

CORPORATE GOVERNANCE GUIDELINES OF PEPLIN, INC.

Peplin, Inc. (the “**Company**”) operates within a comprehensive plan of corporate governance for the purpose of defining responsibilities, setting high standards of professional and personal conduct and assuring compliance with such responsibilities and standards. The Company regularly monitors developments in the area of corporate governance. The Company is committed to good business practices, transparency in financial reporting and the highest level of corporate governance.

The Company has adopted a set of Corporate Governance Guidelines (the “**Guidelines**”), including a policy regarding stockholder communication with non-management members of the Board of Directors (the “**Board**”), as well as specifications for director qualification and responsibility.

Role of Board and Management

The Company’s business is conducted by its employees, managers and officers, under the direction of the Chief Executive Officer and the oversight of the Board, to enhance the long-term value of the Company for its stockholders. The Board is elected by the stockholders to oversee management and to assure that the long-term interests of the stockholders are being served. Both the Board and management recognize that the long-term interests of stockholders are advanced by responsibly addressing the concerns of other persons with a stake in the Company and interested parties, including employees, recruits, customers, suppliers, the community, government officials and the public at large.

The Board of Directors

Size of the Board

The Company’s By-laws provide that the number of directors will be fixed from time to time by the Board, but in no event will be less than five (5) or more than twelve (12). The Board currently has seven (7) members. The Board believes that seven (7) directors is an appropriate size based on the Company’s present circumstances. The Nominating and Corporate Governance Committee will periodically review the size of the Board, and determine the size that is most effective in relation to future operations.

Director Qualification Standards

The Nominating and Corporate Governance Committee is responsible for reviewing with the Board, on an annual basis, the appropriate characteristics, skills and experience required for the Board as a whole and its individual members. In evaluating the suitability of individual candidates (both new candidates and current Board members), the Nominating and Corporate Governance Committee, in recommending candidates for election or appointment, as described herein, and the Board, in approving (and, in the case of vacancies, appointing) such candidates,

shall take into account many factors, including the ability to make independent analytical inquiries, general understanding of marketing, finance and other elements relevant to the success of a publicly-traded company in today's business environment, experience in the Company's industry and with relevant social policy concerns, understanding of the Company's business on a technical level, other board service and educational and professional background. Each candidate nominee must also possess fundamental qualities of intelligence, honesty, good judgment, high ethics and standards of integrity, fairness and responsibility. The Board evaluates each individual in the context of the Board as a whole, with the objective of assembling a group that can best perpetuate the success of the business and represent stockholder interests through the exercise of sound judgment using its diversity of experience in these various areas. In determining whether to recommend a director for re-election, the Nominating and Corporate Governance Committee also considers the director's past attendance at meetings and participation in and contributions to the activities of the Board.

No Specific Limitation on Other Board Service

The Board does not believe that its members should be prohibited from serving on boards of other organizations and has not adopted any guidelines limiting such activities, except with respect to members serving on the Audit Committee, as described below. However, the Nominating and Corporate Governance Committee, in recommending candidates for election or appointment, as described herein, and the Board, in approving (and, in the case of vacancies, appointing) such candidates, will take into account the nature of and time involved in a director's service on other boards and/or committees in evaluating the suitability of individual director candidates and current directors and making its recommendations to the Company's stockholders.

Due to the demanding nature of service on the Audit Committee, the members of the Audit Committee should not serve on the audit committees of the boards of directors of more than three other public companies at the same time as they are serving on the Audit Committee. Service on more than three audit committees concurrently should trigger a Board determination and proxy disclosure that such simultaneous service does not impair the individual's ability to serve the Company.

