

Securities code: 4536

May 31, 2011

**CONVOCATION NOTICE OF  
THE 99TH ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholder:

We would like to express our deepest sympathies and heartfelt condolences to all those affected by the Great East Japan Earthquake, and we also sincerely wish the earliest possible recovery of the affected area.

We hereby inform you of the 99th 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 21, 2011; 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 22, 2011 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 99th Business Term (April 1, 2010 to March 31, 2011)
  2. Independent Auditor Report and Corporate Auditor Report on the Consolidated Financial Statements for the 99th Business Term (April 1, 2010 to March 31, 2011)

### **Items for Resolution:**

- Proposal No. 1** Appropriation of Surplus
- Proposal No. 2** Appointment of Six (6) Directors
- Proposal No. 3** Appointment of Two (2) Corporate Auditors
- Proposal No. 4** Grant of Retirement Allowance to the Retiring Directors
- Proposal No. 5** Issuance of Rights to Subscribe for New Shares as Stock Options in favor of the Directors
- Proposal No. 6** Issuance of Rights to Subscribe for New Shares as Stock Options in favor of the Corporate Officers

### **4. Matters Determined concerning the Convocation**

Please see the “Information concerning the Exercise of Voting Rights, Etc.” on page 17\*.

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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) ratio<sup>1</sup> 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 99th Business Term

For the 99th 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 5.3 %.

- (1) Kind of dividend property: cash
- (2) Matters concerning the distribution of the dividend property to shareholders and the aggregate amount thereof: JPY50 per share of the common stocks of the Company, which amounts to JPY 4,352,631,950 in the aggregate. Consequently, the total dividends for the annual business term, including the interim dividends previously distributed (JPY40 per share), will be JPY 90 per share, which means a dividend increase of JPY 10 per share compared to the previous business term.
- (3) Effective date of distribution of the dividends from the surplus: June 23, 2011

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<sup>1</sup> 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 Six (6) 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 six (6) Directors specified below.

The candidates for Director 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	<b>Akira KUROKAWA</b> (September 5, 1952)	<p>April 1977      Joined the Company                      April 1997      General Manager, Office of the Head of Sales &amp; Marketing Division - Prescription Pharmaceuticals                      June 1997      Director                      June 1998      Deputy Head of Sales &amp; Marketing Division - Prescription Pharmaceuticals                      May 2001      Head of Sales &amp; Marketing Division, Prescription Pharmaceuticals                      June 2001      Corporate Officer                      July 2004      Senior Corporate Officer                      June 2006      President &amp; COO                      June 2008      President of Santen Holdings U.S., Inc. (incumbent)                      June 2008      President &amp; CEO (incumbent)</p> <p>Material representative positions held in other juridical persons:                      Representative Director of Santen Holdings U.S., Inc.                      Director of Santen Inc.                      Director of Santen Oy                      Director of Santen Pharmaceutical (China) Co., Ltd.</p>	25,000 shares
2	<b>Toshiaki NISHIHATA</b> (November 4, 1948)	<p>August 1990      Department Manager, Pharmaceutical Development Department, Upjohn Pharmaceuticals Limited Tsukuba Research Laboratories                      March 1996      Joined the Company                      July 1999      Corporate Officer                      May 2001      Corporate Officer, Head of QA/QC &amp; Environmental Auditing Division and Head of R&amp; D Strategic Integration Division                      December 2002      Head of R&amp;D Division                      July 2004      Senior Corporate Officer                      June 2009      Director (incumbent)                      April 2010      President and C.E.O. of Santen Inc. (incumbent)                      April 2011      Executive Corporate Officer, U.S. and Europe Business, Head of Research and Development Division (incumbent)</p> <p>Material representative positions held in other juridical persons:                      President &amp; CEO of Santen Inc.                      Director of Santen Holdings U.S., Inc.</p>	14,100 shares

