

CORPORATE GOVERNANCE

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 13 directors, and holds monthly meetings attended by corporate auditors. The term of office of directors was reduced from two years to one year to support the creation of an optimal, agile management structure and promote shareholder confidence. Retirement benefits for directors and corporate auditors

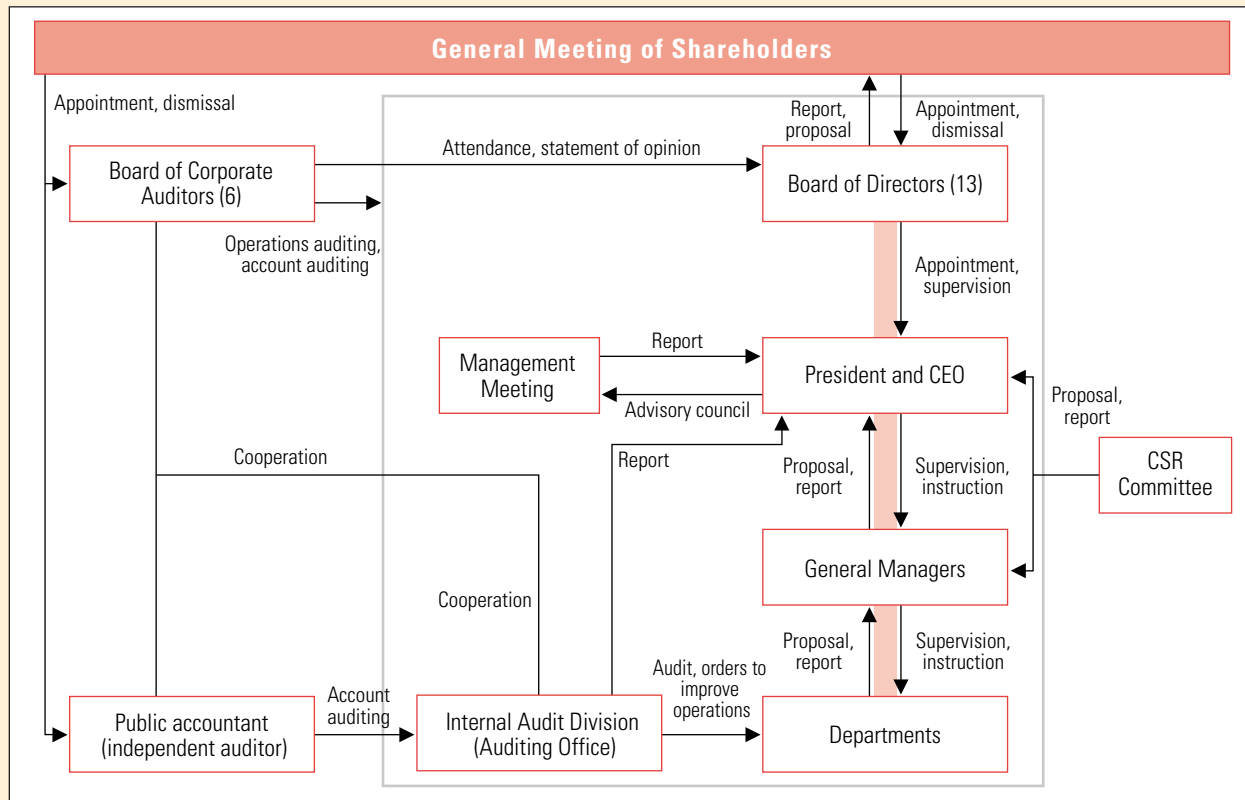
The Mediceo Paltac Group ensures sound, transparent management in developing its operational framework in order to continuously improve corporate value.

were abolished to clarify performance-based management evaluation.

The Company has adopted the executive officer system to clearly separate management decision-making and supervision from business execution. In addition, to promote efficient Group management activities, the representative directors, directors and individuals so designated by the President form the Management Meeting. Functioning as an advisory council, the Management Meeting convenes twice a month, in principle, to share information on the Group's

management strategies and deliberate and consider business solutions.

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



(as of March 31, 2007)

Upgrading Internal Control Systems and Strengthening Risk Management Systems

In accordance with the enforcement of the Corporation Law as of May 1, 2006, the Company established and is implementing the basic policy for systems that ensure the appropriateness of business operations, or internal control systems, based on Article 362, Paragraph 5 of the Law.

The Company sets rules and guidelines, conducts training and prepares a manual with regard to its risk management system, and promotes thorough familiarity with them among employees. If a risk materializes and is expected to have a serious impact, a director in charge of crisis management appointed in advance takes a leadership role.

As a system to ensure efficient execution of duties by directors, the Company has established a Corporate Planning Division, Administration Division, Pharmaceutical Sales Division and Logistics Division, and the Board of Directors appoints a director or executive officer as general manager to oversee and manage each division. The president and CEO holds meetings of the Management Meeting and the CSR Committee, and promotes unified efforts and cooperation among different units. The annual budget is prepared based on the medium-term management plan formulated by the Board of Directors, and

performance management is conducted with the use of information technology. In addition, the department in charge of investor relations works to make timely disclosure to ensure transparency and fairness in the markets of the Company and its subsidiaries.

Strengthening the Audit System

The four-member Auditing Office, under the direct control of the President, conducts regular, Company-wide internal audits. Based on the Basic Audit Policy prepared each fiscal year, the Auditing 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 Auditing 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 full-time corporate auditors and three part-time 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. As of June 29, 2006, the Company has been receiving the auditing services of KPMG AZSA & Co. The Group is providing all necessary information and data in order to create and upgrade an environment for conducting appropriate audits.

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 year ended March 31, 2007 was ¥580 million. Of this, ¥486 million was paid to directors, and ¥93 million to corporate auditors.

The Company also paid KPMG AZSA & Co. ¥54 million for services provided pursuant to Article 2, Paragraph 1 of the Certified Public Accountants Law; no compensation was paid for other services. These figures do not include consumption tax.