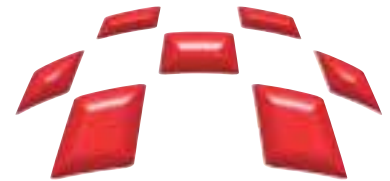


Contributing to people's
health and the advancement
of society through creation of
value in distribution



mediceo
PALTAC

Annual Report 2006

Fiscal year ended March 31, 2006

PROFILE

The Mediceo Paltac Group's operations revolve around contributing to people's health and the advancement of society through creation of value in distribution. The Group began operations on April 1, 2004 after which the former KURAYA SANSEIDO Inc. spun off its pharmaceutical wholesale operations and changed its name to MEDICEO Holdings Co., Ltd. We have continued to evolve toward leadership throughout the medical, health and beauty care supply chain, and on October 1, 2005 became Mediceo Paltac Holdings Co., Ltd. upon executing a share exchange and management integration with PALTAC CORPORATION to create a next-generation distributor that supports medical care, health and beauty.

MANAGEMENT PHILOSOPHY

Contributing to people's
health and the advancement of
society through **creation**
of **value** in **distribution**

Bright and Ene

The Mediceo Paltac Group's customer-oriented business model creates an environment for supporting growth and evolves logistics that start with the customer, giving rise to new value that enriches people's lives.

MANAGEMENT POLICY

- 1 Create a **vitalized** corporate culture to make the Mediceo Paltac Group **trusted** by society.
- 2 Raise **shareholder value** and ensure thorough legal **compliance**.
- 3 Faithfully create a **free** and **open-minded** corporate culture and train **creative** personnel.

genetic

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements regarding Mediceo Paltac Holdings Co., Ltd.'s plans, outlook, strategies and results for the future. All forward-looking statements are based on judgements derived from information available about the Company at the time of publication.

Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's business; competitive pressures; related laws and regulations; product development programs; and changes in exchange rates.

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FINANCIAL HIGHLIGHTS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004, 2005 and 2006

	Millions of yen			Percent change 2005/2006	Thousands of U.S. dollars (Note 1)
	2004	2005	2006		2006
For the Year:					
Net sales	¥1,283,926	¥1,665,816	¥1,921,714	15.4%	\$16,424,906
Operating income	15,355	10,987	20,608	87.6	176,137
Net income	7,879	8,730	20,843	138.8	178,145
At Year-End:					
Total shareholders' equity	¥ 128,988	¥ 168,104	¥ 242,413	44.2%	\$ 2,071,906
Total assets	626,626	848,416	993,491	17.1	8,491,376
Per Share (Yen and U.S. Dollars):					
Net income (Note 2)	¥ 55.19	¥ 45.90	¥ 97.64	112.7%	\$ 0.83
Diluted net income	48.65	43.52	94.22	116.5	0.81
Cash dividends	12.00	12.00	15.00	25.0	0.13
Total shareholders' equity (Note 3)	893.84	904.59	1,051.97	16.3	8.99
Ratios:					
Return on assets (Note 4)	2.4%	1.5%	1.1%		
Return on equity (Note 5)	6.5	5.9	10.2		

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥117.00 to U.S. \$1.00, the approximate exchange rate on March 31, 2006.

2. Net income per share = (Net income – Officers' bonuses) / (Average shares outstanding during the year - Average treasury stock during the year)

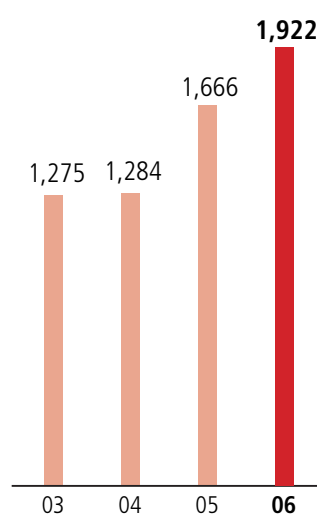
3. Total shareholders' equity per share = (Total shareholders' equity - Officers' bonuses) / (Shares outstanding at end of year - Treasury stock)

4. Return on assets = Operating income / Average total assets

5. Return on equity = Net income / Average total shareholders' equity

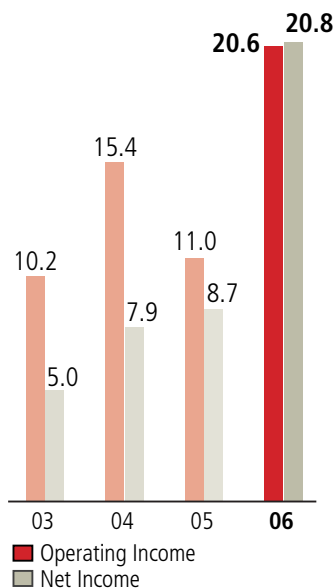
Net Sales

(Billions of yen)



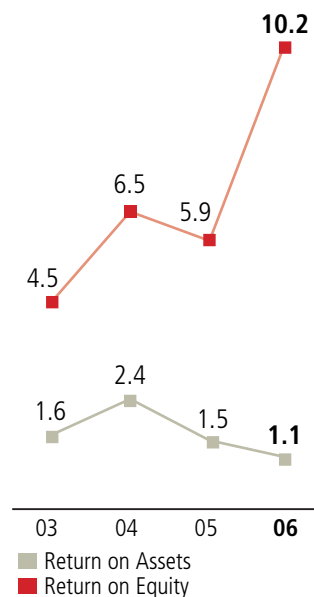
Operating Income / Net Income

(Billions of yen)



Return on Assets / Return on Equity

(%)



TO OUR SHAREHOLDERS

Based on our management philosophy of “Contributing to people’s health and the advancement of society through creation of value in distribution,” the Mediceo Paltac Group is meeting a wide range of health needs as a new type of wholesale distributor that supports medical care, health and beauty. We will continue our efforts to maximize our corporate value as a new, multi-channel wholesaler that can accurately meet the needs of our customers.



Performance for the Past Fiscal Year: As a result of the benefits from the management reforms we have implemented and the recent management integration, we achieved the largest scale in Japan in terms of profit as well as sales.

In the year ended March 31, 2006, the market for prescription pharmaceuticals displayed steady growth due to increasing demand throughout the period for drugs to treat lifestyle diseases, although the prevalence of influenza and pollen allergies was not as severe as in the previous year. In the market for cosmetics and daily necessities, sales expanded steadily, led by sales at drugstores.

The Mediceo Paltac Group continued to promote the management reforms it has been undertaking. In addition, on October 1, 2005, MEDICEO Holdings Co., Ltd. implemented a management integration via the share exchange system with PALTAC CORPORATION (“Paltac”), a wholesaler of cosmetics and daily necessities. Net sales for the year ended March 31, 2006 totaled ¥1,921,714 million, an increase of 15.4 percent compared with the previous year, reflecting the addition of sales of Paltac, a newly consolidated subsidiary, for the second half of the period. The gross margin improved 0.14 points due to factors including our efforts to lock in reasonable profits in the selling prices of prescription pharmaceuticals. Operating income increased 87.6 percent to ¥20,608 million as a

Sadatake Kumakura
President and Chief Executive Officer



result of measures to hold down personnel costs and overhead expenses. Despite an impairment loss of ¥2,110 million due to the adoption of accounting standards for impairment of fixed assets starting in the past fiscal year, net income increased 138.8 percent to ¥20,843 million. Net income per share more than doubled to ¥97.64 from ¥45.90 in the previous fiscal year.

Cash dividends applicable to the fiscal year totaled ¥15.00 per share, which included the addition of a dividend of ¥3.00 per share in commemoration of the management integration.

As these results indicate, the benefits of the management reforms we have made and the results of the management integration are showing up in our performance, and the Mediceo Paltac Group is now at the top of the industry both in sales and in the absolute amount of profits. Becoming number one in the industry in Japan both in name and substance will add momentum to the growth of the Mediceo Paltac Group, and we are committed to maintaining this expansion and growth.

Restructuring the Group's Product Offerings and Business Structure: Maximizing synergy for effective corporate governance and organizational structures

We plan to generate synergy and create effective corporate governance and organizational structures from the new Mediceo Paltac Group structure. In order to do so, we have restructured the products handled by each group company and our business structure in regard to prescription pharmaceuticals, over-the-counter (OTC) pharmaceuticals and medical equipment, the businesses previously handled by Mediceo, and cosmetics and daily necessities, the businesses of Paltac.

In July 2005, we acquired 10.0 percent of the stock of SHIKOKU YAKUGYO CO., LTD. to strengthen our alliance with that company. In addition, to promote business development that takes advantage of the combined strengths of our group, we made Chiyaku Co., Ltd. a wholly owned subsidiary in April 2005. Chiyaku then merged with KURAYA SANSEIDO Inc. ("Kuraya Sanseido") in January 2006, with Kuraya Sanseido as the surviving firm, in order to increase management efficiency and enhance logistics functions.

In April 2006, Paltac merged with ALCOS Co., Ltd. ("Alcos"), one of our affiliates operating in the OTC pharmaceutical wholesale business in the Kyushu region, with Paltac as the surviving company and Alcos dissolved. In October 2006, Paltac will take over sales of OTC pharmaceuticals from Kuraya Sanseido and EVERLTH Co., Ltd. This move is aimed at strengthening marketing and reducing distribution costs in this business, as well as enhancing services provided to customers.

In the medical equipment business, Kuraya Sanseido transferred its medical equipment business in the hospital sales channel in Tokyo and three surrounding prefectures to MEDICEO MEDICAL CO., LTD. (formerly NAKAGAWA SEIKODO CO., LTD.) in April 2005 to unify this business. The objective of this transfer was to strengthen alliances within the Group and to make more efficient use of distribution and information functions.

In December 2005, Mediceo Paltac Holdings Co., Ltd. ("Mediceo Paltac") transferred 67.0 percent of the shares of ORIENTAL PHARMACEUTICAL CO., LTD., a consolidated subsidiary in the business of manufacturing and sales of generic drugs, to Nichi-iko Pharmaceutical Co., Ltd., to expand management resources. In March

2006, Mediceo Paltac sold 90.0 percent of the shares of Selmesta Co., Ltd., a consolidated subsidiary primarily in the business of selling health foods to health insurance unions and mutual aid associations, to FASALIA Holdings Co., Ltd., which was planning to enter the same business.

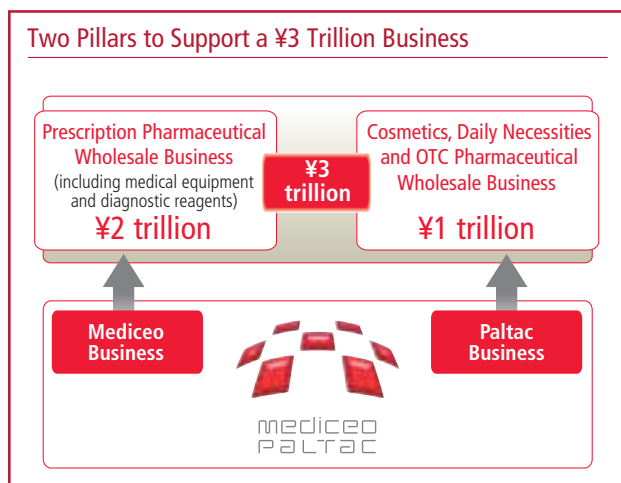
Along with this restructuring of our business network, effective from April 2006, we changed our previous business segments from Pharmaceutical Wholesale Business, Cosmetics and Daily Necessities Wholesale Business and Healthcare Related Business to the Prescription Pharmaceutical Wholesale Business (Mediceo business), Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business (Paltac business), and Related Businesses.

Promoting the Medium-Term Management Plan: Aiming for a customer-oriented distribution business model

The MEDICEO Group had been carrying out the medium-term management plan covering the period from April 2004 through March 2007, to provide a common strategic direction and numerical targets for Group companies, and to set guidelines for establishing a corporate infrastructure capable of securing stable profits. However, with our new start as the Mediceo Paltac Group, we drew up a new medium-term management plan for the period from the year ending March 2006 through the year ending March 2008, and the entire group is working to carry out the plan. We intend to conduct our

business operations based on the assumption of a scale of ¥3 trillion in net sales — ¥2 trillion in the Mediceo business and ¥1 trillion in the Paltac business including the addition of OTC pharmaceuticals.

The backbone of the new medium-term management plan is our fundamental objective of “Creating a customer-oriented distribution business model.” To achieve it, we will focus on three key points: Creation of a business environment with development potential; evolution into customer-driven logistics; and creation of new value that enriches people’s lives.





Business Development Outlook

Prescription Pharmaceuticals Business

In the six years since our start as Kuraya Sanseido in 2000, the annual growth of the prescription pharmaceutical market has been steady, including years with severe price competition. As a result of realignment over the past several years, four groups, including the Mediceo Paltac Group, now cover approximately 80 percent of the industry. This has created a favorable business environment with a very stable market compared to other industries. Meanwhile, customers are forming a group purchasing organization so that they have a degree of buying power commensurate with the larger size of wholesalers. Our group's ability to respond to these trends at an early stage has given us the most advantageous position among the four major wholesaling groups, and rather than competing on price, we must steadily provide a different level of service — in short, customer-driven service.

