on the transfer of rights to subscribe for new shares
- The transfer of rights to subscribe for new shares shall require the approval of the Board of Directors of the Company.
- (11) Treatment of fractional shares

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Any fractional share that may be included in the number of shares issued to the holder of the right to subscribe for new shares, who has exercised such right, shall be rounded downward to the nearest whole number of shares.

Proposal No. 8 Renewal of the Countermeasures to Large-scale Purchases of the Corporation's Shares (Takeover Defense Measures)

The Company introduced the countermeasures to large-scale purchases of the Corporation's shares (takeover defense measures) (the "Former Plan") following a resolution at the meeting of the Board of Directors held on May 8, 2007 and a resolution at the annual general meeting of shareholders held on June 26, 2007. The effective period of the Former Plan expires at the conclusion of this Annual General Meeting of Shareholders.

The Board of Directors resolved at its meeting held on May 11, 2010 to partially revise the Former Plan and, subject to approval by the shareholders at this Annual General Meeting of Shareholders, introduce a renewed plan (the introduction is to be referred to as the "Renewal," and the renewed plan is to be referred to as the "Plan") when the Former Plan expires, as a measure to prevent decisions on the Company's financial and business policies from being controlled by persons deemed inappropriate under the basic policy (Article 118, Item 3(b)(2) of the Enforcement Regulations of the Companies Act).² .

Therefore, the Company is seeking the shareholders' approval for the Renewal.

I. BASIC POLICY REGARDING THOSE WHO CONTROL THE COMPANY'S FINANCIAL AND BUSINESS POLICIES

The Company believes that its shareholders decide to become shareholders via free transactions in the market and therefore the shareholders of the Company should make the final decisions as to whether or not to accept a proposal of a purchase that would result in a change of control of the Company.

However, it is envisioned that some Large-scale Purchase of the Company's shares or such proposals might entail the following:

- (1) The likelihood of causing obvious harm to the corporate value of the Company and the common interests of the shareholders, in view of the purpose of such purchase and management policies thereafter;
- (2) The threat of effectively compelling the shareholders to sell their shares;
- (3) Purchases that do not provide the Company the reasonably necessary period of time

² The provisions of the laws and regulations that are cited in this proposal and the content of this proposal are subject to provisions effective as of this date. In the event that it is necessary to revise any cited provision or a definition of any term due to future promulgation, revision or rescission of any applicable law, the Board of Directors of the Company may, in light of such promulgation, revision or rescission, replace the provision or definition to a reasonable extent.

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- to present alternative plans;
- (4) Purchases conducted without providing sufficient information reasonably necessary for the Company's shareholders to make judgments on the content of the purchase;
 - (5) Purchase conditions (including the amount and type of consideration, purchase timing, the purchase method and the like) that are inappropriate or insufficient considering the Company's intrinsic value; or
 - (6) Purchases that may lead to material harm to the corporate value of the Company and the common interests of the shareholders, by materially damaging relations with employees, business acquaintances including customers, creditors and other stakeholders, all of whom are indispensable for sustainable growth in the Company's corporate value.

The Company believes a Large-scale Purchaser or a person or company who proposes such an action is inappropriate to control decisions regarding the Company's financial and business policies.

II. SPECIAL MEASURES TO REALIZE THE BASIC POLICY

1. Source of Company's Corporate Value

(1) Corporate Philosophy

As a unique pharmaceuticals company specializing in ophthalmic and anti-rheumatic pharmaceuticals, focusing on its prescription ophthalmics pharmaceuticals business, the Company has aimed to be a company dedicated to contributing to the protection and improvement of people's "eyesight and health" around the world, and endeavored to enhance the corporate value of the Company with the corporate philosophy that "We always ask ourselves what is central to us, clearly decide the action to be taken, and act quickly," and "We are focused on specific areas of expertise, such as eye care, developing our unique capabilities and technologies, and contributing to the health and quality of life of patients and their loved ones, and society as a whole."

(2) Source of Corporate Value

The Company's corporate value is found in (i) the concentration of management resources in fields where the Company can demonstrate its strengths, (ii) the reinforcement of organizational strength, and (iii) the pursuit of thorough productivity and efficiency.

- (i) Concentration of management resources in fields where the Company can demonstrate its strengths

The Company concentrates on new product development as an R&D-oriented pharmaceutical company specializing in ophthalmology and other areas in which the Company can demonstrate its strengths. The Company has established a strong promotional platform by enhancing customer satisfaction and the product lineup especially in domestic prescription pharmaceuticals business.

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(ii) Reinforcement of organizational strengths

The Company introduced a corporate officer system in order to further strengthen the management and to improve the quality and speed of the strategic decision-making processes, and has strived to be an efficient organization, making decisions and acting in a timely manner. The Company is also improving the transparency and objectivity of management by appointing highly independent outside directors and outside statutory auditors, and is carrying out business that places value on shareholders, business partners, customers, and employees, as well as society as a whole.

(iii) Pursuit of thorough productivity and efficiency

Thanks to the introduction of new containers resulting in improved convenience, recognition, and manufacturing productivity, the Company manufactures eye drops at world-class quality and prices. The Company has also introduced the fundamental business system throughout the entire group and pursued thorough productivity and efficiency of the group.

2. Measures to Enhance Corporate Value

For the purpose of further enhancing Santen Group's corporate value, the Company has promoted the 2006-2010 Medium-term Management Plan, aiming for the global development of the Company by creating a strong pipeline of new drug candidates and to actively develop operations in regions where the Company can leverage the Company's strengths.

In order to realize the basic policy stated in the Medium-term Management Plan, the Company has concentrated on (1) enhancing the global strategic product pipeline; (2) the generation of growth mainly in Japan, Northern and Eastern Europe, Russia and China while focusing the Company's activities on clinical and business development in the USA; (3) strengthening its manufacturing bases; and (4) strengthening human resources and organizational capabilities on a global level.

3. Stable Profit Distribution Policy

The Company treats the distribution of profit to shareholders as a key management focus. Based on the idea of striving for appropriate profit distribution depending on its performance, maintenance of flexibility and soundness of its financial position, and improvement of capital efficiency, the Company values and makes positive efforts towards distributing profit through dividend payment. The Company also properly considers share buybacks and cancellation of shares as flexible measures to improve shareholder value and capital efficiency.

4. Strengthening Corporate Governance

The Company recognizes that it is vital for it to upgrade and strengthen corporate governance to enhance the corporate value of the Company and the common interests of shareholders. The Company has adopted a governance system in which highly independent outside directors and outside statutory auditors are appointed, and the term of office of directors is one year to

clarify management's responsibilities to the shareholders of the Company. In addition, the Company has established three committees, namely the "Nominating Committee," the "Executive Compensation Committee," and the "Corporate Strategy Committee" as deliberative bodies to improve management transparency and objectivity.

