



mediceo
PALTRAC

Customer-oriented Leadership

Annual Report 2007

Fiscal year ended March 31, 2007

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.

Bright

#1 in sales and earnings in our industry

The Mediceo Paltac Group leads wholesale pharmaceutical distribution in Japan through innovation and is evolving into Japan's leading distributor in health and beauty care.

OTC pharmaceuticals, cosmetics and daily necessities account for approximately 10 percent of net sales and are projected to generate profitable growth because of deregulation and changing channels.

more than

¥2 trillion

in net sales and growing

23.4%

share of the prescription pharmaceutical distribution market, leading the industry

Mediceo Paltac holds the highest share of Japan's market for wholesale prescription pharmaceuticals, which account for approximately 90 percent of the Group's net sales.

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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.

and Energetic

Management PHILOSOPHY

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

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.

FINANCIAL HIGHLIGHTS

Mediceo Paltac Holdings Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2005, 2006 and 2007

	Millions of yen			Percent change 2007/2006	Thousands of U.S. dollars (Note 1)
	2005	2006	2007		2007
For the Year:					
Net sales.....	¥1,665,816	¥1,921,714	¥2,166,763	12.8%	\$18,362,398
Operating income.....	10,987	20,608	27,776	34.8	235,390
Net income.....	8,730	20,843	19,106	(8.3)	161,915
At Year-End:					
Total net assets.....	¥ 168,104	¥ 242,413	¥ 261,112	7.7%	\$ 2,212,814
Total assets.....	848,416	993,491	1,032,931	4.0	8,753,653
Per Share (Yen and U.S. Dollars):					
Net income (Note 2).....	¥ 45.90	¥ 97.64	¥ 82.86	(15.1)%	\$ 0.70
Diluted net income.....	43.52	94.22	82.29	(12.7)	0.70
Total net assets (Note 3).....	904.59	1,051.97	1,128.39	7.3	9.56
Cash dividends.....	12.00	15.00	15.00	—	0.13
Ratios:					
Return on assets (Note 4).....	1.4%	2.2%	2.7%		
Return on equity (Note 5).....	5.9	10.2	7.6		

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥118.00 to U.S. \$1.00, the approximate exchange rate on March 31, 2007.

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

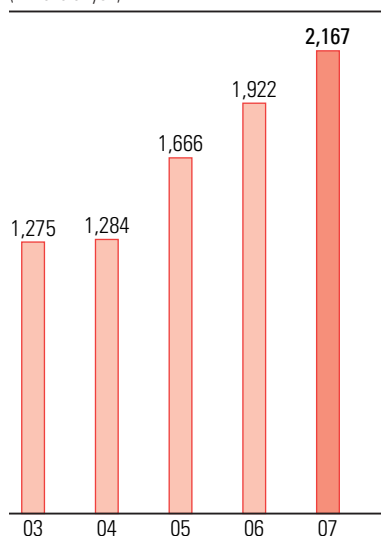
3. Total net assets per share = (Total net assets - Officers’ bonuses) / (Shares outstanding at end of year - Treasury stock)

4. Return on assets = (Operating income + interest and dividend income) / Total assets at end of period

5. Return on equity = Net income / Average total net assets

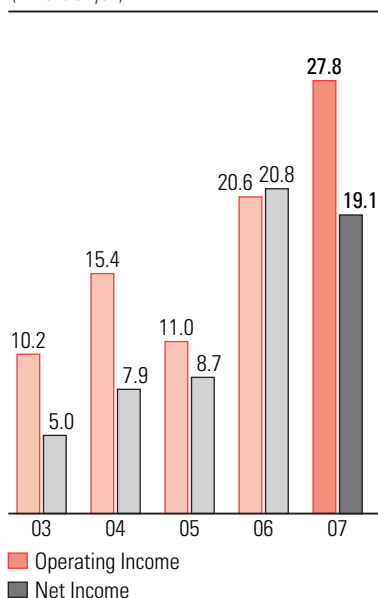
Net Sales

(Billions of yen)



