

CONSOLIDATED BALANCE SHEETS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
March 31, 2006 and 2007

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Current assets:			
Cash (Notes 3 and 10)	¥144,268	¥ 147,674	\$1,251,475
Notes and accounts receivable, trade (Note 17)	489,442	492,848	4,176,678
Inventories	96,675	106,218	900,153
Deferred income taxes (Note 14)	8,593	7,579	64,229
Accounts receivable, other	37,792	41,788	354,136
Other current assets	2,771	2,486	21,067
Allowance for doubtful accounts	(5,459)	(2,785)	(23,602)
Total current assets	774,082	795,808	6,744,136
Property and equipment (Note 10):			
Buildings and structures	124,324	125,931	1,067,212
Land (Note 7)	72,196	70,338	596,085
Construction in progress	1,819	1,802	15,271
Other tangible fixed assets	34,245	36,467	309,042
Total property and equipment	232,584	234,538	1,987,610
Accumulated depreciation	(81,317)	(83,018)	(703,542)
Net property and equipment	151,268	151,520	1,284,068
Intangible assets:			
Goodwill	—	8,567	72,602
Software	4,683	4,201	35,602
Other intangible assets	1,457	726	6,152
Total intangible assets	6,140	13,494	114,356
Investments and other non-current assets:			
Investment securities (Notes 4 and 10)	47,950	56,951	482,636
Long-term loans receivable	776	674	5,712
Deferred income taxes (Note 14)	1,193	391	3,314
Other assets	16,478	18,221	154,414
Allowance for doubtful accounts	(4,396)	(4,128)	(34,983)
Total investments and other non-current assets	62,001	72,109	611,093
	¥993,491	¥1,032,931	\$8,753,653

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

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Current liabilities:			
Notes and accounts payable, trade (Notes 10 and 17)	¥631,286	¥ 646,330	\$5,477,373
Short-term bank loans (Note 8)	25,879	31,294	265,203
Long-term debt due within one year (Note 8)	5,018	4,956	42,000
Income taxes payable (Note 14)	8,108	3,644	30,881
Provision for employees' bonuses	8,021	7,883	66,805
Other current liabilities	22,958	21,954	186,052
Total current liabilities	701,270	716,061	6,068,314
Long-term liabilities:			
Convertible bonds (Note 8)	1,867	1,340	11,356
Long-term debt (Note 8)	5,636	4,468	37,864
Deferred income taxes (Note 14)	8,010	14,030	118,898
Deferred income taxes — land revaluation (Note 7)	1,076	1,049	8,890
Employees' severance and retirement benefits (Note 9)	17,068	17,267	146,331
Negative goodwill	11,749	13,978	118,458
Other long-term liabilities	4,402	3,626	30,728
Total long-term liabilities	49,808	55,758	472,525
Contingent liabilities (Note 11)			
Net assets (Note 12):			
Shareholders' equity:			
Common stock:			
Authorized — 500,000,000 shares in 2006 and 2007			
Issued — 242,518,061 shares in 2006 and 243,093,358 shares in 2007	21,480	21,743	184,263
Capital surplus	131,328	132,879	1,126,093
Retained earnings	115,948	129,761	1,099,669
Less treasury stock, at cost	(18,910)	(18,298)	(155,066)
Valuation and translation adjustments:			
Unrealized gains on securities, net of taxes (Note 4)	11,318	13,099	111,008
Land revaluation differences, net of taxes (Note 7)	(18,751)	(18,072)	(153,153)
Total	242,413	261,112	2,212,814
Minority interests	—	—	—
Total net assets	242,413	261,112	2,212,814
	¥993,491	¥1,032,931	\$8,753,653

CONSOLIDATED STATEMENTS OF INCOME

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Net sales	¥1,921,714	¥2,166,763	\$18,362,398
Cost of sales	1,760,111	1,978,528	16,767,186
Gross profit	161,603	188,235	1,595,212
Selling, general and administrative expenses	140,995	160,459	1,359,822
Operating income	20,608	27,776	235,390
Other income (expenses):			
Research fee income	4,472	5,077	43,025
Interest and dividend income	738	1,266	10,729
Interest expenses	(234)	(417)	(3,534)
Loss on devaluation of investment securities	(12)	(122)	(1,034)
Loss on impairment of fixed assets	(2,110)	(2,768)	(23,458)
Amortization of negative goodwill	5,568	6,068	51,424
Reversal of allowance for doubtful accounts	526	2,574	21,814
Additional retirement benefits for employees	(36)	(5,750)	(48,729)
Other, net (Note 13)	589	636	5,390
Total other income (expenses)	9,501	6,564	55,627
Income before income taxes and minority interests	30,109	34,340	291,017
Income taxes (Note 14):			
Current	9,707	9,728	82,441
Deferred	(441)	5,506	46,661
Total income taxes	9,266	15,234	129,102
Minority interests in net income of consolidated subsidiaries	0	—	—
Net income	¥ 20,843	¥ 19,106	\$ 161,915