III. MEASURES TO PREVENT DECISIONS ON THE COMPANY'S FINANCIAL AND BUSINESS POLICIES FROM BEING CONTROLLED BY PERSONS OR COMPANIES REGARDED AS INAPPROPRIATE ACCORDING TO THE BASIC POLICY

1. Purpose of Renewal

The purpose of the Plan is to ensure and improve the corporate value of the Company and the common interests of the shareholders by clarifying procedures with which the purchaser or the person proposing the purchase shall comply, by securing sufficient information and time necessary for shareholders to make appropriate decisions and the opportunity to negotiate with the purchaser in case of a purchase of the Company's shares or a similar action or proposal occurring, preventing decisions on the Company's financial and business policies from being controlled by persons or companies regarded as inappropriate according to the basic policy.

2. Definitions of Terms

The following terms used in the Plan are defined as set forth below.

(1) Large-scale Purchase

"Large-scale Purchase" means an action that falls under either of the following items (except when the Board of Directors of the Company has given its consent to the action in advance).

- (i) Purchase of the Company's share certificates, etc. by a Group of shareholders³ with the intent of holding a ratio of share certificates, etc.⁴ or owning a ratio of share certificates, etc.⁵ of the Company of at least 20%.
- (ii) Purchase of the Company's share certificates, etc. resulting in a Group of shareholders' holding ratio of share certificates, etc. or ownership ratio of share certificates, etc. of the Company being at least 20%.

(2) Large-scale Purchaser

³ A Group of shareholders means holders (defined in Article 27-23, Paragraph 1 of the Financial Instruments and Exchange Law of Japan, including persons deemed holders pursuant to Article 27-23, Paragraph 3 thereof; the same will apply throughout this Proposal) of share certificates, etc. (defined in Article 27-23, Paragraph 1 of the Financial Instruments and Exchange Law of Japan; the same will apply throughout this Proposal) of the Company or a person or a company who makes a Purchase, etc. (defined in Article 27-2, Paragraph 1 of the Financial Instruments and Exchange Law of Japan, including a Purchase, etc. made on a financial instruments exchange market; the same will apply throughout this Proposal) of share certificates, etc. of the Company and any Joint Holders thereof (defined in Article 27-23, Paragraph 5 of the Financial Instruments and Exchange Law of Japan, including persons deemed Joint Holders pursuant to Article 27-23, Paragraph 6 thereof; the same will apply throughout this Proposal), and Persons in Special Relationship (defined in Article 27-2, Paragraph 7 of the Financial Instruments and Exchange Law of Japan; the same will apply throughout this Proposal).

⁴ Defined in Article 27-23, Paragraph 4 of the Financial Instruments and Exchange Law of Japan. The same will apply throughout this Proposal.

⁵ Defined in Article 27-2, Paragraph 8 of the Financial Instruments and Exchange Law of Japan. The same will apply throughout this Proposal.

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“Large-scale Purchaser” means a person or a company that intends to conduct a Large-scale Purchase.

3. Outline of the Plan

The Plan requires that:

- (i) the Large-scale Purchaser provides sufficient information to the Company before the commencement of the Large-scale Purchase;
- (ii) the Large-scale Purchaser commences the Large-scale Purchase only after the elapse of the period required for the Independent Committee and the Board of Directors of the Company to examine and assess the Large-scale Purchase;
- (iii) the Board of Directors of the Company examines and assesses the Large-scale Purchase and discloses an opinion from the standpoint of the Board;
- (iv) in order to ensure the objectivity, fairness and reasonableness of the examination and assessment of the Large-scale Purchase and the determination by the Board of Directors of the Company whether or not to implement countermeasures, the Company installs the Independent Committee as an organization that is independent from the Board of Directors, and that consists of all of the outside directors of the Company (please refer to the outline of the Independent Committee in EXHIBIT 1 and the profiles of the members of the Independent Committee upon Renewal in EXHIBIT 2);
- (v) the Independent Committee determines whether or not to implement countermeasures from the standpoint of the Independent Committee, complying with the criteria set forth in section 5 below, and makes its recommendation to the Board of Directors of the Company, provided, however, that the Independent Committee recommends the implementation of countermeasures subject to confirmation of the shareholders’ intent when so prescribed in the Plan;
- (vi) in regards to whether or not to implement countermeasures, the Board of Directors of the Company respects the recommendation by the Independent Committee to the fullest extent and adheres thereto; and
- (vii) the Board of Directors of the Company convenes a general meeting of shareholders to confirm the shareholders’ intent regarding the implementation of countermeasures when so prescribed in the Plan.

4. Procedures to be followed in the Plan

(1) Submission of the Intention Letter

In the event that the Large-scale Purchaser intends to commence the Large-scale Purchase, the Large-scale Purchaser shall submit to the Representative Director of the Company a letter of intention pledging that the Large-scale Purchaser will comply with the Plan (the “Intention Letter”), and specifying the name of the Large-scale Purchaser, address, governing law of incorporation, the name of the representative, contact details in Japan and an outline of the proposed Large-scale Purchase. The Intention Letter and the Large-scale Purchase Information described in (2) below must be written in Japanese. The Company will timely disclose to the shareholders of the Company, the fact that such Large-scale Purchaser has submitted the

Intention Letter.

(2) Request for Provision of Information by the Independent Committee and the Board of Directors of the Company

Within ten (10) business days after the receipt of the Intention Letter, the Company will deliver to the Large-scale Purchaser a list of the information necessary for the Company's shareholders to make its decision and for the Independent Committee and the Board of Directors to form its opinion regarding such Large-scale Purchase (the "Large-scale Purchase Information"). The Large-scale Purchaser shall provide the Large-scale Purchase Information to the Independent Committee and the Board of Directors of the Company.

The Large-scale Purchase Information shall include, but shall not be limited to, the following items. The details of the Large-scale Purchase Information may vary depending on the nature of the Large-scale Purchaser and the manner or outline of the Large-scale Purchase.

