

# Corporate Social Responsibility

## 1. Corporate Governance

The Suzuken Group recognizes the importance of enhancing corporate governance, and its basic policy is to raise the level of trust stakeholders place in the Group by strengthening its management systems, enhancing its compliance framework and raising levels of disclosure and accountability. In doing so, the Group intends to work toward its ongoing healthy development as a corporation.

### Implementation Status of Initiatives Relating to Corporate Governance

#### **1 Strengthening Management Systems**

At Suzuken, the Board of Directors is responsible for management oversight and decision-making, and executive officers are responsible for business execution. Suzuken has terminated its retirement benefits program for executives based on length of service and replaced it with a program of remuneration linked to business performance and contribution. The number of directors has also been reduced. In addition, the term of office for directors has been set at one year in the Articles of Incorporation in an effort to strengthen the accountability of directors in the performance of their duties.

With regard to the management of subsidiaries, Suzuken performs oversight and auditing to ensure executives and employees of subsidiaries are performing their duties appropriately. This is accomplished by deploying Suzuken directors or corporate auditors to subsidiaries and ensuring decisions are reported to Suzuken and approved in accordance with Affiliate Management Regulations. Regular audits of Group companies are also conducted by Suzuken's corporate auditors, Auditing Office and accounting auditors. In addition, Suzuken develops, and provides guidance related to, appropriate systems of internal control based on the nature of each subsidiary.

#### **2 Enhancing the Compliance Framework**

Suzuken has established a Risk Management Committee under its Board of Directors in order to further consolidate the Company's compliance framework from a corporate social responsibility point of view. The committee comprehensively manages risk across the organization. It meets once a month to discuss risk management for Suzuken and its subsidiaries.

In addition, the Risk Management Section provides administrative support to the committee in order to ensure the effectiveness of risk management initiatives. In conjunction with this, a corporate ethics hotline has been set up as an internal reporting system to enhance the framework for faithfully complying with laws and regulations at Suzuken and its subsidiaries.

Led by the Information Security Office, Suzuken has also been developing and strengthening an organized system of information management for the purpose of strictly protecting information, which is a key management resource, minimizing information-related risk, legally complying with the Personal Information Protection Law, and raising awareness of the importance of information among employees.

### 3 Raising Levels of Disclosure and Accountability

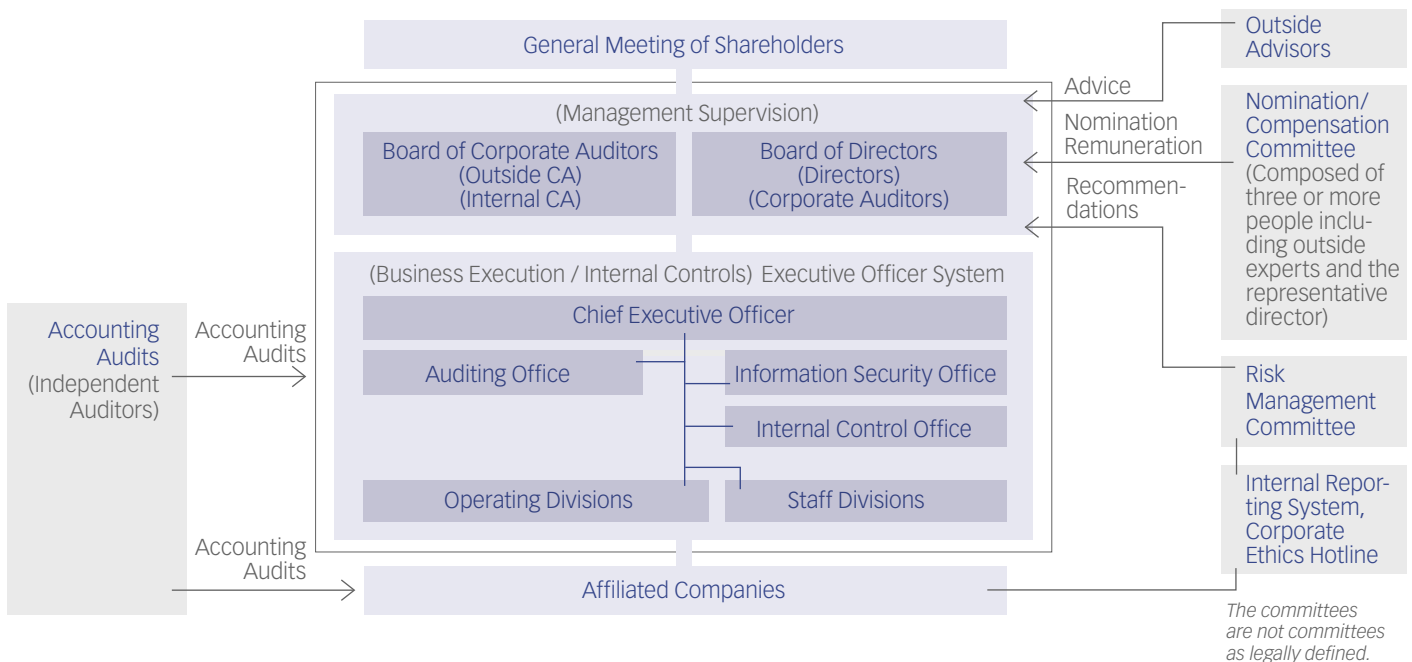
In addition to expediting results announcements and working to enhance the information provided to investors through its business reports, English-language annual reports and website, Suzuken is dedicated to increasing transparency through the proactive, voluntary and timely disclosure of information, going beyond disclosing only what is required by law. An investor relations section has been established on the Company's website and press releases and