Director Responsibilities

The business and affairs of the Company will be managed by or under the direction of the Board, including through one or more of its committees as set forth in the By-laws and committee charters. Each director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. These include:

- (1) overseeing the conduct of the Company's business, to evaluate whether the business is being properly managed;
- (2) reviewing and, where appropriate, approving the Company's major financial objectives, plans and actions;
- (3) reviewing and, where appropriate, approving major changes in, and determinations of other major issues respecting, the appropriate auditing and

- accounting principles and practices to be used in the preparation of the Company's financial statements;
- (4) reviewing and, where appropriate, approving major changes in, and determinations under the Company's Corporate Governance Guidelines, Code of Business Conduct and Ethics and other Company policies;
 - (5) reviewing and, where appropriate, approving actions to be undertaken by the Company that would result in a material change in the financial structure or control of the Company, the acquisition or disposition of any businesses or asset(s) material to the Company or the entry of the Company into any major new line of business;
 - (6) with the input of the Compensation Committee and the Chief Executive Officer, regularly evaluating the performance of principal senior executives;
 - (7) planning for succession with respect to the position of Chief Executive Officer and monitoring management's succession planning for other key executives; and
 - (8) ensuring that the Company's business is conducted with the highest standards of ethical conduct and in conformity with applicable laws and regulations.

Director Independence Standards

The Board performs an analysis, at least annually, as to whether each member of the Board is independent. The Board has adopted the definition of "independence" as described under NASDAQ Marketplace Rule 4200(a)(15). In addition, members of the Audit Committee are to satisfy the definition of "independence" under Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the "**1934 Act**").

Separate Sessions of Non-Management Directors and Independent Directors

The non-management directors will meet in executive session without management directors or management present on a regularly scheduled basis, but no less than once per quarter. The non-management directors will review the Company's implementation of, and compliance with, its Guidelines and consider such matters as they may deem appropriate at such meetings. Non-management directors are all directors who are not company officers (as that term is defined in Rule 16a-1(f) under the Securities Act of 1933, as amended (the "**1933 Act**")), including such directors who are not independent by virtue of a material relationship, former status or family membership, or for any other reason.

In addition, if the non-management directors include directors who are not also independent directors (as defined using the standards identified under "Director Independence Standards" above), the independent directors shall also meet separately at least once per year in executive session.

Selection of New Directors

Our Board is divided into three (3) classes. As a result, approximately one third of the Board will stand for election by the stockholders of the Company each year at the Company's annual meeting. Each year, at the annual meeting, the Board will recommend a slate of directors for election by the stockholders. In accordance with the By-laws of the Company, the Board will also be responsible for filling vacancies or newly-created directorships on the Board that may occur between annual meetings of stockholders. The Nominating and Corporate Governance Committee is responsible for identifying, screening and recommending candidates to the entire Board for Board membership.

Directors Who Resign or Materially Change Their Current Positions With Their Own Company or Become Aware of Circumstances that May Adversely Reflect upon the Director or the Company

When a director, including any director who is currently an officer or employee of the Company, resigns or materially changes his or her position with his or her employer or becomes aware of circumstances that may adversely reflect upon the director or the Company, such director should notify the Nominating and Corporate Governance Committee of the Board of the circumstances. The Nominating and Corporate Governance Committee will consider the circumstances, and may in certain cases consider requesting that the director submit his or her resignation from the Board if, for example, continuing service on the Board by the individual is not consistent with the criteria deemed necessary for continuing service on the Board.

Term Limits

As each director is periodically subject to election by stockholders, the Board does not believe it is in the best interests of the Company to establish term limits at this time. Additionally, such term limits may cause the Company to lose the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company's business and therefore can provide an increasingly significant contribution to the Board.

Compensation

The Company's executive officers shall not receive additional compensation for their service as directors. Senior management of the Company will report once a year to the Compensation Committee regarding the status of the Company's non-management director compensation in relation to other U.S. companies of comparable size and the Company's competitors. Such report will include consideration of both direct and indirect forms of compensation to the Company's non-management directors, including any charitable contributions by the Company to organizations in which a non-management director is involved. Following a review of the report, the Compensation Committee will recommend any changes in non-management director compensation to the Chairman of the Board, which changes will be approved or disapproved by the Board after a full discussion.

Members of the Audit Committee may not directly or indirectly receive any compensation from the Company other than their directors' compensation, including compensation for service on committees of the Board and the receipt of equity incentive awards.

Stock Ownership

The Company encourages directors to purchase shares of the Company's stock. However, the number of shares of the Company's stock owned by any director is a personal decision and, at this time, the Board has chosen not to adopt a policy requiring ownership by directors of a minimum number of shares.

