Corporate Governance

Santen recognizes that it is vital to upgrade and strengthen corporate governance systems in order to achieve and enhance corporate value, and thus returns to shareholders. Accordingly, Santen is working to raise business performance while maintaining transparent and sound management practices through the development of effective corporate governance systems.

Santen has already taken some specific steps such as appointing several outside directors to strengthen management supervision; establishing the Corporate Strategy Committee, the Nominating Committee and the Executive Compensation Committee, which are all voluntary committees made up of inside and outside directors; and introducing a corporate officer system to strengthen management and improve the speed of business execution. Santen will continue to strengthen corporate governance further going forward to improve management transparency and objectivity.

Santen has adopted a “Company with Auditors” system as defined in Japan’s Companies Act. Santen has enhanced the functions of the corporate auditors by setting up a Corporate Auditor’s Group with staff dedicated to assisting with the duties of the corporate auditors, and by promoting collaboration with the Internal Auditing Group and Accounting Auditors, among other measures.

Santen Internal Governance System  As of June 2014

1. These committees are voluntary and not part of any statutory “Company with Committees” system under the Japanese Companies Act.
Voluntary Committees

Santen has established the following three committees composed of inside and outside directors as deliberative bodies to further strengthen corporate governance and to improve management transparency and objectivity. Note that these committees are not part of any statutory “Company with Committees” system under the Japanese Companies Act.

Roles and Members of the Voluntary Committees

<table>
<thead>
<tr>
<th>Committee</th>
<th>Role</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Strategy Committee</td>
<td>The Corporate Strategy Committee deliberates on key strategic issues such as business strategies.</td>
<td>All directors</td>
</tr>
<tr>
<td>Nominating Committee</td>
<td>The Nominating Committee deliberates on the selection of candidates for directors and submits recommendations to the Board of Directors, and also deliberates on the selection of candidates for corporate officers and corporate auditors and submits recommendations to the Board of Directors.</td>
<td>President and outside directors</td>
</tr>
<tr>
<td>Executive Compensation Committee</td>
<td>The Executive Compensation Committee deliberates on the compensation of directors and corporate officers and submits recommendations to the Board of Directors. It also provides the Board of Corporate Auditors with information and advice on such matters as the compensation level for corporate auditors.</td>
<td>President and outside directors</td>
</tr>
</tbody>
</table>

Corporate Officer System

Santen has introduced a corporate officer system to strengthen management while improving the quality and speed of strategic decision-making processes. There were 13 corporate officers as of June 2014, excluding some serving concurrently as directors.

Relationships between the Outside Directors and Outside Corporate Auditors and the Company

In selecting outside directors and outside corporate auditors, Santen applies the independence standards of stock exchanges in Japan, in addition to its own internal standards. Specifically, Santen specifies standards deemed to generally ensure independence in terms of relationships with the Santen Group (duties, transactions, stockholding, etc.) and decides on candidates after evaluating them in accordance with these standards.

None of the three outside directors or three outside corporate auditors are appointees from Santen’s subsidiaries or affiliates, major shareholders or leading business partners. Each maintains a degree of independence to avoid conflicts of interest with ordinary shareholders. Outside director Akihiro Okumura is Professor Emeritus of Keio University, with which Santen conducts joint research and has other dealings, and to which it also makes donations. However, these activities are medical related and are not related to management studies, Okumura’s area of specialization.

Reasons for Selection of Outside Directors and Outside Corporate Auditors

| Noboru Kotani | Outside Director | Noboru Kotani has extensive knowledge and experience in corporate management as a management consultant, and will be able to reflect this knowledge and experience in the Company’s management. |
| Akihiro Okumura | Outside Director | Akihiro Okumura has extensive knowledge and experience amassed through the long years of his professorship of business administration at the undergraduate and graduate schools of several universities, and will be able to reflect this knowledge and experience in the Company’s management. |
| Takayuki Katayama | Outside Director | Takayuki Katayama has extensive knowledge and experience amassed through long years of involvement in management in the country and overseas, and will be able to reflect his knowledge and experience in the Company’s management. |
| Yasuaki Tsuchiya | Outside Corporate Auditor | Yasuaki Tsuchiya 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 will be able to reflect his perspective and expertise in auditing the Company. |
| Yutaka Mizuno | Outside Corporate Auditor | Yutaka Mizuno has extensive knowledge and experience amassed through long years of involvement in management in the country and overseas, and will be able to reflect his knowledge and experience in auditing the Company. |
| Koichi Matsuzawa | Outside Corporate Auditor | Koichi Matsuzawa has extensive knowledge and experience amassed through long years of involvement in management in the country and overseas, and will be able to reflect his knowledge and experience in auditing the Company. |