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3	<b>*Sadatoshi FURUKADO</b> (January 14, 1954)	<p>April 1977 November 1996</p> <p>April 2000</p> <p>July 2005 June 2006</p> <p>July 2007 April 2011</p>	<p>Joined the Company Area Manager, Tokai Area, Sales &amp; Marketing Division - Prescription Pharmaceuticals Head of Prescription Pharmaceuticals Sales Department Corporate Officer Head of Sales &amp; Marketing Division, Prescription Pharmaceuticals Senior Corporate Officer Executive Corporate Officer, Japan and Asia Business and Head of Sales &amp; Marketing Division - Prescription Pharmaceuticals (incumbent)</p>	1,000 shares
4	<b>Isao MURAMATSU</b> (August 14, 1939)	<p>January 1984</p> <p>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</p>	<p>Vice President, Sales, Pfizer Taito Co., Ltd. Representative Director, Executive Vice President and General Manager, Pharmaceuticals, Bristol-Myers Squibb Japan President and Representative Director, SmithKline Beecham Japan Board Member, Senior Adviser, GlaxoSmithKline Japan Representative Director, Pinecrest Company (incumbent) Outside Director of the Company (incumbent) External Director, Sosei Group Corporation (incumbent)</p>	Nil
5	<b>Noboru KOTANI</b> (November 13, 1956)	<p>June 2000 April 2005</p> <p>June 2005</p> <p>June 2005</p> <p>December 2006</p> <p>Material representative positions held in other juridical persons: 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
6	<b>*Akihiro OKUMURA</b> (December 1, 1945)	<p>April 1988</p> <p>October 2008 October 2008</p> <p>December 2008</p> <p>April 2011</p> <p>Material representative position held in another juridical person: Dean, Graduate School of Management and Information of Innovation, University of Shizuoka</p>	<p>Professor, Keio Business School, Keio University Professor Emeritus, Keio University Professor, School of Management and Information, University of Shizuoka Dean, Graduate School of Management and Information, University of Shizuoka Dean, Graduate School of Management and Information of Innovation, University of Shizuoka (incumbent)</p>	Nil

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

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

(Note 3) The Company designated both Isao Muramatsu and Noboru Kotani 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. Upon the approval of the appointment of Akihiro Okumura under this Proposal, it is the intention that he will also be an Independent Officer, and the Company has filed his name accordingly as well.

(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 six (6) 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 six (6) years when this Annual General Meeting of Shareholders closes.

(iii) As regards Akihiro Okumura, considering that he has extensive knowledge and experience amassed through long years of his professorship of business administration at the undergraduate and graduate schools of several universities, albeit he has no experience of direct involvement in the management of companies, the Board of Directors believes that he is well-qualified to be an Outside Director, and, proposes his appointment as such.

(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 both Isao Muramatsu and Noboru Kotani, the candidates for Outside Director, respectively, to limit their liability for any such damage. Upon the approval of the reappointment of these two Outside Directors under this

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Proposal, it is intended that the foregoing agreements will be renewed. Upon the approval of the appointment of Akihiro Okumura, who is a candidate for Outside Director under this Proposal, it is intended that the foregoing agreement will be entered into between him and the Company as well. 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, 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 terms of office of Tadao Kagono and Eiju Miyauchi as Corporate Auditors expire 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	* <b>Yasuaki TSUCHIYA</b> (November 28, 1944)	<p>April 1970      Joined Toray Industries, Inc.            April 1985      Joined General Electric Japan, Ltd.            March 1999      Primary Vice President, General Electric Japan, Ltd.            June 2004      Corporate Auditor, Information Services International-Dentsu, Ltd. (incumbent)            January 2009      Adviser, GE Japan Corporation            June 2010      Senior Adviser, Permira Advisers KK (incumbent)</p> <p>Material representative positions held in other juridical persons:            Corporate Auditor, Information Services International-Dentsu, Ltd.            Senior Adviser, Permira Advisers KK</p>	Nil