Hospital Business: Evolving the *Total Solution Model*

We designed the *Total Solution Model* to provide comprehensive support to hospitals in order to ensure that Mediceo Paltac is successful in competing on the basis of added value rather than price. Since fiscal 2004, we have been providing support for clinical pathway management. A clinical pathway is a treatment schedule given to each patient upon hospitalization. This method of standardizing treatments is determined by each individual hospital. However, comparison with national averages is of great interest to hospitals, and this type of service can only be provided by a national wholesaler. At present, the Mediceo Paltac Group has an unrivaled lead in this area. Our activities have been recognized by the Japanese Society for Clinical Pathway, and we are providing this service at 72 locations, primarily at medium-sized hospitals.

We plan to further broaden the targets of the *Total Solution Model* from medium-sized hospitals to large hospitals with acute beds. Through clinical pathway management support, we analyze the actual usage conditions of pharmaceuticals and other products, and conduct estimates of cost savings to create a list of standard brands of pharmaceutical products and diagnostic materials. By doing so, we can propose brand switches to conform to the budgets of each hospital, and plan to enhance the *Total Solution Model* to encompass proposals for drug selection.

Business for Pharmacies: Introducing *Class A* in addition to *mediceo-epi*

The separation of prescription and dispensing has exceeded 50 percent, and dispensing pharmacies now account for more than 30 percent of our net sales. Our *mediceo-epi* system is a contract model for dispensing pharmacies that combines planned deliveries and usage-based payment. To date, the system has been introduced at approximately 2,000 locations. It is steadily becoming established, and we feel that it is producing

the desired effect. The original purpose of *mediceo-epi* was to lower our costs by reducing the frequency of deliveries, but the system is also serving to improve the cash flow and operations of the customers who have adopted it.

As a customer retention strategy targeting individually owned stores and small chains, we are introducing *Class A*, a system in which we propose ways to make stores more inviting to end users, including ideas for store layout and merchandising. We plan to build a network of 5,000 store locations using this system.

Comprehensive Business Alliance with Mitsubishi Corporation

In September 2005, we formed a comprehensive business alliance in the area of medical services with Mitsubishi Corporation, which is aggressively developing its management support business for medical institutions that integrates information technology, distribution, finance and other services. The business alliance will encompass four specific areas: 1) Joint study of the pharmaceutical distribution business in China, 2) Joint establishment of a supply processing and distribution (SPD) business, 3) Joint development of private brand (PB) products, and 4) Joint study of businesses related to clinical testing.

We decided in June 2006 to integrate the SPD businesses of Kuraya Sanseido Inc. and MEDICEO MEDICAL CO., LTD. with Nihon Hospital Service Co., Ltd. (NHS), a subsidiary of Mitsubishi Corporation. This alliance is gaining industry attention as the first between a trading company and Japan's largest pharmaceutical wholesaler. The tie-up is expected to yield a variety of benefits. In addition, we are currently studying seven other possible alliance areas in the medical services business, where significant growth is expected.

Cosmetics, Daily Necessities and OTC Pharmaceuticals

In October 2006, we will complete consolidation of the OTC pharmaceuticals business at Paltac. Putting this business under Paltac's advanced and completed system consisting of a nationwide network of 47 sales bases and 21 distribution bases will allow Paltac to use that same system to provide the same quality and service as it does in its other businesses. While approximately 10,000 OTC pharmaceutical customers will be added to the 3,000 customers Paltac currently serves, OTC pharmaceuticals have a higher average unit price than cosmetics and daily necessities, and they are not bulky merchandise. Therefore, the addition of this business will give Paltac a significant boost in overall productivity, and is expected to facilitate customer-oriented service.

CSR: Toward a Mediceo Paltac Group that is Trusted by Society

The Mediceo Paltac Group steadily carries out its business operations while ensuring sound, transparent management. We believe we can meet our corporate social responsibility (CSR) by fulfilling the Group's management philosophy — "Contributing to people's health and the advancement of society through creation of value in distribution" — in order to earn the trust of all our stakeholders, consisting of shareholders, customers, employees, consumers and society at large.

To implement and strengthen these CSR activities, we established the CSR Committee in October 2005. Taking the creation of a CSR system with identical standards across the Mediceo Paltac Group as its basic vision, the committee established the philosophy mentioned above as the fundamental CSR concept for the Mediceo Paltac Group, which was incorporated into our slogan, "Bright and Energetic." Under this slogan, the CSR Committee will implement activities at all Group companies with the aim of ensuring that the Mediceo Paltac Group is trusted by society.

Increasing the Group's Corporate Value

We see the growth process of the Mediceo Paltac Group as having three steps. Step one, which we have already completed, was establishing the scale and form of the company. Step two involves further strengthening the form built up in step one through measures such as integrating systems and transferring seconded employees, and establishing the corporate governance and organizational structures. We are working to complete this step in the current fiscal year. Step three is establishing a new business model through business reforms and IT strategies. We are confident that by accomplishing this third step, we will establish a completely new type of wholesaler never before seen in the world, and this will put the Mediceo Paltac Group on track for major growth.

Becoming the Mediceo Paltac Group has enhanced our capital efficiency and increased the cash we hold. When we secure net cash equivalent to one month of net sales, I intend to increase the weight we place on shareholder returns. We have not yet reached that point, but I hope you will look forward to the substantial growth of the Mediceo Paltac Group. I would like to ask our shareholders and investors for their continued exceptional understanding and support.

August 2006



Sadatake Kumakura
President and Chief Executive Officer

INTERVIEW WITH TOP MANAGEMENT

About 10 months have passed since Mediceo Paltac Holdings Co., Ltd. embarked on a new start in October 2005. President and CEO Sadatake Kumakura and Vice President Kunio Mikita, who also serves as President and CEO of PALTAC CORPORATION, discuss the Company's accomplishments in the year ended March 31, 2006 and its business strategies for the year ahead.



Sadatake Kumakura
President and Chief Executive Officer

Kunio Mikita
Vice President

What was the background leading to the management integration?

Kumakura: For the MEDICEO Group, which has established the largest scale in the domestic prescription pharmaceutical wholesale business, stabilizing revenues in the over-the-counter (OTC) pharmaceutical business was paramount. We studied various measures to address this, and after examining all the factors, we concluded that we needed to raise our share in the drugstore market, which is currently a large market where further growth is expected. PALTAC CORPORATION ("Paltac") does a large volume of business with drugstores, and is also a leading wholesaler of cosmetics and daily necessities with a reputation for logistics. We decided that integration would enable us to create a structure that could stabilize the revenues of the OTC business.

Mikita: People's increasing health needs and the deregulation of pharmaceutical products are resulting in the expansion of the drugstore market. There is also a trend toward a greater variety of products. In the drugstore market, where this change is pronounced, we thought that rather than being a single-industry wholesaler that handles only cosmetics and daily necessities, Paltac could maintain a favorable market position in the future by adding OTC pharmaceuticals to become a multi-channel wholesaler with a product assortment that matches our customers' business. The MEDICEO Group fit in well with the direction we wanted to take, and I think we came to the decision quickly.



How would you sum up the past fiscal year?

Kumakura: Until now, Mediceo's business, which was centered on prescription pharmaceuticals, has led the industry in Japan in sales, but we still had room for improvement in terms of profit. A feature of our results for the past fiscal year was that we were at the top of the industry in the absolute amount of profits as well, thus becoming Japan's industry leader both in name and reality. The benefits of the management reforms we have made and the results of the management integration are showing up in our bottom line.

Mikita: Since the management integration in October last year, we have successfully increased sales in the cosmetics and daily necessities wholesale business with our sales strategy for major new products of large manufacturers. In addition, we are seeing the benefits from our efforts to reduce overhead costs and increase productivity, with better results for the year than we expected. I believe the positive response and expectations from customers toward Mediceo Paltac Holdings as a multi-channel wholesaler also contributed to our performance for the year.

What developments are you planning for the Mediceo business and Paltac business?

Kumakura: As we move forward with the management integration, we plan to implement the established Paltac-style "customer-oriented distribution business model" in the Mediceo business, which is focused on prescription pharmaceuticals. The Mediceo business is a traditional type of business in which the manufacturer-centered mindset of determining how to sell the products that are made is firmly rooted. But I strongly believe that shifting to a customer-centered approach of starting out by asking what our customers want will bring about immeasurable benefits. Particularly in the area of logistics, we will apply Paltac's distribution systems know-how to our prescription pharmaceutical distribution centers to convert them into operations that can handle a customer-centered approach.

Mikita: In conducting the Paltac business, a critical point is not to seek the optimization of each separate relationship — in other words, customer and wholesaler, and wholesaler and manufacturer — but to have the functions for "total optimization" as a wholesaler situated between the customer and the manufacturer. For customers, we will propose store solutions in areas such as store efficiency, category profit management and shelf space allocation. For manufacturers, we will support cost reductions by placing regularly scheduled orders based on demand forecasts, and will also strengthen our ability to provide comprehensive service in areas such as sales information and logistics that industry-specific wholesalers



cannot deliver. In this way, we will aim for total optimization of the business flow from customer to wholesaler to manufacturer.

What are your management policies for the fiscal year ending March 2007?

Kumakura: We want to establish our corporate governance and organizational structures. Specifically, we will integrate the operations of group companies to promote common job processes, and will transfer employees who are seconded between group companies to make employment terms consistent in each group company. When we complete this step, group companies will have stronger organizations and will be able to focus better on their businesses. At the same time, we will also make cost reductions. The Mediceo Paltac Group's sales are now the fifth largest in the prescription pharmaceutical wholesale industry worldwide, but companies today are expected to meet global standards, and we still have a significant cost gap compared to pharmaceutical wholesalers in other parts of the world. Therefore, we intend to build a customer-oriented distribution business model that will drastically change the way we do business, which will lead to lower costs. In April 2006, we launched the Business Innovation Committee to handle structural reform and IT strategy. Over the next three years, we want to achieve results through a process of preparing scenarios and introducing our new business model based on an analysis of present conditions.

Mikita: In April 2006, Paltac merged with ALCOS Co., Ltd., a wholesaler of OTC pharmaceuticals, giving us the structure to make a full-fledged start as a multi-channel wholesaler. We have since successively added OTC product lines to our infrastructure in areas such as logistics and store solutions to achieve the integration of the Paltac business and healthcare business, and will focus on generating substantial synergy from the management integration.

Business Innovation Committee

Three Basic Strategies to Ensure Growth up to 5 to 10 Years into the Future

Competitive Strategy:
Cut costs

Price Strategy:
Deliver value to customers

IT Strategy:
Enterprise Architecture

CORPORATE SOCIAL RESPONSIBILITY

By implementing a management philosophy of “contributing to people’s health and the advancement of society through creation of value in distribution,” the Mediceo Paltac Group promotes original initiatives to fulfill its responsibilities to society as the largest multi-channel wholesaler in Japan.

The Mediceo Paltac Group has grown into one of the leading distributors in Japan, handling prescription pharmaceuticals, medical equipment, reagents, cosmetics, daily necessities and OTC pharmaceuticals. We focus on corporate social responsibility (CSR) initiatives because we believe it is our duty as a corporate group to provide quality management and contribute to medical treatment and people’s health and beauty.

In the year ended March 31, 2006, the Mediceo Paltac Group inaugurated a CSR Committee comprising eight members and one corporate auditor acting as an observer. The Committee drafted the Mediceo Paltac Group CSR Concept, the basic strategy for building a CSR framework with unified standards for the Group, and has conducted a series of discussions on matters including how to promote it. The Group’s management philosophy of “contributing to people’s health and the advancement of society through creation of value in distribution” incorporates the fundamental policy and stance of conducting business as a member of society. Aiming to put this philosophy into practice, the CSR Committee defined the Mediceo Paltac Group’s fundamental CSR Concept as “contributing to the development of society as a whole by growing as a company and raising profitability through sound business practices” and created the CSR slogan “Bright and Energetic.”

The Mediceo Paltac Group recognizes the extreme importance of managing and controlling all manner of risks arising in the course of its ongoing sound business activities. The CSR Committee has therefore classified internal risks into six categories – compliance, pharmaceuticals, disasters, information management, people and environment – in order to identify top-priority issues and work toward their resolution.

Current compliance initiatives include ensuring sales divisions comply with Japan’s revised Antimonopoly Act that came into force in January 2006. In the area of pharmaceuticals, the CSR Committee is working to ensure strict compliance with the Pharmaceutical Affairs Law, which is most closely related to the Mediceo Paltac Group’s business. The Committee’s initiatives in the people category include the establishment of an internal public hotline to deal with a variety of personnel issues within the Group, and under the environment category, the formulation of plans for global warming countermeasures and resource conservation.

With a view toward building a CSR framework with unified standards for the Group, the CSR Committee will work in close cooperation with the Information Management Committee and the Crisis Management Headquarters to establish a system of cross-organizational management and supervision that promotes the diffusion and application of the CSR Concept throughout the entire Group.

Promotion of Corporate Ethics

The Mediceo Paltac Group has compiled “Our Stance,” a set of decision-making and action guidelines to promote accurate, thorough understanding of its fundamental principles as a company engaged in the distribution of pharmaceuticals, cosmetics and daily necessities (see below).

These guidelines were compiled in a booklet with detailed explanations, and distributed to all Group employees, who are instructed to keep the booklet on hand at all times. Other measures to promote thorough knowledge and practice of these standards include regular divisional meetings held for that purpose.

With the enactment of the Personal Information Protection Act in April 2005, the Group established its Information Security Policy. This policy defines the management structure and handling procedures for all personal information in the Group’s possession, and educational programs are being conducted for all employees.

