

Last Update: June 27, 2017

## Sawai Pharmaceutical Co, Ltd.

President, Representative Director: Mitsuo Sawai

Contact: Executive Officer, Kazuhiko Sueyoshi

Securities Code: 4555

<http://www.sawai.co.jp>

The corporate governance of Sawai Pharmaceutical Co., Ltd. (the “Company”) is described below.

### I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

#### 1. Basic Views

The Company regards building a management structure that enables appropriate and prompt decision-making and execution of duties in response to external changes in the environment and implementing fair and highly transparent management as important tasks in improving corporate governance to achieve sustainable growth and improve corporate value over the medium to long-term.

We will also adhere to all internal corporate rules and our Code of Conduct for dealing with various stakeholders when engaging in corporate activities, based on a common Corporate Philosophy of “Patients First” for the entire corporate group in order to enhance and maintain a high sense of ethics as a company intimately concerned with human life in providing ethical drugs.

##### (1) Ensuring shareholder rights and equality

The Company will endeavor to establish an environment for the exercise of rights and take the appropriate steps to effectively preserve the shareholder rights. We will also endeavor to effectively ensure equality of shareholder rights for minority shareholders and foreign shareholders.

##### (2) Appropriate collaboration with stakeholders other than shareholders

The Company will endeavor to achieve appropriate collaboration, not only with shareholders, but also with healthcare providers, customers, Company employees, the local community, and all other stakeholders to put the Corporate Philosophy of “Patients First” into practice, achieve sustainable growth, and increase corporate value over the medium to long-term from a perspective of sustainability. We will also be proactive in practicing corporate social responsibility (CSR) in the business process.

##### (3) Ensuring appropriate disclosure of information and transparency

The Company will endeavor to consistently disclose reliable corporate information to shareholders, investors, and other market participants in a timely manner, and make sure that all market participants are equally able to obtain information disclosed by the Company, in accordance with laws and regulations. The Company will be proactive in disclosing, not only financial information, but management strategy and management issues, risks, ESG (environmental, social, and governance) information, and other highly useful corporate information on the website, in public relations materials, and other means appropriately in a highly transparent manner.

##### (4) Responsibilities of the Board of Directors

The Board of Directors will work to provide “proactive governance” by responding appropriately to changes

in the external environment and making prompt and decisive decisions by pursuing efficiency and legitimacy in management based on a management monitoring function that maintains a good balance between self-control by internal directors, who are intimately familiar with the business, and external control by external directors, in light of the fiduciary responsibility and accountability of the Board of Directors to shareholders. The Company will also strengthen the “protective functions” expected of auditors and the Board of Auditors and endeavor to foster a corporate culture that respects free, frank, and constructive opinions in addition to providing auditors with the appropriate opportunities to convey their opinions.

(5) Dialog with shareholders

The President and Chief Information Officer will endeavor to engage in constructive, two-way communication with shareholders and investors by actively participating in a dialog with them, and providing sufficient information on management strategy, financial, and other information. They will also report the results of such dialog to the Board of Directors and other appropriate bodies, and actively utilize the opinions of shareholders and other stakeholders in managing the Company.

**[Reasons for Non-compliance with the Principles of the Corporate Governance Code]**

**【Supplemental Principle 4-1-3 Planning for successors to the President and other executive management】**

The Board of Directors will continue to provide guidance and oversight to ensure a plan for successors to the President and other executive management can be formulated as quickly as possible.

**【Supplemental Principle 4-10-1 Appropriate advice from and involvement of independent external directors】**

Decisions on the nomination and compensation of executive management and directors have heretofore been made at a Board of Directors’ meeting that includes independent external directors, but we are considering a mechanism that would enable independent external directors to be appropriately involved and provide advice from next period onward in order to strengthen the independence, objectivity, and accountability in the functioning of the Board of Directors in relation to such decisions.

**[Disclosure Based on the Principles of the Corporate Governance Code]**

**【Principle 1-4 So-called “cross-shareholdings” 】**

The Company may hold the shares of listed companies when deemed necessary as a part of management strategy for stable procurement of raw materials, financing, business alliances, and other actions required to achieve sustainable growth and increase corporate value over the medium to long-term. The Company will, on a regular basis, verify at a Board of Directors meeting that holding the primary cross-shareholdings is reasonable in light of the purpose for holding the shares. As a result of the examination, some of the shares held were disposed of in fiscal 2015. In fiscal 2016, a check sheet of shareholdings was used to verify the rationality and other aspects, resulting in a decision to continue holding those shares.

No uniform criteria have been established for the exercise of voting rights because the nature and background underlying each proposal are different. Voting rights will be exercised in an appropriate manner after examination of each proposal individually for whether it will contribute to sustainable growth and increased corporate value for our company over the medium to long-term. This will be accomplished by engaging in a dialog with the company invested in and acquiring an in-depth understanding of the management policy, nature of the proposal, and other aspects of the company in question. In fiscal 2016 as well, voting rights were exercised in accordance with this policy.

**【Principle 1-7 Transactions with interested parties】**

The Company has designated the approval of competitive transactions, personal transactions, and transactions involving a conflict of interest by directors as matters subject to a resolution under the Rules of the Board of Directors, and has also specified that directors who have a vested interest in the matter to be resolved may not vote on it. We have also designated transactions between a director and the Company or with a major

shareholder or other stakeholder as matters subject to resolution in order to avoid a conflict with shareholder interests. The Board of Directors will also monitor such transactions with related parties appropriately, pursuant to relevant laws and regulations.

**【Principle 3-1 Replete information disclosure】**

i. The Company discloses the Company philosophy, management strategy, and business plan (Medium-term Business Plan) on the corporate website.

Corporate Philosophy: <http://www.sawai.co.jp/en/about/philosophy/>

Medium-term Business Plan: <http://www.sawai.co.jp/en/ir/>

ii. Please see Section I-1 of this report for the Company's basic views and basic policy on the Corporate Governance Code.

iii. Please see "Existence of a policy on determining the amount of compensation and the method of calculation [relating to Board of Directors compensation]" under Section II-1 "Matters concerning institutional structure, organizational management, etc." in this report for the policy and procedures for the Company Board of Directors to determine the compensation of directors and executive management.

iv. The Company Board of Directors will take the size, balance, diversity, and other aspects of the Board of Directors as a whole into consideration when making a collective decision on the suitability of candidates for election as executive management and nomination of director candidates by examining whether the candidate has suitably extensive experience and expertise, good performance, a high degree of insight, is of good character, and other factors. The procedure is set forth in the Rules of the Board of Directors. The policy for nominating candidates for auditor is to make a decision based on the Criteria for Audits by Auditors, such as ensuring independence from those who conduct business, maintenance of fairness and impartiality, and other criteria. The procedures are set forth in the Rules of the Board of Directors and the Rules of the Board of Auditors.

v. Explanations of nomination when nominating candidates for the Board of Directors and Board of Auditors, based on Provision iv., above, are posted in the Notice of the General Meeting of Shareholders.