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2	* <b>Yutaka MIZUNO</b> (August 28, 1946)	<p>April 1969      Joined Matsushita Electric Industrial Co., Ltd.</p> <p>April 1998      Representative Director and President, Matsushita Electric Asia Pte. Ltd.</p> <p>July 2000        Director, Corporate Management Division for CIS, the Middle East &amp; Africa</p> <p>January 2003    Vice President, Panasonic Automotive Systems Company</p> <p>April 2003       Vice President, Panasonic Automotive Systems Company and President, Panasonic Automotive Electronics Co., Ltd.</p> <p>June 2004       Executive Officer, Matsushita Electric Industrial Co., Ltd.</p> <p>September 2009 Lifetime Associate, Panasonic Corporation (incumbent)</p> <p>October 2009    Outside Director, Optrex Corporation (incumbent)</p> <p>Material representative positions held in other juridical persons: Lifetime Associate, Panasonic Corporation Outside Director, Optrex Corporation</p>	100 shares
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(Note 1) The above candidates for Corporate Auditor have no special conflict of interest with the Company.

(Note 2) Both Yasuaki Tsuchiya and Yutaka Mizuno are candidates for Outside Corporate Auditor.

(Note 3) Upon the approval of the appointment of Yasuaki Tsuchiya and Yutaka Mizuno under this Proposal, it is intended that they will become the Independent Officers. The Company has filed their names with the Tokyo Stock Exchange, Inc. and Osaka Securities Exchange.

(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:

(i) As regards Yasuaki Tsuchiya, considering that he has a global perspective amassed through his managerial experience in an American-affiliated company and expertise as a corporate auditor of a listed 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.

(ii) As regards Yutaka Mizuno, considering that he has extensive knowledge and experience amassed through long years of involvement in the management of companies both in Japan and abroad, 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.

(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



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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. Upon the approval of the appointment of Yasuaki Tsuchiya and Yutaka Mizuno as the Outside Corporate Auditors under this Proposal, it is intended that the foregoing agreement will be executed with them. 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 Director**

The Board of Directors proposes to grant, within the maximum aggregate amount of four hundred (400) million yen, as prescribed under the regulations of the Company, a retirement allowance to Takakazu Morita and Masahiro Mita as compensation for their invaluable service to the Company during their term. Takakazu Morita and Masahiro Mita will retire as Directors 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 determination of the Board of Directors upon their consultations.

The following are the profiles of the retiring Directors:

Name	Profile
<b>Takakazu MORITA</b>	July 1981      Director July 1983      Managing Director July 1987      Senior Managing Director October 1990    President & CEO June 2006      Chairman & CEO June 2010      Director, Senior Adviser (incumbent)
<b>Masahiro MITA</b>	July 1983      Director June 1995      Managing Director (incumbent)

**Proposal No. 5 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 three (3) 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 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.

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

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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" under 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" under 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:

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

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:

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

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 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 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

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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

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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

(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 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 sub-section (1) above.

(9) Events and conditions relating to the revocation of the 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

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. 6 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

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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 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 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

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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” under 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” under 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 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:

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

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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

- (i) A holder of the 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 due to the expiration of the term of office.
- (ii) 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.
- (iii) In the event of the death of the holder of the rights to subscribe for new shares, a successor may exercise rights to subscribe for new shares.
- (iv) 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

- (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 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



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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 the 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

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.

# Consolidated balance sheets

As of March 31, 2011

(Millions of yen)

## Assets

<b>Current assets:</b>	<b>137,668</b>
Cash and deposits	65,558
Notes and accounts trade receivables	38,980
Marketable securities	13,332
Inventories	14,704
Deferred tax assets	1,986
Other current assets	3,106
Allowance for doubtful receivables	(1)
<b>Fixed assets:</b>	<b>47,133</b>
Tangible assets	24,956
Buildings and structures	13,450
Machinery, equipment and vehicles	1,632
Land	8,216
Leased assets	186
Construction in progress	186
Other tangible assets	1,283
Intangible assets	991
Software	952
Other intangible assets	39
Investments and other assets	21,185
Investment securities	12,141
Deferred tax assets	7,538
Other assets	1,505
<b>Total assets</b>	<b>184,801</b>