	Yen		U.S. dollars (Note 1)
	2006	2007	2007
Amounts per share of common stock:			
Net income	¥97.64	¥82.86	\$0.70
Diluted net income	94.22	82.29	0.70
Cash dividends applicable to the period	15.00	15.00	0.13

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2006 and 2007

	Number of shares of common stock issued (Thousands)	Millions of yen						
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on securities, net of taxes	Land revaluation differences, net of taxes	Total net assets
Balance at March 31, 2005	189,100	¥17,786	¥ 67,618	¥ 98,910	¥ (2,673)	¥ 6,123	¥(19,660)	¥168,104
Conversion of convertible bonds into stock	8,064	3,694	3,693	—	—	—	—	7,387
Sales of treasury stock	—	—	100	—	636	—	—	736
Increase due to exchange of shares	45,354	—	59,917	—	—	—	—	59,917
Net income	—	—	—	20,843	—	—	—	20,843
Cash dividends paid	—	—	—	(2,850)	—	—	—	(2,850)
Bonuses to directors and corporate auditors	—	—	—	(311)	—	—	—	(311)
Reversal of land revaluation differences	—	—	—	(539)	—	—	539	0
Changes in revaluation surplus	—	—	—	—	—	—	370	370
Consolidated write-offs	—	—	—	(105)	—	—	—	(105)
Changes in unrealized gain on available for sale securities, less applicable taxes	—	—	—	—	—	5,195	—	5,195
Treasury stock acquired	—	—	—	—	(16,873)	—	—	(16,873)
Balance at March 31, 2006	242,518	¥21,480	¥131,328	¥115,948	¥(18,910)	¥11,318	¥(18,751)	¥242,413
Issuance of new stock	575	263	264	—	—	—	—	527
Cash dividends paid	—	—	—	(3,798)	—	—	—	(3,798)
Bonuses to directors and corporate auditors	—	—	—	(433)	—	—	—	(433)
Merger/separation of consolidated subsidiaries	—	—	—	(607)	—	—	—	(607)
Net income	—	—	—	19,106	—	—	—	19,106
Acquisition of treasury stock	—	—	—	—	(139)	—	—	(139)
Disposal of treasury stock	—	—	1,287	—	751	—	—	2,038
Reversal of land revaluation differences	—	—	—	(455)	—	—	—	(455)
Net change of items other than shareholders' equity during the year	—	—	—	—	—	1,781	679	2,460
Net change during the year	—	263	1,551	13,813	612	1,781	679	18,699
Balance at March 31, 2007	243,093	¥21,743	¥132,879	¥129,761	¥(18,298)	¥13,099	¥(18,072)	¥261,112

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on securities, net of taxes	Land revaluation differences, net of taxes	Total net assets
Balance at March 31, 2006	\$182,034	\$1,112,949	\$ 982,610	\$(160,254)	\$ 95,915	\$(158,907)	\$2,054,347
Issuance of new stock	2,229	2,229	—	—	—	—	4,458
Cash dividends paid	—	—	(32,186)	—	—	—	(32,186)
Bonuses to directors and corporate auditors	—	—	(3,678)	—	—	—	(3,678)
Merger/separation of consolidated subsidiaries	—	—	(5,136)	—	—	—	(5,136)
Net income	—	—	161,906	—	—	—	161,906
Acquisition of treasury stock	—	—	—	(1,169)	—	—	(1,169)
Disposal of treasury stock	—	10,915	—	6,357	—	—	17,272
Reversal of land revaluation differences	—	—	(3,847)	—	—	—	(3,847)
Net change of items other than shareholders' equity during the year	—	—	—	—	15,093	5,754	20,847
Net change during the year	2,229	13,144	117,059	5,188	15,093	5,754	158,467
Balance at March 31, 2007	\$184,263	\$1,126,093	\$1,099,669	\$(155,066)	\$111,008	\$(153,153)	\$2,212,814

