

# Corporate Governance and Compliance

Sawai is developing a sound and highly transparent management structure based on the recognition that corporate governance is the platform to fulfill the corporate social responsibility.

## Status of Corporate Governance

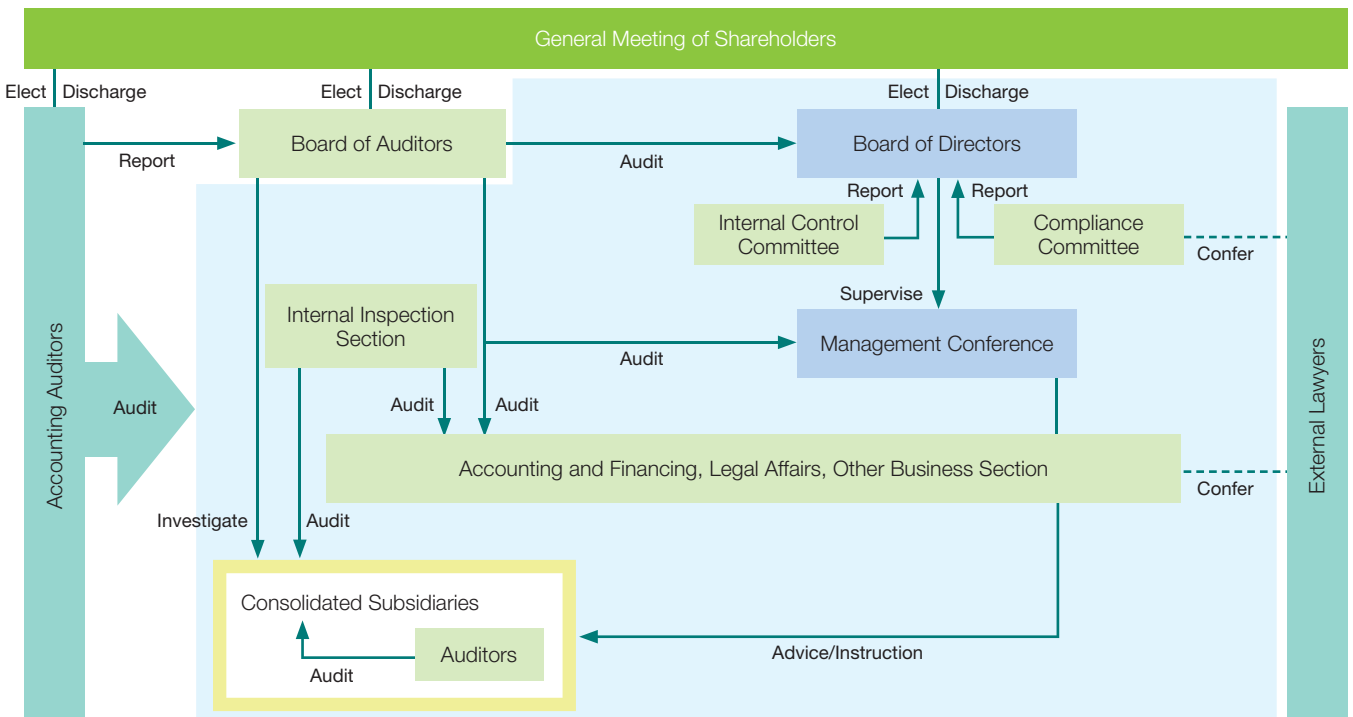
Sawai's management structure ensures decision-making and execution that responds appropriately and promptly to external changes. We have created this structure to fulfill a fundamental management policy of raising corporate value through profitable growth and to maximize the long-term return to our shareholders.

The Company has eleven directors and five corporate auditors (including three external corporate auditors). In view of corporate scale and management style, for some time, the Company adopted the corporate auditor system. The Company employs a dynamic approach to management that balances decisions and oversight through the Board of Directors, the Management Conference, and the Conference of Head Office General Managers. Sawai takes seriously its role as a pharmaceutical company that affects people's lives, and fosters ethical norms and information-sharing to that end. The

Board of Directors meets regularly every month and holds additional meetings as needed, meeting 14 times in the year under review. With comparatively few Directors (the Company's articles of incorporation provide for up to 15 directors), the system allows for a close exchange of views and reciprocal checks on a regular basis. The Internal Inspection Section aims to inculcate Sawai's principles and policies throughout the Company through audits of its business sites.

