

> Corporate Governance

Practicing excellent corporate governance is one of Seikagaku's most important management priorities. Being mindful of our responsibilities as a pharmaceutical manufacturer and seeking to earn the confidence of shareholders by managing the company ethically and well, we develop and carry out effective internal control systems, including compliance and risk management systems. These systems reinforce collection of information necessary for responsible governance, speed up decision-making and reduce risks.

Board of Directors

The Board of Directors meets once a month as a rule and as required to carry out tasks stipulated in the Articles of Incorporation, makes key decisions guiding business operations and supervises the performance of those operations.

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 reduced from two years to one for more flexible adaptation to changes in the business environment.

Business operations

Seikagaku operates with a managing officer system. Executive functions are separated from those of the Board of Directors, which concentrates on decision-making and the supervision of business operations.

At Management Committee meetings, held basically once a week, full-time directors and managing officers become fully informed about management issues and act promptly to address them. To

reinforce internal control, we set up the Risk Control Committee in April 2008.

Audit organization

In June 2007, we appointed 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

The pharmaceutical industry must both remain ethical and comply with all laws and regulations. To ensure regulatory compliance, we maintain compliance programs based on the management philosophy and code of conduct set forth in our management guidelines and supervised by the Compliance Promotion Committee. Compliance Program Handbook has been distrib-

uted to increase awareness and understanding among executives and employees, and company-wide educational programs are implemented from time to time on subjects that include the prevention of insider trading, harassment, etc.

Policy toward large-scale purchases of shares in the Company

The Board of Directors resolved at its meeting held on May 13, 2008 to define a policy toward large-scale purchases of shares in the Company. The purpose of the policy is to prevent inappropriate large-scale purchases that could harm the Company's corporate value and the common interests of shareholders. The policy provides for the establishment of an independent committee, which will consist of persons who are independent of the management operating the Company's business, in order to ensure objective and reasonable judgments of the Board of Directors. The policy was approved at the General Shareholders' Meeting held on June 20, 2008.