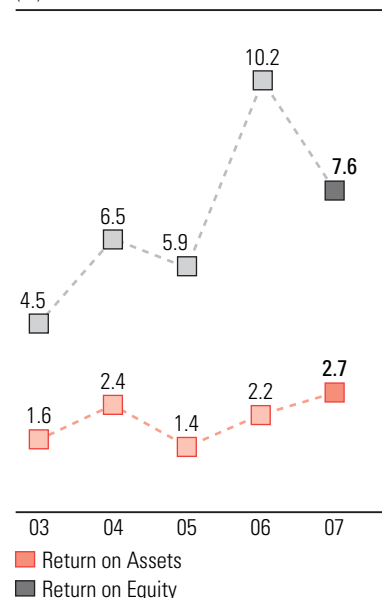
Operating Income / Net Income

(Billions of yen)




Return on Assets / Return on Equity

(%)



MEDICEO PALTAC AT A GLANCE

 Mediceo Paltac is Japan's first **multi-channel wholesaler** covering prescription pharmaceuticals, over-the-counter pharmaceuticals, cosmetics and other products.

 **Healthcare system reform**, separation of prescription and dispensing and the trend toward self-medication have increased Mediceo Paltac's importance as an **intermediary** between dispensing pharmacies and prescribers.

 Mediceo Paltac's **customer-centered approach** based on national scale and sophisticated information technologies helps customers and suppliers manage inventories **efficiently** and **lower costs**.

 Ongoing programs to raise efficiency through **innovation** support Mediceo Paltac's industry leadership and ability to generate **shareholder value**.

Segment	Business	Share of Net Sales
Prescription Pharmaceutical Wholesale Business	Mediceo Paltac Holdings holds the largest share of the wholesale prescription drug market in Japan, and leads the industry in terms of net sales and income.	76%
Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Strong synergy with prescription pharmaceutical wholesaling and convergence of drug and non-drug distribution channels are creating opportunities for growth.	24%
Related Business	Growing health consciousness in Japan presents opportunities in this segment.	0%

TO OUR SHAREHOLDERS

In the year ended March 31, 2007, the first full year since the formation of the Mediceo Paltac Group, we quickly realized synergy from the management integration, and achieved net sales of more than ¥2 trillion as well as a substantial increase in operating income. Through business innovations and an information technology (IT) strategy based on the establishment of a customer-oriented business model, we will focus our efforts on maximizing corporate value as a multi-channel wholesaler that can propose the best solutions for a wide range of health-related needs to support medical care, health and beauty.



Sadatake Kumakura
President and Chief Executive Officer

Performance for the Past Fiscal Year: Synergy within the Mediceo Paltac Group increased both sales and profits, as we achieved net sales of more than ¥2 trillion.

Despite signs of weakness in manufacturing in certain sectors, the Japanese economy maintained its momentum during the year ended March 31, 2007, supported by factors such as indications of a pickup in consumer spending, increased capital investment and a broadening improvement in employment conditions.

The Mediceo Paltac Group continued working to improve its business structure for greater efficiency in sales activities with measures that included reorganizing the prescription pharmaceutical wholesale business and the cosmetics, daily necessities and over-the-counter (OTC) pharmaceutical wholesale business. As part of this effort, we further strengthened and improved customer service functions by transferring the OTC pharmaceutical wholesale business of KURAYA SANSEIDO Inc. and EVERLTH CO., LTD. to PALTAC CORPORATION (“Paltac”) in October 2006. We also worked to cut costs by strengthening and raising the efficiency of our sales infrastructure. In addition, we offered voluntary early retirement to employees of

prescription pharmaceutical wholesale companies, excluding MEDICEO MEDICAL CO., LTD. A total of 305 employees retired under the program as of September 30, 2006.

As a result of these initiatives, although sales in the Prescription Pharmaceutical Wholesale Business were flat, sales in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business nearly doubled, reflecting the effect of the integration with Paltac. Overall, consolidated net sales increased 12.8 percent to ¥2,166,763 million and operating income increased 34.8 percent to ¥27,776 million. Net income decreased 8.3 percent to ¥19,106 million, mainly because we took an impairment loss and made special retirement payments to employees who accepted early retirement or employment transfers. As a result, net income per share decreased to ¥82.86 from ¥97.64 for the previous fiscal year.