Our Stance

- I. Establish the Mediceo Paltac brand
- II. Work to convey accurate information as the first step in CSR
- III. Value the opportunity to meet people and emphasize the importance of trust
- IV. Generate funds through high-quality profitability (funds are the corporate lifeline)
- V. Work thoroughly to solve problems and reform management
- VI. Enhance dialogue by listening attentively
- VII. Learn for yourself, then share this learning with others

CORPORATE GOVERNANCE

The Mediceo Paltac Group ensures sound, transparent management in developing its operational framework in order to continuously improve corporate value.

Strengthening Corporate Governance

The Mediceo Paltac Group is strengthening its corporate governance system with a focus on maximizing corporate value while ensuring sound, transparent management.

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, and holds monthly meetings attended by corporate auditors.

Mediceo Paltac Holdings has adopted the auditor system, and has six corporate auditors, four 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.

By resolution of the Ordinary General Meeting of Shareholders held on June 29, 2004, the term of office of directors was reduced from two years to one year to support the flexible creation of an optimal management structure and increase opportunities to earn shareholder confidence.

The Company has also adopted an executive officer system to clearly separate management decision-making and supervision from business execution. In addition, directors, executive officers and corporate auditors participate in a Management Meeting, which convenes once a week, in principle, to share information on management strategies and consider business solutions.

Strengthening the Audit System

The nine-member Compliance Office, under the direct control of the President, conducts regular, company-wide internal audits to promote sound management and improvement in all of the Company's operations. Based on the Basic Audit Policy prepared each fiscal year, the Compliance Office carries out on-site, paper and combined audits covering all aspects of the Company's business execution and organizational structure. Upon completion of the audits, the Compliance Office prepares an audit report and submits it to the President. After determining areas in need of improvement, the President issues instructions to the concerned divisions, and has them prepare improvement plans and report on implementation.

Corporate audits are conducted by three attending corporate

auditors and three nonattending 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, competitive trade and conflict of interest rules.

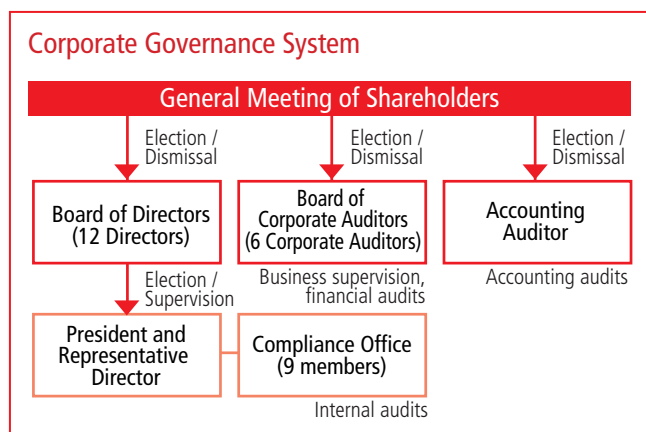
Corporate auditors also attend meetings of the independent auditors concerning audit plans and results to exchange views, and work to perform efficient and effective audits through collaborative efforts including participation in audits of business sites and subsidiaries. In addition, the corporate auditors exchange views concerning the business execution audits of the Internal Audit Division.

The four outside corporate auditors have no personal, financial, business or other relations of interest with the Company.

Compensation of Officers and Independent Public Accountants

Total compensation for directors and corporate auditors in the fiscal year under review was ¥353 million. Of this, ¥274 million was paid to directors, and ¥80 million to corporate auditors.

The Company also paid Chuo Aoyama Audit Corporation ¥22 million for services provided pursuant to Article 2, Paragraph 1 of the Certified Public Accountants Law, and ¥11 million for other services. These figures do not include consumption tax.



MANAGEMENT TEAM

(As of June 29, 2006)



Seated (from left): Sadatake Kumakura, Kunio Mikita
Standing (from left): Takashi Saito, Osamu Watanabe, Genichiro Tanabe

President and CEO

SADATAKE KUMAKURA*
(Chairman of Business Reform/IT Strategy Committee)

Vice Presidents

KUNIO MIKITA*

OSAMU WATANABE*
(General Manager of Pharmaceutical Sales Division)

TAKASHI SAITO*
(Chairman of CSR Committee)

GENICHIRO TANABE*
(General Manager of Corporate Planning Division)

Managing Director

JYURO YAMAGISHI
(General Manager of Information Systems Management Division; Vice Chairman of Business Innovation Committee)

*Representative Director

Directors

SHUICHI WATANABE

BUNICHI MURAYAMA
(General Manager of Administration Division)

MASAHIKO MASUYAMA
(Deputy General Manager of Corporate Planning Division;
Manager of Business Promotion Department)

TAKURO HASEGAWA
(Manager of Corporate Strategy Department,
Corporate Planning Division)

AKIRA KISE
(Manager of Human Resources Planning Department,
Administration Division)

TARO KIMURA
(Deputy General Manager of Pharmaceutical Sales Division)

TSUYOSHI UEHARA
(General Manager of Logistics Division)

Corporate Auditors

HIDEKI NOGUCHI
(Full-time Corporate Auditor)

YOSHIHARU KATAOKA
(Full-time Corporate Auditor)

AKIHIKO TANAKA
(Outside Full-time Corporate Auditor)

YOKO SANUKI
(Outside Corporate Auditor)

YOSHIO OKAMOTO
(Outside Corporate Auditor)

SUSUMU TAKAGI
(Outside Corporate Auditor)

Senior Managing Executive Officers

KIKUO MIKI
(Manager of Corporate Communication Office)

KAZUO MISAki
(Manager of Business Innovation Committee;
Manager of Distribution Systems Development,
Information Systems Management Division)

Managing Executive Officer

TAKAHARU SAKO
(Manager of Customer Support Department,
Pharmaceutical Sales Division)

Executive Officers

FUMINARI HIKITA
(Manager of Compliance Office)

TOSHIO HIRASAWA
(Manager of Finance & Accounting Department,
Administration Division)

YUJI TANIGUCHI
(Manager of General Affairs Department,
Administration Division)

YASUHIRO CHOUFUKU
(Deputy General Manager of Pharmaceutical Sales Division)

HIDEAKI TAKEMURA
(Manager of Medical Affairs Information Department and
Post-marketing Surveillance Promotion Department,
Pharmaceutical Sales Division)

KAZUNORI TOYOTA
(Supervisor of Corporate Strategy Department,
Corporate Planning Division)

TOSHIHIKO KUME
(Supervisor of Business Promotion Department,
Corporate Planning Division)

KYUJIRO SHIMOMAKI
(Deputy General Manager of Logistics Division)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Six-Year Summary

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)	
	2002	2003	2004	2005	2006	2006	
For the Year:							
Net sales	¥1,222,222	¥1,274,503	¥1,283,926	¥1,665,816	¥1,921,714	\$16,424,906	
Gross profit	106,644	114,923	116,805	137,806	161,603	1,381,222	
Selling, general and administrative expenses	100,863	104,763	101,450	126,819	140,995	1,205,085	
Operating income	5,781	10,160	15,355	10,987	20,608	176,137	
Net income	2,951	5,016	7,879	8,730	20,843	178,145	
Depreciation and amortization	4,866	5,204	5,709	7,625	9,126	78,000	
Capital expenditures (payment base)	5,663	6,206	4,974	7,812	9,064	77,470	
Per Share Data:							
Net income (Note 2)	¥ 21.67	¥ 36.48	¥ 55.19	¥ 45.90	¥ 97.64	\$ 0.83	
Diluted net income	18.92	31.50	48.65	43.52	94.22	0.81	
Total shareholders' equity (Note 3)	823.75	828.14	893.84	904.59	1,051.97	8.99	
Cash dividends applicable to the period	12.00	12.00	12.00	12.00	15.00	0.13	
At Year-End:							
Total assets	¥ 644,248	¥ 638,589	¥ 626,626	¥ 848,416	¥ 993,491	\$ 8,491,376	
Interest-bearing debt	41,177	33,730	23,275	15,660	38,400	328,205	
Total shareholders' equity	110,650	112,261	128,988	168,104	242,413	2,071,906	
Ratios:							
Return on assets (Note 4)	0.9%	1.6%	2.4%	1.5%	1.1%		
Return on equity (Note 5)	2.5	4.5	6.5	5.9	10.2		
Number of employees	7,780	7,741	7,468	9,496	11,078		

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥117.00 to U.S. \$1.00, the approximate exchange rate on March 31, 2006.

2. Net income per share = (Net income – Officers' bonuses) / (Average shares outstanding during the year - Average treasury stock during the year)

3. Total shareholders' equity per share = (Total shareholders' equity - Officers' bonuses) / (Shares outstanding at end of year - Treasury stock)

4. Return on assets = Operating income / Average total assets

5. Return on equity = Net income / Average total shareholders' equity

Scope of Consolidation

The Mediceo Paltac Group (the "Group") consists of 39 consolidated subsidiaries and 5 affiliates, with Mediceo Paltac Holdings Co., Ltd. (the "Company") as the core. During the year ended March 31, 2006, the Group companies were engaged in the pharmaceutical wholesale business, the cosmetics and daily necessities wholesale business, and the medical-related business.

Change in Business Classification

On October 1, 2005, PALTAC CORPORATION, which operates the cosmetics and daily necessities wholesale business, implemented an exchange of shares that made it a wholly owned subsidiary of the Company. As a result, the cosmetics and daily necessities wholesale business was added to the Company's two existing business segments, the pharmaceutical wholesale business and the medical-related business.

Overview of Results

In the year ended March 31, 2006, the Japanese economy recovered moderately overall, as consumer spending and capital investment increased and

employment conditions improved.

On October 1, 2005, the Company implemented a management integration through an exchange of shares with PALTAC CORPORATION, a wholesaler of cosmetics and daily necessities, with the aim of forming a new type of wholesaler that can accurately meet the needs of customers. Currently, the Company is working to generate synergy and reduce costs through the management integration.

On July 13, 2005, the Company acquired 10.0 percent of the stock of SHIKOKU YAKUGYO CO., LTD. to strengthen its alliance with that company. On April 1, 2005, Chiyaku Co., Ltd. was made a wholly owned subsidiary to promote business operations that take advantage of the total capabilities of the Mediceo Paltac Group. On January 1, 2006, KURAYA SANSEIDO Inc. and Chiyaku Co., Ltd. merged, with KURAYA SANSEIDO as the surviving company and Chiyaku dissolved, in order to strengthen their business structure as well as further enhance management efficiency and logistics functions.

On December 26, 2005, the Company transferred 67.0 percent of the total outstanding shares of Oriental Pharmaceutical Co., Ltd. to Nichi-iko Pharmaceutical Co., Ltd. to enhance management resources.

The main business of SELMESTA CO., LTD. is sales of health foods to health

insurance unions, mutual aid associations and others, which is different from the business field of the Company. Therefore, on March 31, 2006, the Company transferred 90.0 percent of the outstanding shares of SELMESTA to FASALIA HOLDINGS CO., LTD., which plans to enter the same business field.

In addition, the Company entered into a comprehensive alliance with Mitsubishi Corporation in the area of medical services in order to respond to the needs of medical institutions and to social changes.

The Company also constructed and began operation of the SAITAMA DISTRIBUTION CENTER in Kazo, Saitama Prefecture, to further strengthen and raise the efficiency of distribution functions.

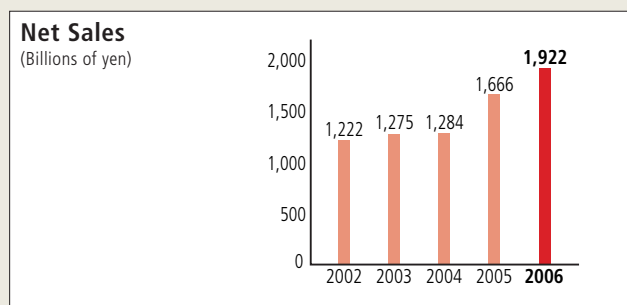
In the area of medical equipment, the portion of the medical equipment business of KURAYA SANSEIDO Inc. in the large hospital sales channel in the four prefectures of the Tokyo metropolitan area was transferred to and unified under wholly owned subsidiary NAKAGAWA SEIKODO CO., LTD. on April 1, with the aim of strengthening alliances and making efficient use of distribution and information functions within the Group. On July 1, the name of NAKAGAWA SEIKODO CO., LTD. was changed to MEDICEO MEDICAL CO., LTD.

As a result of these aggressive measures, net sales for the year ended March 31, 2006 increased 15.4 percent to ¥1,921,714 million, and net income increased 138.8 percent to ¥20,843 million.

Sales and Income

Net Sales

Consolidated net sales were ¥1,921,714 million, an increase of 15.4 percent year-on-year. The increase in net sales was significantly higher than the overall growth of the market because PALTAC CORPORATION became a consolidated subsidiary during the fiscal year.



Sales by Business Segment

Pharmaceutical Wholesale Business

The market for prescription pharmaceuticals, the Company's core business, displayed steady growth due to increasing demand throughout the period for drugs to treat lifestyle diseases, although the prevalence of influenza and pollen allergies from January through March 2006 was not as severe as in the same

period of the previous year.

In response to this market environment, the Company worked to implement consistent policies across the Group and secure reasonable profits.

As a result, sales of the pharmaceutical wholesale business were ¥1,714,768 million. Business segment information was not disclosed for the previous fiscal year, but for reference the year-on-year increase was 3.6 percent.