**【Supplemental Principle 4-1-1 Summary of the scope of delegation to management】**

The Board of Directors makes decisions on matters designated in the Rules of the Board of Directors as highly material to management, in addition to matters set forth in laws and regulations and in the Articles of Incorporation.

In light of the fact that oversight of management is an important duty of the Board of Directors, the Company has adopted a corporate officer system, which delegates discussion of and decisions on executive policies that are in line with decisions by the Board of Directors to the Management Meeting that consists of corporate officers. Corporate officers who are members of the Management Meeting also executes, from a perspective of efficiency and expediency, proposals that do not reach a given monetary value or proposals that are not materially important based on the "Table of Criteria for Making Decisions" separately specified by the Board of Directors.

**【Principle 4-8 Effective use of independent external directors】 【Principle 4-9 Qualifications of independent external directors and criteria for judging their independence】**

The Company elects two people who possess qualifications that meet the requirements for external directors set forth in the Companies Act and the standards of independence set forth by the Tokyo Stock Exchange, and who possess qualifications that enable them to offer advice and make decisions that will contribute to sustainable growth of the Company and to enhancing corporate value over the medium to long-term, as independent external directors.

**【Supplemental Principle 4-11-1 Views on balance, diversity, and size of the Board of Directors】**

The number of directors on the Company's Board of Directors has been limited to a maximum of 12 people in view of company size and achieving effective discussion and exchange of opinions. The Company's Board of Directors currently consists of 8 directors, two of whom are independent external directors. Please see Principle 3-1-iv. of this report for the policy and procedures for electing directors and views on the balance of knowledge, experience, and skills, diversity, and other factors in the Board of Directors as a whole.

**【Supplemental Principle 4-11-2 Concurrent assignments of directors and auditors】**

The Company keeps the concurrent assignment of company directors and auditors as officers at other listed companies within a reasonable scope to enable them to properly fulfill their roles and responsibilities. The status of concurrent assignment of company directors and auditors at other listed companies is given in the Notice of the General Meeting of Shareholders each year.

**【Supplemental Principle 4-11-3 Analysis and evaluation of the effectiveness of the Board of Directors】**

The Company analyzes and evaluates the effectiveness of the Board of Directors at regular intervals and undertakes improvements as necessary.

The Board of Directors reaches its decisions after careful explanations of and reporting on agenda items, and following discussions which are both open and deliberate. In addition, Board members freely express and discuss their candid opinions on subjects outside of the agenda items. The meetings are not only an opportunity to share information, but also serve to provide appropriate supervision from a broader perspective based on those discussions. It was determined that the effectiveness of the Board of Directors continues to be ensured.

The results of two initiatives in fiscal 2016 based on the previous analysis and assessment of the Board's effectiveness are as follows:

i. Review of the roles of oversight and execution

Standards for submission of proposals to the Board of Directors were reviewed. Positioning and effectively utilizing the Management Meeting as the entity responsible for deciding matters that do not meet those standards resulted in more careful discussion and review of important matters submitted to the Board of Directors, and enhancement of the supervisory function.

ii. Offering training and information to officers

Efforts were made to deepen understanding of the roles and responsibilities of officers, and to offer opportunities for officers to acquire the knowledge required, through training provided by the Japan Audit & Supervisory Board Members Association; through information exchange meetings between auditors and external directors prior to meetings of the Board of Directors; and by having external directors participate in briefings held by the Accounting Auditor to explain audit plans and audit results.

As a result, it was determined that the effectiveness of the Board of Directors has been enhanced compared to the previous year.

**【Supplemental Principle 4-14-2 Policy on training directors and auditors】**

The Company is proactive in providing a variety of information on the company business, finances, and other matters to enable directors and auditors to properly accomplish their roles and responsibilities. We also provide information, as needed, on various rules and systems pertaining to the industry and governance.

**【Principle 5-1 Policy on constructive dialog with shareholders】**

Please see Section I-1, "Basic Views (5) Dialog with Shareholders," in this report for the basic views on dialog with shareholders of the Company. Executive management will respond positively to requests for dialog (meetings) with shareholders and investors to the extent permitted by their schedules. When not permitted by their schedules, response will be provided by the IR contact or by answering the main concerns of the shareholder in writing, etc. The policy on establishing a system and initiatives for encouraging constructive dialog with shareholders and investors is as follows:

i. Director and Senior Managing Executive Officer Kenzo Sawai, as the information disclosure officer, has been reporting to the Tokyo Stock Exchange.

ii. The PR and IR Group in the Corporate Strategy Department has been designated as the contact for dialog, and a system of collaboration has been established in cooperation with the Controller Department, General Affairs Department, and other divisions to ensure that constructive dialog is achieved.

iii. The Company prepares IR materials that are easy to understand, including materials in English, in addition to holding briefings for analysts and investors to ensure equality and fairness among shareholders

to the extent possible.

iv. A system has been established for the PR and IR Group to compile the opinions and concerns ascertained through dialog with shareholders and investors and provide feedback to management on a regular basis.

v. Rules on insider trading have been established, everyone in the Company has been made aware of these, and the Company is diligent in managing insider information. The number of people handling important information is kept to a minimum and every effort is expended on managing important information. We have also established a system of making sure that several people participate in conversations to serve as mutual monitors to prevent external leaks of insider information.

## 2. Capital Structure

Foreign Shareholding Ratio	More than 30%
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### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Japan Trustee Services Bank, Ltd. (Trust account)	2,007,900	5.26
The Master Trust Bank of Japan, Ltd. (Trust account)	1,389,900	3.64
State Street Bank and Trust Company	1,296,944	3.40
Sawaken Co., Ltd.	994,000	2.60
Mitsuo Sawai	948,200	2.48
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG / JASDEC SECURITIES / UCITS ASSETS	939,400	2.46
Kenzo Sawai	854,000	2.24
The Bank of New York 133522	757,747	1.99
Japan Trustee Services Bank, Ltd. (Trust account 5)	653,200	1.71
Sumitomo Mitsui Banking Corporation	650,000	1.70

Controlling Shareholder (except for Parent Company)	NA
Parent Company	NA

### Supplementary Explanation

(Notes)

- The number of the above mentioned shares held by trust business is as follows:  
 Japan Trustee Services Bank, Ltd. (Trust Account): 2,007,900 shares  
 The Master Trust Bank of Japan, Ltd. (Trust Account ): 1,389,900 shares  
 Japan Trustee Services Bank, Ltd. (Trust account 5): 653,200 shares
- The following corporation submitted a large shareholding report for the previous fiscal year and we received a report stating that the corporation holds shares; however, our company cannot confirm the number of shares held so the corporation has not been included among the large shareholders noted above.  
 We received a report from Sampo Japan Nipponkoa Asset Management Co., Ltd. that they have held 1,939,900 shares (5.08% of total shares) as of March 31, 2017, from a Large Shareholding Report submitted on April 5, 2017.
- The Company holds 1,299,572 of its own shares (3.40% of total shares) in addition to the above.

### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Pharmaceutical
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	Less than 10

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

NA

### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

NA

## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with a Board of Auditors ( <i>Kansayaku</i> )
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	12 Directors
Term of Office Stipulated in Articles of Incorporation	1 Year
Chairperson of the Board	Company Chairperson, Representative Director
Number of Directors	8 Directors
Number of External Directors	2 Directors
Number of Independent Directors	2 Directors

External Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Hidefumi Sugao	Lawyer												
Nawomi Todo	Other												

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

- a. Executive of the Company or its subsidiaries
- b. Non-executive director or executive of a parent company of the Company
- c. Executive of a fellow subsidiary company of the Company
- d. A party whose major client or supplier is the Company or an executive thereof
- e. Major client or supplier of the listed company or an executive thereof
- f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/auditor (*kansayaku*)
- g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- i. Executive of a company, between which and the Company external directors/ auditors (*kansayaku*) are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

External Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Hidefumi Sugao	Applicable	Opened a Law Firm External Director of Nishimatsuya Chain Co., Ltd.	<p>The external director in question is not currently, nor has been in the past, an officer of the corporate group; a main shareholder or investor; a key customer; a consultant, accounting expert, or legal expert who received a substantial sum of money or other assets; was not formerly from one of these, is not a close relative, and is not thought to pose the risk of a conflict of interest.</p> <p>Moreover, the external director in question has opened a law firm and serves as an external director of Nishimatsuya Chain Co., Ltd. He possesses extensive specialized legal expertise and knowledge gained through his work as an attorney, has experience as an external director of another listed company, and has gained experience as an external auditor of this company since June 2007, and we think that he</p>

			<p>can be expected to provide sound advice from the independent perspective of an external director who holds voting rights on the Board of Directors. In our judgment, his appointment will strengthen the function of oversight of the Board of Directors and will lead to greater transparency.</p> <p>He has also attended all 15 of the Board of Directors meetings held from April 2016 through March 2017, has voiced questions appropriate to his status as an external director concerning matters reported and matters proposed for resolution at each meeting, and has stated his opinions from an external perspective.</p> <p>He has been elected as an external director and independent officer in consideration of the above.</p>
Nawomi Todo	Applicable	<p>Staff Doctor at Osaka University Hospital, etc.</p> <p>Staff Doctor at Osaka-tetsusyou Health Insurance Society</p> <p>Obtained Certified Occupational Physician Qualification of Japan Medical Association</p>	<p>The external director in question is not currently, nor has been in the past, an officer of the corporate group; a main shareholder or investor; a key customer; a consultant, accounting expert, or legal expert who received a substantial sum of money or other assets; was not formerly from one of these, is not a close relative, and is not thought to pose the risk of a conflict of interest.</p> <p>The external director in question also possesses extensive specialized knowledge and experience as a physician. We think she can be expected to provide solid advice and judgments from an independent perspective as an external director who holds voting rights on the Board of Directors. In our judgment, her appointment will strengthen the function of oversight of the Board of Directors and will lead to greater transparency.</p> <p>She has also attended all 15 of the Board of Directors meetings held from April 2016 through March 2017, has voiced questions appropriate to his status as an external director concerning matters reported and matters proposed for resolution at each meeting, and has stated his opinions from an external perspective.</p> <p>She has been elected as an external director and independent officer in consideration of the above.</p>

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Not Established
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**[Auditors (*Kansayaku*)]**

Establishment of Board of Auditors ( <i>Kansayaku</i> )	Established
Maximum Number of Auditors ( <i>Kansayaku</i> ) Stipulated in Articles of Incorporation	5 Auditors ( <i>Kansayaku</i> )
Number of Auditors ( <i>Kansayaku</i> )	4 Auditors ( <i>Kansayaku</i> )

Cooperation among Auditors (*Kansayaku*), Accounting Auditors and Internal Audit Departments

The Company has established the Rules of the Board of Auditors, Criteria for Audits by Auditors, and Rules on Internal Audits, and aims to strengthen audit functions by working together with the Board of Auditors, the Internal Inspection Section, and the Accounting Auditor.

The full-time auditor attends Management Meetings and other important meetings, and share information with the external auditors through reports to the Board of Auditors. The full-time auditor also strives to ensure mutual understanding by regularly reserving time for dialog with the President and Representative Director and enhancing collaboration with the external auditors.

The full-time auditor and the head of the Internal Inspection Section exchange information on the establishment and operational status of internal controls, audits of operations, theme-based audits, and other matters as needed, and circulate the internal inspection report produced by the Internal Inspection Section, not only to the President and Representative Director, but to the full-time auditor as well. The full-time auditor reports the contents of that report to the Board of Auditors.

The Company has also strengthened the audit function by having members of the Internal Inspection Section assist with some of the audit administrative tasks so the auditors can devote their full attention to audits. The individuals providing such assistance in such instances have independence from orders from and supervision by directors and perform support tasks under the auspices of the auditors.

While the Company strives to improve audit efficiency by dividing roles and having auditors mainly perform operational audits and accounting auditors perform mainly accounting audits, efforts are made for auditors and accounting auditors to engage in mutual exchanges of opinions and information to avoid oversights on audits. The auditors also collaborate or work in concert with the accounting auditors to evaluate internal controls and be present during physical inventories and other onsite audits in addition to explaining the basic plan for audits and receiving summary reports on audits.

The auditing divisions (Board of Auditors, Internal Inspection Section, and Accounting Auditor) also ensure the effectiveness of audits and aim for comprehensive company-wide coverage by conducting audits of business locations and other means.

Each of the auditing divisions collects information from and exchanges opinions with each division promoting internal controls. These divisions evaluate the status of establishment and employment of internal controls and also report to the Internal Control Committee, issue opinions and recommendations, and take other steps, as needed, to improve the level of internal control.