Directors’ and Corporate Auditors’ Compensation

<table>
<thead>
<tr>
<th>Position</th>
<th>Total Compensation (Millions of yen)</th>
<th>Total Compensation by Category (Millions of yen)</th>
<th>No. of Eligible People</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic Compensation (Annual)</td>
<td>Stock Compensation-Type Stock Options</td>
<td>Bonus</td>
</tr>
<tr>
<td>Directors (Excl. Outside Directors)</td>
<td>165</td>
<td>116</td>
<td>45</td>
</tr>
<tr>
<td>Corporate Auditors (Excl. Outside Corporate Auditors)</td>
<td>25</td>
<td>25</td>
<td>–</td>
</tr>
<tr>
<td>Outside Directors and Outside Corporate Auditors</td>
<td>63</td>
<td>63</td>
<td>–</td>
</tr>
</tbody>
</table>

Note: In addition to the above, the Company paid ¥45 million in retirement and severance benefits for directors to one director based on a resolution of the Annual General Meeting of Shareholders held on June 25, 2013. This amount includes accrued retirement and severance benefits for directors from prior years.

As of June 2013, the retirement benefit program was abolished.

Please refer to Santen’s Corporate Governance Report (Japanese only) posted on the Company’s website for details.

http://www.santen.co.jp
Cooperation between Corporate Auditors and Accounting Auditors

The corporate auditors hold a meeting with the accounting auditors at the beginning of each fiscal year to receive presentations on the financial auditing plans for the year and any key audit-related issues as well as to exchange opinions, including requests from the corporate auditors. The accounting auditors present audit findings to the corporate auditors at meetings three times a year to exchange opinions.

In addition, the corporate auditors attend an audit review meeting with the accounting auditors after the conclusion of the quarterly and year-end audit reviews to exchange opinions on audit results and procedures. During the fiscal year, the corporate auditors perform audits of the auditing methods of the accounting auditors and exchange information with the accounting auditors as necessary.

Cooperation between Corporate Auditors and the Internal Auditing Group

Corporate auditors and the Internal Auditing Group cooperate closely at all times. For instance, they hold regular meetings at which they share progress with their respective audit plans and audits, and new points to be aware of, while also simultaneously visiting business sites and subsidiaries to conduct audits as necessary.

Internal Governance System

Santen benefits society through its business activities, with a particular focus on contributing to patients and their loved ones—which incorporates “Tanki ni sanyo suru” that is in the Santen’s Values—as a company active in the pharmaceutical industry. At the same time, aiming to heighten society’s recognition of our value to society and achieve sustainable growth, we are developing the following internal control systems.

Our compliance system, the Santen Code of Practice, which was formulated in December 1999 and revised in line with changing social conditions, consists of the Declaration of Corporate Behavior and the Code of Conduct that defines strict ethical standards governing corporate activities. The Santen Code of Practice stipulates that the Company will not respond to any demands whatsoever made by antisocial forces that threaten the order and stability of civil society.

In addition, we have appointed a director and department responsible for internal governance, and established the CSR Committee to ensure rigorous compliance. Further, we maintain an internal system for compliance-related inquiries and an external helpline to an independent attorney, which enables employees to report any suspected compliance violations directly or to receive compliance-related advice.

Santen aims to increase the appropriateness of Santen’s operations by building a control system in which the Company provides recommendations and guidance on increasing appropriateness, developing regulations for the control of Group companies to clarify their roles and responsibilities, and strengthening audit functions at major Group companies.

As a department independent from operating divisions, the Internal Auditing Group—comprised of four people including the general manager—verifies that the above internal control systems work efficiently. The Internal Auditing Group reports directly to the president of Santen.

Regarding internal control related to the reliability of financial reports, Santen has established a system whereby divisions and principal subsidiaries check the appropriateness of their systems, while the Internal Auditing Group checks the suitability of these self-checks. In fiscal 2013, Santen did not discover any significant deficiencies or omissions that could undermine the reliability of its financial reports. Santen will continue to develop and maintain systems that consistently meet the requirements of the internal control reporting system, which is based on Japan’s Financial Instruments and Exchange Act.

Guidelines Concerning Transparency

Santen has established “Guidelines Concerning Transparent Relations with Medical Institutions, etc.” and “Guidelines Concerning Relations with Patient Groups” in accordance with various rules and regulations, including “Transparency Guideline for the Relation between Corporate Activities and Medical Institutions” and “Transparency Guideline for the Relation between Corporate Activities and Patient Groups” issued by the Japan Pharmaceutical Manufacturers Association. Information on the provision of funds and other related matters is made widely available to the public via the Company’s website.

Please refer to Santen’s Guidelines Concerning Transparency (Japanese only) posted on the Company’s website for details.

http://www.santen.co.jp
Information Disclosure

Investor Relations Activities

Santen’s basic policy is to ensure swift, accurate and fair disclosure of corporate information, taking the viewpoint of shareholders and investors. Under this policy, Santen strives to actively provide disclosure of information in an easy-to-understand manner.

Santen holds financial results meeting presentations after the release of interim and full-year results for analysts and institutional investors, and also conducts conference calls for them after its first- and third-quarter results are announced. Furthermore, Santen participates in conferences hosted by securities companies around the world and visits overseas shareholders and investors. Moreover, Santen conducts presentations for individual investors and other events such as small meetings, with the aim of explaining corporate information to a wide range of investors.