Cosmetics and Daily Necessities Wholesale Business

Sales of cosmetics and daily necessities increased steadily, led by drugstores. In this wholesale business, demands are increasing for enhancement of high-quality intermediary distribution functions, and therefore the Company worked to strengthen its sales and distribution network and its merchandising capabilities.

As a result, sales of the cosmetics and daily necessities wholesale business for the six months from the start of its consolidation on October 1, 2005 were ¥196,423 million (for reference: a 6.8 percent increase year-on-year).

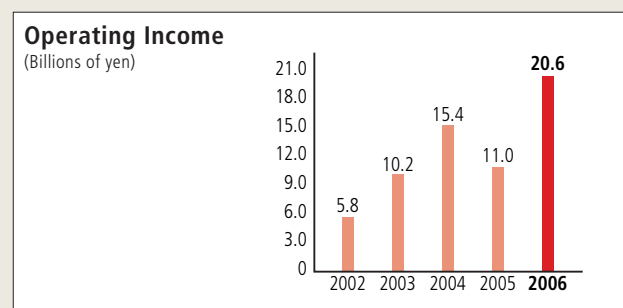
Medical-related Business

Sales of the medical-related business were ¥11,457 million (for reference: a 2.9 percent decrease year-on-year).

Operating Income

Gross profit increased 17.3 percent to ¥161,603 million, as selling prices recovered from the decline following the revision of NHI drug prices in April 2004 and PALTAC CORPORATION was added as a consolidated subsidiary. Selling, general and administrative (SG&A) expenses were ¥140,995 million, an increase of 11.2 percent year-on-year. However, as a result of the Group's measures to reduce costs by integrating core business systems for marketing, distribution and accounting and reforming the retirement benefit system, SG&A expenses as a percentage of net sales declined from 7.6 percent in the previous fiscal year to 7.3 percent.

As a result, operating income was ¥20,608 million, an increase of 87.6 percent year-on-year, and the operating margin improved from 0.7 percent to 1.1 percent.



Other Income (Expenses)

Total other income (expenses) amounted to net other income of ¥9,500 million, an increase of 14.2 percent from the previous fiscal year. Although amortization of consolidation difference decreased 16.0 percent year-on-year to ¥5,568 million, this factor was offset by a 59.5 percent decrease in restructuring costs of business establishments to ¥431 million and the absence of losses on the dissolution of the employees' pension fund and revision of the employees' retirement benefit plan that were recorded in the previous fiscal year.

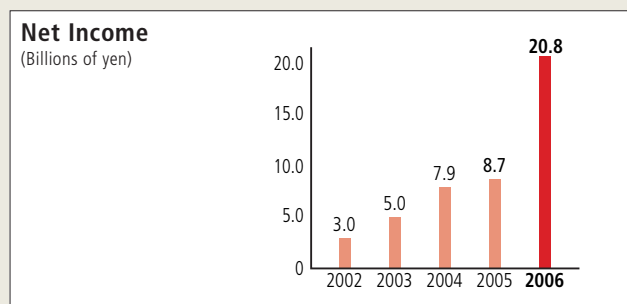
As a result, income before income taxes and minority interests increased 56.0 percent year-on-year to ¥30,109 million.

Costs, Expenses and Income as a Percentage of Net Sales

Years ended March 31	2004	2005	2006	Increase (decrease) 2006 vs. 2005
Cost of sales	90.9%	91.7%	91.6%	(0.1)
Gross profit	9.1	8.3	8.4	0.1
SG&A expenses	7.9	7.6	7.3	(0.3)
Operating income	1.2	0.7	1.1	0.4
Income before income taxes and minority interests	1.2	1.2	1.6	0.4
Net income	0.6	0.5	1.1	0.6

Net Income

Net income was ¥20,843 million, an increase of 138.8 percent compared with the previous fiscal year. Net income per share increased to ¥97.64 from ¥45.90 for the previous fiscal year, and fully diluted net income per share increased to ¥94.22 from ¥43.52 for the previous fiscal year.



Dividends

The Mediceo Paltac Group places high priority on returning profits to shareholders, and works to increase profitability to provide stable dividends while increasing retained earnings to use in developing business and strengthening operations. The year-end dividend applicable to the fiscal year ended March 31, 2006 totaled ¥9.00, which included the originally planned ordinary dividend of ¥6.00 plus a special dividend of ¥3.00 to commemorate the integration with PALTAC CORPORATION. As a result, cash dividends applicable to the fiscal year ended March 31, 2006 totaled ¥15.00 per share, an increase from ¥12.00 for the previous fiscal year.

Financial Strategy

The financial strategy of the Mediceo Paltac Group centers on creating sufficient liquidity and capital for operating needs and a sound balance sheet. Capital investment in property, plant and equipment is carried out according to clearly defined plans.

Liquidity and Financial Position

Net cash provided by operating activities was ¥41,796 million, a year-on-year increase of 58.9 percent. The main components of cash from operating activities were income before income taxes and minority interests of ¥30,109 million (a year-on-year increase of 56.0 percent), depreciation and amortization of ¥9,126 million, loss on impairment of fixed assets of ¥2,110 million, and decrease in notes and accounts receivable – trade of ¥10,799 million. Amortization of consolidation difference was ¥5,568 million, total decrease in allowances was ¥3,190 million, and cash paid for income taxes was ¥3,700 million.

Net cash provided by investing activities was ¥4,366 million, a year-on-year decrease of 86.0 percent. The main components were ¥9,064 million in payments for purchase of property, plant and equipment, including the SAITAMA DISTRIBUTION CENTER, and payments of ¥3,103 million for purchase of investment securities, including an equity position in SHIKOKU YAKUGYO CO., LTD., while proceeds from sale of property, plant and equipment were ¥3,863 million, proceeds from sale of investment securities were ¥1,760 million and proceeds from acquisition of subsidiary stock due to a change in the scope of consolidation were ¥10,628 million.

Net cash used in financing activities was ¥22,375 million, compared to ¥8,516 million in the previous fiscal year. The main components were a ¥1,034 million net decrease in short-term bank loans, ¥3,114 million for repayment of long-term debt, ¥16,873 million for purchase of treasury stock, and ¥2,854 million in payments for cash dividends to shareholders and cash dividends of a wholly owned subsidiary from a share exchange.

As a result, cash and cash equivalents at the end of the period increased ¥23,787 million (20.0 percent) from the end of the previous fiscal year, to ¥142,908 million.

Cash Flow Highlights

Years ended March 31	Millions of yen			Increase (decrease) 2006 vs. 2005
	2004	2005	2006	
Net cash provided by operating activities	¥13,247	¥26,302	¥41,796	¥15,494
Net cash provided by (used in) investing activities	(4,240)	31,279	4,366	(26,913)
Net cash used in financing activities	(7,270)	(8,516)	(22,375)	(13,859)
Cash and cash equivalents at end of year	70,112	119,121	142,908	23,787

Assets and Liabilities

Total assets at March 31, 2006 increased 17.1 percent from a year earlier to ¥993,491 million.

Current assets increased 15.0 percent from a year earlier to ¥774,082 million. The addition of newly consolidated subsidiaries was the main factor in the ¥100,765 million increase in current assets, which mainly consisted of a ¥23,632 million increase in cash in hand and in banks, a ¥51,788 million increase in trade notes and accounts receivable, an ¥18,381 million increase in inventories and a ¥4,763 million increase in accounts receivable.

Property, plant and equipment as of March 31, 2006 totaled ¥151,268 million, a 23.4 percent increase, and investments and other assets totaled ¥62,002 million, a 34.5 percent increase from the previous fiscal year end. The total increase from the addition of newly consolidated subsidiaries was ¥45,825 million, which mainly consisted of a ¥36,496 million increase in property, plant and equipment and a ¥6,910 million increase in investment securities.

Total current liabilities increased 14.2 percent from a year earlier to ¥701,270 million. The increase from the addition of newly consolidated subsidiaries was ¥85,202 million. This mainly consisted of a ¥48,612 million increase in notes and accounts payable, a ¥22,579 million increase in short-term bank loans, a ¥4,865 million increase in long-term debt due within one year, and a ¥2,232 million increase in income taxes payable.

Working capital increased 22.6 percent compared to the end of the previous fiscal year to ¥72,812 million. The current ratio was 1.104 times, compared to 1.097 times a year earlier.

Total long-term liabilities were ¥49,808 million, a 24.1 percent decrease from a year earlier. The decrease was mainly due to a ¥7,387 million decrease in convertible bonds and a ¥16,834 million decrease in consolidated adjustment account related to the addition of newly consolidated subsidiaries. Total interest-bearing debt at the end of the period was ¥38,400 million.

Total shareholders' equity at March 31, 2006 was ¥242,413 million, a 44.2 percent increase from a year earlier. The main components of the increase were a ¥7,387 million increase in common stock and capital surplus due to conversion of the Company's convertible bonds, a ¥59,916 million increase in capital surplus due to the Company's exchange of shares, a ¥20,843 million increase in retained earnings reflecting net income for the period, a ¥2,851 million decrease in retained earnings due to payment of cash dividends, a ¥5,194 million increase in unrealized gain on available-for-sale securities, and a ¥16,236 million decrease in treasury stock. The ratio of shareholders' equity to total assets increased to 24.4 percent from 19.8 percent at the end of the previous fiscal year, and the return on average total shareholders' equity increased to 10.2 percent from 5.9 percent a year earlier.

Capital Investment

Capital expenditures in the year ended March 31, 2006 totaled ¥9,064 million. Software investment was ¥1,176 million. The Company made investments

to further strengthen and enhance the efficiency of distribution functions primarily in the pharmaceutical wholesale business and the cosmetics and daily necessities wholesale business.

Capital expenditures by business segment are as follows.

In the pharmaceutical wholesale business, the Company made investments of ¥5,845 million in construction of the SAITAMA DISTRIBUTION CENTER. In addition, the Company invested ¥1,158 million in software to integrate core systems for sales, distribution and other operations.

In the cosmetics and daily necessities wholesale business, the Company invested ¥3,201 million in the construction of PALTAC CORPORATION's RDC Chugoku (provisional name), which is scheduled for completion in November 2006.

In the medical-related business, the Company invested ¥18 million for repair and maintenance of general office facilities.

The Company used bank loans to fund a portion of the capital expenditures.

Outlook for the Fiscal Year Ending March 2007

Having made a new start as Mediceo Paltac Holdings Co., Ltd., the Company will work intensively to rapidly integrate the management expertise of MEDICEO and PALTAC. In doing so, the Company aims to become a new type of multi-channel wholesaler, further strengthening its distribution functions and increasing its ability to provide solutions in order to be of service to the management of its customers.

In addition, the Company has formulated a new medium-term management plan covering the three years from the year ending March 2006 to the year ending March 2008. Based on this management plan, the Mediceo Paltac Group will aim to reach its targets by working to generate synergy from the integration with PALTAC CORPORATION and reducing costs.

In the prescription pharmaceutical wholesale business, NHI drug prices were reduced by an average of 6.7 percent on April 1, 2006, and it is assumed that this will have an effect on changes in purchase prices and selling prices. The Group will gain the understanding of supplying manufacturers regarding its strengths, such as information gathering and provision, to conduct aggressive purchase price negotiations, and will also conduct detailed, regionally based sales activities in working to form market prices that take economic principles into account.

In the cosmetics, daily necessities and OTC pharmaceutical wholesale business, with regard to the OTC pharmaceutical wholesale business, PALTAC CORPORATION and OTC pharmaceutical wholesaler ALCOS Co., Ltd. (Shimemachi, Kasuya-gun, Fukuoka), a wholly owned subsidiary of Mediceo Paltac Holdings with sales bases in the Kyushu area, merged on April 1, 2006, with PALTAC CORPORATION the surviving company and ALCOS Co., Ltd. dissolved. In addition, PALTAC CORPORATION will take over sales of OTC pharmaceuticals from KURAYA SANSEIDO Inc. and EVERLTH Co., Ltd. on October 1, 2006. These moves are aimed at strengthening marketing and reducing dis-

tribution costs in this business, as well as reinforcing and enhancing services provided to customers.

With a view to widening the independence and the future options of employees in the Group, the Company will offer voluntary early retirement to employees who wish to take jobs in new fields. In addition, the Company plans to transfer loan employees between consolidated subsidiaries to raise the management vitality of Group companies. The Company expects to book the one-time charges associated with these programs as extraordinary losses.

As a result, for the year ending March 31, 2007, the Company projects consolidated net sales of ¥2,192.0 billion (a year-on-year increase of 14.1 percent), consolidated ordinary income of ¥36.0 billion (a year-on-year increase of 10.0 percent) and consolidated net income of ¥16.4 billion (a year-on-year decrease of 21.3 percent).

Risk Information

With regard to the information on business, management and other conditions presented in this report, the following risks may exert a significant influence on investor decisions. Forward-looking statements in the following text are based on the judgment of the Mediceo Paltac Group as of March 31, 2006.

Risks related to specific legal regulations, etc.

The pharmaceutical wholesale business and the medical-related business handle various types of pharmaceuticals and related products. Therefore, they conduct sales activities after receiving the necessary authorizations, registrations, designations and licenses from the local governments where business sites are located, pursuant to the Pharmaceutical Affairs Law and other laws.

Medical system reform

In Japan, fiscal reconstruction is an urgent issue, and medical system reforms are being implemented as part of this. Depending on their content, these reforms may affect the business results of the pharmaceutical wholesale business and the medical-related business.

