

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 12 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, 2009 was ¥429 million. Of this, ¥341 million was paid as compensation to inside directors (including payment to one director who retired as of the conclusion of the General Meeting of Shareholders held on June 25, 2008, not including employee wages for a director serving concurrently as an employee), and ¥8 million paid as compensation to the outside director. The Company also paid ¥80 million as compensation to corporate auditors.

The Company determines compensation for the independent public accountants in accordance with internal rules set by the Company, after the Finance Division reviews the appropriateness of an estimate of compensation, which is then approved by the Board of Corporate Auditors. The estimate is based on factors including the locations of audits, audit content, the estimated number of days of auditing and rate of compensation.

Total compensation for audits in the year ended March 31, 2009 was ¥371 million. Of this, ¥362 million was compensation for audit certification services and ¥10 million for non-auditing services. Compensation paid for audits under the Corporation Law and audits under the Financial Instruments and Exchange Law are not clearly distinguished in the audit contract between Mediceo Paltac and the independent public accountants, and cannot be practically separated. Therefore the total payment for both is shown as compensation for audits in the year ended March 31, 2009.

Basic Policy on Internal Control Systems

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 auditors 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.

Internal Audits and Audits by the Corporate Auditors

The Auditing Office, under the direct control of the President, conducts internal audits in accordance with internal auditing rules.

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 organization and systems. Upon completion of the audits, the Auditing Office prepares an audit report and submits it to the President. Beginning in the year ended March 31, 2009, internal audits include an evaluation of the effectiveness of internal control over financial reporting.

Corporate audits are conducted by three full-time and two 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 and rules regarding competitive transactions and conflict of interest.

Corporate auditors attend meetings of the independent auditors concerning audit plans and results to exchange views. In addition, the corporate auditors accompany the Internal Audit Division in its internal audits and exchange views in mutual cooperation to promote efficient and effective audits.

Corporate Governance Structure

