

## **Change in Issuance of Rights to Subscribe for New Shares as Stock Options for Directors**

**May 23, 2006, Osaka, Japan** -- Santen Pharmaceutical Co., Ltd. (President and CEO: Takakazu Morita; Headquarters: Osaka, Japan) announced that its Board of Directors today adopted a revised resolution to issue rights to subscribe for new shares as stock options without consideration, to authorize the Board of Directors of the Corporation to determine the matters regarding offering of shares pursuant to the provisions under Articles 238, etc. of the Corporations Act, and the details of rights to subscribe for new shares stock options to be allotted to Directors of the Corporation as remuneration other than money pursuant to the provisions under Article 361 of the Corporations Act.

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

The Corporation plans to issue rights to subscribe for new shares of the Corporation without consideration to directly link the remuneration of Directors to the creation of medium- and long-term corporate value; to raise the motivation and morale of the Directors of the Corporation, for improvement in the Corporation's business results; and to further enhance corporate 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 Corporation

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

61,500 shares of common stock of the Corporation.

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 Corporation 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 following formula; however, the adjustment shall be made solely to 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 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.

Number of shares after adjustment = Number of shares before adjustment x Percentages of a free share allotment, a splitting or consolidation of shares.

Also, in the event that it is appropriate to change the number of shares by means of merger, a reduction of the stated capital other than those described in the above, the Corporation 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

Maximum of 615 rights to subscribe for new shares shall be issued within one (1) year after the day of this Annual General Meeting of Shareholders.

(However, in the event any adjustment is made to the number of shares as stated in 2. (2) above, the number of shares to be issued for one right to subscribe for new shares shall be adjusted in the same way.)

(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 placing of shares may be determined based on the authorization by this Annual General Meeting of Shareholders, the amount to be paid shall be without consideration (i.e., it is not required to pay an amount of money in return for such rights 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 (hereinafter referred to as the "Exercise Price") multiplied by the number of shares to be allotted for one right to subscribe for new shares as provided under 2. (3) above.

The Exercise Price shall be the average of the closing prices (hereinafter, the "Closing Price") of the Corporation'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 (hereinafter referred to as the "Closing Price"). 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 where there is no Closing Price of such date, 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 Corporation 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:

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

In the event the Corporation 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:

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

Please be informed that the number of treasury stock held by the Corporation shall be deducted from the “number of shares issued” set forth in the above formula; also, in the event that the Corporation 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.”

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

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

From June 28, 2008 to June 24, 2016

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

- 1) A person who has been granted rights to subscribe for new shares shall be required to hold the post of Director of the Corporation during the period for exercising rights to subscribe for new shares; however, the grantee may exercise the right to subscribe for new shares in the event that the grantee retires for legitimate reasons, such as expiry of the term of the office.
- 2) 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 Corporation.
- 3) In the event that of the death of a holder of rights to subscribe for new shares, a successor may exercise rights to subscribe for new shares.
- 4) 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 Corporation 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

- 1) 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 paragraph 1, Article 40 of the

Ordinance for the Settlements of Accounts of Corporations. Any amount less than one yen arising out of this calculation shall be rounded upward to the nearest yen.

- 2) 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 the 1) above.

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

- 1) If a merger agreement, under which the Corporation becomes the disappearing corporation, 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 Corporation shall become a wholly-owned subsidiary is approved at General Meeting of Shareholders or the Board of Directors of the Corporation, the Corporation may revoke the rights to subscribe for new shares without consideration on a day separately determined by the Board of Directors of the Corporation.
- 2) 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 2. (7) 1) above before exercising 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 Corporation.

(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 Corporation.

(11) Treatment of fractional shares

Any fractional share, 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.

(12) Fair amount of right to subscribe for new shares

The fair amount of the right to subscribe for new shares shall be calculated adopting Black-Sholes model based on the market value per share based on several conditions as of the allotment date.

\*For your information, the fair amount, calculated adopting Black-Sholes model as of March 31, 2006 is 593.59 yen per share.

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