Drug price standards

Prescription pharmaceuticals, which are the main products handled by the Mediceo Paltac Group, are subject to National Health Insurance (NHI) drug price standards. The drug price standards stipulate the range of pharmaceuticals that can be used under health insurance coverage and their billing prices. Accordingly, they function as an upper limit on selling prices.

Revisions of NHI drug prices during the last five years were as follows.

Implementation date	Average rate of decrease
April 1, 2002	6.3%
April 1, 2004	4.2%
April 1, 2006	6.7%

Investment cost and unit selling prices

By merging with other wholesalers, Mediceo Paltac Holdings Co., Ltd. and the Mediceo Paltac Group are expanding their competitive scale and scope. Increased investment costs associated with improvement and expansion of the distribution and information systems to handle these expansions or a larger than expected decrease in unit selling prices may affect business results.

Sales discontinuations, product recalls, etc.

Business results may be affected in the event of a situation such as the discontinuation of sales or recall of certain products due to defects, unforeseen side effects or tampering with certain products sold.

System trouble

The business of Mediceo Paltac Holdings Co., Ltd. and the Mediceo Paltac Group is heavily reliant on computer network systems. Discontinuation of functions due to a natural disaster, accident, intrusion of a computer virus or other occurrences, may result in significant obstacles to product distribution.

Default risk

Business results would be affected in the event that a default occurs due to the bankruptcy or civil rehabilitation, etc. of customers, in regard to the credits associated with ongoing transactions that Mediceo Paltac Holdings Co., Ltd. and the Mediceo Paltac Group conduct with medical institutions.

Merchandise inventory risk

Business results may be affected in the event that merchandise inventory held by Mediceo Paltac Holdings Co., Ltd. and Mediceo Paltac Group companies declines in value or becomes unsaleable due to the bankruptcy or civil rehabilitation, etc. of suppliers.

Litigation risk

Mediceo Paltac Holdings Co., Ltd. or Mediceo Paltac Group companies may be parties to litigation requesting payment of damages in the course of conducting business activities.

Various risks other than these exist, and the risks described here are not all of the risks of Mediceo Paltac Holdings Co., Ltd. and Mediceo Paltac Group companies.

CONSOLIDATED BALANCE SHEETS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
March 31, 2005 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Current assets:			
Cash in hand and in banks (Notes 3 and 10)	¥120,636	¥144,268	\$1,233,060
Notes and accounts receivable, trade	437,654	489,442	4,183,265
Marketable securities (Note 4)	8	—	—
Inventories	78,294	96,675	826,282
Deferred income taxes (Note 14)	4,836	8,593	73,444
Accounts receivable, other	33,029	37,792	323,009
Other current assets	2,576	2,771	23,684
Allowance for doubtful accounts	(3,716)	(5,459)	(46,658)
Total current assets	673,317	774,082	6,616,085
Property, plant and equipment (Note 10):			
Buildings and structures	48,645	63,559	543,239
Land (Note 7)	62,722	72,196	617,060
Construction in progress	3,082	1,819	15,547
Other tangible fixed assets	8,166	13,694	117,043
Total property, plant and equipment	122,616	151,268	1,292,889
Intangible assets:			
Software	5,473	4,683	40,026
Other intangible assets	907	1,457	12,453
Total intangible assets	6,380	6,140	52,479
Investments and other assets:			
Investment securities (Notes 4 and 10)	31,366	47,950	409,829
Long-term loans receivable	921	776	6,632
Deferred income taxes (Note 14)	3,357	1,193	10,197
Other assets	15,279	16,479	140,846
Allowance for doubtful accounts	(4,820)	(4,396)	(37,573)
Total investments and other assets	46,103	62,002	529,932
	¥848,416	¥993,491	\$8,491,376

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Current liabilities:			
Notes and accounts payable, trade (Note 10)	¥584,267	¥631,286	\$5,395,607
Short-term bank loans (Notes 8 and 10)	5,325	25,879	221,188
Long-term debt due within one year (Notes 8 and 10)	425	5,018	42,889
Income taxes payable (Note 14)	1,164	8,108	69,299
Reserve for bonuses	6,860	8,021	68,556
Allowance for losses on sales returns	710	961	8,214
Other current liabilities	15,187	21,998	188,017
Total current liabilities	613,939	701,270	5,993,761
Long-term liabilities:			
Convertible bonds	9,254	1,867	15,957
Long-term debt (Notes 8 and 10)	656	5,636	48,171
Deferred income taxes	5,200	8,010	68,462
Deferred income taxes — land revaluation (Note 7)	1,113	1,076	9,197
Reserve for employees' retirement benefits (Note 9)	15,976	17,068	145,880
Reserve for directors' and corporate auditors' retirement benefits	—	493	4,214
Consolidated adjustment account	28,583	11,749	100,419
Other long-term liabilities	4,850	3,908	33,402
Total long-term liabilities	65,632	49,808	425,709
Minority interests	741	—	—
Contingent liabilities (Note 11)			
Shareholders' equity (Note 12):			
Common stock:			
Authorized — 500,000,000 shares in 2005 and 2006			
Issued — 189,100,203 shares in 2005 and 242,518,061 shares in 2006	17,786	21,480	183,590
Capital surplus	67,618	131,328	1,122,462
Retained earnings	98,910	115,948	991,009
Land revaluation surplus (Note 7)	(19,660)	(18,751)	(160,265)
Unrealized gain on available-for-sale securities (Note 4)	6,123	11,318	96,735
Treasury stock, at cost	(2,673)	(18,910)	(161,624)
Total shareholders' equity	168,104	242,413	2,071,906
	¥848,416	¥993,491	\$8,491,376

CONSOLIDATED STATEMENTS OF INCOME

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Net sales	¥1,665,816	¥1,921,714	\$16,424,906
Cost of sales	1,528,010	1,760,112	15,043,692
Gross profit	137,806	161,603	1,381,222
Selling, general and administrative expenses	126,819	140,995	1,205,085
Operating income	10,987	20,608	176,137
Other income (expenses):			
Research fee income	4,252	4,472	38,222
Interest and dividend income	552	738	6,308
Interest expense	(235)	(234)	(2,000)
Loss on devaluation of investment securities	(47)	(12)	(103)
Other, net (Note 13)	3,796	4,537	38,778
Total other income (expenses)	8,318	9,500	81,197
Income before income taxes and minority interests	19,305	30,109	257,342
Income taxes (Note 14):			
Current	4,294	9,707	82,966
Deferred	6,209	(442)	(3,778)
Total income taxes	10,503	9,266	79,197
Minority interests in net income of consolidated subsidiaries	72	0	0
Net income	¥ 8,730	¥ 20,843	\$ 178,145

	Yen		U.S. dollars (Note 1)
	2005	2006	2006
Amounts per share of common stock:			
Net income	¥45.90	¥97.64	\$0.83
Diluted net income	43.52	94.22	0.81
Cash dividends applicable to the period	12.00	15.00	0.13

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2005 and 2006

	Number of shares of common stock issued (Thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Land revaluation surplus	Unrealized gain on available-for-sale securities	Treasury stock, at cost
Balance at March 31, 2004	147,736	¥ 15,183	¥ 30,064	¥ 93,309	¥ (11,462)	¥ 4,342	¥ (2,448)
Conversion of convertible bonds into stock	5,682	2,602	2,602	—	—	—	—
Gain on transfer of treasury stock	—	—	800	—	—	—	1,820
Increase due to exchange of shares	35,682	—	34,151	—	—	—	—
Net income	—	—	—	8,729	—	—	—
Cash dividends paid (¥12.0 per share)	—	—	—	(2,381)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(358)	—	—	—
Reverse of land revaluation surplus	—	—	—	(388)	388	—	—
Changes in revaluation surplus	—	—	—	—	(8,586)	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	—	1,781	—
Treasury stock acquired	—	—	—	—	—	—	(2,045)
Balance at March 31, 2005	189,100	¥17,786	¥67,618	¥98,910	¥(19,660)	¥6,123	¥(2,673)
Conversion of convertible bonds into stock	8,064	3,693	3,693	—	—	—	—
Gain on transfer of treasury stock	—	—	100	—	—	—	637
Increase due to exchange of shares	45,353	—	59,916	—	—	—	—
Net income	—	—	—	20,843	—	—	—
Cash dividends paid (¥15.0 per share)	—	—	—	(2,850)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(311)	—	—	—
Reverse of land revaluation surplus	—	—	—	(539)	539	—	—
Changes in revaluation surplus	—	—	—	—	372	—	—
Consolidated write-offs	—	—	—	(104)	—	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	—	5,194	—
Treasury stock acquired	—	—	—	—	—	—	(16,873)
Balance at March 31, 2006	242,518	¥21,480	¥131,328	¥115,948	¥(18,751)	¥11,318	¥(18,910)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Land revaluation surplus	Unrealized gain on available-for-sale securities	Treasury stock, at cost
Balance at March 31, 2005	\$152,017	\$577,932	\$845,385	\$(168,034)	\$52,333	\$(22,846)
Conversion of convertible bonds into stock	31,564	31,564	—	—	—	—
Gain on transfer of treasury stock	—	855	—	—	—	5,444
Increase due to exchange of shares	—	512,103	—	—	—	—
Net income	—	—	178,145	—	—	—
Cash dividends paid (\$0.13 per share)	—	—	(24,359)	—	—	—
Bonuses to directors and statutory auditors	—	—	(2,658)	—	—	—
Reverse of land revaluation surplus	—	—	(4,607)	4,607	—	—
Changes in revaluation surplus	—	—	—	3,179	—	—
Consolidated write-offs	—	—	(889)	—	—	—
Changes in unrealized gain on available-for-sale securities, less applicable taxes	—	—	—	—	44,393	—
Treasury stock acquired	—	—	—	—	—	(144,214)
Balance at March 31, 2006	\$183,590	\$1,122,462	\$991,009	\$(160,265)	\$96,735	\$(161,624)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 19,304	¥ 30,109	\$ 257,342
Adjustments to reconcile income before income taxes to net cash flows provided by operating activities:			
Depreciation and amortization	7,625	9,126	78,000
Loss on impairment of fixed assets	—	2,110	18,034
Amortization of consolidation difference	(6,628)	(5,568)	(47,590)
Increase (decrease) in reserve for employees' retirement benefits – net	2,207	(1,921)	(16,419)
Increase (decrease) in reserve for directors' and corporate auditors' retirement benefits	(2,397)	85	726
Decrease in reserve for employees' bonuses	(648)	(68)	(581)
Decrease in allowance for doubtful accounts	(2,378)	(1,284)	(10,974)
Decrease in allowance for sales returns	(87)	(2)	(17)
Reversal of allowance for losses on debt guarantees	(74)	—	—
Interest and dividend income	(551)	(738)	(6,308)
Interest expenses	235	234	2,000
Loss on disposal of property, plant and equipment – net	(694)	438	3,744
Loss on sale or devaluation of securities – net	32	(273)	(2,333)
Loss related to stock of affiliates	20	441	3,769
Loss on sale and devaluation of golf club memberships – net	87	6	51
Additional retirement benefits for employees	753	36	308
Decrease (increase) in notes and accounts receivable – trade	(11,373)	10,799	92,299
Decrease (increase) in inventories	(9,717)	3,356	28,684
Decrease (increase) in other current assets	(1,978)	50	427
Increase (decrease) in notes and accounts payable	42,147	(2,287)	(19,547)
Increase (decrease) in accrued consumption taxes	(2,807)	2,858	24,427
Increase (decrease) in other current liabilities	1,556	(2,196)	(18,769)
Payment of directors' and corporate auditors' bonuses	(366)	(316)	(2,701)
Subtotal	34,266	44,994	384,564
Interest and dividends received	552	739	6,316
Cash paid for interest	(234)	(201)	(1,718)
Special retirement benefits paid	(753)	(36)	(308)
Cash paid for income taxes	(7,530)	(3,700)	(31,624)
Net cash provided by operating activities	26,302	41,796	357,231
Cash flows from investing activities:			
Payments for time deposits	(752)	(1,144)	(9,778)
Maturity of time deposits	918	1,250	10,684
Payments for purchase of marketable securities	(2)	(3)	(26)
Proceeds from sale of marketable securities	2	11	94
Payments for purchase of property, plant and equipment	(7,812)	(9,064)	(77,470)
Proceeds from sale of property, plant and equipment	4,197	3,863	(33,017)
Payments for purchase of investment securities	(305)	(3,103)	(26,521)
Proceeds from sale of investment securities	22	1,760	15,043
Proceeds from sale of subsidiary stock	—	251	2,145
Proceeds from acquisition of subsidiary stock due to change in scope of consolidation	35,258	10,628	90,838
Payments for issuance of loans	(186)	(75)	(641)
Proceeds from recovery of loans	506	213	1,821
Payments for transfer of business	(135)	(31)	(265)
Other, net	(432)	(189)	(1,615)
Net cash provided by investing activities	31,279	4,366	37,316
Cash flows from financing activities:			
Decrease in short-term bank loans — net	(4,714)	(1,034)	(8,838)
Proceeds from long-term debt	430	1,500	12,821
Repayment of long-term debt	(735)	(3,114)	(26,615)
Purchase of treasury stock	(1,106)	(16,873)	(144,214)
Payments for cash dividends	(1,981)	(2,246)	(19,197)
Payments for cash dividends of wholly owned subsidiary from share exchange	—	(604)	(5,162)
Payments for cash dividends to minority shareholders	(410)	(3)	(26)
Net cash used in financing activities	(8,516)	(22,375)	(191,239)
Net increase in cash and cash equivalents	49,064	23,787	203,308
Cash and cash equivalents at beginning of year (Note 3)	70,112	119,121	1,018,128
Cash and cash equivalents in connection with the exclusion of a certain subsidiary from consolidation	(55)	—	—
Cash and cash equivalents at end of year (Note 3)	¥ 119,121	¥ 142,908	\$ 1,221,436

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2005 and 2006

1. Basis of presenting the consolidated financial statements

Mediceo Paltac Holdings Co., Ltd. (the "Company") and its consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and were filed with the Financial Services Agency as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2006, which was ¥117.00 to U.S.\$1.00. These translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

Consolidated financial statements included the accounts of the Company and thirteen and eleven significant domestic subsidiaries in 2005 and 2006, respectively.