Appointment of External Auditors ( <i>Kansayaku</i> )	Appointed
Number of External Auditors ( <i>Kansayaku</i> )	2 Auditors ( <i>Kansayaku</i> )
Number of Independent Auditors ( <i>Kansayaku</i> )	2 Auditors ( <i>Kansayaku</i> )

External Auditors' (*Kansayaku*'s) Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Takanobu Tomohiro	Lawyer													
Junichi Hirano	Tax Accountant													

\* Categories for "Relationship with the Company"

\* "○" when the auditor (*Kansayaku*) presently falls or has recently fallen under the category;

"△" when the auditor (*Kansayaku*) fell under the category in the past

\* "●" when a close relative of the auditor (*Kansayaku*) presently falls or has recently fallen under the category;

"▲" when a close relative of the auditor (*Kansayaku*) fell under the category in the past

a. Executive of the Company or its subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

c. Non-executive director or executive of a parent company of the Company

d. Auditor (*Kansayaku*) of a parent company of the Company

e. Executive of a fellow subsidiary company of the Company

f. A party whose major client or supplier is the Company or an executive thereof

g. Major client or supplier of the Company or an executive thereof

h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an auditor (*kansayaku*)

i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

j. Executive of a client or supplier company of the Company (which does not correspond to any off, g, or h) (the auditor (*kansayaku*) himself/herself only)

k. Executive of a company, between which and the Company external directors/ auditors (*kansayaku*) are mutually appointed (the auditor (*kansayaku*) himself/herself only)

l. Executive of a company or organization that receives a donation from the Company (the auditor (*kansayaku*) himself/herself only)

m. Others

External Auditors' (*Kansayaku*'s) Relationship with the Company (2)

Name	Designation as Independent Auditor ( <i>Kansayaku</i> )	Supplementary Explanation of the Relationship	Reasons of Appointment
Takanobu Tomohiro	Applicable	Partner of Law Firm	<p>The external auditor in question is not currently, nor has been in the past, an officer of the corporate group; a main shareholder or investor; a key customer; a consultant, accounting expert, or legal expert who received a substantial sum of money or other assets; was not formerly from one of these, is not a close relative, and is not thought to pose the risk of a conflict of interest.</p> <p>Furthermore, the external auditor in question has abundant legal expertise and experience managing an office through his work as a partner of a legal firm. We have therefore</p>

			<p>judged him capable of fulfilling the role of an external auditor and believe he can be expected to provide valid advice and perform effective audits from an independent perspective.</p> <p>Note that he has attended 11 of the 12 Board of Directors meetings held from his appointment in June 2016 through March 2017, has offered questions appropriate to his role as an external auditor regarding matters reported and proposed for resolution at each meeting, and has stated his opinions from an external perspective.</p> <p>He has been elected as an external auditor and independent officer in consideration of the above.</p>
Junichi Hirano	Applicable	Opened a tax accounting office	<p>The external auditor in question is not currently, nor has been in the past, an officer of the corporate group; a main shareholder or investor; a key customer; a consultant, accounting expert, or legal expert who received a substantial sum of money or other assets; was not formerly from one of these, is not a close relative, and is not thought to pose the risk of a conflict of interest.</p> <p>The external auditor in question has also opened a tax accounting office and possesses considerable knowledge concerning taxes, finances and accounting through his activities as a tax accountant and his former work at a regional taxation bureau and as successive head of several tax offices. We have therefore judged him to be capable of performing effective audits and providing valid advice from an independent perspective and of properly fulfilling his role as an external auditor.</p> <p>He has been elected as an external auditor and independent officer in consideration of the above.</p> <p>Because he was appointed at the General Meeting of Shareholders held on June 27, 2017, he is excluded from the reporting of attendance to meetings of the Board of Directors from April 2016 through March 2017.</p>

**[Independent Directors/ Auditors (*Kansayaku*)]**

Number of Independent Directors/ Auditors ( <i>Kansayaku</i> )	4 persons (2 Directors and 2 Auditors ( <i>Kansayaku</i> ))
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Matters relating to Independent Directors/ Auditors ( <i>Kansayaku</i> )
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All external officers of the Company fulfill the qualifications for being an independent officer and all have been designated as independent officers.
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**[Incentives]**

Incentive Policies for Directors	Stock Options
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Supplementary Explanation
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The following share options (as of May 31, 2016) have been issued pursuant to the Companies Act:

- (1) Share options issued in July 2013  
No. of share options: 33 units (200 ordinary shares of the Company per one share option unit)  
Value of share options issued: 4,895.0 yen per share  
Amount paid in at exercise: 1 yen per share
- (2) Share options issued in August 2014  
No. of share options: 29 units (200 ordinary shares of the Company per one share option unit)  
Value of share options issued: 4,555.0 yen per share  
Amount paid in at exercise: 1 yen per share
- (3) Share options issued in July 2015  
No. of share options: 27 units (200 ordinary shares of the Company per one share option unit)  
Value of share options issued: 5,491.0 yen per share  
Amount paid in at exercise: 1 yen per share
- (4) Share options issued in August 2015  
No. of share options: 2,018 units (100 ordinary shares of the Company per one share option unit)  
Value of share options issued: 9,136.0 yen per share  
Amount paid in at exercise: 7,800 yen per share
- (5) Share options issued in July 2016  
No. of share options: 28 units (200 ordinary shares of the Company per one share option unit)  
Value of share options issued: 6,329.0 yen per share  
Amount paid in at exercise: 1 yen per share

Recipients of Stock Options	Inside Directors / Corporate Officers (Shikkoyakuin) / Employees
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Supplementary Explanation
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Stock options are granted to increase the desire and motivation of company directors (excluding external directors), corporate officers, and employees to contribute to an increase in corporate value over the medium to long-term and to better encourage shareholder-oriented management.
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**[Director Remuneration]**

Disclosure of Individual Directors' Remuneration	No Individual Disclosure
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Supplementary Explanation
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A total of 375 million yen was paid as compensation for eight directors (excluding two external directors) in fiscal 2016 (from April 2016 until March 2017).

The breakdown of the compensation is 285 million yen of basic compensation, 17 million yen of stock options and 72 million yen of bonuses.

A total of 20 million yen was paid as compensation for two external directors and three external auditors, and a total of 22 million yen was paid to two auditors (excluding external auditors).

The amount is within the scope of what is appropriate and at present, we believe it is sufficient to disclose the total amount, in consideration of privacy. Furthermore, no director has received compensation of 100 million yen or more.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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#### Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The Board of Directors determines the amount of compensation for each director according to internal company rules and within the total amount approved by the General Meeting of Shareholders.

The limit on the amount compensation for directors was resolved to be 670 million yen (but employee salaries are not included) at the General Meeting of Shareholders held on June 23, 2011.

#### [Supporting System for External Directors and/or External Auditors (*Kansayaku*)]

##### 【Supporting system for external directors】

The designated director serves as the point of contact for the Board of Auditors and the Accounting Auditor and is responsible for running Board of Directors meetings. The designated director communicates information to and coordinates with all directors, including external directors. When external directors incur research and other expenses in the course of executing their responsibilities, they may invoice the Company for reasonable expenses. The Company also strives to strengthen the oversight functions served by external directors by having staff members from the General Affairs Department perform some of the administrative tasks so the external directors can concentrate on their work. The full-time auditor will also provide a venue for external directors and auditors, including external auditors, to meet prior to Board of Directors meetings to exchange information and opinions.