Cash dividends per share for the period totaled ¥15.00 per share, unchanged from the previous fiscal year.

The Beginning of the Era of Value-based “Megacompetition”

The Japanese pharmaceutical wholesale industry has undergone consolidation through mergers and acquisitions over the past decade, and has now converged into four major groups engaged in intense competition. As expansion of scale through M&A comes to an end and the market pie grows more slowly, the industry will enter an era of megacompetition in the true sense of the word, with the four large groups competing for market share and winners and losers becoming clear. This era of megacompetition can also be called the era of value-based competition. The outcome will be determined by the business strategies of each company, making this an era that demands true value.

To date, the Mediceo Paltac Group has established its corporate scale and configuration as Japan’s first multi-channel

wholesaler with a nationwide network. Next, we consolidated systems, integrated healthcare-related business into Paltac, and clearly defined the business scope of Group companies in each area to generate synergy in this collection of many companies. We also completed employee transfers, which had been a priority issue. These measures have produced positive results, as we achieved net sales of more than ¥2 trillion. We will continue to focus on these management reforms, but starting in the current fiscal year ending March 31, 2008 we will carry out innovations looking five and ten years ahead, and initiate activities to take the Mediceo Paltac Group to the next level.

Strongly Promoting the Business Innovation Committee (BIC)

The key to these activities is the BIC, which we launched on April 1, 2006, mainly for the purpose of reducing costs through productivity improvements from business innovations. This is the foundation of our establishment of a customer-oriented business model, the core objective of the medium-term management plan currently in progress. The BIC has three basic strategies: a “competitive strategy” to make cost reductions centered on distribution innovations; a “value strategy” to make inroads with customers by providing greater value amid fierce competition; and an “IT strategy” to improve internal operating efficiency and increase productivity throughout the Group, with management visibility as a key point. We have formed six innovation taskforces to promote these strategies.

The BIC spent its first year planning, and will finally move into the implementation stage in the current fiscal year. The BIC’s foremost tasks are “distribution innovation” to change the structure of distribution, the basic function of a wholesaler, and “management visibility” designed to raise the transparency

of management. The Mediceo Paltac Group currently has a total of about 300 branches, and each one carries inventory. If we consolidate these branches to about 30 locations with distribution functions, we can realize lower costs by reducing the number of distribution and sales bases and consolidating inventories. This will also enable customer-oriented distribution innovations with customer-specific packing. This is what we mean by “distribution innovation.” Each distribution base will set priorities and carry them out in succession. We expect to complete our nationwide map in about ten years.

For the other point, “management visibility,” we will introduce an optimized information system that allows Group companies real-time access to detailed management information and sales-related business data. This will enable us to understand the strengths and weaknesses of each Group company, and quickly carry out more accurate business innovations. Before these BIC strategies are carried out, we will first establish firm sales growth with the Group structure completed in the past fiscal year, and allocate profits generated from that sales growth to fund the BIC so that it can implement the innovations. When the BIC initiatives go into effect, sales will become even more solid, costs will be reduced, and we will create a virtuous cycle of profit expansion.

Mediceo Business: Fully Exercise Group Strengths to Expand Sales

To increase sales, we will further enhance and take maximum advantage of the strengths of the Mediceo Paltac Group. Concrete measures to achieve this are the *Total Solution Model, class A* and our alliance with Mitsubishi Corporation.

Total Solution Model

We designed the *Total Solution Model* to provide comprehensive support to large hospitals, thereby expanding our share of

Total Solution Model Supports Improved Hospital Management

Deepening Our Presence in Hospitals

34 locations added in the year ended March 2007

106 locations overall as of March 31, 2007

- Support standardization of care with clinical pathway
- Make management more visible
- Enhance sales skills
- Strengthen relationships with hospital managers



INCREASE SHARE

sales at each hospital and ensuring that Mediceo Paltac competes successfully on the basis of added value rather than price. Support for clinical pathway* management is a function that we can use to make solid inroads in hospitals. With this function, we analyze the actual usage of pharmaceuticals and other products, and conduct estimates of cost savings to create a list of standard drugs and diagnostic materials. By doing so, we can propose switches to conform to the budgets of each hospital, and even get involved in pharmaceutical selection. This allows us to depict hospital management in visual form (a “management dashboard”), and we believe this support function will enable us to establish a solid presence in hospitals.

