

Notice on the Introduction of a New Stock-Linked Remuneration Program and Changes to Directors' Remuneration

May 9, 2018---Santen Pharmaceutical Co., Ltd. (Head Office: Osaka; Director of the Board, Chairman, CEO: Akira Kurokawa; hereinafter, the “Company”) announced that its Board of Directors, at a meeting held today, reviewed its executive compensation and decided to introduce a new stock-linked remuneration program (hereinafter, the “Program”) and submit a proposal concerning the Program to the 106th annual general meeting of shareholders (hereinafter, the “General Meeting of Shareholders”) to be held on June 26, 2018.

Details

1. Outline of the Program

(1) Purpose of introducing the Program

The purpose of the Program is to encourage the Company's Directors excluding Outside Directors (hereinafter, the “Target Directors”) to engage in realizing the Company's vision and strategy with vigor and promote further sharing of value with shareholders from the perspective of enhancing the stock-linked remuneration program's functions and effectiveness by further clarifying the message conveyed by the program, so that it contributes to the Company's continuous growth and improvement of corporate value on a medium- to long-term basis.

(2) Overview of the Program

The Program consists of a “performance share unit system (performance-linked stock remuneration system),” a type of remuneration that is linked to the achievement rate of numerical targets during a certain performance evaluation period, and a “restricted stock-linked remuneration system,” a stock-linked remuneration with transfer restriction that is lifted by satisfying conditions such as holding the position of Target Director continuously for a certain period of time.

The “performance share unit system” is a performance-linked stock remuneration program in which numerical targets such as the Company's business performance are predetermined for the performance evaluation period, which consists of several consecutive fiscal years (decided by the Company between three and five years) of the Company's medium-term management plan, and which pays the remuneration amount relating to the number of Company Shares issued according to the achievement rate of said numerical targets as well as cash to secure funds for tax payment purposes as remuneration for the performance evaluation period.

In the “restricted stock-linked remuneration system,” Target Directors pay all of the monetary remuneration claims paid by the Company based on the Program as investment assets in kind and receive issuance or disposition of common shares of the Company. The issuance or disposition of the Company's common shares (hereinafter, the “Company Shares”) pursuant to the “restricted stock-linked remuneration system” is conditional on the conclusion of a restricted stock allotment agreement that includes the details of (i)~(iii)

below between the Company and the Target Director that is scheduled to be provided with the restricted stock-linked remuneration.

- (i) No Company Shares may be transferred to a third party, pledged or otherwise disposed of in any manner whatsoever over a certain period.
- (ii) The Company shall acquire the Company Shares without consideration if a certain event occurs.
- (iii) The restriction on transfer shall be lifted at the time the restriction period expires, on condition that the Target Director holds the position of Director, Corporate Officer, Corporate Auditor, employee or equivalent thereof continuously during the transfer restriction period (however, reasonable adjustments shall be made for resignations prior to expiration of the transfer restriction period for justifiable reasons prescribed by the Company).

During the transfer restriction period, the Company Shares are scheduled to be managed by a dedicated account that is opened by the Target Director with a securities company so that the shares cannot be transferred, pledged or otherwise disposed of during the transfer restriction period.

2. Conditions for introducing the Program

Since the Program pays Target Directors remuneration in allotting Company Shares, the introduction of the Program is conditional on the approval of shareholders at the General Meeting of Shareholders on the payment of such remuneration.

The amount of remuneration for the Company's Directors was approved to be no more than 430 million yen per year (of which no more than 40 million yen is for Outside Directors) at the 98th annual general meeting of shareholders held on June 23, 2010. In addition, the issuance of subscription rights to new shares of no more than 160 million yen per year to Target Directors as stock options for stock-linked remuneration, in addition to the above remuneration amount, is to be approved at the 101st annual general meeting of shareholders held on June 25, 2013.

In introducing the new "restricted stock-linked remuneration system" and the "performance share unit system," we intend to set the total amount of remuneration paid in one fiscal year under the "restricted stock-linked remuneration system" at no more than 100 million yen per year, and for the "performance share unit system," set the total amount of remuneration paid during the performance evaluation period at no more than 100 million yen per year, multiplied by the number of years of each performance evaluation period, the upper limit of the number of shares provided at no more than 100 thousand shares per year multiplied by the number of years of each performance evaluation period, and the total amount of cash for tax payment purposes paid during the performance evaluation period at no more than 100 thousand shares per year multiplied by the number of years of each performance evaluation period, which is then multiplied by the share price at the time of issuance. (Neither the performance share unit system nor the restricted stock-linked remuneration system includes salaries for Directors who concurrently serve as employees.)

The initial performance evaluation period shall be three fiscal years from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2021, which is the period of the Company's medium-term management plan. However, the continuance of the performance share unit system after the end of the initial performance evaluation period may be approved by the Company's Board of Directors within the scope approved at the General Meeting of Shareholders.

In conjunction with the introduction of the Program above, for the purpose of further clarifying Directors' awareness of their responsibilities and contribution to the Company's continuous growth and the

improvement of corporate value on a medium- to long-term basis and as a result of objective acknowledgement of the remuneration level of the industry to which the Company belongs and comprehensive considerations including the number of Directors, we plan to request the approval of shareholders to revise the monetary remuneration for Directors from the current 430 million yen or less per year (of which 40 million yen or less is for Outside Directors) to 600 million yen or less per year for Target Directors (of which 400 million yen or less is base salary and 200 million yen or less is annual bonus), and to 60 million yen or less per year for Outside Directors as monetary remuneration of only a fixed base salary, in addition to the remuneration for Target Directors, in consideration of the increase in the roles and responsibilities of Outside Directors.

If the proposal on the Program is approved at the General Meeting of Shareholders, the previous stock options for stock-linked remuneration will be abolished and subscription rights to new shares will not be granted to Directors as stock options in the future.

3. Other

On the presumption that the Program is approved at the General Meeting of Shareholders, the Company plans to introduce a performance share unit system and a restricted stock-linked remuneration system or another restricted stock unit system (for delivery of Company share or other after a certain period of time) proposal to Corporate Officers in and outside Japan who do not concurrently serve as Directors of the Company. In this case, the upper limit of the total number of all of the above stock-linked remuneration programs during the three fiscal years from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2021, the initial performance evaluation period, will be 1,491 thousand shares for the Company's Target Directors and Corporate Officers in and outside Japan who do not concurrently serve as Directors of the Company (the upper limit of the total number of allotted shares for the three fiscal years that are the initial performance evaluation period will be equivalent to approximately 0.37% of 406,847,515 shares, the number of shares outstanding as of March 31, 2018).

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