## Liabilities and net assets

<b>Current liabilities:</b>	<b>24,104</b>
Trade accounts payable	6,031
Other payables	8,444
Income taxes payable	4,631
Reserve for bonuses	2,712
Other reserves	87
Other current liabilities	2,198
<b>Non current liabilities:</b>	<b>4,292</b>
Lease obligations	152
Deferred tax liabilities	20
Reserve for retirement benefits	3,266
Reserve for retirement benefits for directors and auditors	453
Asset retirement obligations	160
Other non current liabilities	238
<b>Total liabilities</b>	<b>28,397</b>
<b>Shareholders' equity:</b>	<b>162,159</b>
Common stock	6,614
Capital surplus	7,968
Retained earnings	147,578
Treasury stock at cost	(1)
<b>Accumulated other comprehensive income:</b>	<b>(6,061)</b>
Unrealized gains on securities, net of taxes	(443)
Foreign currency translation adjustments	(5,618)
<b>Stock subscription rights:</b>	<b>305</b>
<b>Total net assets</b>	<b>156,404</b>
<b>Total liabilities and net assets</b>	<b>184,801</b>

## Consolidated statements of income

(Millions of yen)

Year ended March 31, 2011

Net sales	110,812
Cost of sales	34,436
Selling, general and administrative expenses	45,636
Operating income	<u>30,738</u>
Non-operating income:	1,011
Interest and dividend income	521
Gain on insurance received	136
Other	353
Non-operating expense:	265
Interest expense	36
Loss on foreign currency exchange	122
Other	106
Ordinary income	<u>31,484</u>
Extraordinary gain:	15
Gain on sale or disposal of fixed assets	8
Gain on sale of golf club memberships	7
Extraordinary loss:	425
Loss on valuation of investment securities	150
Loss on adjustment for changes of accounting standard for asset retirement obligations	108
Other	166
Income before income taxes	<u>31,074</u>
Income taxes:	
Current	9,970
Deferred	(229)
Income before minority interests	<u>21,333</u>
Net income	<u><u>21,333</u></u>

## Consolidated statements of changes in net assets

(Millions of yen)

Year ended March 31, 2011

	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total Shareholders ' equity
Balance as of March 31, 2010	6,538	7,233	133,053	(4,958)	141,866
Changes during fiscal period					
Exercise of stock options	75	75			151
Cash dividends from retained earnings			(6,808)		(6,808)
Net income			21,333		21,333
Repurchase of treasury stock, net				(25)	(25)
Retirement of treasury stock		659		4,982	5,641
Other					—
Total changes during fiscal period	75	735	14,525	4,956	20,292
Balance as of March 31, 2011	6,614	7,968	147,578	(1)	162,159

	Unrealized gains on securities, net of taxes	Foreign currency translation adjustments	Total accumulated other comprehensive income	Stock subscription rights	Total net assets
Balance as of March 31, 2010	136	(4,660)	(4,524)	260	137,603
Changes during fiscal period					
Exercise of stock options					151
Cash dividends from retained earnings					(6,808)
Net income					21,333
Repurchase of treasury stock, net					(25)
Retirement of treasury stock					5,641
Other	(579)	(957)	(1,537)	45	(1,491)
Total changes during fiscal period	(579)	(957)	(1,537)	45	18,800
Balance as of March 31, 2011	(443)	(5,618)	(6,061)	305	156,404

# Non consolidated balance sheets

As of March 31, 2011

(Millions of yen)

## Assets

<b>Current assets:</b>	<b>126,837</b>
Cash and deposits	59,238
Notes receivable	963
Accounts receivable	36,182
Marketable securities	13,332
Finished goods and Merchandise	10,301
Work in process	54
Raw materials and supplies	2,057
Deferred tax assets	1,931
Other current assets	2,775
Allowance for doubtful receivables	(0)
<b>Fixed assets:</b>	<b>58,556</b>
Tangible assets	20,804
Buildings	10,771
Structures	207
Machinery and equipment	918
Vehicles	2
Tools, furniture and fixtures	861
Land	8,013
Leased assets	19
Construction in progress	9
Intangible assets	805
Trademarks	5
Software	772
Other intangible assets	26
Investments and other assets	36,947
Investment securities	12,117
Investments in subsidiaries	17,827
Deferred tax assets	5,647
Other assets	1,354
<b>Total assets</b>	<b>185,394</b>