##### 【Supporting system for external auditors】

The Company has established a system wherein a designated auditor serves as the point of contact for the Board of Auditors, the Board of Directors, and the Accounting Auditor. The reports from relevant internal corporate divisions and information to such divisions are also transmitted via the full-time auditor. This and other aspects of the system enable each external auditor to efficiently perform his or her duties. The full-time auditor also compiles opinions, reports, and other information from each of the external auditors, formulates proposed resolutions for the Board of Auditors, and adopts other systems that will facilitate the smooth operation of the Board of Auditors. The full-time auditor will also establish a venue for the auditors, including external auditors, and external directors to meet prior to Board of Directors meetings to exchange information and opinions. When the external auditors incur research and other expenses in the course of executing their responsibilities, they may invoice the Company for reasonable expenses. The Company also strives to strengthen the oversight and audit functions served by external auditors by having staff members from the Internal Inspection Section perform some of the administrative tasks so the external auditors can concentrate on their work.

## **2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)**

The corporate governance system of the Company consists of 8 directors (two of whom are external directors) and four auditors (two of whom are external auditors), and has adopted a company with a Board of Auditors system. The Company has also separated the management decision-making and business execution functions and strives to strengthen and improve the efficiency of the business execution function based on management strategy. We have also adopted a corporate officer system to clarify the responsibilities for the execution of duties. Moreover, the Internal Inspection Section also consists of three members, and this section expanded the number of business locations audited last fiscal year to 24 locations. A diagram of the governance structure is shown on the final page of this report.

The Board of Directors met a total of 15 times during the previous consolidated fiscal year, including the regular monthly meetings and extraordinary meetings. To ensure efficient performance of management tasks, the Management Meeting also met once or more per month. The Management Meeting discusses important matters for submittal to the Board of Directors, discusses and determines policies for execution of matters decided on by the Board of Directors, and analyzes and reviews responses to monthly management results. The Company also obtains various kinds of advice from multiple attorneys and other experts on various issues concerning management of the business, and takes these into consideration in making management decisions.

The Board of Auditors met a total of 12 times for monthly meetings during the previous consolidated fiscal year. The full-time auditor also attended the Management Meeting and other important meetings, and shared information with the external auditors by reporting to the Board of Auditors.

The organization for audits by auditors consists of a Board of Auditors comprised of four auditors (two of whom are external auditors), which serves as the structure for performing the duties set forth in Article 390, Paragraph 2 of the Companies Act. Auditors attend Board of Directors meetings and state their requisite opinions from an objective perspective. The auditors also exchange information with the Internal Inspection Section and the Accounting Auditor, receive examination reports on the status of audits, perform their own audits, and produce audit reports. The Articles of Incorporation specify that there may be up to five auditors.

The Internal Inspection Section (with three dedicated members), under the direct oversight of the President and Representative Director, has been established as the internal control organization for the Company. The Internal Inspection Section performs audits based on the audit plan while auditing and evaluating the establishment and operation of internal controls.

In addition to the Board of Directors, the Board of Auditors, and the Management Meeting, the Company strives to demonstrate agility by encouraging dynamic division general manager meetings at headquarters and conferences, and endeavors to share our ethical standards and information as a pharmaceutical company that is intimately concerned with human life.

The Company has retained KMPG AZSA LLC as our accounting auditor. The two certified public accountants who performed accounting services for the Company are Executive Partner Daisuke Harada and Executive Partner Manabu Matsumoto. Both are Limited Liability Partners of KMPG AZSA LLC. Ten other certified public accountants and nine other employees assisted them in their work.

The Company also obtains various kinds of advice from multiple attorneys and other experts on various issues concerning routine management of the business, and takes these into consideration in making management decisions. We also employ a system of consulting the Compliance Committee or the Internal Control Committee, depending on the nature of the issue. The President serves as the chair of these committees, and appoints relevant directors and the full-time auditor to serve as committee members.

The Company also strives to be thorough in conveying our Corporate Philosophy and the management policies of our company to group companies and also providing them with guidance and advice in the course of conducting routine business to ensure that business is conducted appropriately and efficiently as a corporate group. The consolidated subsidiaries of the corporate group undergo the requisite consolidated accounting audits by the Company's accounting auditor, and also undergo audits by the Board of Auditors and the Internal Inspection Section.

The Company has concluded agreements with the external directors and auditors limiting liability for damages pursuant to Article 423, Paragraph 1 of the Companies Act. The cap on the amount of liability for damages under these agreements is the amount set forth in the laws and regulations.

### 3. Reasons for Adoption of Current Corporate Governance System

We believe the best way to pursue efficiency and legitimacy in operations is to have directors who are highly knowledgeable about the ethical drug industry and well-versed in internal affairs participate in business operation while keeping an eye on each area within the Company with a high sense of ethics. We also believe that a company with a Board of Auditors that functions under the supervision of management by external directors and a Board of Auditors is an optimal system, and have thus adopted this system giving overall consideration to our corporate scale and method of management.

We expect our external directors and external auditors to provide valid advice, make effective decisions, and function in an audit and supervisory capacity from an independent, external perspective born of their expert knowledge of legal matters, tax, accounting, and medical matters.

## III. Implementation of Measures for Shareholders and Other Stakeholders

### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The notice is sent seven days earlier than the statutory deadline for sending the convocation notice.
Scheduling AGMs Avoiding the Peak Day	The Company has avoided holding meetings on dates when numerous other companies are holding meetings since 2002.
Allowing Electronic Exercise of Voting Rights	In June 2017, 42.7% of voting rights were exercised via electromagnetic means.
Participation in Electronic Voting Platform	An electronic platform for institutional investors to exercise voting rights has been employed since 2006; exercise of voting rights via the website also become possible since June 2008.
Providing Convocation Notice in English	An English version has been provided from the Notice of the General Meeting of Shareholders (Summary) held on June 24, 2016.
Other	Meeting notices for the ordinary General Meeting of Shareholders, resolution notices, and the results of voting rights exercised are posted on the TSE and Company's website. <a href="http://www2.tse.or.jp/disc/45550/140120160531407116.pdf">http://www2.tse.or.jp/disc/45550/140120160531407116.pdf</a> <a href="http://www.sawai.co.jp/ir/stock/meeting/">http://www.sawai.co.jp/ir/stock/meeting/</a>

### 2. IR Activities

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	Disclosure policy is posted on the Company website. <a href="http://www.sawai.co.jp/en/ir/policy/">http://www.sawai.co.jp/en/ir/policy/</a>
Regular Investor Briefings for Individual Investors	Briefing for individual investors are held at least once or more a year. Briefing by the President: None
Regular Investor Briefings for Analysts and Institutional	Briefings are held for analysts and institutional investors twice a year at the second quarter and at the end of the fiscal year; teleconferences are held for

Investors	the first and third quarters.
Regular Investor Briefings for Overseas Investors	The Company participates in or accepts coverage meetings for IR events held by securities firms in Japan, and also accommodates large meetings, small meetings, and individual meetings for coverage. We also hold IR events overseas on a regular basis.
Posting of IR Materials on Website	The Company posts annual securities reports, summary financial statements and supporting documentation, the Integrated Report, shareholder communications, and other materials such as IR presentation materials and press releases.
Establishment of Department and/or Manager in Charge of IR	PR & IR Group has been established in the Corporate Strategy Department.