To ensure proper and efficient business practices for the entire corporate group, Sawai sees to it that its management philosophy and policies are practiced at the group companies and provides direction and advice from a daily operations approach. The Group's consolidated subsidiaries undergo accounting audits by the Company's independent auditors, as required for consolidated auditing, as well as internal audits performed by the Company's Internal Inspection Section.

## Corporate Governance Structure



## Basic Policy for Internal Controls

The Company has established a basic policy concerning the development of internal control systems (partially amended in June 2009) to prevent the occurrence of corporate scandals and to realize properness, efficiency and transparency in management and business operations.

The Company has set forth standards of conduct that include these specific objectives: 1) inculcation of the corporate philosophy to all employees throughout the group, 2) a Committee for Spreading the Management Philosophy that, together with the General Affairs Department as secretariat, conducts programs like training for the entire group to make sure that the management philosophy and code of conduct are firmly established, 3) all directors and employees comply with the corporate philosophy, the code of conduct, and the law. Under these three policies, we conduct activities of every individual employee actively aware of the Sawai brand.

We will uphold the corporate governance system that has already been formed and announced to the public, and will work without pause to perfect it. To monitor and verify compliance, we are enhancing the Internal Inspection Section for internal control audits. To forestall improper conduct by the Board of Directors, we are setting up a reporting mechanism from individuals to the direct audit office (currently a corporate auditor), as stated in regulations pertaining to the corporate ethics help line.

The Company takes a two-pronged approach to its business execution. First, in compliance, it convenes periodic and ad hoc meetings of the Compliance Committee, which is conducted by the Compliance Section and composed of the directors, the standing statutory auditors, and members of the Corporate Administration Division departments. The Committee deliberates compliance-related matters and educates and promotes awareness among both directors and employees about compliance. Second, in the area of risk management, the Reliability Assurance Division holds responsibility for rigorously supervising product quality and safety based on GQP and GVP standards (Good Quality Practice and Good Vigilance Practice). In conformance with the Risk Management Rules, the Director for the Corporate Administration Division executes overall responsibility for monitoring the state of risk in all business operations and for accident and disaster prevention measures, while the General Affairs Department carries out direct supervision.

In the area of information control, we expect to keep critical company matters and confidential information acquired during the course of work under absolute control, covering both internal company and personal information. Externally, the Company endeavors to make proper and timely disclosure of important communications, with emphasis on investor relations information for analysts and investors.

## Communication with Shareholders and Investors

The Company will continue to hold biannual briefings on financial results (for the interim and year-end closing of accounts), which provide a means for timely, highly transparent information disclosure to analysts and institutional investors and an opportunity for direct dialog with executive management. The Company strives to ensure timely disclosure on the Company's website with the Summary Statement of Financial Results and supplemental information, the Securities Report and press releases. The Company also proactively disseminates information to investors through upgrading of the IR website and the issuance of the Annual Report and other printed materials. At the same time, we endeavor to secure and retain long-term shareholders through the issuance of a biannual shareholder bulletin to individual investors in Japan.

## Introduction of Takeover Defense Measures

A spate of mergers and acquisitions in Japan in recent years has attracted public attention. To prevent large-scale share purchases by inappropriate persons, interference with the conduct of business and impairment of corporate value, the Company has prepared the Policy Concerning Large-Scale Purchases of Shares (Takeover Defense Measures) (hereinafter the "Plan").

The Plan requires the provision of information by any person who attempts a large-scale purchase of the Company's shares, representing 20% or more of the total voting rights, and provides a framework for triggering countermeasures such as the issuance of stock acquisition rights in cases where a purchaser has been judged to be inappropriate. At a meeting of the Company's Board of Directors held on May 12, 2008, it was resolved to submit the Plan for approval by the General Meeting of Shareholders.

The Plan was approved at the 60th Ordinary General Meeting of Shareholders held on June 24, 2008.