## Liabilities and net assets

<b>Current liabilities:</b>	<b>21,960</b>
Trade accounts payable	5,728
Lease obligations	6
Other payables	8,427
Accrued expense	197
Income taxes payable	4,580
Consumption taxes payable	515
Deposits	109
Reserves for bonuses	2,308
Reserves for returned goods	87
<b>Non current liabilities:</b>	<b>3,832</b>
Lease obligations	14
Reserve for retirement benefit	3,203
Reserve for retirement benefits for directors and auditors	453
Asset retirement obligations	160
<b>Total liabilities</b>	<b>25,792</b>
<b>Shareholders' equity:</b>	<b>159,739</b>
Common stock	6,614
Capital surplus	7,968
Additional paid-in capital	7,309
Other capital surplus	659
Retained earnings	145,158
Earnings reserve	1,551
Other retained earnings	143,606
Reserve for retirement benefit	372
Special depreciation reserve	82
General reserve	89,109
Retained earnings carried forward	54,043
Treasury stock at cost	(1)
<b>Valuation, translation adjustments:</b>	<b>(443)</b>
Unrealized gains on securities, net of taxes	(443)
<b>Stock subscription rights:</b>	<b>305</b>
<b>Total net assets</b>	<b>159,602</b>
<b>Total liabilities and net assets</b>	<b>185,394</b>

## Non consolidated statements of income

(Millions of yen)

Year ended March 31, 2011

Net sales	99,514
Cost of sales	30,852
Selling, general and administrative expenses	39,822
<b>Operating income</b>	<b>28,839</b>
<b>Non-operating income:</b>	<b>869</b>
Interest and dividend income	468
Gain on insurance received	136
Other	263
<b>Non-operating expense:</b>	<b>104</b>
Interest expense	16
Loss on foreign currency exchange	54
Other	33
<b>Ordinary income</b>	<b>29,604</b>
<b>Extraordinary gain:</b>	<b>15</b>
Gain on sale or disposal of fixed assets	8
Gain on sale of golf club memberships	7
<b>Extraordinary loss:</b>	<b>286</b>
Loss on valuation of investment securities	150
Loss on adjustment for changes of accounting standard for asset retirement obligations	108
Other	27
<b>Income before income taxes</b>	<b>29,333</b>
<b>Income taxes:</b>	
Current	9,907
Deferred	892
<b>Net income</b>	<b>18,534</b>



## Non consolidated statements of changes in net assets

(Millions of yen)

Year ended March 31, 2011

	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					
					Reserve for retirement benefit	Special depreciation reserve	General reserve			Retained earnings carried forward
Balance as of March 31, 2010	6,538	7,233	0	1,551	372	124	89,109	42,276	(4,958)	142,246
Changes during fiscal period										
Exercise of stock options	75	75								151
Cash dividends from retained earnings								(6,808)		(6,808)
Reversal of special depreciation reserve						(41)		41		—
Net income								18,534		18,534
Repurchase of treasury stock, net									(25)	(25)
Retirement of treasury stock			659						4,982	5,641
Other										—
Total changes during fiscal period	75	75	659	—	—	(41)	—	11,767	4,956	17,493
Balance as of March 31, 2011	6,614	7,309	659	1,551	372	82	89,109	54,043	(1)	159,739

	Unrealized gains on securities, net of taxes	Total valuation, translation adjustments	Stock subscription rights	Total net assets
Balance as of March 31, 2010	136	136	260	142,643
Changes during fiscal period				
Exercise of stock options				151
Cash dividends from retained earnings				(6,808)
Reversal of special depreciation reserve				—
Net income				18,534
Repurchase of treasury stock, net				(25)
Retirement of treasury stock				5,641
Other	(579)	(579)	45	(534)
Total changes during fiscal period	(579)	(579)	45	16,958
Balance as of March 31, 2011	(443)	(443)	305	159,602