other information are disclosed in both Japanese and English.

To enhance accountability, Suzuken works to earn still greater trust and understanding among its shareholders, investors and other stakeholders by keeping them informed. To this end, the Company uses visual aids to provide detailed explanations of its management policies and progress with various initiatives at events including the Ordinary General Meeting of Shareholders, analyst presentations and presentations to individual investors.

## Corporate Bodies

Suzuken uses a system of corporate auditors. Systems for business execution, management oversight and internal controls are shown below:



### 1 Directors and the Board of Directors

Suzuken's Board of Directors comprised seven directors as of the end of the fiscal year under review. The board meets twice a month, in principle, to facilitate rapid and effective decision-making. The validity and legality of decisions made are ensured through an effective

management system consisting of supervision and oversight by each director, as well as outside advisors and corporate auditors.

The maximum number of directors stipulated under Suzuken's Articles of Incorporation is 15. The Articles of Incorporation also stipulate that resolutions to appoint directors must be approved by a majority of the voting rights

of the shareholders present at meetings in which shareholders representing at least one-third of the voting rights of all shareholders eligible to vote are in attendance.

## **2 Corporate Auditors and the Board of Corporate Auditors**

Suzuken's Board of Corporate Auditors was made up of five auditors as of the end of the fiscal year under review, including a majority of three outside auditors to enhance objectivity and transparency. The board meets once a month, in principle, with extraordinary meetings held as necessary. It receives reports from each auditor on the results of audits performed and deliberates on matters as required.

## **3 Auditing Office**

The Auditing Office is under the direct jurisdiction of the president and chief executive officer, and its 14 members are responsible for conducting internal audits. Internal audits are based on Internal Auditing Rules and involve auditing whether Suzuken's business offices and affiliates are in full compliance with the law and whether risk controls and other internal controls are functioning.

## **4 Nomination/Compensation Committee**

The transparency and objectivity of appointments and remuneration for directors and executive officers are ensured through the Nomination/Compensation Committee, which includes outside experts.

The Nomination/Compensation Committee is not a committee as legally defined.

## **5 Risk Management Committee**

Suzuken's Risk Management Committee further consolidates the Company's compliance framework from the corporate social responsibility point of view. It is directly under the Board of Directors and is responsible for comprehensively managing risk across the organization. The committee meets once a month to discuss risk management issues pertaining to Suzuken and its subsidiaries.

In addition, a corporate ethics hotline, which serves as an internal reporting system, has been set up as part of the system for ensuring faithful compliance with laws and regulations at Suzuken and its subsidiaries.

# Enhancements to Internal Control System

Following the enforcement of Japan's Company Law in May 2006, Suzuken's Basic Policy on Internal Control Systems, which was resolved upon by its Board of Directors and subsumes the Company's existing systems, is as follows:

## **1 System to ensure directors and employees are in compliance with the law and the Articles of Incorporation in the performance of their duties**

SOFT 21, which consists of management principles and conduct guidelines for Suzuken and

Group companies, and the Corporate Ethical Guidelines are established as important codes of conduct. An ethical orientation is fostered among directors, executive officers and employees and full compliance with the law is ensured by an internal communication system, training sessions and other means.

Efforts are made to further develop the oversight function and relevant systems by adding outside experts, outside directors and outside auditors with diverse views and varied knowledge in order to ensure directors perform their duties fairly and legally.