- (i) Detailed information on the Large-scale Purchaser and its Group of shareholders (including any Joint Holders, any Persons in Special Relationship, and partners and other constituent members in case of a fund);
- (ii) the purposes⁶ and conditions of the Large-scale Purchase (including the type and amount of the consideration to be offered, purchase timing, structure of the series of transactions relating to the purchase,⁷ the legality of the purchase method,⁸ etc.);
- (iii) the basis⁹ and background¹⁰ in the determination of the purchase price and the funds used for the Large-scale Purchase (including the specific name of the person or company supplying the funds for the purchase, methods of raising funds, and outline of the series of transactions relevant to such financing);
- (iv) in case the purpose of the Large-scale Purchase is to take control of the Company or participate in the Company's management, the specific method for such takeover of control, or participation in the management, of the Company, along with management policies, business plans, dividend policy and other measures¹¹ that the Large-scale Purchaser intends to adopt after the completion of the Large-scale

⁶ It must be clarified whether the purpose is to obtain control or to participate in management, or to make a net investment or a relationship investment.

⁷ The possibility of conducting additional acquisitions of share certificates, etc. of the Company after the Large-scale Purchase, as well as the reason, outline, necessity thereof, must be stated. If there is any possibility of delisting the share certificates, etc. of the Company after the Large-scale Purchase, a statement to that effect along with an explanation of the reasons thereof, must also be stated.

⁸ If the Large-scale Purchaser sought the opinion of a third party regarding the legality of the method of the Large-scale Purchase, the Large-scale Purchaser is required, in principle, to specify the name of the third party and give an outline of the opinion.

⁹ Information regarding the specific basis for the calculation of the purchase price, as well as the difference between the purchase price and the market value (with or without a premium between the purchase price and the average share price of the Company during the recent past few months), must be provided.

¹⁰ The process used to determine the purchase price, as well as, if the Purchaser sought the opinion of a third party in calculating such price, the name of the third party, an outline of the opinion, and the background by which the Large-scale Purchaser determined the purchase price using the opinion, in principle, must be stated.

¹¹ An outline of the planned post-Large-scale-Purchase reorganization of the Company, the disposal or takeover of material assets, significant borrowings, appointments or dismissals of representative directors or other directors, changes in the formation of the management, material changes in dividend policies and capital policies as well as the necessity thereof, must be provided.

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- Purchase;
- (v) in case the purpose of the Large-scale Purchase is to take control of the Company or participate in the Company's management, policies that would be implemented after the completion of the Large-scale Purchase pertaining to the employees, business acquaintances, customers, local community and any other stakeholders of the Company or Santen Group;
 - (vi) in case the purpose of the Large-scale Purchase is for a net investment, the investment policy;
 - (vii) in case the purpose of the Large-scale Purchase is for a relationship investment, the policies to be implemented after the completion of the Large-scale Purchase regarding the holding, sale, purchase and exercise of voting rights as well as the reasons therefore;¹² and
 - (viii) whether any communication has been made with a third party with regard to the Large-scale Purchase and an outline thereof, if any.

If the Independent Committee or the Board of Directors of the Company determines that the Large-scale Purchase Information provided is insufficient, the Independent Committee or the Board of Directors may require the Large-scale Purchaser to submit additional information to sufficiently complete the Large-scale Purchase Information within the period determined to be appropriate and reasonable by the Board of Directors or the Independent Committee (up to sixty (60) days, as a general rule, from the date on which the Intention Letter is received). When the Independent Committee and the Board of Directors of the Company determine that the Large-scale Purchase Information submitted is complete, the Company will timely disclose such determination to the shareholders of the Company. If the Independent Committee or the Board of Directors of the Company considers the Large-scale Purchase Information is necessary for the shareholders of the Company to make its decision, the Company will timely disclose all or part of the Large-scale Purchase Information submitted to the Company at such time that it deems appropriate.

- (3) Discussions and Negotiations by the Independent Committee, the Independent Committee Assessment Period, Recommendation by the Independent Committee, etc.

If the Large-scale Purchaser and the Board of Directors of the Company provide the Independent Committee with the Large-scale Purchase Information, the Independent Committee will set a period to examine the content of the Large-scale Purchase by the Large-scale Purchaser as well as the opinion of the Board of Directors of the Company from the perspective of ensuring and improving the corporate value of the Company and the common interests of the shareholders (the "Independent Committee Assessment Period"). The Independent Committee Assessment Period shall, as a general rule, be up to sixty (60) days after sufficient Large-scale Purchase Information, including information additionally requested by the Independent Committee, is provided by the Large-scale Purchaser. If the Independent

¹² In case the relationship investment for the purpose of a long-term capital tie-up is contemplated, information regarding the necessity thereof must also be provided.

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Committee does not make a decision and make a recommendation to the Board of Directors of the Company for either the implementation or non-implementation of the countermeasures during the initial Independent Committee Assessment Period, the Independent Committee may, to the reasonable extent that is considered necessary for consideration of the details of the Large-scale Purchase, and discussion or negotiation with the Large-scale Purchaser, extend the Independent Committee Assessment Period once or multiple times (for a total of up to thirty (30) days from the expiration of initial Independent Committee Assessment Period). The Large-scale Purchaser may commence the Large-scale Purchase only after the Independent Committee Assessment Period, including the extended period, has elapsed.

The Independent Committee may discuss or negotiate with the Large-scale Purchaser, as deemed necessary, directly or indirectly through the Board of Directors of the Company or through another body, to determine whether or not the Large-scale Purchase falls under any requirement set forth in (i) through (iv) of section 5, sub-section (2)(B) below, in view of ensuring and improving the corporate value of the Company and the common interests of shareholders. If the Independent Committee requires the Large-scale Purchaser to provide materials for its consideration or information, or to have discussions or negotiations with it directly or indirectly through the Board of Directors of the Company, or through another body, the Large-scale Purchaser shall promptly respond to such request.

Also the Independent Committee may require the Board of Directors of the Company to submit, within the period determined to be reasonably necessary by the Independent Committee (a maximum of sixty (60) days, as a general rule; “Board of Directors Assessment Period”), its opinion on the content of the Large-scale Purchase, supporting materials, and any other information, materials and the like deemed by the Independent Committee to be reasonably necessary.

Furthermore, the Independent Committee may, during the Independent Committee Assessment Period, require the directors, statutory auditors or employees of the Company to attend meetings of the Independent Committee, as necessary, to provide explanations on the necessary information. The Independent Committee shall endeavor to grasp the intent of the shareholders of the Company and may ask for the advice of its customers, business acquaintances, employees and so on, as necessary.

To ensure that the decision made by the Independent Committee is reasonable and objective, the Independent Committee may, as necessary, receive advice from third parties (including financial advisors, certified public accountants, lawyers, consultants and other professionals), who are independent from the management of the Company, at the Company’s expense.