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	A Code of Conduct based on the Corporate Philosophy has been enacted for each stakeholders. The Code of Conduct was revised in fiscal 2016 based on principle 2-2 of the Corporate Governance Code. The Company is working to foster widespread understanding of Corporate Philosophy and Code of Conduct through its M1 project and the activity of the M1 Club, and to meet the expectations of and respond to the trust shown by our stakeholders. These are on the Company website. <a href="http://www.sawai.co.jp/en/about/philosophy/">http://www.sawai.co.jp/en/about/philosophy/</a>
Implementation of Environmental Activities, CSR Activities etc.	The Company encourages efforts to reduce electricity consumption and prevent global warming by encouraging employees to dress lightly in the summer and warmly in the winter, introducing hybrid vehicles to the company fleet, changing the temperature setting on the air conditioning system (28°C in summer, 20°C in winter), reducing use of or shutting off lights, installing LED lights, and other means. We also hold regular clean-up events around each business location and work to beautify the community environment. The CSR Committee was established in fiscal 2014 and is working to enhance CSR activities. The Integrated Report and other initiatives to help the community and the environment can be viewed on the Company website. <a href="http://www.sawai.co.jp/en/ir/library/integrated_report/">http://www.sawai.co.jp/en/ir/library/integrated_report/</a> <a href="http://www.sawai.co.jp/company/environment/">http://www.sawai.co.jp/company/environment/</a>
Development of Policies on Information Provision to Stakeholders	The policy on provision of information and other matters is set forth in the Sawai Pharmaceutical Disclosure Policy. <a href="http://www.sawai.co.jp/en/ir/policy/">http://www.sawai.co.jp/en/ir/policy/</a>
Other	<b>【Factory tours】</b> As part of the company's activities to contribute to the community, factory tours showing the manufacturing process of high-quality generic drugs are conducted for groups such as students, neighborhood community association, PTAs and medical institutions. Information on other CSR activities can be found on the company's website and in the Integrated Report. <a href="http://www.sawai.co.jp/en/csr/">http://www.sawai.co.jp/en/csr/</a> <a href="http://www.sawai.co.jp/en/ir/library/integrated_report/">http://www.sawai.co.jp/en/ir/library/integrated_report/</a>  <b>【Current status of promotion of women to officer positions】</b>

	Nawomi Todo, an external director, is a woman. The composition of officers by gender is 11 men and one woman (8.3% of officers are female). In addition, one woman has been appointed as a corporate officer.
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#### **IV. Matters Related to the Internal Control System**

##### **1. Basic Views on Internal Control System and the Progress of System Development**

	<p>The structure for ensuring proper conduct of business set forth in the Companies Act and the Enforcement Regulation of the Companies Act is in a resolution by the Board of Directors. It is outlined below:</p> <ol style="list-style-type: none"> <li>1. System for ensuring that directors and employees adhere to laws and regulations and the Articles of Incorporation in performing their duties <ol style="list-style-type: none"> <li>i. The Company implements company-wide group activities and training in the M1 project, a project to make all employees in the Company aware of the Corporate Philosophy and Code of Conduct, and works hard to ensure compliance by officers and employees with the Corporate Philosophy and the Code of Conduct in conducting business, as well as laws and regulations and internal company rules.</li> <li>ii. The Compliance Committee has been established and we endeavor to improve awareness of compliance through education and training of officers and employees.</li> <li>iii. We strive to employ the Rules on the Corporate Ethics Helpline in an appropriate manner and take steps to prevent scandals resulting from acts that violate laws and regulations, and other rules, and to detect and correct such acts quickly.</li> <li>iv. The Internal Inspection Section, directly overseen by the President, conducts audits and each division accepts strict audits by auditors and auditing auditors.</li> <li>v. The Company endeavors to disclose consistent, reliable information in a timely and proper manner, both internally and outside of the company.</li> </ol> </li> <li>2. System for preserving and managing information pertaining to the performance of duties by directors <ol style="list-style-type: none"> <li>i. The Company has established Rules on Document Management, retains documentation that the Company is legally required to retain, including minutes of important meetings, Requests for Approval concerning important matters, information (including electromagnetic records) on the execution of duties by directors that should be retained pursuant to important contracts and other rules in a proper manner, for the specified number of years.</li> <li>ii. The Company makes every effort to manage information on important matters and confidential information learned in the course of business according to the Rules of Management of Insider Trading and the Rules on Management of Information Security, and works to protect personal information as specified in the Rules on Protection of Personal Information.</li> </ol> </li> <li>3. Rules and other systems for managing the risk of loss <ol style="list-style-type: none"> <li>i. The Reliability Assurance Division is responsible for strict monitoring of product quality and safety based on the GQP (Good Quality Practices) and GVP (Good Vigilance Practices) standards. The Company also works closely with government institutions, and domestic and foreign research institutions, raw material manufacturers, and others to develop an accurate understanding of information on pharmaceutical drug quality and safety and promptly take the necessary steps to prevent problems through scientific analysis and evaluation.</li> <li>ii. Each division in charge takes primary responsibility for management of various risks that arise in the process of conducting business, and each division has prepared rules and a manual on risk management and strives to improve the level of risk management.</li> <li>iii. The management of risk in emergency situations is handled by working to minimize damage during an emergency and working to resume business activities quickly, in accordance with the Rules on Crisis Management and BCP (Business Continuity Plan) for Disasters.</li> <li>iv. The Internal Control Committee presents the issues and formulates the policy on risks inherent in financial reports and oversees the establishment and use of internal controls by the process owner in each division. The Internal Inspection Section evaluates that process.</li> <li>v. The Company cooperates with law enforcement, other government institutions, and advisory legal counsel</li> </ol> </li> </ol>
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and takes a resolute stand against antisocial forces and groups that pose a threat to social order and safety, and makes a concerted effort to operate our business in an open, above-board manner and exclude dubious transactions.