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, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 30,109	¥ 34,340	\$ 291,017
Adjustments to reconcile income before income taxes to net cash flows provided by operating activities:			
Depreciation and amortization	9,126	9,663	81,890
Loss on impairment of fixed assets	2,110	2,768	23,458
Amortization of goodwill (negative goodwill)	(5,568)	(3,451)	(29,246)
Decrease in employees' severance and retirement benefits – net	(1,921)	(3,722)	(31,542)
Increase (decrease) in allowance for retirement benefits for directors and corporate auditors	85	(493)	(4,178)
Decrease in allowance for doubtful accounts	(1,284)	(3,261)	(27,636)
Interest and dividend income	(738)	(1,266)	(10,729)
Interest expenses	234	417	3,534
Additional retirement benefits for employees	36	5,750	48,729
Decrease in notes and accounts receivable – trade	10,799	2,070	17,542
Decrease (increase) in inventories	3,356	(8,771)	(74,331)
Increase (decrease) in notes and accounts payable	(2,287)	8,974	76,051
Increase (decrease) in accrued consumption taxes	2,858	(1,195)	(10,127)
Other	(1,921)	(4,224)	(35,796)
Subtotal	44,994	37,599	318,636
Interest and dividends received	739	1,266	10,729
Interest expenses paid	(201)	(414)	(3,508)
Additional payment for retirement benefits	(36)	(5,183)	(43,924)
Income taxes paid	(3,700)	(13,431)	(113,823)
Net cash provided by operating activities	41,796	19,837	168,110
Cash flows from investing activities:			
Payments for time deposits	(1,144)	(4,940)	(41,864)
Proceeds from time deposits	1,250	1,065	9,025
Payments for purchase of property and equipment	(9,064)	(12,236)	(103,695)
Proceeds from sale of property and equipment	3,863	3,194	27,068
Payments for purchase of investment securities	(3,103)	(4,151)	(35,178)
Proceeds from sale of investment securities	1,760	1,255	10,636
Payment for acquisition of investment in subsidiaries	—	(3,976)	(33,695)
Proceeds from sale of investment in subsidiaries	251	—	—
Proceeds from sale of investment in affiliates	—	119	1,008
Proceeds from acquisition of investment in subsidiaries due to change in scope of consolidation	10,628	—	—
Disbursement of loans	(75)	(75)	(636)
Collection of loans	213	247	2,093
Payments for business transfer	(31)	—	—
Other, net	(182)	(640)	(5,423)
Net cash provided by (used in) investing activities	4,366	(20,138)	(170,661)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans — net	(1,034)	3,615	30,636
Proceeds from long-term debt	1,500	5,000	42,373
Repayment of long-term debt	(3,114)	(6,370)	(53,983)
Repayment of convertible bonds	(0)	(0)	(0)
Purchase of treasury stock	(16,873)	(138)	(1,169)
Cash dividends paid to shareholders	(2,246)	(3,798)	(32,188)
Cash dividends of wholly owned subsidiary from share exchange	(604)	—	—
Cash dividends paid to minority shareholders in consolidated subsidiaries	(3)	—	—
Net cash used in financing activities	(22,375)	(1,691)	(14,331)
Net increase (decrease) in cash and cash equivalents	23,787	(1,992)	(16,882)
Cash and cash equivalents at beginning of year (Note 3)	119,121	142,908	1,211,085
Increase in cash and cash equivalents due to change in scope of consolidation	—	1,523	12,907
Cash and cash equivalents at end of year (Note 3)	¥142,908	¥142,439	\$1,207,110

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, 2006 and 2007

□ 1. Basis of presenting the consolidated financial statements

Mediceo Paltac Holdings Co., Ltd. (the “Company”) and its consolidated subsidiaries (the “Companies”) maintain their accounts and records in accordance with the provisions set forth in the Japanese Corporation Law and the Securities and Exchange Law and their related accounting regulations and in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”), which are different in certain respects from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of the consolidated statement of changes in net assets for 2006) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2007, which was ¥118.00 to U.S.\$1.00. The convenience translation should not be construed as a representation 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

a. Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (11 subsidiaries in the years ended March 31, 2006 and 2007).

All significant intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries are recorded using the fair value at the time the Company acquired control of the respective subsidiaries.

On April 1, 2006, USHIODA SANGOKUDO YAKUHIN CO., LTD. changed its name to USHIODA KURAYA SANSEIDO Inc., and IZUTSU PHARMACEUTICAL CO., LTD. changed its name to IZUTSU KURAYA SANSEIDO Inc. ALCOS CO., LTD. was a wholly owned subsidiary of ATOL Co., Ltd., a wholly owned subsidiary of the Company, but as a result of a merger on April 1, 2006, with PALTAC CORPORATION (a wholly owned subsidiary of the Company) as the surviving company, ALCOS CO., LTD. was dissolved.

b. Equity method

Investments in affiliated companies (all those 20% to 50% owned and certain others 15% to 20% owned) were accounted for by the equity method. Unconsolidated subsidiaries and the other affiliated companies are stated at cost since their net income and retained earnings in the aggregate are not material compared to consolidated net income and retained earnings, respectively.

c. Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005) (collectively, the “New Accounting Standards”).

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheets comprised the assets, liabilities, minority interests, as applicable, and shareholders’ equity sections.

Minority interests are required to be included in the net assets section under the New Accounting Standards. Under the previous presentation rules, companies were required to present minority interests in the current liabilities section and between the non-current liabilities and shareholders’ equity sections.

The consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation. There were no effects on total assets or total liabilities from applying the New Accounting Standards to the balance sheet as of March 31, 2006.

The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the years ended March 31, 2007 and 2006.

d. Accounting standard for statement of changes in net assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, “Accounting Standard for Statement of Change in Net Assets” (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the “Additional New Accounting Standards”).