All material intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded using the fair value at the time the Company acquired control of the respective subsidiaries.

On July 1, 2005, Nakagawa Seikodo changed its name to MEDICEO MEDICAL CO., LTD.

PALTAC CORPORATION became a wholly owned subsidiary using the share exchange system on October 1, 2005, and therefore it is included in the scope of consolidation starting from the fiscal year ended March 31, 2006.

Oriental Pharmaceutical Co., Ltd. was removed from the scope of consolidation in the fiscal year ended March 31, 2006, as the sale of 67.0 percent of its outstanding shares on December 26, 2005 ended its significance. However, the profit and loss and cash flow of Oriental Pharmaceutical Co., Ltd. through September 30, 2005 are consolidated.

Chiyaku Co., Ltd. was removed from the scope of consolidation in the fiscal year ended March 31, 2006 because it merged with KURAYA SANSEIDO Inc., a wholly owned subsidiary of the Company, on January 1, 2006, with KURAYA SANSEIDO being the surviving company and Chiyaku Co., Ltd. being the dissolved company. However, the profit and loss and cash flow of Chiyaku Co., Ltd. through December 31 are consolidated.

SELMESTA CO., LTD. (formerly KURAYA SHOJI, INC.) was removed from the scope of consolidation in the fiscal year ended March 31, 2006 because Mediceo Paltac Holdings transferred 90.0 of its outstanding shares on March 31, 2006. However, the profit and loss and cash flow of SELMESTA CO., LTD. through March 31 are consolidated.

The main assets and liabilities of the new subsidiaries upon consolidation as a result of acquisition of shares, value of shares acquired and net proceeds from acquisition of shares are outlined below:

PALTAC CORPORATION	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 102,121	\$ 872,829
Fixed assets	43,932	375,487
Deferred assets	9	76
Consolidation difference	11,137	95,188
Current liabilities	(86,271)	(737,359)
Long-term liabilities	(11,108)	(94,940)
Acquisition of PALTAC CORPORATION stock	59,821	511,291
Cash and cash equivalents of PALTAC CORPORATION	10,653	91,051
Shares acquired through share exchange	(59,846)	(511,504)
Proceeds from acquisition of shares of PALTAC CORPORATION	10,628	90,838

Equity method

Investments in non-consolidated subsidiaries and affiliates in which the Company has the ability to exercise significant influence over the operating and financial policies of the investees, are accounted for using the equity method.

Investments in other non-consolidated subsidiaries and affiliates are not accounted for by the equity method, since the total net income and retained earnings of such companies in the aggregate are not material compared to those on a consolidated basis.

Consolidated adjustment account

The consolidated adjustment account is amortized over mainly 5 years on a straight-line basis. When immaterial, the consolidated adjustment account is charged to expense as incurred.

Cash flow statement

In preparing the consolidated statements of cash flows, cash in hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Short-term investments and investment securities

The Company adopted "Accounting Standards for Financial Instruments" issued by the Ministry of Finance ("MOF") on January 22, 1999. In accordance with these accounting standards, the Company's marketable and investment securities are considered as held-to-maturity or available-for-sale. Available-for-sale securities represent those securities that do not meet the criteria of trading securities and held-to-maturity securities.

Available-for-sale securities are stated at fair value and the unrealized gains and losses are reported as a separate component of stockholders' equity. In cases where substantial impairment of value is recognized compared to fair value, the carrying amount is reduced to the fair value. Held-to-maturity securities are stated at amortized cost using the straight-line method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

Beginning in the year ended March 31, 2005, the Company accounts for its interest in investment limited partnerships (¥96 million and ¥125 million in the years ended March 31, 2005 and 2004, respectively) as part of "Investment securities," not as part of "Other" as previously classified, under "Investments and other assets," pursuant to the Law Partially Revising the Securities and Exchange Law, (Law No. 97 of June 9, 2004, enacted on December 1, 2004).

Inventories

In promoting reorganization through shifting to an operating holding company structure, integrating the management of subsidiaries and other measures, the Company is renewing core business systems shared throughout the Group and is promoting consistent groupwide accounting methods. Beginning with the year ended March 31, 2005, valuation of inventories has changed from cost using the first-in-first-out method to primarily cost using the moving-average method to make the calculation of income and loss more accurate. The effect of this change on income and loss in the consolidated financial statements for the year ended March 31, 2005 was immaterial.

Property, plant and equipment

Depreciation of property, plant and equipment is computed using the declining-balance method.

In accordance with revisions of the Corporation Tax Law, buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Finance leases

Finance leases, except leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

Software costs

The Company included software in intangible assets and amortized it using the straight-line method over the estimated useful lives of the software (five years).

Allowance for doubtful accounts

Allowance for doubtful accounts is recorded at the amount necessary to cover for possible losses from doubtful accounts based on the amount estimated to be uncollectable on an individual basis and from other accounts based on historical loss ratios.

Reserve for employees' bonuses

At March 31, 2005 and 2006, the Company maintained a reserve for employees' bonuses based on estimated amounts to be paid in the subsequent period.

Employees' retirement benefits and pension

The Company adopted "Accounting Standards for Retirement Benefits" issued by the MOF on June 16, 1998. In accordance with these accounting standards, the Company provides for employees retirement benefits in the estimated amount required to be paid as of the balance sheet date, less the estimated fair value of pension assets. Prior service costs and actuarial gains and losses are amortized from the year in which the gains or losses arise, primarily by the straight-line method over a fixed number of years within the average remaining years of service of employees.

On April 1, 2005, six consolidated subsidiaries revised their retirement benefit systems and transferred part of the lump-sum retirement benefit system to a defined contribution pension plan, applying the "Accounting Process for Transfers Between Retirement Benefit Systems (Corporate Accounting Standards, Application Guideline 1).

The effect of these transfers was that an extraordinary gain of ¥363 million was incurred.

Reserve for directors' and corporate auditors' retirement benefits

The MEDICEO Paltac Group previously provided for payment of directors' and corporate auditors' retirement benefits in the amount required to be paid at the end of the fiscal year, in accordance with company rules. In June 2004, the directors' and corporate auditors' retirement benefit system was abolished, and the amount required to be paid at the time of abolishment will be paid to directors and corporate auditors upon their retirement (at March 2005).

A certain subsidiary provides for payment of directors' and corporate auditors' retirement benefits based on the amount required to be paid at the end of the accounting period, in accordance with the internal rules of each company (at March 2006).

Income taxes

Income tax payable is computed based on the pretax income included in the consolidated financial statements. The asset and liability method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences. As of the year ended March 31, 2005, the Company is applying "Handling of Practical Matters for Statement of Pro Forma Business Taxation in the Statements of Income" (Practical Application Report, No. 12).

Amounts per share of common stock

The computations of net income per share of common stock are based on the average number of shares outstanding during each year. In accordance with "Accounting Standards for Net Income per Share" issued by the Financial Accounting Standards Foundation on September 25, 2002, the net income excludes bonuses to directors and corporate auditors.

For computing diluted net income per share of common stock, the average number of shares was increased by the number of shares that would have been outstanding assuming that domestic convertible bonds were converted on the date of issuance (September 11, 1996) at the actual conversion rates in effect during the year. Cash dividends per share represent the actual amounts declared during the respective years.

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash in hand and in banks	¥120,636	¥144,268	\$1,233,060
Time deposits over three months	(1,514)	(1,360)	(11,624)
Cash and cash equivalents	¥119,122	¥142,908	\$1,221,436

4. Market value information for securities

(1) Available-for-sale securities with a market value

Year ended March 31, 2006	Millions of yen		
	Original cost	Estimated book value	Unrealized gain
Securities whose book value exceeds their original cost:			
Equity securities	¥12,126	¥39,669	¥27,542
Bonds	—	—	—
Others	—	—	—
	¥12,126	¥39,669	¥27,542
Securities whose book value does not exceed their original cost:			
Equity securities	¥ 422	¥ 388	¥ (33)
Bonds	—	—	—
Others	—	—	—
	¥ 422	¥ 388	¥ (33)
Total	¥12,549	¥40,058	¥27,508

Year ended March 31, 2006	Thousands of U.S. dollars		
	Original cost	Estimated book value	Unrealized gain
Securities whose book value exceeds their original cost:			
Equity securities	\$103,641	\$339,051	\$235,402
Bonds	—	—	—
Others	—	—	—
	\$103,641	\$339,051	\$235,402
Securities whose book value does not exceed their original cost:			
Equity securities	\$ 3,607	\$ 3,316	\$ (282)
Bonds	—	—	—
Others	—	—	—
	\$ 3,607	\$ 3,316	\$ (282)
Total	\$107,256	\$342,376	\$235,111

Year ended March 31, 2005	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain
Securities whose fair value exceeds their carrying value:			
Equity securities	¥8,093	¥24,849	¥16,755
Bonds	5	5	—
Others	—	—	—
	¥8,098	¥24,854	¥16,755
Securities whose carrying value exceeds their fair value:			
Equity securities	¥ 351	¥ 320	¥ (31)
Bonds	—	—	—
Others	—	—	—
	¥ 351	¥ 320	¥ (31)
Total	¥8,450	¥25,174	¥16,724

(2) Available-for-sale securities sold during the year

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Sales value	¥25	¥548	\$4,684
Profit on sale	18	258	2,205
Loss on sale	3	12	103

(3) Book value of non-marketable securities

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Held-to-maturity:			
Debt securities	¥3,300	¥2,800	\$23,932
Available-for-sale:			
Equity securities	1,605	2,685	22,949
Bonds	3	1	9

(4) Schedule for redemption of available-for-sale securities with a maturity and held-to-maturity debt securities

	Millions of yen				Thousands of U.S. Dollars	
	2005		2006		2006	
	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years
Total	¥8	¥1	¥1	¥—	\$9	\$—

5. Derivative transactions

A certain consolidated subsidiary has entered into foreign currency hedging transactions to reduce its exposure to adverse fluctuation in foreign exchange rates relating to its receivables and payables denominated in foreign currencies. The subsidiary does not engage in speculative transactions, and it applies deferral hedge accounting or designation accounting to forward exchange contracts that qualify.

For forward exchange contracts, in principle the subsidiary compares the total exchange rates of hedged items to the total market fluctuation of hedging instruments during the period from the time hedging begins until the point when its effectiveness is determined, and makes an assessment based on the amount of fluctuation of the two. However, if the material terms for the assets and liabilities of hedging instruments and hedged items are identical, the assessment of effectiveness is omitted because the effectiveness is clearly 100 percent.

6. Loss on impairment of fixed assets

Effective from the year ended March 31, 2006, the Company and its subsidiaries apply the accounting standards for loss on impairment of fixed assets, "Statement of Opinion on Establishment of Accounting Standards for Loss on Impairment of Fixed Assets" (issued by the Business Accounting Council on August 9, 2002) and "Application Guidance on Accounting Standards for Loss on Impairment of Fixed Assets" (Accounting Standard Application Guidance No. 6, issued on October 31, 2003). The application of these standards reduced income before income taxes by ¥2,110 million for the year ended March 31, 2006.

Accumulated impairment losses are directly written off against the value of each asset based on the revised rules for consolidated financial statements.

During the year ended March 31, 2006, the Company and its consolidated subsidiaries recorded impairment losses for the following asset groups:

Application	Type	Location	Millions of yen	Thousands of U.S. dollars
Idle assets	Land and buildings, etc.	Tohoku, 3	¥ 112	\$ 957
		Kanto, 16	982	8,393
		Koshinetsu, 2	268	2,290
		Hokuriku, 2	203	1,735
		Tokai, 9	276	2,359
		Kinki, 1	1	9
		Chugoku, 6	84	718
		Shikoku, 2	73	624
		Kyushu, 7	109	932
		Business assets	Land	Kanto, 1
Total			¥2,110	\$18,034

The Group's pharmaceutical wholesale business operates region-based sales companies, and groups assets by company. The assets of the cosmetics and daily necessities wholesale business are also grouped by company.

The distribution centers owned by the Company, an operating holding company, conduct central buying for the Group from manufacturers and perform the wholesale distribution functions of sales subsidiaries, and are therefore treated as assets of the pharmaceutical wholesale business.

For business-use assets owned by the Group that are idle, are not expected to be used in the future and have recoverable values less than book value, the Company writes down the book value to the recoverable value, and accounts for the amount of this write-down as an impairment loss (¥2,110 million) in extraordinary losses.

Item	Millions of yen	Thousands of U.S. dollars
Land	¥ 699	\$ 5,974
Buildings and structures	1,175	10,043
Other	236	2,017
Total	¥2,110	\$18,034

The Company measures the recoverable value of assets using the net sale value. The net sale value is the amount calculated based on the appraised value determined by a real estate appraiser or the value assessed for property tax purposes.

