

Santen to Grant Rights to Subscribe for New Shares as Stock Options as Stock-Linked Remuneration

August 5, 2014, Osaka, Japan – Santen Pharmaceutical Co., Ltd. (the “Company”) announced that its Board of Directors, at a meeting held today, decided to issue rights to subscribe for new shares to its executives including the Directors (excluding the Outside Directors) and Corporate Officers as stock option as stock-linked remuneration pursuant to the provisions of Article 238 and other provisions of the Companies Act, and determined the outline of the subscription thereof as described below.

Details

1. Purpose of the issuance of rights to subscribe for new shares as stock options

The Company reviewed its remuneration system for the executives in 2013, aiming to strengthen its features to reward the executives for the Company’s achievement of the medium-and-long-term goals and the enhancement of shareholder value.

As part of the said review, the Company decided to issue rights to the Directors (excluding the Outside Directors) and Corporate Officers to subscribe for new shares as stock option as stock-linked remuneration.

2. Outline of the issuance of rights to subscribe for new shares

(1) Name of rights to subscribe for new shares

The Second Rights to Subscribe for New Shares (as Stock-Linked Remuneration)

(2) Grantees of the allotment of rights to subscribe for new shares and number thereof

Two (2) Directors (excluding the Outside Directors) and ten (10) Corporate Officers of the Company.

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

34,500 shares of common stock of the Company (consisting of 10,300 shares for the Directors, and 24,200 shares for the Corporate Officers)

In the event the Company conducts a split or consolidation of the shares, the number of shares to be issued shall be adjusted in accordance with the formula shown below. However, the adjustment shall be made only 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 split or consolidation of the shares, and any fraction of a share that is less than one (1) share arising out of such adjustment shall be disregarded. Upon the occurrence of any event other than

those described above where it is appropriate to change the number of shares to be issued, the Company may adjust the said number to the extent it is reasonable by a resolution of the Board of Directors.

$$\begin{array}{r} \text{Number of} \\ \text{shares} \\ \text{after} \\ \text{adjustment} \end{array} = \begin{array}{r} \text{Number of} \\ \text{shares} \\ \text{before} \\ \text{adjustment} \end{array} \times \begin{array}{r} \text{Percentage of split} \\ \text{or consolidation of shares} \end{array}$$

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

345 rights (consisting of 103 rights for the Directors, and 242 rights for the Corporate Officers)

The number of shares of common stock to be issued for one (1) right to subscribe for new shares shall be 100 shares.

The aforesaid number represents the scheduled number of shares to be allotted, and in the event the aggregate number of rights to subscribe for new shares decreases including cases where no offer for subscription is made, the aggregate number of rights to subscribe for new shares to be allotted shall be the aggregate number of rights to subscribe for new shares to be issued. If the adjustment described in subsection (3) above is made, then the number of shares to be issued for rights to subscribe for new shares shall also be adjusted accordingly.

(5) Method of calculation of the issue price for rights to subscribe for new shares

The issue price shall be calculated as of the allotment date of rights to subscribe for new shares based on the Black-Scholes model, which is one of the methods of fairly assessing rights to subscribe for new shares. However, in lieu of the monetary payment, the grantee of the allotment shall set off the claim for remuneration held by him against the Company with his obligation to pay for his right to subscribe for new shares as of the allotment date of rights to subscribe for new shares.

The method of calculation using the Black-Scholes model is as described below:

$$C = e^{-rt}SN(d_1) - e^{-rt}kN(d_2)$$

However,

$$d_1 = \frac{\ln\left(\frac{S}{k}\right) + (r - q + \frac{1}{2}\sigma^2)t}{\sigma\sqrt{t}}$$

$$d_2 = d_1 - \sigma\sqrt{t}$$

- (i) Option price per share (C)
- (ii) Criterion share price (S): Closing price of the common shares of the Company in regular transactions at the Tokyo Stock Exchange on August 31, 2014 (if there is no closing price, the basic price of the trading day immediately before the said date)
- (iii) Exercise price (k): One (1) yen
- (iv) Expected remaining period (t): Six and a half (6.5) years
- (v) Volatility (σ): Those calculated based on the closing price of the common shares of the

Company in regular transactions as of each day for Six and a half (6.5) years (from February 29, 2008 to August 31, 2014)