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. In addition, the Company voluntarily prepared the consolidated statements of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders’ equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

e. Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

Also, as described in Notes 2(c) and 2(d), the consolidated balance sheet for 2006 has been adapted to conform to new presentation rules of 2007. Moreover, in lieu of the consolidated statement of shareholders’ equity for the year ended March 31, 2006, which was prepared on a voluntary basis for inclu-

sion in the 2006 consolidated financial statements, the Company prepared the consolidated statements of changes in net assets for 2006 as well as for 2007.

These reclassifications had no impact on previously reported results of operations or retained earnings.

f. Accounting standards for business combinations

Effective from the year ended March 31, 2007, the Company adopted the "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003) and "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan, Statement No. 7 issued on December 27, 2005), as well as "Application Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (Accounting Standard Application, Guidance No. 10, December 27, 2005).

Previously, the Company presented the balance of the consolidated adjustment account on a net basis, but now presents goodwill and negative goodwill in their total amounts. As a result, fixed assets and long-term liabilities each increased by ¥8,194 million compared with their totals if the previous method had been used.

In the consolidated statements of income, the Company also previously presented the amortized amount of the consolidated adjustment account on a net basis, but now presents the amortized amounts of goodwill and negative goodwill in their full amounts. As a result, selling, general and administrative expenses increased by ¥2,430 million and operating income decreased by ¥2,430 million compared to their totals if the previous method had been used.

The effect on segment information is presented in Note 16 to the consolidated financial statements, "Segment Information."

g. Intangible assets

Goodwill (including negative goodwill), which is the difference between the cost of investments and equity in their net assets at the date of acquisition, arising from domestic consolidated subsidiaries is amortized over mainly 5 years using the straight-line method or is charged to income if immaterial.

Software for its own use is amortized over the estimated useful life (5 years) using the straight-line method.

h. Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on 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.

i. Securities

Held-to-maturity debt securities are carried at amortized cost. Available-for-sale securities with available fair market values are stated at fair market value and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost.

Available-for-sale securities with no available fair market values are stated at moving-average cost.

j. Derivatives

Derivative financial instruments are valued at fair value.

k. Inventories

Inventories are stated at cost, which is determined primarily using the moving-average method.

l. Property and equipment and depreciation

Property and equipment are stated at cost. Depreciation is computed using the declining-balance method at rates based on their estimated useful lives except for buildings acquired after March 31, 1998, which are depreciated using the straight-line method.

The estimated useful lives are as follows:

Buildings and structures: 3-50 years

Other tangible fixed assets: 4-15 years

m. Certain lease transactions

Finance lease transactions which do not transfer ownership of the leased assets, are accounted for in the same manner as operating leases under Japanese GAAP.

n. Allowance for doubtful accounts

Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified items and the amount calculated using the actual percentage of collection losses in the past with respect to other items.

o. Provision for employees' bonuses

Provision for employees' bonuses is provided in the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

p. Employees' severance and retirement benefits

Employees of the Companies are entitled, under most circumstances, to lump-sum severance payments or pension payments upon reaching the mandatory retirement age, or earlier in the case of voluntary or involuntary termination, based on the compensation at the time of severance and years of service.

The Companies provided allowance and expenses for employees' severance and retirement benefits at year end based on the estimated amounts of projected benefit obligation and the fair value of the pension assets. The prior service costs and actual differences are recognized as expenses from the fiscal year in which they arise, primarily using the straight-line method over a fixed number of years, which is not more than the estimated average remaining service lives, starting with the period of accuracy.

q. Income taxes

The Companies provide for income taxes applicable to all items included in the consolidated statements of income regardless of when such taxes are payable. Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

r. Amounts per share of common stock

The computation of net income per share of common stock is based on the average number of shares outstanding during each fiscal year. In accordance with "Accounting Standards for Net Income per Share" issued by the Financial Accounting Standards Foundation on September 25, 2002, 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, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cash	¥144,268	¥147,674	\$1,251,475
Time deposits over three months	(1,360)	(5,235)	(44,365)
Cash and cash equivalents	¥142,908	¥142,439	\$1,207,110

Significant non-capital transactions due to the conversion of convertible bonds during the years ended March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Increase in common stock	¥3,693	¥263	\$2,229
Increase in capital surplus	3,693	263	2,229
Decrease in convertible bonds	¥7,386	¥526	\$4,458

□ 4. Investment securities

The Company and consolidated subsidiaries recognized ¥95 million (\$805 thousand) in loss on devaluation of investment securities for the year ended March 31, 2007. The Company and consolidated subsidiaries recognize impairment of applicable equities as an unrealized loss on devaluation if the market value at the end of the fiscal year is 30 percent or more below the acquisition cost.

