

Corporate Governance

Basic Policy on Corporate Governance

The key management goal for Kyorin is to continue raising shareholder value. To achieve this, we are fostering a management environment that allows us to build trust with stakeholders and the general public. We have also prioritized better corporate governance and therefore seek to ensure prompt decision making, in addition to ethical and transparent corporate activities.

Measures to Promote Better Corporate Governance Management Organization

Kyorin has established an executive officer system. The Board of Directors usually meets once a month, deciding important operational matters after debating the issues as well as supervising each director's duties. Our Management Committee, which is comprised of the president and several executive officers, discusses key operational matters concerning the Group. We also utilize a corporate auditor system with two statutory corporate auditors and two outside corporate auditors. By capitalizing on such auditing and supervisory functions, we are building a system that facilitates highly transparent decision making.

Internal Control and Risk Management Systems

We have established internal control and risk management systems that continually ensure sound corporate activities. The internal control system centers around the Internal Audit Office, which reports directly to the president and conducts internal audits when necessary.

In light of the recent spate of corporate scandals involving other companies, we have prioritized strict compliance and developed the Kyorin Corporate Charter and the Kyorin Employee Code of Conduct, setting out guidelines for corporate activities based on our corporate philosophy. By taking this step, we aim to ensure strict compliance and a high standard of corporate ethics. Furthermore, we have demonstrated the importance we attach to this matter by publicizing the Kyorin Corporate Charter on our web site.

Internal and Outside Auditors

The Internal Audit Office reports directly to the president and is independent from other sections. Based on yearly auditing plans, the Internal Audit Office regularly assesses and evaluates the effectiveness and efficiency of the legal compliance and internal control systems in every facility and Group company. After an audit, the office communicates any problems or areas that need improvement directly to the president and makes the appropriate recommendations.

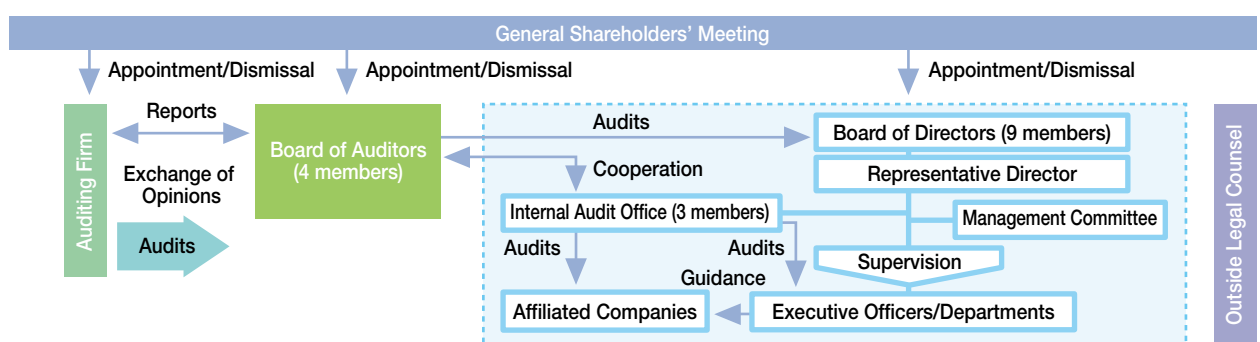
Corporate auditors conduct audits in line with an auditing policy set by the Board of Auditors at the beginning of each fiscal year. In addition to participating in important meetings, including Board of Directors and Management Committee meetings, corporate auditors implement comprehensive audits by checking documents and other materials relating to key decisions and inspecting departments, facilities and Group companies.

Each accounting period, we receive audits from the auditing firm Ernst & Young ShinNihon. We use regular meetings with the firm's accountants to discuss our financial accounts and benefit from their valuable advice.

Efforts to Promote Better Corporate Governance during the Fiscal Year Under Review

On April 1, 2004, we introduced an executive officer system as part of reforms to our management system. The change was made to separate decision making and supervision of operations from the implementation of operations. Previously, directors had been responsible for all the above. Through this change, we aim to ensure quicker decision making and faster responses in our frontline operations. With the executive officer system in place, we reduced the Board of Directors—our central decision-making body—to an appropriate size, from 15 to 10, after the proposal was approved during the annual general shareholders' meeting in June 2004. This number was decreased to nine following a vote of approval at the annual general shareholders' meeting in June 2005.

Basic Corporate Governance Structure



(As of June 24, 2005)