As described above, the Independent Committee will, during the Independent Committee Assessment Period, perform a due and prudent examination and assessment of the information and materials provided by the Large-scale Purchaser and by the Board of Directors of the Company, and make a decision as to whether or not to implement countermeasures, in

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compliance with the criteria set forth in section 5 below, and thereafter provide a recommendation to the Board of Directors of the Company.

The fact the Independent Committee Assessment Period has commenced, the fact the Independent Committee Assessment Period has been extended as well as the extended period and the reason for the extension, and the content of the recommendations by the Independent Committee, etc. will be timely disclosed.

(4) Resolution of the Board of Directors

The Board of Directors of the Company shall promptly resolve, as an organization under the Companies Act, whether or not countermeasures should be implemented, pursuant to the criteria set forth in section 5 below, respecting the recommendations of the Independent Committee to the fullest extent. If a general meeting of shareholders is convened in accordance with sub-section (5) below, the Board of Directors of the Company will, as an organization under the Companies Act, make a resolution in accordance with the resolution at the general meeting of shareholders. In case it is decided that countermeasures should be implemented, the Board of Directors of the Company will timely disclose such decision to the shareholders of the Company.

(5) Convocation of the Confirmation Meeting

Upon implementing the countermeasures, the Board of Directors of the Company may convene a general meeting of shareholders (the "Confirmation Meeting") and confirm the intent of the Company's shareholders regarding the implementation of countermeasures if (a) the Independent Committee recommends implementation of the countermeasures subject to approval by the general meeting of shareholders in advance in accordance with section 5, sub-section (2)(B) below, or (b) the applicability of the requirements listed in (i) through (iv) of section 5, sub-section (2)(B) below becomes an issue regarding the Large-scale Purchase and the Board of Directors of the Company determines it appropriate to confirm the shareholders' intent taking into consideration the time required to convene a general meeting of shareholders and other matters pursuant to the duty of care of a good manager. The Board of Directors of the Company will timely disclose the outline of the resolution by the Confirmation Meeting to the shareholders of the Company.

5. Criteria to Implement Countermeasures and the Outline Thereto

(1) Cases where the countermeasures are not implemented

If the Large-scale Purchaser complies with the procedures under the Plan, the Board of Directors of the Company will not take any countermeasures against the Large-scale Purchase except in such cases as set forth in sub-section (2)(B) below but only persuade the shareholders of the Company by presenting a counter opinion regarding the Large-scale Purchaser's proposal or alternative proposal, even if the Board of Directors of the Company arrives at an opinion to oppose the Large-scale Purchase as a result of its examination and assessment during the Board of Directors Assessment Period. If no countermeasures are implemented as described above, the determination whether or not to accept a proposal for purchase by the

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Large-scale Purchaser is left to the shareholders of the Company following their consideration of the proposal and the Company's opinion regarding the Large-scale Purchaser's proposal or any alternative proposal presented by the Company.

(2) Cases where the countermeasures are implemented

(A) If the Large-scale Purchaser does not comply with the procedures under the Plan, the Board of Directors of the Company may take the countermeasures set forth in sub-section (3) below, which will respect and adhere to the recommendations of the Independent Committee to the fullest extent, against the Large-scale Purchaser to protect the corporate value of the Company and the common interests of shareholders unless there are any special circumstances such as the Large-scale Purchaser continues to provide information or it is necessary to discuss or negotiate with the Large-scale Purchaser.

(B) Even if the Large-scale Purchaser complies with the procedures under the Plan, the Board of Directors of the Company may still take the countermeasures set forth in sub-section (3) below to preserve the corporate value of the Company and the common interests of shareholders, respecting and adhering to the recommendation of the Independent Committee to the fullest extent, if the Large-scale Purchase falls under any requirement set forth in items (i) through (iv) below, and the Large-scale Purchase is obviously harmful to the corporate value of the Company and the common interests of shareholders, unless there are special circumstances such as the Large-scale Purchaser continues to provide information or it is necessary to discuss or negotiate with the Large-scale Purchaser. The Independent Committee may recommend implementation of the countermeasures subject to approval by the general meeting of shareholders in advance if the applicability of the requirements listed in (i) through (iv) below becomes an issue regarding the Large-scale Purchase.

(i) The purchase could cause obviously harm the corporate value of the Company and the common interests of the shareholders, due to the following conduct:

- (a) buy-out of the Company's shares in order to demand that the Company purchase the said shares at an inflated price;
- (b) set-up of management to serve the interests of the Large-scale Purchaser to the detriment of the Company by actions such as obtaining temporary control of the Company's management to enable the Large-scale Purchaser to make a low-cost acquisition of the Company's material assets, etc.;
- (c) diversion of the Company's assets to secure or repay the debts of the Large-scale Purchaser or of its group company; or
- (d) temporary control of the Company's management to bring about a disposal of its high-value assets that have no current relevance to the Company's business and declaring temporary high dividends from the profits of the disposal, or selling the shares at a high price, taking advantage of the opportunity afforded by the sudden rise in share price created by the

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temporary high dividends.

- (ii) In case the purchase threatens to have the effect of coercing the shareholders to sell their shares, such as in the case of a coercive two-tiered tender offer (meaning a takeover without offering to purchase all of the share certificates, etc. at first, that coerces the shareholders into accepting a front-end tender offer by setting unfavorable terms for the back-end of the transaction (including terms of the consideration that will be granted to the shareholders of the Company upon merger, etc., conducted after the completion of the Large-scale Purchase), or without specifically indicating the terms for the back-end of the transaction).
 - (iii) The terms of the purchase (including the type and amount of consideration, purchase timing, legality of the purchase method, feasibility of the purchase being effected, and post-purchase management policies, business plans and other policies dealing with the Company's other shareholders, employees, business acquaintances, medical institutions, customers, and other stakeholders) are inadequate or inappropriate in light of the Company's intrinsic value.
 - (iv) The purchase materially threatens to oppose the corporate value of the Company and the common interests of shareholders, by destroying relationships with the Company's shareholders, employees, business acquaintances, medical institutions, customers, and other stakeholders, which are indispensable to the generation of the Company's corporate value.
- (C) Notwithstanding the cases described in (A) and (B) above, even after the Independent Committee has already made a recommendation for the allotment of rights to subscribe for new shares for no consideration, if the Independent Committee determines that either of the events (i) or (ii) below applies, it may make a new recommendation that (a) (on or before the second business day prior to the ex-rights date with respect to the allotment of rights to subscribe for new shares for no consideration) the Company should suspend the allotment of rights to subscribe for new shares for no consideration, or (b) (from the effective date of the allotment of rights to subscribe for new shares for no consideration and until the day immediately prior to the commencement date of the exercise period of the rights to subscribe for new shares) the Company should acquire the rights to subscribe for new shares for no consideration.
- (i) The Large-scale Purchaser withdraws the Large-scale Purchase or the Large-scale Purchase otherwise ceases to exist after the recommendation.
 - (ii) There is no longer any event described in items (i) through (iv) of (B) above due to a change or the like in the facts or other matters on which the recommendation decision was made.