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

Year ended March 31, 2007	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	¥14,343	¥43,599	¥29,256
	¥14,343	¥43,599	¥29,256
Securities whose book value does not exceed their acquisition cost:			
Equity securities	¥ 849	¥ 754	¥ (95)
	¥ 849	¥ 754	¥ (95)
Total	¥15,192	¥44,353	¥29,161

Year ended March 31, 2007	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	\$121,551	\$369,483	\$247,932
	\$121,551	\$369,483	\$247,932
Securities whose book value does not exceed their acquisition cost:			
Equity securities	\$ 7,195	\$ 6,390	\$ (805)
	\$ 7,195	\$ 6,390	\$ (805)
Total	\$128,746	\$375,873	\$247,127

Year ended March 31, 2006	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	¥12,126	¥39,669	¥27,542
	¥12,126	¥39,669	¥27,542
Securities whose book value does not exceed their acquisition cost:			
Equity securities	¥ 422	¥ 388	¥ (33)
	¥ 422	¥ 388	¥ (33)
Total	¥12,549	¥40,058	¥27,508

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

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Proceeds from sales	¥548	¥202	\$1,712
Realized gains on sales	258	36	305
Realized losses on sales	12	—	—

(3) Book value of available-for-sale securities without a market value

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Held-to-maturity:			
Unlisted debt securities	¥2,800	¥3,300	\$27,966
Available-for-sale:			
Unlisted equity securities	2,685	2,596	22,000
Bonds	1	1	8
Investments in investment partnerships	—	25	212

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

	Millions of yen		
	2007		
	Due within one year	Due after one year through ten years	Due after ten years
Unlisted foreign securities (Total)	¥ —	¥ —	¥3,300

	Thousands of U.S. Dollars		
	2007		
	Due within one year	Due after one year through ten years	Due after ten years
Unlisted foreign securities (Total)	\$ —	\$ —	\$27,966

	Millions of yen		
	2006		
	Due within one year	Due after one year through ten years	Due after ten years
Unlisted foreign securities (Total)	¥1	¥ —	¥2,800

□ 5. Derivative transactions

A certain consolidated subsidiary has entered into forward foreign currency contracts 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.

As the derivative transactions are made solely with leading financial institutions, the subsidiary does not expect any credit risk.

The derivative transactions are executed and managed in accordance with the established policies and within the amount of hedge items.

Information on the derivative transaction initialized by the subsidiary is not disclosed as hedge accounting has been applied on all derivative transactions.

□ 6. Loss on impairment of fixed assets

Effective from the year ended March 31, 2006, the Company and its consolidated 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).

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

For business-use assets owned by the Company and its consolidated subsidiaries 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 in other income (expenses).

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.

During the year ended March 31, 2007, the Company and its consolidated subsidiaries recorded loss on impairment of fixed assets for the following asset groups:

Application	Type	Location	Millions of yen	Thousands of U.S. dollars
Idle assets	Land and buildings, etc.	Tohoku, 8	¥ 523	\$ 4,432
		Kanto, 12	363	3,076
		Koshinetsu, 2	206	1,746
		Tokai, 3	78	661
		Kinki, 2	192	1,627
		Chugoku, 2	461	3,907
		Shikoku, 1	100	847
Business assets	Land buildings, etc.	Hokkaido, 5	60	508
		Tohoku, 9	400	3,390
		Tokai, 12	384	3,254
Leased assets	Buildings, etc.	Kinki, 1	1	10
Total			¥2,768	\$23,458

During the year ended March 31, 2006, the Company and its consolidated subsidiaries recorded loss on impairment of fixed assets for the following asset groups:

Application	Type	Location	Millions of yen
Idle assets	Land and buildings, etc.	Tohoku, 3	¥ 112
		Kanto, 16	982
		Koshinetsu, 2	268
		Hokuriku, 2	203
		Tokai, 9	276
		Kinki, 1	1
		Chugoku, 6	84
		Shikoku, 2	73
		Kyushu, 7	109
		Leased assets	Land
Total			¥2,110

The Prescription Pharmaceutical Wholesale Business of the Company and its consolidated subsidiaries has established region-based operating classifications, and groups assets by region. Assets of the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business and Related Business are also grouped by region.

The distribution centers owned by the Company, an operating holding company, conduct central buying for the Company and its consolidated subsidiaries from manufacturers and perform the wholesale distribution functions of sales subsidiaries, and are therefore treated as assets of the Prescription Pharmaceutical Wholesale Business.

Previously, the Prescription Pharmaceutical Wholesale Business of the Company and its consolidated subsidiaries operated region-based sales companies, and grouped assets by company. When creating a new business model for this business, the Company and its consolidated subsidiaries changed the grouping method from grouping by company to grouping by region. Assets are also grouped by region for the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business and Related Business.

Loss on impairment of fixed assets totaled ¥2,768 million for the year ended March 31, 2007, as presented below. As a result, income before income taxes and minority interests decreased by the same amount compared with the classification method used in the previous fiscal year.

Item	Millions of yen	Thousands of U.S. dollars
Land	¥ 593	\$ 5,025
Buildings and structures	2,153	18,246
Other	22	187
Total	¥2,768	\$23,458

7. Land revaluation

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

The resulting land revaluation differences represent unrealized appreciation of land and is accounted for, net of deferred tax assets and liabilities, as land revaluation differences in net assets.