The Auditing Office, which is responsible for internal auditing under the direct jurisdiction of the president, oversees the effectiveness of controls pertaining to chains of command for business execution and constantly monitors legal compliance and appropriateness.

The Risk Management Committee is under the authority of the Board of Directors and is responsible for conducting comprehensive risk management across the organization and monitoring risk on an ongoing basis. The soundness of directors, executive officers and employees of Suzuken and its Group companies in the performance of their duties is maintained with a corporate ethics hotline, which functions as an internal reporting system.

## **2 System for storing and managing information pertaining to directors in the performance of their duties**

Information pertaining to decision-making by directors and the performance of their duties is kept and managed pursuant to the Document Management Regulations and Information Security Management Regulations. The executive officer in charge of the Administrative Headquarters provides coordination and management.

The archival period for information described in the previous paragraph is in accordance with the law and the provisions of the List of Archival Time Periods.

## **3 Regulations and other systems for managing the risk of loss**

The Risk Management Committee comprehensively and all-inclusively manages risk pertaining to Suzuken and all its Group companies (compliance, organizational/strategy, information management, administration, etc.) in accordance with risk management policy. Managers are appointed for each category of risk and monitoring is conducted autonomously and continuously so that risk management functions effectively. The Risk Management Section and the Information Security Office cooperate closely to promote initiatives aimed at managing and minimizing risk related to business execution.

## **4 System to ensure directors perform their duties efficiently**

Directors are responsible for management oversight and decision-making, while executive officers are responsible for business execution. Their respective duties are carried out promptly and efficiently because authority has been clarified in the Rules for the Board of Directors and Rules for Executive Officers.

The Board of Directors formulates clear management plans and works to ensure its goals penetrate the entire organization. Executive officers in charge of each division formulate and execute specific and efficient policies for achieving the goals.

The Board of Directors oversees and confirms the status and appropriateness of business execution via reports from directors and executive officers in charge at twice monthly board meetings and extraordinary board meetings. It also formulates policies to improve the accuracy and efficiency of activities to achieve the goals.

The system is enhanced by improving companywide administrative efficiency through the utilization of information technology, which includes the internal communication system.

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#### **5 System for ensuring the appropriateness of business activities of the corporate group comprising Suzuken and its subsidiaries**

With respect to the management of Group companies, detailed reports are made to Suzuken on important management matters in accordance with Affiliate Management Regulations. Decision-making on important matters requires the approval of Suzuken.

Corporate auditors, the Auditing Office, and accounting auditors conduct regular audits of Suzuken and its Group companies, and independently and objectively assess the status of management activities. Additionally, when auditing identifies matters requiring improvement, the auditing bodies provide recommendations and consultation to the audited department or subsidiary, request as necessary that improvement reports be submitted, and otherwise work to maintain the system of internal controls.

Led by the Risk Management Committee, Suzuken closely collaborates with risk management departments at Group companies to promote the development of an effective risk management system for the entire Group.

#### **6 Matters pertaining to employees designated to assist corporate auditors in the performance of their duties**

The general manager of the Risk Management Section provides assistance as an employee designated to assist corporate auditors in the performance of their duties. When additional employees are requested to help corporate auditors carry out their duties smoothly, directors comply with this request, in principle, and promptly provide the necessary cooperation.

#### **7 Matters pertaining to the independence from directors of employees stated in the previous paragraph**

Opinions are exchanged with the Board of Corporate Auditors on personnel matters for the general manager of the Risk Management Section, in accordance with the Rules for the Board of Corporate Auditors.

The general manager of the Risk Management Section, who helps corporate auditors perform their duties, and necessary employees appointed to help corporate auditors perform their duties, are not subject to orders or instructions from directors or their superiors in the departments they are affiliated with, within the scope of their assistance activities for corporate auditors.

#### **8 System for reporting by directors and employees to corporate auditors and other systems pertaining to reporting to corporate auditors**

Directors, executive officers and employees successively report to corporate auditors on important matters pertaining to Suzuken and Group companies through contacts and requests to attend important internal meetings, including meetings of the Management Committee and Risk Management Committee.

The general manager of the Auditing Office makes regular reports to corporate auditors and conducts investigations when requested to do so by them.

Directors, executive officers and employees report to the Risk Management Section by directly conveying matters in violation of the law or Articles of Incorporation or by using the corporate ethics hotline, in conformance with Rules for Internal Reporting. The Risk Management Section reports the information it has received to corporate auditors, as necessary.