(3) Content of Countermeasures

Countermeasures that may be taken by the Board of Directors of the Company in any case set forth in sub-section (2) above (which will respect and adhere to the recommendations of the

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Independent Committee to the fullest extent) are those within its authority, permitted by the Companies Act or other applicable laws (e.g., the allotment of rights for shareholders to subscribe for new shares for no consideration). An outline of the allotment of rights for new shares for no consideration is set forth in EXHIBIT 3. If the Board of Directors actually implements the allotment, it may determine the exercise period and exercise conditions of the right to subscribe for new shares, including an exercise condition that prohibits a Group of shareholders that would constitute 20% or more of the holding ratio of share certificates, etc. or ownership ratio of share certificates, etc., from subscribing for new shares, to ensure the effectiveness thereof as a countermeasure.

6. Impact on Shareholders and Investors Resulting from the Countermeasures

(1) Impact upon Renewal

The allotment of the rights to subscribe for new shares for no consideration will not be conducted at the time of Renewal. It will not have any direct impact on the rights or interests of shareholders of the Company and investors.

(2) Impact on shareholders and investors at the time of implementing countermeasures (allotment of rights to subscribe for new shares for no consideration)

- (A) If the Company implements the allotment of rights to subscribe for new shares for no consideration as a countermeasure, the Board of Directors of the Company will designate the allotment date and make it public. Considering that one right to subscribe for new shares will be allotted for each common stock of the Company held by the shareholders of the Company other than the Company registered or recorded in the latest register of shareholders of the Company as of the allotment date, the ratio of the voting rights of the shareholders as of the allotment date will not be diluted. As the shareholders of the Company will become holders of the rights to subscribe for new shares as a matter of course on the effective date of the allotment of rights to subscribe for new shares, they will not be required to take any procedures including the application procedure.

In addition, even after the Board of Directors of the Company resolves the allotment of rights to subscribe for new shares for no consideration, the Company may, by respecting any recommendation of the Independent Committee described above in section 5, sub-section (2)(C) to the maximum extent, (i) (on or before the second business day prior to the ex-rights date with respect to the allotment of rights to subscribe for new shares for no consideration), suspend the allotment of rights to subscribe for new shares for no consideration, or (ii) (from the effective date of the allotment of rights to subscribe for new shares for no consideration and until the day immediately prior to the commencement date of the exercise period of the rights to subscribe for new shares) acquire the rights to subscribe for new shares for no consideration. In such cases, no dilution of the value per share in the Company held by the shareholders will result, and it is possible that any investors who have sold or bought shares in the Company expecting to see such a dilution will be subject to

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unforeseen loss as a result of a fluctuation in the share price.

Detailed procedures of the above allotment will be timely disclosed, upon actual allotment of rights to subscribe for new shares for no consideration.

- (B) The rights to subscribe for new shares are scheduled to include the condition that the Company may acquire such rights from the shareholders of the Company other than shareholders who constitute the Group of shareholders holding 20% or more of the holding ratio of share certificates, etc. or ownership ratio of share certificates, etc. (the “Purchaser with Exercise Restrictions”), and issue one share of common stock of the Company for each right to subscribe for new shares (Acquisition Clause) (provided, however, that the common stock of the Company for each right to subscribe for new shares may be fractional depending on the number of shares that are issuable at the time of the allotment of the rights to subscribe for new shares). If the Company acquires the rights to subscribe for new shares from the shareholders of the Company other than the Purchaser with Exercise Restrictions, and then issues one share of common stock of the Company for each right, the ratio of voting rights of the shareholders of the Company other than the Purchaser with Exercise Restrictions will not be diluted. Also, in this case, the shareholders of the Company other than the Purchaser with Exercise Restrictions, will not be required to pay money to the amount equivalent to the exercise price. The Company will timely give notification of, or make public, details of the procedures for the acquisition and upon actual acquisition.

7. Effective Term of the Plan

The Plan shall remain effective until the close of the annual general meeting of shareholders relating to the last fiscal year ending within three years after the conclusion of this Annual General Meeting of Shareholders.

Even after the Renewal being effected, the Board of Directors of the Company will review the Plan from time to time, even during the effective term, with the view to enhancing the corporate value of the Company and the common interests of shareholders, taking into account the enactments of various legislations, etc. at that time. If necessary, the Company may amend or abolish the Plan. Abolishment of the Plan during the effective term may be made by a resolution of the Board of Directors of the Company. Any change during the effective term in the outline of the Plan, specific procedures under the Plan, the criteria or any material matter regarding the criteria and the content of the countermeasures may be made by taking into consideration the opinions of shareholders of the Company as may be deemed appropriate, at a general meeting of shareholders or otherwise. Any other change thereto may be made by a resolution of the Board of Directors of the Company. If a change or abolishment takes place following a resolution of the Board of Directors of the Company, the Board of Directors of the Company will timely disclose the details thereof to the shareholders of the Company.

IV. DETERMINATION OF BOARD OF DIRECTORS OF THE COMPANY REGARDING MEASURES TO REALIZE BASIC POLICY AND REASONS THEREFOR

1. Special Measures to Realize the Basic Policy (Measures Described in Part II)

The measures to enhance the corporate value, for stable profit distribution policy and to strengthen corporate governance described in part II above are established as specific measures to maximize the corporate value of the Company and the common interests of shareholders and contribute to the realization of the basic policy.

These measures therefore conform to the corporate value of the Company and the common interests of shareholders in line with the basic policy and are not intended to maintain the status of directors and/or statutory auditors of the Company.

2. Measures to Prevent Decisions on the Company's Financial and Business Policies from being Controlled by Persons or Companies regarded as Inappropriate under the Basic Policy (Measures Described in Part III)

(1) Measures are in line with basic policy

The Plan is in line with the basic policy for the purpose of maintaining the corporate value of the Company and the common interests of its shareholders by ensuring the necessary time and information is made available for the shareholders to decide whether or not to accept the Large-scale Purchase of shares of the Company or for the Board of Directors of the Company to present an alternative proposal to the shareholders, and by enabling the Board of Directors of the Company to discuss and negotiate with the Large-scale Purchaser for the benefit of the shareholders when the Large-scale Purchase is to be effected.