According to the Law, the Company and some consolidated subsidiaries are not permitted to revalue land at any time after the above revaluation even in cases where the fair value of the land declines. Such unrecorded revaluation loss is ¥5,043 million (\$42,737 thousand) as of March 31, 2007.

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

The Company has overdraft facilities with 20 banks in order to support effective financing. The unexecuted balance of overdraft facilities at March 31, 2006 and 2007 are listed below.

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Total overdraft facilities	¥138,678	¥139,994	\$1,186,390
Less amounts currently executed	(25,879)	(31,294)	(265,204)
Unexecuted balance	¥112,800	¥108,700	\$ 921,186

Short-term bank loans including overdraft facilities at March 31, 2006 and 2007 principally bore annual average interest rates of 0.95% and 1.15% per annum, respectively.

Long-term debt at March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Unsecured domestic convertible bonds due 2008 at a rate of 0.9%	¥ 1,867	¥ 1,340	\$ 11,356
Loans from banks	¥10,653	9,424	79,864
	12,520	10,764	91,220
Less amount due within one year	(5,018)	(4,956)	(42,000)
Amount due after one year	¥ 7,503	¥ 5,808	\$ 49,220

Domestic convertible bonds due 2008 provide, among other conditions, for (1) conversion prices of ¥916.0 (\$7.76) 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, 2007.

The annual maturities of long-term debt at March 31, 2007 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars
2008	1.17	¥ 4,956	\$42,000
2009	1.18	2,976	25,220
2010	1.18	1,492	12,644
2011	1.18	—	—

9. Employees' severance and retirement benefits

(1) Overview of retirement benefit plan

The Company and its consolidated 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.

(2) Retirement benefits

Employees' retirement benefits at March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Projected benefit obligation	¥(43,255)	¥(38,581)	\$(326,958)
Fair value of plan assets	28,711	27,771	235,348
Unfunded employees' severance and retirement benefits	(14,543)	(10,810)	(91,610)
Unrecognized actuarial difference	(1,340)	(2,027)	(17,178)
Unrecognized prior service costs	(458)	(181)	(1,534)
Subtotal	(16,342)	(13,018)	(110,322)
Prepaid pension expenses	725	4,249	36,009
Employees' severance and retirement benefits	¥(17,068)	¥(17,267)	\$(146,331)

Certain insignificant consolidated subsidiaries calculated the liabilities using the simplified method.

(3) Net pension expense

The components of net pension expense in 2006 and 2007 are listed below.

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Service costs	¥2,362	¥2,223	\$18,839
Interest costs on projected benefit obligations	735	843	7,144
Expected return on plan assets	(466)	(604)	(5,118)
Unrecognized actuarial difference	100	(135)	(1,144)
Amortization of prior service costs	(330)	(469)	(3,975)
Loss on retirement benefits system revision	(363)	—	—
Other	863	3,679	31,178
Net pension expense	¥2,901	¥5,537	\$46,924

In addition to the pension expense above, additional retirement benefits for employees amounting to ¥5,750 million (\$48,729 thousand) and ¥35 million were made for the years ended March 31, 2007 and 2006, respectively.

In addition, at March 31, 2006 the Company made a payment to a multi-employer contributory welfare pension fund in the amount of ¥2,304 million.

Service costs of consolidated subsidiaries using the simplified method were included in service costs above.

(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.

	2006	2007
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.5~3.0%	1.5~3.0%
Amortization period for prior service costs	3 years	3~5 years
Recognition period of actuarial difference	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 amounted to ¥65,088 million (\$551,593 thousand) and ¥60,322 million at March 31, 2007 and 2006, respectively 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 notes and accounts payable, trade in the amount of ¥39,482 million (\$334,593 thousand) and ¥50,859 million at March 31, 2007 and 2006, respectively.

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Land	¥2,003	¥ 545	\$ 4,619
Buildings and structures at net book value	1,110	420	3,559
Investment securities	1,615	1,556	13,186
Time deposits	1,200	1,110	9,407

□ 11. Contingent liabilities

The Company and its consolidated subsidiaries were contingently liable as guarantors for loans of unconsolidated subsidiaries, affiliates and others in the amount of ¥1,030 million (\$8,729 thousand) and ¥2,717 million at March 31, 2007 and 2006, respectively.

□ 12. Net Assets

The Japanese Corporation Law ("the Law") became effective on May 1, 2006. The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in-capital, which is included in capital surplus.

Under the Law, in cases where a divided distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 26, 2007, the shareholders approved cash dividends amounting to ¥1,735 million (\$14,703 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

□ 13. Other income (expenses)

Other income (expenses) - "Other, net" in the accompanying consolidated statements of operations for the years ended March 31, 2006 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Gain on sale of investment securities - net	¥ 246	¥ 36	\$ 305
Gain (loss) on sales or disposal of property, plant and equipment - net	(438)	(364)	(3,085)
Loss on devaluation of golf club memberships	1	(12)	(102)
Restructuring costs of business establishments	(431)	(456)	(3,856)
Miscellaneous	1,212	1,432	12,127
	¥ 589	¥ 636	\$ 5,389

□ 14. Income taxes

Income taxes in the accompanying consolidated statements of income comprise corporation, enterprise and inhabitants' taxes. The aggregated normal effective tax rates were approximately 40.7% for the years ended March 31, 2006 and 2007.

