

## CORPORATE GOVERNANCE

We regard good corporate governance as the most important management priority for the Seikagaku Group, and we are continually working to ensure appropriate information gathering, speed up decision-making, and strengthen governance functions. We are also profoundly aware of our social mission and responsibilities as a pharmaceutical manufacturer. Our policy is to earn and maintain the confidence of all stakeholders, including shareholders, and to further a management environment that allows us to live up to the trust placed in us by society. To achieve these goals, we develop and carry out effective internal control systems, including compliance and risk management systems.

### Overview of corporate governance structure

#### Board of Directors

The Board of Directors of Seikagaku Corporation holds regular monthly meetings to carry out tasks stipulated in the Articles of Incorporation, make decisions relating to important aspects of business operations, and supervise the performance of those operations. If necessary, additional meetings of the Board of Directors are convened.

Since June 2004, the Board of Directors has appointed one outside director to strengthen its supervisory functions. In June 2007, the term of office for directors was shortened from two years to one year with the aim of creating a management structure that would be able to adapt quickly and flexibly to changes in the business environment.

#### Business operations

In June 2004, Seikagaku introduced a managing officer system. Under this system, executive functions are separated from the Board of Directors, the functions of which are now limited to decision-making and the supervision of business operations.

To speed up decision-making processes, we hold weekly Management Committee meetings. At the meetings, full-time directors and managing officers confer to ensure that all concerned parties are fully informed about management issues.

To strengthen supervisory functions, the statutory auditors attend Management Committee meetings as observers.

#### Audit organization

In June 2007, we further strengthened our audit organization by appointing an additional outside corporate auditor, bringing the total number of corporate auditors to five. Internal audits include audits performed by the Audit Department, as well as quality audits and GCP audits, which are carried out by the Quality Assurance Dept. and the Regulatory Affairs Dept., respectively. These audits verify that all departments are conducting their operations in an appropriate manner.

#### Compliance

In addition to socially acceptable ethics, the pharmaceutical industry must also comply with stringent laws and regulations. To ensure regulatory compliance, we have implemented a compliance programs based on the management philosophy and code of conduct set forth in our management guidelines since April 2002. We have also established a Compliance Promotion Committee. Compliance Program Handbooks have been compiled and distributed to increase awareness and understanding among executives and employees. To prevent fraudulent activity and other inappropriate behavior, company-wide educational programs are implemented from time to time on subjects that include the prevention of insider trading, harassment, etc.