(2) Measures are neither harmful to the corporate value of the Company or the common interests of shareholders nor intended to maintain the status of directors and/or statutory auditors of the Company

The Company believes that the Plan is neither harmful to the corporate value of the Company or the common interests of shareholders nor intended to maintain the status of directors and/or statutory auditors of the Company in light of the basic policy for the following reasons.

(A) Satisfaction of requirements under guidelines regarding takeover defense measures.

The Plan fully satisfies the three principles ((1) principle of ensuring and enhancing the corporate value and the common interests of shareholders, (2) principle of prior disclosure and confirming shareholders' intent, (3) principle of ensuring necessity and appropriateness), set out in the Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of Corporate Value and Shareholders' Common Interests released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005. Also, the Plan is reasonable by introducing details based on the Takeover Defense Measures in Light of Recent Environmental Changes released on June 30, 2008 by the Corporate Value Study Group established under the Ministry of Economy, Trade and Industry.

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(B) Placing high value on the intent of shareholders

The Plan will be renewed subject to the shareholders' approval at this Annual General Meeting of Shareholders.

The Board of Directors of the Company may, under certain circumstances, confirm the intent of the Company's shareholders at the Confirmation Meeting regarding the need to implement the Plan. Further, the Plan is subject to a so-called sunset clause setting the effective period of approximately three years and if, even before the expiration of the effective period of the Plan, the Board of Directors of the Company resolves to abolish the Plan, the Plan will be abolished at that time.

(C) Emphasis on the decisions of independent outside directors and obtaining the advice of third-party experts

The Company must obtain a recommendation from the Independent Committee, composed only of members who are independent outside directors, when making decisions for implementing the Plan.

Further, the Independent Committee may obtain advice from independent third-party experts at the Company's expense, which is a mechanism to even further ensure the fairness and objectivity of the decisions made by the Independent Committee.

(D) Establishment of reasonable, objective requirements

As set out above in section III.5(2) 'Cases where the countermeasures are implemented,' the Plan is established so that it will not be implemented unless reasonable and objective requirements have been satisfied, and ensures a structure to eliminate arbitrary implementing by the Board of Directors of the Company.

(E) Prevention of abuse of the Plan by the Board of Directors

The Plan may be abolished by a meeting of the Board of Directors composed of directors who are nominated by the Large-scale Purchaser and appointed at the Company's general meeting of shareholders. Therefore, the Plan is not a takeover defense measure in which even if a majority of the members of the Board of Directors are replaced, the implementing of the Plan cannot be stopped. Also, as the Company has not adopted a system of staggered terms of office for the Board of Directors, the Plan is not a takeover defense measure in which implementing takes more time to stop due to the fact that all members of the Board of Directors cannot be replaced at once.

OUTLINE OF THE INDEPENDENT COMMITTEE

(1) Purposes, etc., of the Independent Committee

The Independent Committee shall be established to secure the objectivity, fairness and reasonableness of the examination and assessment of the Large-scale Purchase and the Board of Directors' determination regarding whether or not to implement countermeasures. As such, the Independent Committee shall judge whether the Large-scale Purchaser complies with the procedures under the Plan, whether the Large-scale Purchase meets such requirements as set forth in items (i) through (iv) of part III, section 5, sub-section (2)(B) of the Renewal of the Countermeasures to Large-scale Purchase of the Company's Shares (Takeover Defense Measures), and whether the Large-scale Purchase is to be regarded as clearly harmful to the corporate value of the Company and the common interests of shareholders.

(2) Constitution

The Independent Committee shall consist only of outside directors of the Company.

(3) Term of Office

The term of office of the members of the Independent Committee shall be the same as the term of office of outside directors of the Company.

(4) Requirements for Resolutions

A resolution of the Independent Committee shall be made, as a general rule, by an affirmative vote of the majority of the outside directors at a plenary session. If a session is not plenary, a resolution of the Independent Committee shall be made by an affirmative vote of the majority of the outside directors present who shall constitute the majority of the total number of the members of the Independent Committee.

(5) Matters to be Resolved and Other Responsibilities

The Independent Committee shall be responsible, as a general rule, for the matters set forth in each item below:

- (A) to examine how the Large-scale Purchaser complies with the procedures under the Plan;
- (B) to determine whether the Large-scale Purchase Information submitted is complete or not;
- (C) if the Large-scale Purchase Information provided is insufficient, to require the Large-scale Purchaser, directly or through the Board of Directors, to submit additional information within such period determined to be reasonably necessary;
- (D) to establish the Independent Committee Assessment Period;
- (E) to extend the Independent Committee Assessment Period;
- (F) to discuss or negotiate with the Large-scale Purchaser directly or through the Board of Directors;
- (G) to require the Board of Directors of the Company to submit its opinion, within a

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- reasonable period, supporting materials, any other information, materials and the like that is deemed by the Independent Committee to be reasonably necessary;
- (H) during the Independent Committee Assessment Period, to require the directors, statutory auditors, employees and the like of the Company, to attend, as necessary, the meetings of the Independent Committee, and to provide explanations of the matters that the Independent Committee may ask explanations for;
 - (I) during the Independent Committee Assessment Period, to grasp the intent of the shareholders of the Company;
 - (J) during the Independent Committee Assessment Period, to ask for the advice of its customers, business acquaintances, employees and the like as necessary;
 - (K) to perform examination and assessment of the Large-scale Purchase Information, as well as the information and materials provided by the Board of Directors;
 - (L) to make a decision as to whether or not to implement countermeasures in compliance with the criteria set forth in the Plan;
 - (M) to determine whether the Confirmation Meeting should be convened regarding the implementation of the countermeasures in accordance with criteria under the Plan;
 - (N) to provide a recommendation to the Board of Directors based on the foregoing decision;
 - (O) during the Independent Committee Assessment Period, to appoint or request third parties (including financial advisors, certified public accountants, lawyers, consultants and other professionals), who are independent from the management of the Company, to obtain their advise; and
 - (P) other matters incidental to the foregoing items.

PROFILES OF THE MEMBERS OF THE INDEPENDENT COMMITTEE

The following three persons are scheduled to be the members of the Independent Committee upon Renewal.

Isao MURAMATSU (August 14, 1939)

January 1984 Vice President, Sales, Pfizer Japan
July 1991 Representative Director, Executive Vice President and General Manager, Pharmaceuticals, Bristol-Myers Squibb Japan
December 1992 President and Representative Director, SmithKline Beecham Japan
April 2001 Board Member, Senior Advisor, GlaxoSmithKline Japan
April 2002 Representative Director, Pinecrest Company (incumbent)
June 2005 Outside Director of the Company (incumbent)
June 2007 External Director, Sosei Group Corporation (incumbent)

Isao Muramatsu is an outside director of the Company, as set out in Article 2, Item 15 of the Companies Act. He is to be re-appointed as an outside director of the Company subject to approval at this Annual General Meeting of Shareholders. He is designated as an independent officer of the Company.