The reconciliation between the statutory tax rate and the effective tax rate of the Companies for financial statement purposes for the years ended March 31, 2006 and 2007 is as follows:

	2006	2007
Statutory tax rate	40.7%	40.7%
Non-deductible expenses for tax purposes	0.4	(4.6)
Per capita inhabitant taxes	1.0	1.0
Valuation allowance	(4.5)	9.9
Amortization of goodwill	—	(4.3)
Tax credit on information technology investment	(0.8)	—
Amortization of consolidation difference	(7.5)	—
Equity in earnings of affiliated companies	1.0	4.0
Others	0.5	(2.3)
Effective tax rate	30.8%	44.4%

Significant components of the deferred tax assets and liabilities of the Companies as of March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets:			
Excess allowance for doubtful accounts	¥ 2,637	¥ 1,555	\$ 13,178
Excess provision for employees' bonuses	3,315	3,258	27,610
Accrued enterprise taxes	695	429	3,636
Provision for employees' severance and retirement benefits	5,881	5,127	43,449
Loss on impairment of fixed assets	1,040	1,448	12,271
Other	8,851	9,110	77,203
Subtotal	22,422	20,927	177,347
Valuation allowance	(4,645)	(8,184)	(69,355)
Total deferred tax assets	17,776	12,743	107,992
Deferred tax liabilities:			
Deferred gain on sale of fixed assets	(2,802)	(2,787)	(23,619)
Net unrealized holding gains on securities	(11,190)	(11,439)	(96,941)
Other	(2,007)	(4,583)	(38,839)
Total deferred tax liabilities	¥(16,001)	¥(18,809)	\$ (159,399)
Net deferred tax assets	¥ 1,775	¥ (6,066)	\$ (51,407)

Net deferred tax assets included in the consolidated balance sheets consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets included in current assets	¥ 8,593	¥ 7,579	\$ 64,229
Deferred tax assets included in property and equipment	1,193	391	3,314
Deferred tax liabilities included in current liabilities	—	(6)	(51)
Deferred tax liabilities included in long-term liabilities	¥(8,010)	¥(14,030)	\$ (118,898)

□ 15. Non-capitalized finance leases

Finance leases which do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases.

The acquisition costs, accumulated depreciation and amortization and net book value of the leased property at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Acquisition costs:			
Building and structures	¥ 8,580	¥7,681	\$65,093
Machinery and equipment	3,475	1,876	15,898
	¥12,055	¥9,557	\$80,991
Accumulated depreciation and amortization:			
Building and structures	¥ 5,239	¥5,178	\$43,881
Machinery and equipment	1,785	843	7,144
	¥ 7,024	¥6,021	\$51,025
Net book value:			
Building and structures	¥ 3,341	¥2,503	\$21,212
Machinery and equipment	1,690	1,033	8,754
	¥ 5,031	¥3,536	\$29,966

Future minimum lease payments at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥2,046	¥1,506	\$12,763
Due after one year	3,218	2,203	18,669
Total	¥5,264	¥3,709	\$31,432

Lease payments and the assumed depreciation charge for the years ended March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Lease payments	¥2,296	¥2,009	\$17,025
Assumed depreciation charge	2,182	1,914	16,220

The assumed depreciation charge is computed using the straight-line method over lease terms assuming no residual value.

□ 16. Segment information

In structuring a distribution network for healthcare products that uses the distribution routes for cosmetics and daily necessities, the Company decided to consolidate the healthcare business, which had been included in the Pharmaceutical Wholesale Business, into PALTAC CORPORATION in successive stages. In doing so, the Company decided to change its classification of businesses from the previous Pharmaceutical Wholesale Business, Cosmetics & Daily Necessities Wholesale Business and Medical-related Business to Prescription Pharmaceutical Wholesale Business, Cosmetics, Daily Necessities and OTC Pharmaceutical Business and Related Business, and to include the healthcare business in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business. Segment information for the year ended March 31, 2006 has been restated based on the new classification.