Conflicts of Interest

Directors are expected to avoid any action, position or interest that conflicts with the interests of the Company or gives the appearance of a conflict. If an actual or potential conflict of interest develops, the director should immediately report the matter to the Chairman of the Board. Any significant conflict must be resolved or the director should resign. If a director has a personal interest in a matter before the Board, the director will disclose the interest to the Board, excuse himself or herself from discussion on the matter and not vote on the matter. The Board may delegate any decision with respect to such transaction to the Audit Committee and/or Nominating and Corporate Governance Committee.

Interaction with Institutional Investors, the Press and Customers

The Board believes that management speaks for the Company. Each director should refer all inquiries from institutional investors, the press or customers regarding the Company's operations to management. Individual Board members may, from time to time at the request of the management, meet or otherwise communicate with various constituencies that are involved with the Company. If comments from the Board are appropriate, they should, in most circumstances, come from the Chairman of the Board.

Board Access to Senior Management

The Board will have complete access to Company management in order to ensure that directors can ask any questions and receive all information necessary to perform their duties. Directors should exercise judgment to ensure that their contact with management does not distract managers from their jobs or disturb the business operations of the Company. Such contact, if in writing, should be copied to the Chief Executive Officer of the Company.

Board Access to Independent Advisors

The Board committees may hire independent advisors as set forth in their applicable charters. The Board as a whole shall have access to such advisors and such other independent advisors that the Company retains or that the Board considers necessary to discharge its responsibilities.

Stockholder Communication with the Board

The Company provides a process for stockholders to send communications to the Board, the non-management members as a group, or any of the directors individually. Stockholders may contact any of our directors, including our non-management directors, by writing to them c/o Office of the Chief Executive Officer, Peplin, Inc., 6475 Christie Avenue, Emeryville, CA 94608 or by email at *info@peplin.com* or by telephone at (510) 653-9700. All communications will be compiled by the Office of the Chief Executive Officer and submitted to the Board or the individual directors on a periodic basis.

Annual Self-Evaluation

Following the end of each fiscal year, the Nominating and Corporate Governance Committee will oversee an annual assessment by the Board of the Board's performance. The Nominating and Corporate Governance Committee will be responsible for establishing the evaluation criteria and implementing the process for such evaluation, as well as considering other corporate governance principles that may, from time to time, merit consideration by the Board.

The assessment should include a review of any areas in which the Board or management believes the Board can make a better contribution to the governance of the Company, as well as a review of the committee structure and an assessment of the Board's compliance with the principles set forth in these Guidelines. The Nominating and Corporate Governance Committee will utilize the results of the Board evaluation process in assessing and determining the characteristics and critical skills required of prospective candidates for election to the Board.

Board Meetings

Frequency of Meetings

The Board will meet at least four (4) times annually. In addition, special meetings may be called from time to time as determined by the needs of the business.

Director Attendance

A director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. Accordingly, a director is expected to regularly prepare for and attend meetings of the Board and all committees on which the director sits (including separate meetings of non-management directors and the independent directors), with the understanding that, on occasion, a director may be unable to attend a meeting. A director who is unable to attend a meeting is expected to notify the Chairman of the Board or the Chairman of the appropriate committee in advance of such meeting, and, whenever possible, participate in such meeting via teleconference.

In furtherance of our objective to provide investors with open lines of communication to the directors, the Company has adopted a policy that directors will make reasonable efforts to attend annual meetings of stockholders. Directors' attendance at annual meetings can provide investors

with an opportunity to communicate with directors about issues affecting the Company. In addition, the Company discloses the number of directors who attend the annual meetings.

Attendance of Non-Directors

The Board encourages the Chairman of the Board or of any committee to bring Company management and outside advisors or consultants from time to time into Board and/or committee meetings to (i) provide insight into items being discussed by the Board which involve the manager, advisor or consultant, (ii) make presentations to the Board on matters which involve the manager, advisor or consultant, and (iii) bring managers with high potential into contact with the Board. Attendance of non-directors at Board meetings is at the discretion of the Board.