Noboru KOTANI (November 31, 1956)

June 2000 Director, Dream Incubator Inc.
April 2005 Representative Director, Vehicle Inc. (incumbent)
June 2005 Outside Director of the Company (incumbent)
June 2005 Outside Director of Combi Corporation (incumbent)
December 2006 Outside Director of JIN CO., LTD (incumbent)

Noboru Kotani is an outside director of the Company, as set out in Article 2, Item 15 of the Companies Act. He is to be re-appointed as an outside director of the Company subject to approval at this Annual General Meeting of Shareholders. He is designated as an independent officer of the Company.

Tatsuhiko HAMAMOTO (September 9, 1940)

June 1995 Statutory Auditor on the Board of Kawasaki Steel Corporation
June 1998 Chairman of the Board of Directors, California Steel Industry Inc.
May 2006 Outside Statutory Auditor, the Daiei, Inc.
January 2007 Outside Statutory Auditor, JAPAN JOB POSTING SERVICE, INC.
June 2008 Outside Director of the Company (incumbent)

Tatsuhiko Hamamoto is an outside director of the Company, as set out in Article 2, Item 15 of the Companies Act. He is to be re-appointed as an outside director of the Company subject to approval

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at this Annual General Meeting of Shareholders. He is designated as an independent officer of the Company.

OUTLINE OF RIGHTS TO SUBSCRIBE FOR NEW SHARES

- (1) Shareholders who are entitled to receive the right to subscribe for new shares for no consideration and terms for allotment

The shareholders of common stocks of the Company registered or recorded in the latest register of shareholders as of the allotment date, determined by resolution of the Board of Directors of the Company on the allotment of rights to subscribe for new shares for no consideration (the "Allotment Resolution"), will be allotted one right for each share of common stock of the Company held by them (except for the common stock held by the Company).

- (2) The type and number of shares to be acquired upon the exercise of rights to subscribe for new shares

The type of shares that may be acquired upon the exercise of rights to subscribe for new shares shall be common stock of the Company, and the number of shares that may be acquired upon the exercise of each right to subscribe for new shares shall be one share; provided, however, that the common stock of the Company for each right to subscribe for new shares may be fractional depending on the number of shares that are issuable at the time of the allotment of the rights to subscribe for new shares.

- (3) The total number of rights that may be allotted for the subscription for new shares to be issued
- The total number of rights that may be allotted for the subscription for new shares shall be the total number of outstanding shares of common stock of the Company on the allotment date (excluding the number of shares of common stock then held by the Company). The Board of Directors of the Company may conduct the allotment of rights to subscribe for new shares for no consideration multiple times.

- (4) Effective date of allotment of the right to subscribe for new shares for no consideration
- The effective date of allotment of the right to subscribe for new shares for no consideration shall be separately determined in the Allotment Resolution by the Board of Directors of the Company.

- (5) The amount to be paid in upon the exercise of the right to subscribe for new shares
- The amount to be paid in upon the exercise of each right to subscribe for new shares shall be one Japanese yen or more, to be determined by the Board of Directors. If the Company acquires the rights to subscribe for new shares held by a shareholder which have not been exercised and delivers common stock of the Company to the relevant shareholder pursuant to section (9) below, such shareholder will not be required to pay money to an amount equivalent to the exercise price for rights to subscribe for new shares.

- (6) Restriction on the transfer of rights to subscribe for new shares
- The transfer of rights to subscribe for the new shares by way of assignment thereof shall require the approval of the Board of Directors of the Company.

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(7) Conditions for the exercise of rights to subscribe for new shares

The rights are exercisable subject to certain conditions, which include prohibiting a person or company that belongs to a Group of shareholders, which own 20 % or more of the holding ratio of share certificates, etc. or ownership ratio of share certificates, etc. from exercising the right to subscribe for new shares. Details for the conditions for exercise of the rights that are not otherwise stated herein shall be determined in the Allotment Resolution by the Board of Directors of the Company.

(8) Exercise period of rights to subscribe for new shares

The exercise period shall be separately determined in the Allotment Resolution by the Board of Directors of the Company.

(9) Acquisition by the Company of rights to subscribe for new shares

On the date to be determined by the Board of Directors of the Company, the Company may acquire all rights to subscribe for new shares held by persons or companies, other than those who cannot exercise the right to subscribe for new shares under section (7) above, that have not been exercised before or on the date immediately prior to such date. In exchange, the Company will deliver one share of common stock of the Company for each right to subscribe for new shares, to the relevant shareholders; provided, however, that the common stock of the Company for each right to subscribe for new shares may be fractional depending on the number of shares that are issuable at the time of the allotment of the rights to subscribe for new shares.

(10) Other

In addition to the matters described above, the details of the rights to subscribe for new shares shall be separately determined in the Allotment Resolution.

Consolidated balance sheets

As of March 31, 2010

(Millions of yen)

Assets

Current assets:	118,832
Cash and deposits	56,677
Notes and accounts trade receivables	35,268
Marketable securities	8,998
Inventories	13,623
Deferred tax assets	2,166
Other current assets	2,098
Allowance for doubtful receivables	(0)
Fixed assets:	48,046
Tangible assets	26,574
Buildings and structures	14,622
Machinery, equipment and vehicles	1,994
Land	8,418
Leased assets	97
Construction in progress	43
Other tangible assets	1,397
Intangible assets	1,231
Software	1,158
Other intangible assets	72
Investments and other assets	20,240
Investment securities	12,239
Deferred tax assets	6,702
Other assets	1,299
Total assets	166,878

Liabilities and net assets

Current liabilities:	25,286
Trade accounts payable	5,600
Short-term debt	543
Other payables	7,936
Income taxes payable	6,618
Reserve for bonuses	2,687
Other reserves	81
Other current liabilities	1,819
Non current liabilities:	3,988
Lease obligations	74
Deferred tax liabilities	15
Reserve for retirement benefits	2,910
Reserve for retirement benefits for directors and auditors	456
Other non current liabilities	531
Total liabilities	29,275
Shareholders' equity:	141,866
Common stock	6,538
Capital surplus	7,233
Retained earnings	133,053
Treasury stock at cost	(4,958)
Valuation, translation adjustments:	(4,524)
Unrealized gains on securities, net of taxes	136
Foreign currency translation adjustments	(4,660)
Stock subscription rights:	260
Total net assets	137,603
Total liabilities and net assets	166,878

