

CORPORATE GOVERNANCE

The Mediceo Paltac Group ensures sound, transparent management in developing its operational framework in order to continuously improve corporate value.

Strengthening Corporate Governance

The Mediceo Paltac Group is strengthening its corporate governance system with a focus on maximizing corporate value while ensuring sound, transparent management.

The Board of Directors considers and decides matters stipulated by management policy and by law, as well as other important matters concerning management, and also supervises the status of overall business execution. The Board consists of 12 directors, and holds monthly meetings attended by corporate auditors.

Mediceo Paltac Holdings has adopted the auditor system, and has six corporate auditors, four of whom are from outside the company. The corporate auditors strictly monitor the execution of the duties of directors from the standpoints of legality and efficiency.

By resolution of the Ordinary General Meeting of Shareholders held on June 29, 2004, the term of office of directors was reduced from two years to one year to support the flexible creation of an optimal management structure and increase opportunities to earn shareholder confidence.

The Company has also adopted an executive officer system to clearly separate management decision-making and supervision from business execution. In addition, directors, executive officers and corporate auditors participate in a Management Meeting, which convenes once a week, in principle, to share information on management strategies and consider business solutions.

Strengthening the Audit System

The nine-member Compliance Office, under the direct control of the President, conducts regular, company-wide internal audits to promote sound management and improvement in all of the Company's operations. Based on the Basic Audit Policy prepared each fiscal year, the Compliance Office carries out on-site, paper and combined audits covering all aspects of the Company's business execution and organizational structure. Upon completion of the audits, the Compliance Office prepares an audit report and submits it to the President. After determining areas in need of improvement, the President issues instructions to the concerned divisions, and has them prepare improvement plans and report on implementation.

Corporate audits are conducted by three attending corporate

auditors and three nonattending corporate auditors. The corporate auditors attend all meetings of the Board of Directors in addition to important meetings within the Company, and conduct audits in areas including legal compliance and adherence to the Company's articles of incorporation, competitive trade and conflict of interest rules.

Corporate auditors also attend meetings of the independent auditors concerning audit plans and results to exchange views, and work to perform efficient and effective audits through collaborative efforts including participation in audits of business sites and subsidiaries. In addition, the corporate auditors exchange views concerning the business execution audits of the Internal Audit Division.

The four outside corporate auditors have no personal, financial, business or other relations of interest with the Company.

Compensation of Officers and Independent Public Accountants

Total compensation for directors and corporate auditors in the fiscal year under review was ¥353 million. Of this, ¥274 million was paid to directors, and ¥80 million to corporate auditors.

The Company also paid Chuo Aoyama Audit Corporation ¥22 million for services provided pursuant to Article 2, Paragraph 1 of the Certified Public Accountants Law, and ¥11 million for other services. These figures do not include consumption tax.

