

Corporate Governance

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

While ensuring sound, transparent management and placing importance on maximizing corporate value, the MEDIPAL Group fulfills its responsibility to stakeholders to disclose high-quality information in order to enhance the soundness and transparency of its management by proactively disclosing quarterly explanations of financial results and other information.

The MEDIPAL Group has been carrying out business innovations aimed at establishing a new, customer-oriented business model that is highly responsive to changes in the industry environment and customer needs. These business innovations are proceeding smoothly. On October 1, 2009, based on its judgment that more speed-oriented decision-making is necessary to respond appropriately to the rapid changes in the operating environment, the Company shifted to a pure holding company structure, under which it specializes in Group headquarters functions.

Corporate Governance System

The Board of Directors considers and decides matters stipulated by management policy and by law, as well as other important matters concerning corporate management, and also supervises the status of overall business execution. The Board consists of ten directors (one of whom is an outside

director) and holds monthly meetings and when necessary, extraordinary meetings, attended by corporate auditors. Directors of the Company are appointed as representative directors of main consolidated subsidiaries to share information.

The Company has adopted the executive officer system to clearly separate the functions of 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.

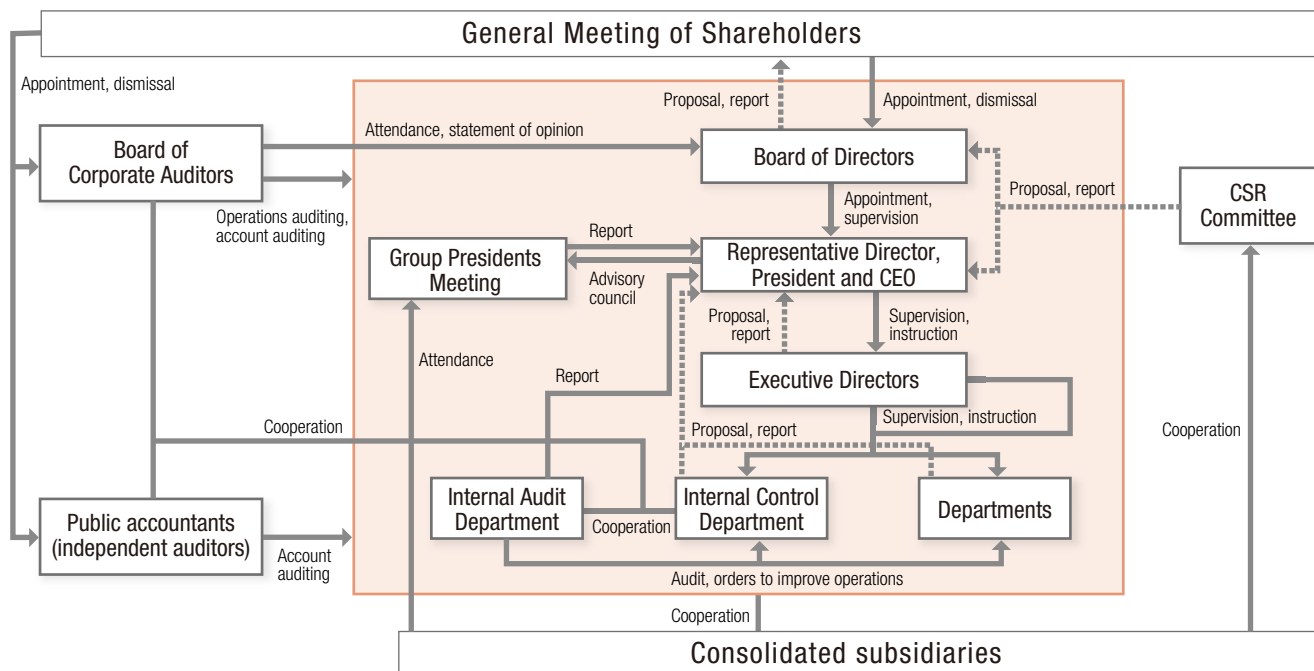
The Company has also adopted the auditor system, and has five corporate auditors, three of whom are from outside the Company. Corporate auditors attend the Management Meeting and conduct strict audits of the legality and adequacy of directors' execution of business based on the standards determined by the Board of Corporate Auditors, and exchange information with the public accountants. The MEDIPAL Group's corporate auditors also exchange information and cooperate with each other.

The Company has introduced various processes to facilitate execution of duties and auditing functions as mentioned above and decided that corporate governance is functioning effectively under the current system.

Outside Directors and Outside Auditors

The Company has appointed one outside director and three outside auditors.

Corporate Governance Structure



Outside Director

Outside Director Eiko Koizumi has no personal, financial, transactional or other interest with the Company.

Ms. Koizumi was appointed as an outside director to offer advice on management from a broad outlook based on her specialized knowledge and abundant experience as a management consultant.

A system is in place so that the outside director can, if necessary, contact auditing departments, corporate auditors, public accountants or internal control departments, and contact occurs in a suitable and appropriate manner.

Outside Corporate Auditors

Outside corporate auditors Ikuo Takahashi, Sachio Itasawa and Keiichi Toyokawa have no personal, financial, transactional, or other interest with the Company.

Mr. Takahashi was appointed as an outside corporate auditor to offer guidance and audit the Company's overall management from a broad outlook using his experience in the pharmaceutical industry in which the Company does business and his knowledge as a pharmacist.

Mr. Itasawa was appointed as an outside corporate auditor to audit because of his specialized knowledge and experience of corporate legal affairs based on his abundant experience cultivated while executing duties as a lawyer.

Mr. Toyokawa was appointed as an outside corporate auditor to audit overall management of the Company because of his abundant experience as a manager and broad outlook based on his involvement in corporate management over many years.