Consolidated statements of income

(Millions of yen)

Year ended March 31, 2010

Net sales	110,594
Cost of sales	34,710
Selling, general and administrative expenses	46,244
Operating income	29,640
Non-operating income:	842
Interest and dividend income	417
Gain on insurance received	128
Other	296
Non-operating expense:	620
Interest expense	52
Loss on foreign currency exchange	382
Equity in losses of affiliates	106
Other	78
Ordinary income	29,862
Extraordinary gain:	74
Gain on sales of investment securities	74
Extraordinary loss:	1,327
Loss on impairment of fixed assets	397
Loss on sale of investment securities	197
Loss on valuation of investment securities	253
Equity in losses of affiliates	457
Other	20
Income before income taxes	28,610
Income taxes:	
Current	10,687
Deferred	(800)
Net income	18,722

Consolidated statements of changes in net assets

(Millions of yen)

Year ended March 31, 2010

	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total Shareholders' equity
Balance as of March 31, 2009	6,457	7,152	121,133	(4,934)	129,808
Changes during fiscal period					
Exercise of stock options	81	81			163
Cash dividends from retained earnings			(6,803)		(6,803)
Net income			18,722		18,722
Repurchase of treasury stock, net				(24)	(24)
Retirement of treasury stock		0		0	0
Other					—
Total changes during fiscal period	81	81	11,919	(23)	12,058
Balance as of March 31, 2010	6,538	7,233	133,053	(4,958)	141,866

	Unrealized gains on securities, net of taxes	Foreign currency translation adjustments	Total valuation, translation adjustment	Stock subscription rights	Total net assets
Balance as of March 31, 2009	(246)	(4,381)	(4,628)	188	125,368
Changes during fiscal period					
Exercise of stock options					163
Cash dividends from retained earnings					(6,803)
Net income					18,722
Repurchase of treasury stock, net					(24)
Retirement of treasury stock					0
Other	383	(279)	103	72	175
Total changes during fiscal period	383	(279)	103	72	12,234
Balance as of March 31, 2010	136	(4,660)	(4,524)	260	137,603

Non consolidated balance sheets

As of March 31, 2010

(Millions of yen)

Assets

Current assets:	109,214
Cash and deposits	50,745
Notes receivable	765
Accounts receivable	32,809
Marketable securities	8,998
Finished goods and Merchandise	9,446
Work in process	53
Raw materials and supplies	1,475
Deferred tax assets	2,225
Other current assets	2,693
Allowance for doubtful receivables	(0)
Fixed assets:	59,572
Tangible assets	22,070
Buildings	11,540
Structures	238
Machinery and equipment	1,071
Vehicles	3
Tools, furniture and fixtures	989
Land	8,193
Leased assets	17
Construction in progress	17
Intangible assets	1,010
Trademarks	7
Software	960
Other intangible assets	43
Investments and other assets	36,491
Investment securities	12,214
Investments in subsidiaries	17,268
Deferred tax assets	5,851
Other assets	1,158
Total assets	168,787

Liabilities and net assets

Current liabilities:	22,814
Trade accounts payable	5,416
Lease obligations	4
Other payables	7,727
Accrued expense	158
Income taxes payable	6,599
Consumption taxes payable	468
Deposits	114
Reserves for bonuses	2,244
Reserves for returned goods	81
Non current liabilities:	3,329
Lease obligations	14
Reserve for retirement benefit	2,858
Reserve for retirement benefits for directors and auditors	456
Other	0
Total liabilities	26,144
Shareholders' equity:	142,246
Common stock	6,538
Capital surplus	7,233
Additional paid-in capital	7,233
Other capital surplus	0
Retained earnings	133,432
Earnings reserve	1,551
Other retained earnings	131,881
Reserve for retirement benefit	372
Special depreciation reserve	124
General reserve	89,109
Retained earnings carried forward	42,276
Treasury stock at cost	(4,958)
Valuation, translation adjustments:	136
Unrealized gains on securities, net of taxes	136
Stock subscription rights:	260
Total net assets	142,643
Total liabilities and net assets	168,787

Non consolidated statements of income

(Millions of yen)

Year ended March 31, 2010

Net sales	100,528
Cost of sales	31,062
Selling, general and administrative expenses	40,787
Operating income	<u>28,677</u>
Non-operating income:	744
Interest and dividend income	402
Gain on insurance received	128
Other	213
Non-operating expense:	422
Interest expense	18
Loss on foreign currency exchange	375
Other	28
Ordinary income	<u>29,000</u>
Extraordinary gain:	74
Gain on sales of investment securities	74
Other	0
Extraordinary loss:	1,248
Loss on impairment of fixed assets	397
Loss on sale of investment securities	197
Loss on valuation of investment securities	253
Equity in losses of affiliates	380
Other	19
Income before income taxes	<u>27,826</u>
Income taxes:	
Current	10,652
Deferred	(773)
Net income	<u><u>17,947</u></u>

Non consolidated statements of changes in net assets

(Millions of yen)

Year ended March 31, 2010

	Capital surplus			Retained earnings					Treasury stock at cost	Total Shareholders' equity
	Common stock	Additional paid-in capital	Other capital surplus	Earnings reserve	Other retained earnings			Retained earnings carried forward		
					Reserve for retirement benefit	Special depreciation reserve	General reserve			
Balance as of March 31, 2009	6,457	7,151	0	1,551	372	196	89,109	31,060	(4,934)	130,963
Changes during fiscal period										
Exercise of stock options	81	81								163
Cash dividends from retained earnings								(6,803)		(6,803)
Reversal of special depreciation reserve						(72)		72		—
Net income								17,947		17,947
Repurchase of treasury stock, net									(24)	(24)
Retirement of treasury stock			0						0	0
Other										—
Total changes during fiscal period	81	81	0	—	—	(72)	—	11,216	(23)	11,283
Balance as of March 31, 2010	6,538	7,233	0	1,551	372	124	89,109	42,276	(4,958)	142,246

	Unrealized gains on securities, net of taxes	Total valuation, translation adjustment	Stock subscription rights	Total net assets
Balance as of March 31, 2009	(246)	(246)	188	130,905
Changes during fiscal period				
Exercise of stock options				163
Cash dividends from retained earnings				(6,803)
Reversal of special depreciation reserve				—
Net income				17,947
Repurchase of treasury stock, net				(24)
Retirement of treasury stock				0
Other	383	383	72	455
Total changes during fiscal period	383	383	72	11,738
Balance as of March 31, 2010	136	136	260	142,643