4. System for ensuring that directors perform their duties efficiently
  - i. The Company has separated the management decision-making and the business execution functions, and has introduced a corporate officer system to ensure swift and efficient decision-making.
  - ii. The Board of Directors holds regular Board of Directors meetings once a month and extraordinary Board of Directors meetings as necessary. The Management Meeting also convenes at least once a month to discuss the policy on execution of important matters.
  - iii. Each business unit formulates a business plan based on the Medium-term Business Plan, and progress on the plans is managed in conferences consisting mainly of directors.
  - iv. Authorities and responsibilities have been clearly spelled out in the Rules on the Division of Duties and the Rules on Work Authority, and a Request for Approval system has been adopted to clarify and accelerate the decision-making process.
  - v. The Company obtains various kinds of advice on various issues in corporate management from multiple attorneys and other experts as needed, and takes such advice into consideration in making management decisions.
5. System for ensuring appropriate conduct of business in the corporate group (corporate group consisting of the Company and its subsidiaries)
  - i. Each company in the group operates its business based on the Corporate Philosophy and Code of Conduct.
  - ii. Each company endeavors to operate strictly in accordance with the Rules on Affiliated Company Management.
  - iii. The Internal Inspection Section conducts regular audits of subsidiaries.
  - iv. The full-time auditor collects information on subsidiaries and monitors the appropriateness of transactions with the parent company.
6. Matters concerning employees to assist auditors, the independence of such employees from directors, and ensuring the effectiveness of instructions issued to such employees
  - i. When an auditor requests an assistant (as needed), the members of the Internal Inspection Section serve concurrently to provide this assistance.
  - ii. Work delegated to an assistant by an auditor is supervised by the auditor and the assistant is independent from the directors' line of command.
  - iii. The auditor will make the necessary request to directors when the auditor's right to issue instructions to the assistant is deemed to be unfairly limited.
7. System for reports to auditors by directors and employees of the Company and its subsidiaries, other systems pertaining to reporting to auditors, and system for ensuring that persons who have reported are not subjected to disadvantageous treatment
  - i. Auditors attend important meetings to ascertain the status of important decision-making processes and the execution of duties, in addition to attending Board of Directors meetings.
  - ii. Auditors read documents that are important to conducting business and may request explanations from directors or employees when necessary.
  - iii. When a director has discovered a situation that could result in serious harm to the Company, the director will report that situation to an auditor without delay.
  - iv. Group officers and employees will report improper acts by a director to an auditor and the auditor will make sure that the person making the report is not subjected to disadvantageous treatment.
8. Other systems for ensuring the effectiveness of audits by auditors
  - i. The Internal Inspection Section reports internal audit plans and the results to the auditors in a timely manner, and maintains a close working relationship with auditors to facilitate effective audits by auditors.
  - ii. Auditors meet regularly with the accounting auditors to ascertain the audit activities of the accounting auditors and exchange information, attend audit reviews by the accounting auditors, are present during physical inventory audits, and strive to improve the quality and efficiency of audits performed by auditors.
  - iii. The Company will promptly reimburse expenses invoiced by the Board of Auditors that are deemed necessary for the performance of their duties.

An overview of the state of operation of the company's internal control system is as follows.

1. Meetings of the Compliance Committee are held four times, and an effort is made to foster widespread understanding of legal compliance and corporate ethics, and raise awareness of compliance through induction trainings as well as training for each level of personnel, and by conducting a variety of educational activities.
2. In addition to implementation of human, technological and physical information security measures based on the Rules on Information Security Management, other measures aimed at preventing information leaks are being strengthened, including employee training via e-learning and other methods.
3. The Company maintains voluntary quality standards at a higher level, conducting inspections of its manufacturing plants in Japan and overseas, providing support for Risk Management and strengthening its system of compliance with the Pharmaceutical and Medical Devices Act.
4. Based on the Rules on Crisis Management and the Disaster BCP, the Company is engaged in a number of initiatives, including conducting incident and disaster response drills requiring confirmation of employee safety, and supplying all of its locations with disaster stockpiles.
5. Evaluations of internal controls are carried out based on implementation plans formulated with consideration to the importance of their impact on the reliability of financial reporting.
6. 15 meetings of the Board of Directors were held, determining matters stipulated by law and important matters concerning management. Discussions were also held from the perspective of compliance with laws, regulations and the Articles of Incorporation, and the appropriateness of operations. In addition, the Management Meeting reviews important matters for submittal to the Board of Directors and analyzes and reviews responses to monthly management results.
7. Efforts are made to ensure Group companies comply with the Corporate Philosophy, Code of Conducts and management policy, and they are provided with guidance and advice in the execution of their day-to-day operations.
8. 12 meetings of the Board of Auditors were held, at which the auditors discuss and determine audit policies and audit plans. They also attend important Company meetings, audit the state of operations and assets, audit the execution of duties by the directors, and audit compliance with laws, regulations and the Articles of Incorporation.
9. The Board of Auditors holds regular meetings with the Accounting Auditors, coordinates with the Internal Inspection Section and exchanges information with the President and Representative Director.

## 2. Basic Views on Eliminating Anti-Social Forces

### 【Views】

The Company cooperates with law enforcement, other government institutions, and advisory legal counsel, takes a resolute stand against antisocial forces and groups that pose a threat to social order and safety, and makes a concerted effort to operate company business in an open and above-board manner and exclude dubious transactions.

### 【Preparedness】

Our views on excluding antisocial forces are set forth in the Code of Conduct. The General Affairs Department has established a system for responding to improper demands by antisocial forces. We also explain our company's views to customers, request that a Memorandum of Understanding Concerning

Exclusion of Antisocial Forces be submitted when an agreement is concluded or renewed, and the Company takes steps to prevent transactions with antisocial forces and groups. The Company also participates in corporate defense conferences and activities, diligently studies these, and conducts internal training in an effort to defend the Company against antisocial forces.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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#### Supplementary Explanation

Basic policy on the desired qualifications of people who have control over decisions on corporate finances and business policies

##### 【Basic Policy】

The Company believes that the people who have control over decisions on corporate finances and business policy must be able to understand the sources of our corporate value and continually ensure and enhance our corporate value, and by extension, the joint interests of the shareholders.

Since our founding in 1948, the Company has engaged in the pharmaceutical business on the basis of our Corporate Philosophy of “Patients First,” and has continued to manufacture and sell high quality drugs of superior economic value in order to meet the expectations of every member of the public who wishes to lead a healthy life. We have fulfilled our social responsibility as a generic drug manufacturer by doing so. We believe that the source of our corporate value derives from management expertise that maintains the three most important elements to a generic drug manufacturer—namely, “quality,” “stable supply,” and “provision of information,” at a level that others cannot attain. We also have a top-notch reputation among medical institutions and distributors, and introduce many new drugs to the market every year.

The Company will not categorically reject the large-scale purchase of shares in the Company as long as it will contribute to corporate value and the joint interests of our shareholders. We also believe that a decision on an acquisition bid that would transfer the right of control over the company should ultimately be made based on the will of all shareholders. That said, there is no shortage of large takeover bids that clearly infringe on corporate value and the joint interests of shareholders, bids that could effectively force shareholders to sell their shares, bids that do not provide sufficient information or time for the target company’s Board of Directors or shareholders to consider the large acquisition bid for shares, or for the target company’s Board of Directors to offer an alternative proposal, bids that require negotiation with the acquiring party to achieve more advantageous terms than the terms presented by the acquiring party, and other such bids that cannot be deemed to enhance corporate value or the joint interests of shareholders of the target company, when viewed from the perspective of the objectives and other factors. Unless the party seeking to acquire shares in our company understands the source of our corporate value discussed above, and is able to ensure and enhance these over the medium to long-term, it will end up harming corporate value and, by extension, the joint interests of our shareholders.