7. Land revaluation

Under the "Law on Land Revaluation," passed on March 31, 1998 and revised on March 31, 2001, the Company carried out a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002.

The resulting land revaluation difference represents unrealized appreciation of land and is accounted for, net of deferred tax assets and liabilities, as a revaluation surplus in shareholders' equity.

8. Short-term bank loans and long-term debt

The Company has credit agreements with 23 banks in order to support effective financing. The lines of credit and bank loans under the credit agreements at March 31, 2005 and 2006 are listed below.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Lines of credit	¥88,250	¥138,678	\$1,185,282
Balance of bank loans	(5,300)	(25,879)	(221,188)
Net: Open lines of credit	¥82,950	¥112,800	\$ 964,103

Short-term bank loans including loans under the credit agreement at March 31, 2005 and 2006 principally bore annual interest rates of 0.96% and 0.95% per annum, respectively.

Long-term debt at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Unsecured domestic convertible bonds due 2008 at a rate of 0.9%	¥ 9,254	¥ 1,867	\$ 15,957
Loans from banks	1,081	10,653	91,051
	10,335	12,520	107,009
Less amount due within one year	(425)	(5,018)	(42,889)
Amount due after one year	¥ 9,910	¥ 7,503	\$ 64,128

Domestic convertible bonds due 2008 provide, among other conditions, for (1) conversion prices of ¥916.0 (\$7.83) and (2) convertible period from October 1, 1996 to September 29, 2008.

At the current conversion price, a total of 10,102 thousand shares of common stock were issuable upon full conversion of the domestic bonds outstanding at March 31, 2006.

The annual maturities of long-term debt at March 31, 2006 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 5,018	\$42,889
2008	3,648	31,179
2009	1,736	14,838
2010	252	2,154

9. Employees' retirement benefits

(1) Overview of retirement benefit plan

The Company and its subsidiaries have defined retirement benefit plans covering a contributory trustee employee pension plan established by the pharmaceutical industry, tax-qualified pension plans and unfunded retirement plans.

Effective from April 1, 2004, the Company amended its retirement benefit plan. The new plan consists of a defined benefit plan and defined contribution plan instead of a tax-qualified pension plan and part of an unfunded retirement plan, respectively. The Company adopted "Accounting guidance for transition between Retirement Benefit Plans" issued by the FASF.

On April 1, 2005, six consolidated subsidiaries revised their retirement benefit systems and transferred part of the lump-sum retirement benefit system to a defined contribution pension plan, applying the "Accounting Process for Transfers Between Retirement Benefit Systems (Corporate Accounting Standards, Application Guideline 1).

The effect of these transfers was that an extraordinary gain of ¥363 million was incurred.

The effect associated with the transfer from a qualified pension plan to a contract-type corporate pension plan and defined contribution pension plan is as follows:

	Millions of yen	Thousands of U.S. dollars
Decrease in benefit obligation	¥3,571	\$30,521
Unrecognized net gain	934	7,983
Increase in reserve for retirement benefits	2,637	22,538

Assets in the amount of ¥1,703 million (\$14,556 thousand) will be contributed to the defined contribution pension plan over a period of 4 to 8 years. The unpaid amount of ¥1,272 million (\$10,872 thousand) was recorded in other current liabilities and long-term liabilities in 2006.

(2) Retirement benefits

The liability for employees' retirement benefits at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligation	¥(37,834)	¥(43,255)	\$(369,701)
Fair value of plan assets	22,089	28,711	245,393
Plan assets less than projected benefit obligation	(15,744)	(14,543)	(124,299)
Unrecognized actuarial loss	652	(1,340)	(11,453)
Unrecognized prior service costs	(424)	(458)	(3,915)
Subtotal	(15,517)	(16,342)	(139,675)
Prepaid pension expenses	458	725	6,197
Reserve for employees' retirement benefits	¥(15,976)	¥(17,068)	\$(145,880)

(3) Net pension expense

The components of net pension expense in 2005 and 2006 are listed below.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service costs	¥2,346	¥2,362	\$20,188
Interest costs on projected benefit obligations	888	735	6,282
Expected return on plan assets	(417)	(466)	(3,983)
Unrecognized actuarial loss	1,894	100	855
Amortization of prior service costs	(545)	(330)	(2,821)
Loss on retirement benefits system revision	853	(363)	(3,103)
Other	621	863	7,376
Net pension expense	¥5,642	¥2,901	\$24,795

In addition to the pension expense above, an additional retirement benefit on early retirement is recorded in the amount of ¥35 million (\$299 thousand).

(4) Assumptions

The projected benefit obligation is determined on the basis of employees' evaluation, their length of service and certain other factors. Other significant assumptions used in the calculation of projected benefit obligation and pension expense are listed below.

	2005	2006
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.5~2.5%	1.5~3.0%
Amortization period for prior service costs	3 years	3 years
Recognition period of actuarial loss	3~10 years	3~10 years

(5) Contributory trustee employee pension plan

The assets of the contributory trustee employee pension plan established by the pharmaceutical industry amount to ¥60,322 million (\$515,573 thousand) at March 31, 2006 based on the proportion of the Company's payments to the fund.

10. Pledged assets

The Company and its consolidated subsidiaries pledged the following assets to secure trade payables and certain bank loans in the amount of ¥50,859 million (\$434,692 thousand) at March 31, 2006.

	Millions of yen	Thousands of U.S. dollars
Land	¥2,003	\$17,120
Buildings and structures at net book value	1,110	9,487
Investment securities	1,615	13,803
Time deposits	1,200	10,256

11. Contingent liabilities

Contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2006 were guarantees for loans from banks of unconsolidated subsidiaries, affiliates and others in the amount of ¥2,717 million (\$23,222 thousand).

12. Shareholders' equity

The Japanese Commercial Code, amended effective from October 1, 2001, provides that an amount equal to at least 10% of appropriations paid in cash should be appropriated as the legal reserve until the total amount of the legal reserve and capital surplus equals 25% of common stock.

The legal reserve and capital surplus may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

13. Other income (expenses)

Other income (expenses) – "Other, net" in the accompanying consolidated statements of operations for the years ended March 31, 2005 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Gain on sale of investment securities – net	¥ 15	¥ 246	\$ 2,103
Gain (loss) on sales or disposal of property, plant and equipment – net	695	(438)	(3,744)
Loss on devaluation of golf club memberships	(89)	0	0
Restructuring costs of business establishments	(1,064)	(431)	(3,684)
Additional retirement benefits for employees	(753)	(36)	(308)
Amortization of consolidation difference	6,628	5,568	47,590
Loss on dissolution of employees' pension fund	(1,190)	—	—
Loss on revision of employees' retirement benefit plan	(853)	—	—
Miscellaneous	409	(372)	(3,179)
	¥ 3,797	¥4,537	\$38,778

14. Income taxes

The Company and its consolidated subsidiaries are subject to a number of income taxes, which, in the aggregate, indicate statutory tax rates in Japan of approximately 40.7% for the years ended March 31, 2005 and 2006.

The reconciliation between the statutory tax rate and the effective tax rate of the Company and its consolidated subsidiaries for financial statement purposes for the years ended March 31, 2005 and 2006 is presented as follows:

	2005	2006
Statutory tax rate	40.7%	40.7%
Non-deductible expenses for tax purposes	1.5	0.4
Per capita inhabitant taxes	1.2	1.0
Allowance for doubtful deferred taxes	30.9	(4.5)
Tax benefit for information technology (IT) investment	(1.5)	(0.8)
Amortization of consolidation difference	(14.0)	(7.5)
Others	(4.4)	1.5
Effective tax rate	54.4%	30.8%

Significant components of the deferred tax assets and liabilities of the Company as of March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Excess allowance for doubtful accounts	¥ 2,025	¥ 2,637	\$ 22,538
Excess reserve for employees' bonuses	2,842	3,315	28,333
Accrued enterprise taxes	148	695	5,940
Reserve for employees' retirement benefits	5,528	5,881	50,265
Reserve for directors' and corporate auditors' retirement benefits	—	200	1,709
Loss on impairment of fixed assets	—	1,040	8,889
Other	8,502	8,651	73,940
Subtotal	19,047	22,422	191,641
Allowance for doubtful deferred taxes	(5,957)	(4,645)	(39,701)
Total deferred tax assets	13,090	17,776	151,932
Deferred tax liabilities:			
Compression reserve for tax purposes	(2,442)	(2,802)	(23,949)
Unrealized gain on available-for-sale securities	(6,810)	(11,190)	(95,641)
Other	(844)	(2,007)	(17,154)
Total deferred tax liabilities	(10,097)	(16,001)	(136,761)
Net deferred tax assets	¥ 2,993	¥ 1,775	\$15,171

15. Non-capitalized financial leases

Finance leases which do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases was as follows:

- (1) Future minimum lease payments at March 31, 2006 were ¥5,264 million (\$44,991 thousand), including ¥2,046 million (\$17,487 thousand) due within one year.
- (2) Lease payments for fiscal years 2005 and 2006 were ¥1,912 million and ¥2,296 million (\$19,624 thousand), respectively.

16. Transactions with principal shareholder

The following are transactions between the Company and a principal shareholder of the Company which owned more than a 10% interest during the year ended March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Principal shareholder	Takeda Pharmaceutical Company Limited	
Common stock	¥63,541	\$543,085
Principal business	Pharmaceutical product manufacturer	
Percentage of total shares	9.2%	
Description of the Company's transactions:		
Purchase amount	¥128,262	\$1,096,256
Balance of accounts receivable, other, as of March 31, 2006	5,337	45,615
Balance of accounts payable, trade, as of March 31, 2006	67,168	574,085

Due to the increase in total outstanding shares in connection with the exchange of shares with PALTAC CORPORATION on October 1, 2005, Takeda Pharmaceutical Company Limited is no longer a principal shareholder. Therefore, the purchase amount is shown for the period in which it was a principal shareholder. Common stock and percentage of total shares show the amounts as of March 31, 2006.

17. Segment information

Prior to the year ended March 31, 2006, business segment information was not disclosed, as the consolidated net sales, operating income and total assets of the pharmaceutical wholesale business constituted more than 90 percent of the totals for all segments. On October 1, 2005, PALTAC CORPORATION, which operates the cosmetics and daily necessities wholesale business, carried out an exchange of shares that made it a wholly owned subsidiary of the Company. As a result, the consolidated net sales, operating income and total assets of the pharmaceutical wholesale business constituted less than 90 percent of the totals for all segments. Therefore, business segment information is disclosed effective from the year ended March 31, 2006.

	Millions of yen					
	2006					
	Pharmaceutical Wholesale Business	Cosmetics & Daily Necessities Wholesale Business	Medical- related Business	Total	Eliminations and Corporate	Consolidated
Net sales:						
(1) Sales to outside customers	¥1,714,493	¥196,423	¥10,798	¥1,921,714	¥ —	¥1,921,714
(2) Intersegment sales and transfers	274	—	659	933	(933)	—
Total sales	1,714,768	196,423	11,457	1,922,647	(933)	1,921,714
Operating expenses	1,699,795	193,455	11,199	1,904,449	(3,344)	1,901,106
Operating income	¥ 14,972	¥ 2,968	¥ 258	¥ 18,198	¥ 2,411	¥ 20,608
Assets, depreciation, impairment loss and capital expenditures:						
Assets	¥ 905,955	¥ 96,866	¥ 2,324	¥1,005,145	¥(11,654)	¥ 993,491
Depreciation	7,743	1,301	82	9,126	—	9,126
Impairment loss	2,493	598	—	3,091	(981)	2,110
Capital expenditures	7,168	3,218	24	10,410	—	10,410

Thousand of U.S. dollars						
2006						
	Pharmaceutical Wholesale Business	Cosmetics & Daily Necessities Wholesale Business	Medical- related Business	Total	Eliminations and Corporate	Consolidated
Net sales:						
(1) Sales to outside customers	\$14,653,786	\$1,678,829	\$92,291	\$16,424,906	\$ —	\$16,424,906
(2) Intersegment sales and transfers	2,342	—	5,632	7,974	(7,974)	—
Total sales	14,656,137	1,678,829	97,923	16,432,880	(7,974)	16,424,906
Operating expenses	14,528,162	1,653,462	95,718	16,277,342	(28,581)	16,248,769
Operating income	\$ 127,966	\$ 25,368	\$ 2,205	\$ 155,538	\$ 20,607	\$ 176,137
Assets, depreciation, impairment loss and capital expenditures:						
Assets	\$ 7,743,205	\$ 827,915	\$19,863	\$ 8,590,983	\$(99,607)	\$ 8,491,376
Depreciation	66,179	11,120	701	78,000	—	78,000
Impairment loss	21,308	5,111	—	26,419	(8,385)	18,034
Capital expenditures	61,265	27,504	205	88,974	—	88,974

Notes:

- Method of business classification
Businesses are classified in consideration of similarities of product type, business group and market.
- Description of business segments

Business segment	Description
Pharmaceutical Wholesale Business	Wholesale distribution of prescription pharmaceuticals, over-the-counter pharmaceuticals, medical equipment, etc.
Cosmetics & Daily Necessities Wholesale Business	Wholesale distribution of cosmetics, daily necessities, soap, detergents, etc.
Medical-related Business	Sales of health foods, industrial chemicals, food additives, etc.
- Operating income in eliminations and corporate includes ¥1,949 million (\$16,658 thousand) in transfers of the consolidated adjustment account.
- Assets in eliminations and corporate include consolidated adjustment account of ¥10,434 million (\$89,179 thousand).
- Depreciation and capital expenditures include long-term prepaid expenses and depreciation related to these expenses.