Advance Receipt of Meeting Materials

Information regarding the topics to be considered at a meeting is essential to the Board's understanding of the business and the preparation of the directors for a productive meeting. To the extent feasible, the meeting agenda and any written materials relating to each Board meeting will be distributed to the directors sufficiently in advance of each meeting to allow for meaningful review of such agenda and materials by the directors. Directors are expected to have reviewed and be prepared to discuss all materials distributed in advance of any meeting.

Committee Matters

Number and Name of Committees

The Board has established three committees comprised of members of the Board to assist the Board in discharging its responsibilities: (i) the Audit Committee; (ii) the Compensation Committee and (iii) the Nominating and Corporate Governance Committee. The current charters and key practices of these committees are published on the corporate governance section of the Company's website and will be mailed to stockholders upon request.

Assignment and Rotation of Committee Members

Committee members and committee chairs shall be assigned according to criteria set forth in the applicable committee charter and such other criteria that the Board determines to be appropriate in light of the responsibilities of each committee. Committee membership and the position of committee chair will not be rotated on a mandatory basis unless the Board determines that rotation is in the best interests of the Company.

Each member of the Audit Committee must satisfy the independence requirements of Rule 10A-3 under the 1934 Act and must be financially literate, as determined by the Board in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment, and at least one member of the Audit Committee must have accounting or related financial management expertise as determined by the Board in its business judgment to meet the definition of "audit committee financial expert" as provided in Item 407(d)(5)(ii) of Regulation S-K.

Frequency of Committee Meetings

The Compensation Committee and Nominating and Corporate Governance Committee will meet at least two (2) times annually and the Audit Committee will meet at least four (4) times annually. In addition, special meetings may be called by the Chairman of the committee from time to time as determined by the needs of the business. It is the responsibility of the directors to attend the meetings of the committees on which they serve.

Committee Agendas

The Chairman of each committee, in consultation with the appropriate members of the Committee, will develop his or her committee's agenda.

Committee Self-Evaluations

Following the end of each fiscal year, each committee will review its performance and charter and recommend to the Board any changes it deems necessary.

Leadership Development

Annual Review of Chief Executive Officer

The Compensation Committee, with input from the Chief Executive Officer, shall annually establish the performance criteria (including both long-term and short-term goals) to be considered in connection with the Chief Executive Officer's next annual performance evaluation. At the end of each fiscal year, the Chief Executive Officer shall make a presentation or furnish a written report to the Compensation Committee indicating his or her progress against such established performance criteria. Thereafter, with the Chief Executive Officer absent, the Compensation Committee shall meet to review the Chief Executive Officer's performance. The results of the review and evaluation shall be communicated to the Chief Executive Officer by the Chairman of the Compensation Committee or another Board member.

Succession Planning

The Board (or a committee delegated by the Board) will work on a periodic basis with the Chief Executive Officer to evaluate the Company's succession plans upon the Chief Executive Officer's retirement and in the event of an unexpected occurrence.

Related Party Transactions

The Company gives careful attention to its review and disclosure of "related party" transactions – namely, transactions between the Company and its directors or members of senior management, as defined by Item 404 of Regulation S-K of the 1933 Act. Existing related party transactions are reviewed on a biannual basis by the Audit Committee with the goals of ensuring that such transactions are being pursued in accordance with all of the understandings and

commitments made at the time they were previously approved, ensuring that payments being made with respect to such transactions are appropriately reviewed and documented and reaffirming the continuing desirability of and need for each related party arrangement.

Newly proposed related party transactions are fully and carefully reviewed by the Audit Committee for evaluation and approval. The Audit Committee has the authority to hire and consult with outside financial, legal and other advisors as it deems appropriate in its evaluation of any such proposed transactions. The information provided to the directors reviewing a transaction must be sufficiently comprehensive so that Audit Committee members can reach informed decisions about related party transactions.

In addition, the Board takes active measures to ensure that the entities providing these related party services are being held to the same standards the Company would demand of unaffiliated third party service providers and there is a clear and articulable reason for procuring the service from a related party.