#### **9 Other systems for ensuring auditing by corporate auditors is conducted effectively**

Directors, executive officers and employees promptly respond to requests from corporate auditors for reports and to view important documents. Opportunities are regularly created

for corporate auditors to exchange opinions with directors, accounting auditors, the Auditing Office, and other bodies. Efforts are made to improve the effectiveness of auditing by corporate auditors through requesting their attendance at important internal meetings.

In October 2005, in response to new requirements for internal controls over financial reporting applicable from fiscal years commencing on or after April 1, 2008, Suzuken put in place an organization to establish internal controls and make necessary preparations. Having succeeded in establishing a basic internal control framework, in July 2007 Suzuken established the Internal Control Office under the direct jurisdiction of the president and chief executive officer. The office is now taking concrete steps to put internal control measures into practice by means such as training corporate officers, employees and others and ensuring that they are all aware of internal control issues.

## Internal Auditing and Auditing by Corporate Auditors

Internal auditing is the responsibility of the Auditing Office, which is under the direct jurisdiction of the president and chief executive officer. The Auditing Office conducts onsite and document audits based on an auditing plan that is formulated each year and approved by the president. After auditing is complete, an auditing report is submitted to the president. For matters recognized by the president as requiring improvement in light of the auditing report, the Auditing Office orders improvement to the audited department using an official form for that purpose. The department is requested to report on the formulation of an improvement plan and progress on its implementation by submitting an Audit Improvement Status Report.

Auditing by corporate auditors is based on standards established by the Board of Corporate Auditors and annual policies and plans. Corporate auditors attend meetings of the

Board of Directors and other important meetings, interview directors, executive officers and the internal auditing division on the performance of their respective duties, and view important approval documents. By these means, they audit the head office, major business offices and Group companies with regard to business and financial performance, systems for compliance with laws and other regulations, and whether internal control systems for risk management and other areas are constructed and put into practice appropriately. Reports are received from affiliated companies as necessary.

Regarding coordination between the corporate auditors and the Auditing Office, Suzuken's internal auditing division, the two parties exchange opinions regarding formulation of the annual auditing plan and work to conduct audits efficiently. The Auditing Office regularly reports on the results of audits to the

Board of Corporate Auditors, corporate auditors are involved in onsite audits by the Auditing Office, and efforts are made to improve effectiveness by having internal auditing activities complement one another.

With regard to coordination between corporate auditors and accounting auditors, the Board of Corporate Auditors meets with Deloitte Touche Tohmatsu, the accounting auditors, four times per year, and receives their

auditing plan, interim auditing progress report, term-end auditing progress report and the final Independent Auditors' Report. Explanations are received on each report and opinions are exchanged. Corporate auditors also participate in onsite audits by the accounting auditors at Suzuken's business offices and affiliates, and efforts are made to improve auditing effectiveness by having auditing activities complement one another.

## Accounting Audits

With regard to accounting audits of Suzuken, Deloitte Touche Tohmatsu have been appointed as the accounting auditors. Accurate management information is provided from a fair and impartial perspective, and conditions are in place for effective auditing to be conducted.

Two certified public accountants conducted accounting audits. In addition, two certified public accountants assisted in auditing work

along with four assistant certified public accountants, and seven other staff members.

Pursuant to the provisions of Article 427, Paragraph 1 of the Company Law, the Company has executed agreements with the accounting auditors which limit their liabilities for damages with regard to actions pursuant to Article 423, Paragraph 1 of the Company Law. The limit of the liabilities for damages under such agreements is prescribed by the law.

## Relationship With Outside Directors and Outside Auditors

No outside directors have been appointed as of the present time. Three outside auditors have been appointed by Suzuken as of June 28, 2007. Outside auditors do not have personal, equity, business or other interests in Suzuken.

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Company has executed agreements with the three outside auditors which limit their liabilities for damages with regard to actions pursuant to Article 423, Paragraph 1 of the Company Law. The limit of the liabilities for damages under such agreements is prescribed by the law.

## Enhancing Risk Management Systems

Led by the Risk Management Committee and the Risk Management Section, which conduct comprehensive risk management for Suzuken and the Group as a whole, efforts are being made to strengthen systems for organizationally, systematically and autonomously managing and responding to risks related to stakeholders in Suzuken and its subsidiaries.