The Company and its consolidated subsidiaries operated within Japan, so regional segment information is not disclosed for the years ended March 31, 2005 and 2006.

Overseas sales information is not applicable to the years ended March 31, 2005 and 2006.

18. Subsequent events

(1) On June 29, 2006, shareholders of the Company approved the payment of a cash dividend of ¥6.00 (\$0.06) per share to shareholders on record at March 31, 2006, for a total payment of ¥2,070 million (\$17,692 thousand).

(2) Offer of voluntary early retirement

As part of efforts to generate synergy through management integration, with the goal of establishing a corporate structure that can secure stable revenues for the Company and the Mediceo Paltac Group, the Board of Directors of the Company resolved, at a meeting held on May 12, 2006, to offer voluntary early retirement to employees of eight prescription pharmaceutical wholesale companies, which are its wholly owned consolidated subsidiaries, with a view to widening their independence and options for the future.

- Maximum number of applicants: 500
- Eligibility: Employees (including employees on loan) age 40-59 with at least 10 years of continuous service as of September 30, 2006
- Application period: June 1 – June 30, 2006
- Retirement date: September 30, 2006
- Other: Employers will pay employees retiring under this program a special additional retirement allowance and offer reemployment support, including career counseling.
- Estimated amount of retirement benefits: Payment of special retirement allowances associated with the implementation of the early retirement program is expected to total approximately ¥5.0 billion on a consolidated basis.



REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Mediceo Paltac Holdings Co., Ltd.

We have audited the accompanying consolidated balance sheets of Mediceo Paltac Holdings Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mediceo Paltac Holdings Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 6, effective for the year ended March 31, 2006, the Company and its subsidiaries apply the accounting standards for loss on impairment of fixed assets and "Application Guidance on Accounting Standards for Loss on Impairment of Fixed Assets."

As described in Note 18, the Board of Directors of the Company resolved at a meeting held on May 12, 2006 to offer voluntary early retirement to employees of eight prescription pharmaceutical wholesale companies, which are its wholly owned consolidated subsidiaries.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 29, 2006

SUBSIDIARIES AND AFFILIATED COMPANIES

(As of June 29, 2006)

PRESCRIPTION PHARMACEUTICAL WHOLESALE COMPANIES

SENSHU YAKUJIN CO., LTD.

4-9-5, Oroshi-cho, Akita-shi, Akita 010-8511
Phone: 81-18-865-0131
Fax: 81-18-823-5509
Established: February 2001
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.senshu.co.jp/>

USHIODA KURAYA SANSEIDO Inc.

1700, Motoyoshida-cho, Mito-shi, Ibaraki 310-0836
Phone: 81-29-304-5000
Fax: 81-29-304-6371
Established: May 1949
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.ushiodaks.jp/>

KURAYA SANSEIDO Inc.

2-7-15, Yaesu, Chuo-ku, Tokyo 104-8464
Phone: 81-3-3517-5050
Fax: 81-3-3517-5011
Established: April 2004
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.kurayasanseido.co.jp>

YAMAHIRO KURAYA SANSEIDO Inc.

2, Ryutsudanchi Kita, Yamanokami, Chuo-shi, Yamanashi 409-3845
Phone: 81-55-273-8911
Fax: 81-55-273-0079
Established: January 1950
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.yamahiroks.jp/>

HEISEI YAKUJIN CO., LTD.

1-1, Motomachi, Gifu-shi, Gifu 500-8185
Phone: 81-58-265-8886
Fax: 81-58-265-8488
Established: January 1929
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.heiseiyakuin.co.jp/>

IZUTSU KURAYA SANSEIDO Inc.

5, Nioumon-cho, Karasuma Higashi Iru, Nijyodori, Nakagyo-ku, Kyoto 604-0854
Phone: 81-75-211-5151
Fax: 81-75-211-7951
Established: October 1950
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.izutsu.co.jp/>

EVERLTH Co., Ltd.

Hiroshimahaibiru 21, 3-1 Ginyamachyo, Naka-ku, Hiroshima-shi, Hiroshima 730-0022
Phone: 81-82-544-8301
Fax: 81-82-544-8350
Established: April 1950
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.everlth.co.jp/>

ATOL Co., Ltd.

2-2-51, Handobashi, Hakata-ku, Fukuoka-shi, Fukuoka 816-8552
Phone: 81-92-451-8771
Fax: 81-92-451-8754
Established: January 1947
Lines of business: Wholesale distribution of pharmaceutical and other products
Homepage: <http://www.atol-com.co.jp/>

MEDICEO MEDICAL CO., LTD.

3-18-15, Hongo, Bunkyo-ku, Tokyo 113-8445
Phone: 81-3-3816-3546
Fax: 81-3-3816-1395
Established: April 1947
Lines of business: Sale of medical and laboratory equipment
Homepage: <http://www.e-truth.co.jp>

Notes: 1. On April 1, 2006, USHIODA SANGOKUDO YAKUJIN CO., LTD. changed its name to USHIODA KURAYA SANSEIDO Inc.
2. On April 1, 2006, IZUTSU PHARMACEUTICAL CO., LTD. changed its name to IZUTSU KURAYA SANSEIDO Inc.

COSMETICS, DAILY NECESSITIES AND OTC PHARMACEUTICAL WHOLESALE COMPANY

PALTAC CORPORATION

1-5-9, Minami Kyuhoji-machi, Chuo-ku, Osaka-shi, Osaka 541-0058
Phone: 81-6-6262-1286
Fax: 81-6-6264-6343
Established: December 1928
Lines of business: Cosmetics, daily necessities and OTC pharmaceutical wholesale company
Homepage: <http://www.paltac.co.jp/>

RELATED COMPANIES

KURAYA KASEI, INC.

917, Inaba, Nagano-shi, Nagano 380-0911
Phone: 81-26-221-2005
Fax: 81-26-222-3665
Established: April 1998
Lines of business: Sale of chemical industrial items and food additives

TOKIMO CO., LTD.

3-7-13, Misaki-cho, Chiyoda-ku, Tokyo 101-0061
Phone: 81-3-3221-7381
Fax: 81-3-3221-7383
Established: June 1986
Lines of business: Facility management for medical institutions
Homepage: <http://www.tokimo-bm.co.jp/>

M.I.C. (Medical Information College), INC.

Tokimo Yushima Bldg. 4F, 3-26-7, Yushima Bunkyo-ku, Tokyo, 113-0034
Phone: 81-3-3832-6181
Fax: 81-3-3832-6182
Established: August 1984
Lines of business: Training and supplying medical office workers, providing medical office work services on a contract basis, and consulting on medical management
Homepage: <http://www.mic-kk.co.jp/>

BUTSURYU 24, INC.

Tokimo Yushima Bldg. 2F, 3-26-7, Yushima Bunkyo-ku, Tokyo 113-0034
Phone: 81-3-5846-4821
Fax: 81-3-3837-1825
Established: June 1998
Lines of business: Management and operation of distribution center, collection and processing of information relating to distribution, distribution of freight goods, and operation of temporary staffing agency

Trim Co., Ltd.

3-1-7, Isobedori, Chuo-ku, Kobe-shi, Hyogo 651-0084
Phone: 81-78-230-5210
Fax: 81-78-230-5785
Established: February 1999
Lines of business: Non-life insurance agency and operations related to life insurance applications
Homepage: <http://www.trim-insurance.co.jp/>

KURAYA (USA) CORPORATION

3625, Del Amo Blvd., Suite #150, Torrance, CA 90503, U.S.A.
Phone: 1-310-542-4245
Fax: 1-310-542-4175
Established: July 1997
Lines of business: Supply of overseas medical information, introduction of medical-related products and support for overseas educational seminars
Homepage: <http://www.kurayausa.com/>

INVESTOR INFORMATION

(As of March 31, 2006)

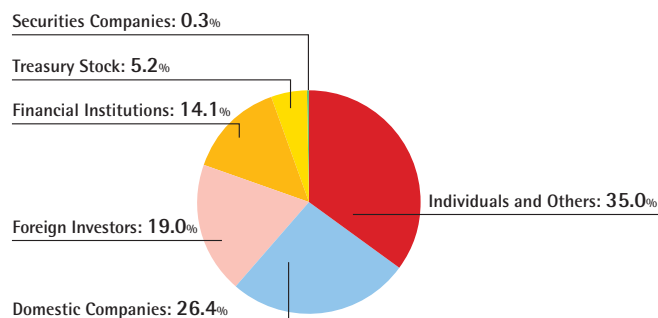
Corporate Name	Mediceo Paltac Holdings Co., Ltd.
Head Office	2-7-15, Yaesu, Chuo-ku, Tokyo 104-8461, Japan Tel: 81-3-3517-5800 Fax: 81-3-3517-5811 http://www.mediceo-paltac.co.jp
Founded	October 8, 1898
Established	May 6, 1923
Number of Employees	11,078 (Consolidated basis) 799 (Parent company)
Paid-in Capital	¥21,479 million
Number of Outstanding Shares	242,518,061
Stock Listing	Tokyo
Ticker Code	7459
Trading Unit	100 shares
Transfer Agent for Common Stock	The Sumitomo Trust & Banking Co., Ltd.
General Meeting of Shareholders	The Ordinary General Meeting of Shareholders is held annually in June.
Further Information	Corporate Communication Office Tel: 81-3-3517-5171

Principal Shareholders

	Number of Shares Held (thousand)	Percentage of Total Shares
Takeda Pharmaceutical Company Limited	21,190	8.7%
The Chase Manhattan Bank N.A. London	13,207	5.4
Employees Shareholders' Association of MP Group	10,348	4.3
State Street Bank and Trust Company	8,929	3.7
Astellas Pharma Inc.	6,404	2.6
The Master Trust Bank of Japan, Ltd. (trust account)	6,120	2.5
Japan Trustee Services Bank, Ltd. (trust account)	5,479	2.3
State Street Bank and Trust Company 505041	4,046	1.7
Sadatake Kumakura	3,422	1.4
Dainippon Sumitomo Pharma Co., Ltd.	3,149	1.3

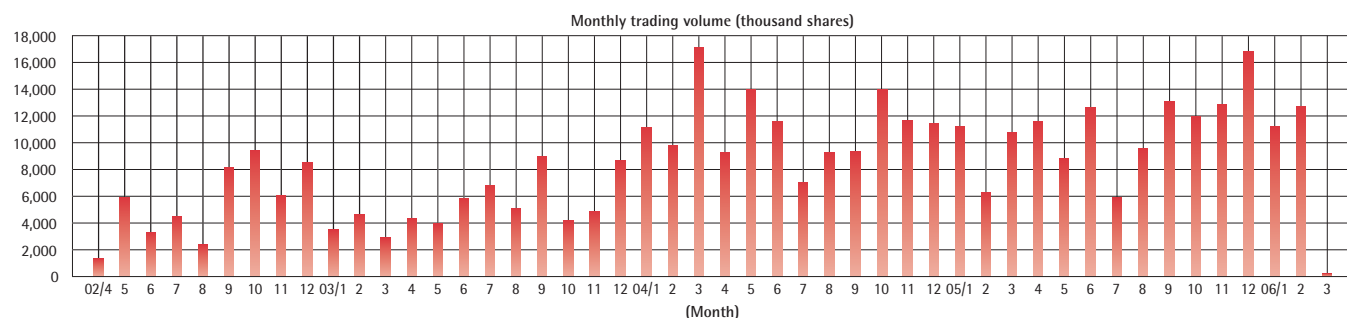
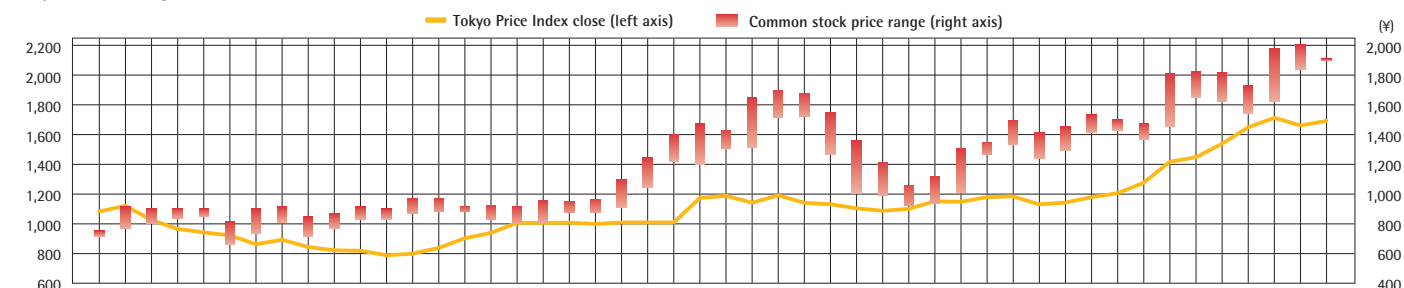
Note: The Company holds 12,494 thousand shares of treasury stock, which is excluded from the principal shareholders listed above.

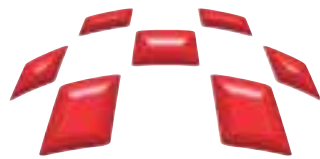
Distribution of Shareholders



Monthly Stock Price Range & Trading Volume

(Tokyo Stock Exchange)





mediceo
PALTAC



Printed in Japan with soy ink on recycled paper.