Santen’s website carries a host of information, including flash reports, data books, financial result meeting presentations, and video of financial result meeting presentations. The website also carries annual securities reports (Japanese only), annual reports, and convocation notices, resolution notices, and other materials for the general meetings of shareholders.

Risk Management

Risk Management Promotion Framework

Santen has built a system for responding appropriately to major risks related to its business activities, which is based on a Risk Management Procedure Manual that sets out basic policies and a code of conduct for crisis management. Operating divisions and headquarters avoid or minimize risk by routinely gathering information and preparing risk management policies and countermeasures for their operations. Further, the Risk Evaluation Committee discusses risk management policies and countermeasures for significant risks that transcend several divisions. An emergency situation affecting Santen beyond a certain level triggers the operation of the Crisis Response Committee headed by a representative director. Based on Santen’s Risk Management Procedure Manual, the committee coordinates efforts to minimize any losses or damages and ensure a quick recovery, and institutes measures to prevent a recurrence. As regards the status of such risk management efforts, the Company has a permanent secretariat in place with designated executives. The secretariat checks the status of risk management efforts from a Companywide viewpoint, while the Internal Auditing Group examines them from an independent standpoint.

Business Continuity Management

Medicines are high-priority necessities for people affected by natural disasters or other emergencies. Santen believes it is essential to maintain supplies of drugs to patients and healthcare workers in affected areas. To this end, Santen has analyzed business continuity-related risks, clarified policies and identified those areas critical to maintaining product supplies. Detailed plans have been formulated to guide the response to an emergency, including the necessary organizational actions. To ensure systems will work, business continuity and disaster preparedness planning and activities are also part of the PDCA1-based management cycle.

Information Security

Regarding information control systems, Santen safely stores and controls information based on in-house rules such as for basic information security and document control. Furthermore, Santen has established personal information protection guidelines and a compliance program regarding personal information protection, which are explained to corporate officers and employees at training events. The Company also works to ensure that they are working properly.

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1. A method to facilitate the smooth management of business activities through a P (Plan), D (Do), C (Check) and A (Action) business activity cycle.

Santen’s website has been commended highly by third-party institutions. Notably, it was selected as an Excellent Corporate Website in the overall ranking of all listed companies in Japan based on a 2013 survey of corporate websites performed by Nikko Investor Relations Co., Ltd. Santen’s website also received the Internet IR Commendation Award 2013 from Daiwa Investor Relations Co., Ltd.

Santen’s website: http://www.santen.com
Message
Realizing Santen’s Vision for Becoming a Specialized Pharmaceutical Company with a Global Presence

Noboru Kotani
Outside Director

Eyeing Sustainable Growth
Companies are living organisms that will wither unless they grow. It is crucial for companies to set long-term management objectives that embody management’s resolve to achieve this growth. These objectives serve as milestones for the entire company, reminding it to keep growth foremost in mind in all of its activities. Unlike short-term plans, however, the roadmap is obviously unclear. In the course of executing a long-term plan, relationships both within and outside the company can become increasingly complex in step with a shifting business and competitive landscape changes, particularly as globalization continues unabated. This ever-increasing complexity can complicate decision-making and execution. Business seldom proceeds exactly as we expect. Companies must rise above challenges of this sort to achieve sustainable growth. In the process, I believe that the important thing is to continuously take on business risks appropriately. Decision-making mistakes and excessive risk-taking must certainly be avoided. However, companies cannot achieve growth unless they take on risks appropriately.

I believe that a crucial role of outside directors is to check whether the operating divisions are continuing to take on risks appropriately, and to encourage them to do so. In doing so, I intend to do my utmost to help Santen achieve sustainable growth.

Yutaka Mizuno
Outside Corporate Auditor

Global Governance
In recent years, Japanese listed companies have been compelled to establish corporate governance structures that can be readily understood internationally, from the standpoint of earning the trust of investors worldwide, particularly overseas investors. This trend comes as no surprise when considering the overseas investor ratios of Japanese listed companies, and the steps taken by these companies to become global enterprises. Clearly, this trend is linked to recent moves by major Japanese companies to appoint outside directors and corporate auditors. Surveys show that highly independent outside directors account for around 70% of the boards of directors of companies in the U.S., Germany and other Western countries. In contrast, Japan has a ratio of only around 15%, even when outside corporate auditors are included. This is extremely low, even in comparison to other Asian countries.

In this respect, Santen has made efforts to put a global governance framework in place. Indeed, the ratio of outside directors and corporate auditors at Santen has already reached the global standard at 67%. Santen has set forth the goal of becoming a specialized pharmaceutical company with a global presence as its long-term strategic vision through 2020. To this end, the Company is accelerating efforts to become a global enterprise. As an outside corporate auditor, I will continue working to ensure that Santen’s global governance functions effectively.