- (vi) Risk-free interest rate (r): Interest rate of national government bonds, the remaining years to maturity of which correspond to the expected remaining period
 - (vii) Prospective dividend yield (q): Dividend per share (actual amount of the dividend paid as at the six month period ended September 30,2013 and the end of the fiscal year ended March 31,2014) divided by the stock price stated in item (ii) above
 - (viii) Cumulative distribution function of the standard normal distribution ($N(\cdot)$)
- (6) 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 (as a result of the said exercise) which is one (1) *yen* per share multiplied by the number of shares to be granted.
- (7) Allotment date of rights to subscribe for new shares
August 31, 2014.
- (8) Period during which rights to subscribe for new shares may be exercised
From September 1, 2017 to September 1, 2024.
- (9) Conditions of exercising rights to subscribe for new shares
- (i) A grantee shall be required to hold the post of Director or Corporate Officer of the Company during the period for exercising the rights to subscribe for new shares. However, the foregoing shall not apply in the event that the grantee retires due to the expiration of the term of office or if there is any other legitimate reason.
 - (ii) A partial exercise of one (1) right to subscribe for new shares may only be made if 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 (1) stock trade unit of the Company.
 - (iii) In the event of the death of a grantee, a successor may exercise the rights to subscribe for new shares.
 - (iv) Any right to subscribe for new shares may not be pledged or otherwise disposed in any manner whatsoever.
 - (v) Other conditions of exercising 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.
- (10) 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 the 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 (1) *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 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 item (i) above.

(11) Matters relating to the acquisition of rights to subscribe for new shares

If any of the proposals enumerated in items (i) through (iii) below is approved in a general meeting of shareholders of the Company (or, where a resolution by the general meeting of shareholders is not necessary, if a resolution to approve the same is passed in the Board of Directors of the Company), then the Company may acquire the rights to subscribe for new shares without consideration on a day separately determined by the Board of Directors of the Company.

- (i) A proposal for approval of a merger agreement under which the Company will become the dissolved company;
- (ii) A proposal for approval of an agreement on an absorption-type company split or an incorporation-type company split under which the Company will become the split company; or
- (iii) A proposal for approval of a share-for-share exchange agreement or a share transfer under which the Company will become a wholly-owned subsidiary.

(12) 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.

(13) Treatment of rights to subscribe for new shares upon the occurrence of a corporate reorganization

If the Company conducts a merger (only a merger under which the Company will become dissolved), an absorption-type company split, an incorporation-type company split, a share exchange or a share transfer (collectively, the “Corporate Reorganization”), then the Company shall deliver the rights to subscribe for new shares of any of the stock companies described in (a) to (e) of Article 236, Paragraph 1, Item (viii) of the Companies Act, as applicable (the “Reorganized Company”), to each of the grantees with remaining rights to subscribe for new shares (the “Remaining Rights to Subscribe for New Shares”) pursuant to the terms and conditions described below immediately before the Corporate Reorganization becomes effective. In this case, the Remaining Rights to Subscribe for New Shares shall be extinguished and the Reorganized Company shall issue rights to subscribe for new shares anew.

Provided, however, that the foregoing shall be subject to a provision in the agreement on the absorption-type merger, the incorporation-type merger, the absorption-type company split, the incorporation-type company split plan, the share exchange agreement, or the share transfer plan to the effect that the Company shall deliver the rights to subscribe for new shares of the Reorganized Company under the following terms and conditions.

- (i) Number of rights to subscribe for shares of the Reorganized Company to be granted
The number of rights to subscribe for shares to be granted shall be identical to the number of the Remaining Rights to Subscribe for New Shares held by the grantees.

- (ii) Class of shares of the Reorganized Company to be issued for rights to subscribe for new shares
It shall be the common stock of the Reorganized Company.
- (iii) Number of shares of the Reorganized Company to be issued for rights to subscribe for new shares
It shall be determined according to subsection (3) above, taking into consideration the terms and conditions or the like of the Corporate Reorganization.
- (iv) 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 to be granted shall be the amount of the payment after the reorganization stipulated below multiplied by the number of shares of the Reorganized Company to be issued for rights to subscribe for new shares. The amount of the payment after the reorganization shall be one (1) *yen* per share of the Reorganized Company receivable upon the exercise of each right to subscribe for new shares to be granted.
- (v) Period during which rights to subscribe for new shares may be exercised
From the later of the date of the commencement of the period during which the Remaining Rights to Subscribe for New Shares may be exercised as provided in subsection (8) above or the effective date of the Corporate Reorganization, until the date of expiration of the period during which the Remaining Rights to Subscribe for New Shares may be exercised as provided in subsection (8).
- (vi) Matters relating to the 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
They shall be determined according to subsection (10) above.
- (vii) Restriction on the acquisition of rights to subscribe for new shares by a transfer
The acquisition of rights to subscribe for new shares by a transfer shall require the approval of the Board of Directors of the Reorganized Company.
- (viii) Matters relating to the acquisition of rights to subscribe for new shares
They shall be determined according to subsection (11) above.
- (ix) Other conditions of exercising rights to subscribe for new shares
They shall be determined according to subsection (9) above.