	Millions of yen					
	2007					Eliminations and Corporate
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Total		
Net sales:						
(1) Sales to outside customers	¥1,646,047	¥514,753	¥5,963	¥2,166,763	¥ —	¥2,166,763
(2) Intersegment sales and transfers	1,104	350	2	1,456	(1,456)	—
Total sales	1,647,151	515,103	5,965	2,168,219	(1,456)	2,166,763
Operating expenses	1,623,870	511,164	5,901	2,140,935	(1,948)	2,138,987
Operating income	¥ 23,281	¥ 3,939	¥ 64	¥ 27,284	¥ 492	¥ 27,776
Assets, depreciation, impairment loss and capital expenditures:						
Assets	¥ 835,236	¥195,400	¥2,800	¥1,033,436	¥ (505)	¥1,032,931
Depreciation	6,923	2,740	0	9,663	—	9,663
Impairment loss	2,006	762	—	2,768	—	2,768
Capital expenditures	5,172	8,711	2	13,885	—	13,885

Thousands of U.S. dollars						
2007						
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Total	Eliminations and Corporate	Consolidated
Net sales:						
(1) Sales to outside customers	\$13,949,551	\$4,362,314	\$50,533	\$18,362,398	\$ —	\$18,362,398
(2) Intersegment sales and transfers	9,356	2,966	17	12,339	(12,339)	—
Total sales	13,958,907	4,365,280	50,550	18,374,737	(12,339)	18,362,398
Operating expenses	13,761,610	4,331,899	50,008	18,143,517	(16,509)	18,127,008
Operating income	\$ 197,297	\$ 33,381	\$ 542	\$ 231,220	\$ 4,170	\$ 235,390
Assets, depreciation, impairment loss and capital expenditures:						
Assets	\$ 7,078,271	\$1,655,932	\$23,729	\$ 8,757,932	\$ (4,279)	\$ 8,753,653
Depreciation	58,669	23,220	1	81,890	—	81,890
Impairment loss	17,000	6,458	—	23,458	—	23,458
Capital expenditures	43,831	73,822	16	117,669	—	117,669

Millions of yen						
2006						
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Total	Eliminations and Corporate	Consolidated
Net sales:						
(1) Sales to outside customers	¥1,642,108	¥268,806	¥10,798	¥1,921,714	¥ —	¥1,921,714
(2) Intersegment sales and transfers	274	—	659	933	(933)	—
Total sales	1,642,383	268,806	11,457	1,922,647	(933)	1,921,714
Operating expenses	1,625,441	267,809	11,199	1,904,449	(3,344)	1,901,106
Operating income	¥ 16,942	¥ 997	¥ 258	¥ 18,198	¥ 2,411	¥ 20,608
Assets, depreciation, impairment loss and capital expenditures:						
Assets	¥ 837,005	¥165,815	¥ 2,324	¥1,005,145	¥ (11,654)	¥ 993,491
Depreciation	7,224	1,819	82	9,126	—	9,126
Impairment loss	1,659	450	—	3,091	(981)	2,110
Capital expenditures	7,096	3,289	24	10,410	—	10,410

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
Prescription Pharmaceutical Wholesale Business	Wholesale distribution of prescription pharmaceuticals, medical equipment, etc.
Cosmetics, Daily Necessities and OTC Wholesale Business	Wholesale distribution of cosmetics, daily necessities, soap, detergents, over-the-counter pharmaceuticals, etc.
Related Business	Sales of industrial chemicals, food additives, etc.
- Effective from the year ended March 31, 2007, the Company adopted the "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003) and "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan, Statement No. 7 issued on December 27, 2005), as well as "Application Guidance on Accounting Standard for Business Combinations" and "Accounting Standard for Business Divestitures" (Accounting Standard Guidance No. 10, December 27, 2005). As a result, consolidated total assets increased by ¥8,194 million (US\$69,441 thousand). In accordance with these standards, the Company accounts for the full amount of amortization of goodwill in selling, general and administrative expenses. As a result, consolidated operating expenses increased by ¥2,430 million (US\$20,593 thousand) and consolidated operating income decreased by the same amount. These changes had no effect on each business segment.
- 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 geographical segment information is not disclosed for the years ended March 31, 2006 and 2007.

Overseas sales information is not disclosed due to overseas sales being less than 10% of consolidated net sales for the years ended March 31, 2006 and 2007.

□ 17. Effect of bank holiday on March 31, 2007

Notes maturing on the balance sheet date, and receivables and payables with cash settlements on the note maturity date with the same conditions as the matured notes, are treated as having been settled on the maturity date, even though that date fell on a holiday for financial institutions. Matured notes, etc., on the balance sheet date were as follows:

Item	Millions of yen	Thousands of U.S. dollars
Notes receivable	¥ 3,666	\$ 31,068
Accounts receivable	5,925	50,212
Notes payable	4,820	40,847
Accounts payable	23,140	196,102

□ 18. Subsequent events

On May 14, 2007, the Board of Directors approved the payment of a cash dividend of ¥7.50 (\$0.06) per share to shareholders of record at March 31, 2007, for a total payment of ¥1,735 million (\$14,703 thousand).

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Mediceo Paltac Holdings Co., Ltd. and consolidated subsidiaries as of March 31, 2007, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 consolidated subsidiaries as of March 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 6, effective for the year ended March 31, 2007, the Company and its subsidiaries changed the grouping method from grouping by company to grouping by region.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

(KPMG AZSA & Co.)

Tokyo, Japan

May 26, 2007

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

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