To protect information, a key management resource, and mitigate risk, the Information Security Office is leading efforts to build a system for stringent information management. Specifically, in July 2004 the office drew up an information security policy, and in December 2004 the Information Systems Division acquired BS7799 certification under the international

certification program for information security management systems, making Suzuken the first company in the Japanese pharmaceutical industry to acquire this certification. In the same month, the division also acquired ISMS Conformance Assessment System certification. Subsequently, in December 2006, Suzuken acquired certification under the ISO 27001 international standard for information security management.

As one facet of its Business Continuity Plan (BCP) to prepare for any potential disaster,

such as a major earthquake, Suzuken has established the Japanese pharmaceutical distribution industry's first disaster response system. Suzuken plays a vital role in Japan's social infrastructure, and the Company is continually working to build an effective system that will allow it to meet the demands of that role. At the same time, the Company strives to build cooperative relationships with medical institutions and others to enable it to deliver the necessary pharmaceutical products to the right place at the right time.

## General Shareholders' Meeting Resolutions That the Board of Directors is Authorized to Decide

With respect to the distribution of retained earnings and other matters pursuant to the provisions of Article 459, Paragraph 1 of Japan's Company Law, Suzuken has established a provision in its Articles of Incorporation stipulating that these matters shall be resolved by its Board of Directors, rather than the General

Shareholders' Meeting, unless otherwise prescribed by laws or regulations. The purpose of this provision is to enable the implementation of a flexible capital policy that can respond to changes in the economy or the operating environment.

## Director and Corporate Auditor Remuneration

Remuneration paid to directors and corporate auditors in the fiscal year under review is as follows:

Remuneration	
Directors	¥ 280 million
Corporate auditors	¥ 60 million
(including ¥ 23 million paid to outside auditors)	

Note:

Refers to remuneration paid to directors and corporate auditors in office on March 31, 2007.

## Internal Controls for Financial Reporting

Responding to the draft version of assessment and auditing standards for internal controls on financial reporting publicly announced by the Financial Services Agency's Business Accounting Council in July 2005, in October 2005, Suzuken established an internal organization tasked with making preparations for the construction of internal

controls over financial reporting. It also brought in outside consultants and has made progress on initiatives directed at building an internal control system encompassing principal subsidiaries. In July 2007 Suzuken established the Internal Control Office to further improve its internal control systems going forward.

## 2. Personnel Development

In February 2005 Suzuken launched its Total HR Program to foster the personnel necessary to turn Suzuken into the Company it aspires to be. Targeting staff demonstrating motivation and ability, the program aims to train them, use their skills fully, and stimulate a “can-do” attitude. Under the Total HR Program Suzuken introduced three systems to enable it to implement an integrated process of personnel development: the course system assists employees with career development; the remuneration system appropriately rewards them according to their role, skills and contribution to the company; and the assessment system focuses on improving the management skills of managers and extending the capabilities of their staff. The

Total HR Program is founded on a framework for skills development known as the Suzuken Human Innovation Program (SHIP). Through SHIP the Company provides a systematic and diverse range of learning tools including various training courses, e-learning and programs to support self-development. In this way Suzuken has put in place a mechanism to help employees realize their full potential.

As the above measures demonstrate, Suzuken takes a proactive approach to offering the environment and the opportunity for a diverse range of people with many unique attributes to improve their skills through learning and use those skills to the full.

## 3. Environmental Activities

Suzuken has long carried out initiatives to reduce CO<sub>2</sub> emissions, which include installing ice thermal storage air conditioners and using minicars and hybrid vehicles for its fleet. The Company built an Environmental Management System in March 2003, which served to systematize and enhance initiatives in this area. The system ensures Suzuken makes efforts to reduce the environmental impact of its corporate

activities as far as possible and provides the basis for environmental activities. In March 2004, Suzuken’s head office acquired ISO 14001 certification, the international standard for environmental management systems. Looking ahead, Suzuken plans to extend its Environmental Management System to encompass branches and Group companies as well.

## 4. Community Activities

The Suzuken Memorial Foundation was established in 1981 to carry on the wishes of the founder of the Suzuken Group, Kenzo Suzuki. The foundation conducts research and provides financial assistance in medical fields, including medical sciences, pharmaceutical sciences and medical engineering. Academic lectures sponsored by the foundation are held twice a year in Japan.

Suzuken also partners with NHK Culture Centers in Nagoya, Tokyo and Osaka to hold community seminars featuring prominent speakers. In Nagoya and Osaka, junior high school, high school and university students—the future of Japan—are invited to attend the seminars free of charge. Over 11,000 people have attended the seminars as of the end of June 2007.