

CORPORATE GOVERNANCE

The Mediceo Paltac Group works to ensure sound, transparent management while conducting its business activities with a focus on maximizing corporate value.

Strengthening Corporate Governance

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 11 directors (one external) and holds monthly meetings and when necessary, special meetings, attended by corporate auditors. 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, representative directors, directors and individuals designated by the President form the Management Meeting. Functioning as an advisory council, the Management Meeting convenes once 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 five corporate auditors, three 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 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 were abolished to clarify performance-based management evaluation.

Compensation of Officers and Independent Public Accountants

Mediceo Paltac pays its directors compensation that is appropriate to and commensurate with their duties, within the range decided at the Board of Directors' meeting and in accordance with director compensation regulations. Total compensation for directors and corporate auditors in the year ended March 31, 2008 was ¥518 million. Of this, ¥450 million was paid to directors, and ¥68 million to corporate auditors. The amount of compensation paid to directors did not include wages paid to directors who hold additional posts as employees.

The Company also paid KPMG AZSA & Co. ¥53 million for services provided pursuant to Article 2, Paragraph 1 of the Certified Public Accountants Law. The Company has been receiving the non-audit consulting services of KPMG AZSA & Co. regarding internal controls for financial reporting. Compensation for these and other non-audit services totaled ¥19 million. These figures do not include consumption tax.

Revision of Basic Policy on Internal Control Systems

At a meeting on April 25, 2008, the Board of Directors of Mediceo

Paltac resolved to partially revise the Company's Basic Policy on Internal Control Systems, which covers Mediceo Paltac's system of internal controls for financial reporting pursuant to the Financial Instruments and Exchange Law. Details follow below.

System for Management of the Risk of Loss and Other Rules

As a company involved in the distribution of products for medical care, health and beauty, Mediceo Paltac recognizes that the continuous provision of the products and information it handles is a social responsibility. Mediceo Paltac will minimize risks that impede the fulfillment of this responsibility and maintain its supply system.

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. Mediceo Paltac will assiduously preclude the involvement of antisocial forces in management activities through integrated administration executed by designated divisions under the leadership of the director in charge of crisis management.

In addition, a division will be established directly under the President to prepare and maintain a system of internal controls for financial reporting pursuant to the Financial Instruments and Exchange Law. Furthermore, internal audit departments will be responsible for monitoring the system to quickly discover risks of loss.

System to Ensure Efficient Execution of Duties by Directors

Mediceo Paltac 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 of each division. The general managers oversee and manage their own divisions. The Representative Director, President and CEO holds meetings of the Executive Council and other committees, and promotes unified efforts and cooperation among different units. In addition, the Business Innovation Committee formulates and implements comprehensive operational and system reforms with the aim of raising efficiency and reducing costs.

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 Mediceo Paltac and its subsidiaries.

System to Ensure that Employees Perform Their Duties in Compliance with Laws and Mediceo Paltac's Articles of Incorporation

Mediceo Paltac will ensure appropriate business operations by further enhancing functions concerning internal audits, legal affairs and pharmaceutical-related laws and regulations, and prepare manuals and other materials. In addition, the CSR Committee will work to continuously implement Mediceo Paltac's management philosophy by educating employees and others regarding Mediceo Paltac's corporate social responsibility and legal compliance. For its employees and others, Mediceo Paltac will establish a contact point and formulate guidelines for disclosure of information in the public interest, and will promote familiarity with such measures.

System to Ensure Appropriate Business Operation in the Corporate Group Consisting of Mediceo Paltac and its Subsidiaries

In accordance with internal regulations, Mediceo Paltac will give prior approval to the management plans and business strategies of subsidiaries, and evaluate subsidiaries' management and performance. Mediceo Paltac and its subsidiaries will appoint executives in

charge of crisis management and cooperate with each other in dealing with and minimizing risk. The internal audit divisions of Mediceo Paltac and its subsidiaries will conduct operational audits based on unified audit standards, and will use identical policies to evaluate the effectiveness of the system of internal controls for financial reporting.

System for Ensuring That Other Audits by Corporate Auditors Are Carried Out Effectively

The Representative Director, President and CEO will meet regularly with corporate auditors to exchange opinions on issues including actions Mediceo Paltac should take, the risks to which Mediceo Paltac is exposed, and important auditing issues. The Internal Audit Division and independent auditor shall meet and otherwise cooperate with corporate auditors at the corporate auditors' request. In addition, corporate auditors shall attend important Mediceo Paltac meetings. Furthermore, Mediceo Paltac shall secure a system that allows corporate auditors to effectively conduct their audits in ways such as obtaining the ancillary support of the Internal Audit Division, the legal affairs department and other administrative departments.

(As of June 26, 2008)