An information communication system is in place so that outside corporate auditors can actively exchange opinions with the Internal Audit Division, corporate auditors, public accountants and internal control departments directly or using such means as e-mail or telephone so that the part-time outside corporate auditors can share information in the same manner as full-time corporate auditors.

Revisions to the Tokyo Stock Exchange Securities Listing Regulations in December 2009 made it obligatory for listed companies to secure independent officers who act from the point of view of protecting general shareholders. The MEDIPAL Group has appointed four independent officers: Ms. Koizumi, the outside director, and Mr. Takahashi, Mr. Itasawa and Mr. Toyokawa, the outside auditors.

Compensation of Officers and Independent Public Accountants, Method of Deciding Compensation Amounts and Their Calculation

The total amount of compensation paid to directors is set by resolution of the General Meeting of Shareholders. Directors' compensation consists of basic compensation and a bonus, with basic compensation decided in advance at a Board of Directors meeting in accordance with Company regulations. The amount to be paid as bonuses is decided at a Board of Directors meeting, taking into

account the consolidated results for each fiscal year. The Representative Director, President and CEO is entrusted with deciding the amount of individual bonuses.

Total compensation paid to directors in the fiscal year ended March 31, 2010 was ¥251 million, including payment to three directors (of whom one was an outside director) who retired as of the conclusion of the 100th General Meeting of Shareholders held on June 24, 2009 and three directors who retired during the fiscal year.

Total compensation paid to corporate auditors is set by resolution of the General Meeting of Shareholders. The amount of individual payments to each respective corporate auditor is decided after discussion among the corporate auditors.

Total compensation paid to corporate auditors in the fiscal year ended March 31, 2010 was ¥76 million, including payment to one corporate auditor who retired as of the conclusion of the 100th General Meeting of Shareholders held on June 24, 2009.

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 of the Company and its consolidated subsidiaries in the year ended March 31, 2010 was ¥364 million. Of this, ¥335 million was compensation for audit certification services and ¥29 million for non-auditing services. Compensation paid for audits under the Corporation Law and audits under the Financial Instruments and Exchange Act is not clearly distinguished in the audit contract between the Company 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, 2010.

Basic Policy on Internal Control Systems

Details of the Company's Basic Policy on Internal Control Systems are outlined below.

System for Management of the Risk of Loss and Other Rules

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. The Company 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 to prepare and maintain a system of internal control of financial reporting pursuant to the Financial Instruments and Exchange Act. 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

The Company executes duties through regulations related to the organization to clarify the division of duties and administrative authority between directors and executive officers, and to stipulate departments responsible for duties in order to make decisions efficiently and appropriately. The annual budget is prepared and business plans formed based on the medium-term management plan formulated by the Board of Directors, and their progress is verified so that business operations are carried out efficiently.

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

To ensure that it carries out its duties properly, the Company has established internal regulations and works to ensure that all employees are familiar with them, and has set up a point of contact for reports in the public interest, an audit and monitoring system. In addition, to continue to realize its management philosophy, the Company uses regular training and CSR Committee activities to ensure that employees are aware of the Company's social responsibilities and legal compliance.

System to Ensure Appropriate Business Operation in the Corporate Group Consisting of the Company and Its Subsidiaries

The MEDIPAL Group recognizes its social responsibility as a distributor that supports the medical, health and beauty fields to continue to provide the products and information it handles. To maintain a supply system that keeps risks that could be obstructive factors to a minimum, all of the above-mentioned systems are also established, operated and maintained by Group companies. In addition, the Company formulates regulations for Group companies and receives reports on and gives prior approval of important items to ensure proper execution of duties. Moreover, the Company conducts audits using uniform auditing standards in addition to an identical policy regarding internal controls for financial reporting to conduct effective evaluation.

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

The Representative Director, President and CEO shall meet regularly with corporate auditors to exchange opinions on issues including actions the Company should take, the risks to which the Company 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 Company meetings. Furthermore, the Company 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 and other administrative departments.

Internal Audits and Audits by the Corporate Auditors

The Internal Audit Division conducts internal audits in accordance with internal auditing rules. This division carries out on-site, paper and combined audits covering all aspects of the Company's business execution and organization and systems in accordance with the Basic Audit Policy prepared each fiscal year. Upon completion of the audits, the division prepares an audit report and submits it to the President.

The MEDIPAL Group conducts audits based on uniform auditing standards.

In addition, internal audits include an evaluation of the effectiveness of internal controls related to financial reporting, which is implemented under a uniform policy throughout the Group.

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 for the Company and each Group company exchange information and cooperate with each other.

The Internal Audit Division, corporate auditors and public accountants hold regular meetings to confirm issues or exchange opinions, and cooperate to determine the scope of audits and audit schedules, among other things.

In addition, the Internal Audit Division, corporate auditors and public accountants hold regular meetings with internal control departments and cooperate with each other, including conducting interviews when necessary.

Special Item with a Material Impact on Corporate Governance

In March 2010, one of the Company's subsidiaries, Paltac Corporation (hereinafter "Paltac"), was listed on the Tokyo Stock Exchange and Osaka Securities Exchange.

Paltac is a cosmetics, daily necessities and OTC pharmaceutical wholesale company. Following an independent study of its business strategies, personnel police and other factors, Paltac decided to list on the exchanges while cooperating as a subsidiary to generate synergy with other subsidiaries in the prescription pharmaceuticals wholesale business.

The Company felt it was desirable from a Group management point of view that Paltac should enhance its corporate value by actively conducting business development with the independence to procure capital autonomously and carry out speedy decision-making. For the time being, the Company plans to retain a majority of shares in Paltac and to maintain its position as a consolidated subsidiary, and will ensure appropriate corporate governance in accordance with its ratio of voting rights.