

Santen to Issue Rights to Subscribe for New Shares as Stock Options in favor of Directors

May 10, 2011, Osaka, Japan--- Santen Pharmaceutical Co., Ltd. announced that its Board of Directors, on May 10, adopted a resolution to make a proposal at the 99th Annual General Meeting of Shareholders (the “Annual General Meeting of Shareholders”) to be held on June 22, 2011, for shareholders’ approval, (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 pursuant to the provisions of Article 238, etc. of the Companies Act; and (ii) to approve the details of the rights to subscribe for new shares as stock options to be allotted to the three 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 details of the rights to subscribe for new shares are to be determined in due form through a resolution at the Annual General Meeting of Shareholders and at the meeting of the Board of Directors to be held thereafter.

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 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 exercise of the 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 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"), multiplied by the number of shares to be allotted for one right to subscribe for new shares as provided under (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"). 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 the 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 shares issued” set forth in the above formula refers to the aggregate number of shares issued by the Company minus the number of treasury stock held by the Company; also, in the event that the Company conducts a disposition of treasury stock, the “number of new shares issued” shall be deemed replaced with the “number of shares of treasury stock disposed of,” and the “market price before issuance of new shares” shall be deemed 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 24, 2013 to June 22, 2021

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

- 1) A holder of the 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 due to the expiration of the term of office.
- 2) A 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.

- 3) In the event of the death of the holder of the rights to subscribe for new shares, a successor may exercise the rights to subscribe for new shares.
- 4) Other details relating to the exercise of the 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 the 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 the 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 17 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.
- 2) The amount of the capital reserve to be increased in the event that new shares are issued upon exercise of the 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 1) above.

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

- 1) 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.
- 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 (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.