

Recognizing that internal control is a crucial management priority, the Alfresa Group is committed to conducting sound business operations to fulfill its responsibilities as a corporate citizen.

Alfresa Group Initiatives

The Alfresa Group has positioned internal control as a key priority based on the theme of “enhancement of Group-wide management base and administration system” in its Medium-term Management Plan. The Group is focusing on the following initiatives:

1. Compliance

The Alfresa Group has established Alfresa Group’s Charter of Conduct and Compliance Guidelines as rules for maintaining high ethical standards and sincerity in all activities. At the same time, the Group is working to prevent violations and negligence of laws and regulations and Compliance Guidelines.

As for compliance initiatives, the Group is implementing training programs for its people, and has put in place a more easily accessible internal reporting system by establishing Compliance Consulting Offices at Group companies, as well as a Group-wide Compliance

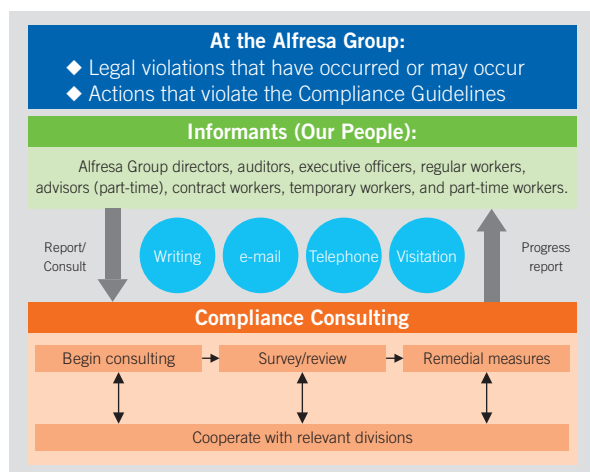
Consulting Office. Furthermore, internal audit departments at Group companies cooperate on auditing progress with compliance-related initiatives.

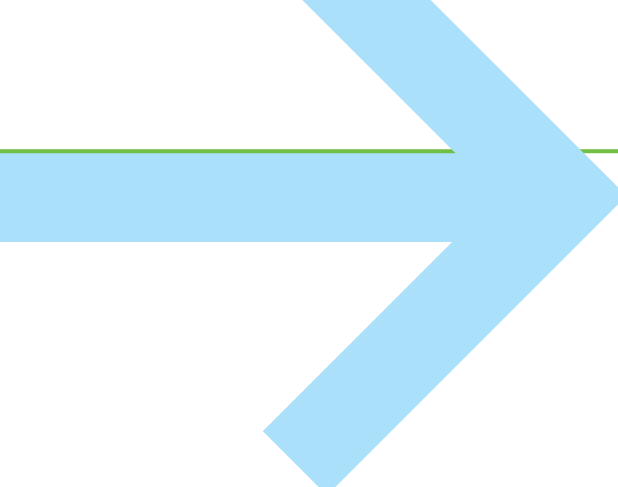
2. Risk Management

Alfresa Holdings Corporation and each Group company have put in place a risk management framework, taking into account the primary management risks faced by each company and the Group as a whole. Having evaluated the potential for the materialization of risks to hinder the achievement of the Group’s goals, the Group has made preparations for each individual risk that must be addressed. Furthermore, an emergency communications network has been established to rapidly and smoothly exchange information in times of emergencies.

3. Ensuring the Reliability of Financial Reporting

Evaluations and reporting of internal controls over financial reporting cover Alfresa Holdings Corporation and all consolidated subsidiaries. Evaluations of internal controls involve verifying whether proper controls are functioning on a consolidated basis. Based on this, the evaluations focus on the risk of material falsifications of financial reporting in business processes that form the basis of financial statements, including transaction approval, execution, calculation, aggregation, recording and preparation of disclosures. The next step is to verify whether proper controls over this risk have been established and whether they are properly implemented, and to evaluate the findings. The public accounting firm appointed as the





Group's independent auditor performs audits to determine whether the evaluation's results are appropriate.

The evaluation of internal controls over financial reporting is a management technique necessary to ensuring sound management. This technique must be established and implemented at all consolidated subsidiaries. Companies are constantly undergoing internal changes. Accordingly, the internal control system must be continuously reviewed and evaluations must be performed consistently every year. Regarding reporting, the Alfresa Group will strive to establish internal controls over financial reporting in order to improve the reliability of financial reporting and prove genuinely trustworthy in the eyes of investors and various other stakeholders in the markets.

4. Ensuring Effective and Efficient Business Execution

Alfresa Holdings Corporation ensures that relevant departments manage documents concerning business execution by directors, or other information, such as documents concerning general meetings of shareholders, Board of Directors meetings, the Executive Committee, and requests for managerial approval, based on the Company's rules governing company information. At the same time, the general manager in charge of information management supervises overall document and information management.

Alfresa Holdings Corporation tracks each Group company's progress with their businesses while implementing Group-wide initiatives to achieve targets. Furthermore, the

executive officer system ensures a clear separation between directors' executive and supervisory functions and allows executive officers to assume responsibility for business execution. Executive officers work to rapidly and efficiently execute business operations based on rules governing the corporate structure and rules governing the powers and responsibility of directors, officers and managers. Executive officers also strive to ensure effective and efficient business operations by clarifying operating procedures in terms of their scope, plan formulation, managerial approval by sending around a document and transaction settlement based on rules governing requests for managerial approval.

5. Strengthening the Audit System

In light of the significance and utility of audits performed by Corporate Auditors, the Alfresa Group works to compile documents to ensure a system where Corporate Auditors can gather information needed for auditing in a timely and appropriate manner. The Alfresa Group also exchanges views with Corporate Auditors at their request. In addition, efforts are focused on strengthening cooperation between the Corporate Auditors and the Audit Department.



Compliance Handbook