Should a party who seeks to acquire a large number of shares in our company emerge, we will work to make sure that all of our shareholders have sufficient information to make a decision by demanding that the potential acquirer provide information proactively, promptly disclose the opinions and reasons of the Company’s Board of Directors, and when necessary, take appropriate steps within the scope of what is permitted under the Companies Act and other related laws and regulations.

##### 【Steps taken to implement the Basic Policy】

We are taking the following three steps to implement the basic policy discussed above.

### 1. Achievement of the Medium-term Business Plan and Medium to Long-term Vision

We will work to increase corporate value through steady implementation of several measures with the goals of achieving our Medium-term Vision of “M1 TRUST 2018 Medium-term Business Plan” formulated as a three-year medium-term business plan beginning in fiscal year ending March 2016.

The three elements of the basic policy for the Medium-term Business Plan (Revised Version), M1 TRUST 2018, are listed below:

- A. Maintain a solid hold on our No. 1 share of the generic market
- B. Improve our ability to provide a stable supply and manage costs in a manner compatible with the coming era where generics will hold 80% of the market share.
- C. Build a business base in new domains with the goal of greater growth

### 2. Further reinforcement of the corporate governance structure

The Company has separated the management decision-making and business execution functions and has introduced a corporate officers system to improve the speed and efficiency of decision-making. We will endeavor to further strengthen internal controls and steadily increase corporate value.

### 3. Shareholder return

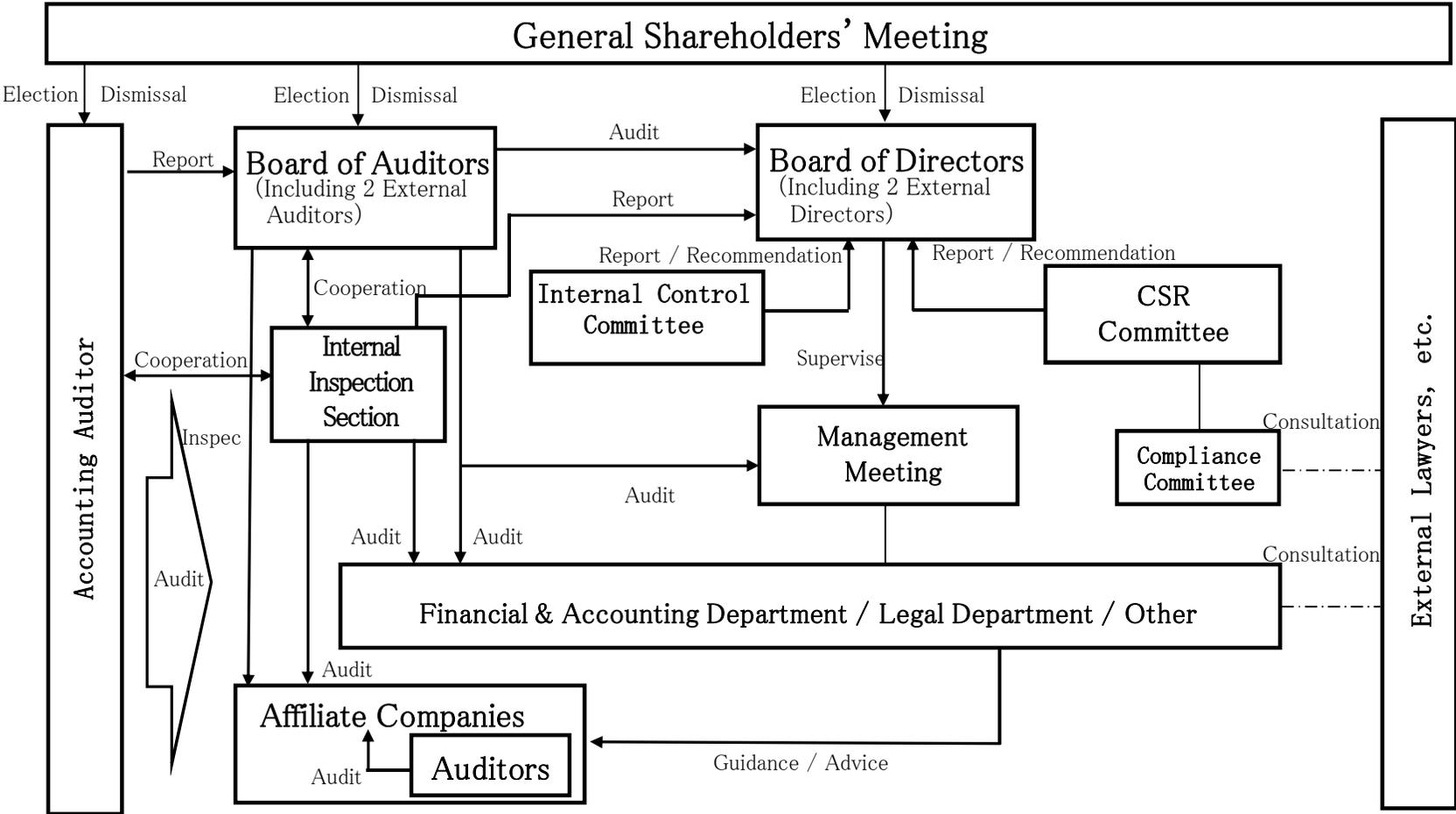
We regard our fundamental goal to be the consistent and continuous payment of dividends with a goal of 30% payout ratio, while also taking the operating results for each period, the pay-out ratio, and other measures relevant to shareholder return into consideration, along with maintaining a balance between shareholder return and R&D, capital investment, and other investments that will lead to greater corporate value in the future, so we will endeavor to ensure and enhance the joint interest of shareholders on a continual basis.

## 2. Other Matters Concerning to Corporate Governance System

We are working to maintain the connection between the (Board of) Auditors and our accounting auditors and Internal Inspection Section, while also working to improve the quality of audits by working to improve specialized knowledge of IT, financial settlement and financing processes, and audit skills. The Company has also adopted the following types of systems to ensure timely disclosure:

- Appointment of an information disclosure administrator and information disclosure representatives
- Establishment of a department responsible for information disclosure (the PR & IR Group)
- Formulation of and compliance with disclosure policies
- Establishment and enhancement of Rules on Management of Information Security, Rules on Management of Insider Transactions, and other rules
- Establishment and enhancement of a route for communicating important information to the information disclosure administrator
- Integration of decisions on important information and disclosure
- Establishment of a system that provides proper checks and approval of materials to be disclosed
- Active involvement of the President in disclosure of information as top management
- Establishment of a system for auditors and the Internal Inspection Section to monitor the system for timely disclosure

# Corporate Governance Structure



# Disclosure Structure