As the first step, we focused on upgrading the skills of salespeople who can use this system, and they are now in the phase of establishing a firm presence in hospitals and building relationships with hospital managers. Our ultimate goal is to make Mediceo Paltac the main wholesaler, and if possible, create the conditions for single-company transactions. Currently, we have introduced the model at about 100 hospitals. Another result of the *Total Solution Model* is that some participating hospitals are using Mediceo Paltac for an increasing proportion of their wholesale transactions.

* Clinical pathway: A treatment schedule given to each patient, generally upon hospitalization, that shows the treatment, examinations and care necessary to cure the illness on the vertical axis and the time frame (dates) on the horizontal axis.

Further Inroads for *class A*

Healthcare system reforms currently in progress are designed to shift from hospital treatment to home and community healthcare. As a result, hospital functions will shift to treatment at home under the supervision of a personal doctor, pharmacy and nurse located near the patient in the community. Cultivating family pharmacists is a pillar of the healthcare system reforms, and we are responding to this with a strategy called *class A*. Rather than large chain pharmacies, *class A* is aimed at the best individual pharmacies or small chains of two or three stores in each community. In this program, we provide proposals and support to make stores more inviting to customers, including ideas for store layout and merchandising. We are making steady progress, and have introduced *class A* at about 1,700 stores. Even Japan's largest dispensing pharmacies only operate chain networks of some 200 stores, so having this system in use at 1,700 stores is a significant accomplishment.

As I said, to respond to the current healthcare system reforms, we need to undertake innovations that integrate main regional hospitals with private practitioners and pharmacies that

cooperate in treatment by sharing hospital and patient information. If we can leverage Mediceo Paltac's natural strengths in business with private practitioners to deal with these three parties as an integrated set through the *Total Solution Model* and *class A*, Mediceo Paltac will gain comprehensive coverage of the market. By doing so, I am confident that we will be a winner in the coming healthcare system reforms.

Progress of Business under the Alliance with Mitsubishi Corporation

The point of our alliance with Mitsubishi Corporation is to provide comprehensive medical services. A general trading company cooperates with partner firms as necessary in each of its business groups, but this alliance requires both companies to deal with all matters related to healthcare as their first priority. I have high expectations for the alliance, especially given Mitsubishi's commanding strength in healthcare among Japanese trading houses. Since the comprehensive agreement began in 2005, we have cooperated in four specific areas: 1) establishment of a supply processing and distribution (SPD) business, 2) development of private brand products, 3) study of businesses related to clinical testing, and 4) study of the pharmaceutical distribution business in China.

For the SPD business, Mediceo Paltac acquired 34.0 percent of the common stock of Mitsubishi's wholly owned subsidiary Nihon Hospital Service Co., Ltd. (NHS). We will integrate our SPD-related know-how and functions with those of NHS to develop a highly functional, high-value-added SPD business that handles everything from pharmaceuticals to hospital supplies. In April 2007, we began work to concentrate the SPD business at NHS.

class A Supports Dispensing Pharmacies

In response to the growth of home healthcare...

class A

Support for functions required of new health insurance pharmacies
(Customer service/Merchandise/Cost handling/Information capabilities)



Alliance with Mitsubishi Corporation

• Establishment of SPD Business

- ▶ Contract renewals after April 2007 shifted to Nihon Hospital Service Co., Ltd.

• Development of Private Brand Products

- ▶ *Medi With* brand hygiene products began sales in March 2007

• Study of Businesses Related to Clinical Testing

- ▶ Sales of imported *Afinion* testing equipment scheduled to start in fall 2007

• Study of Pharmaceutical Business in China

- ▶ Preparing to make announcement

In private brand products, in March 2007, we launched the *Medi With* brand of hygiene products, which were well received by customers. We plan to steadily add new products under this brand, and quickly build sales to the ¥1 billion level. In clinical testing-related business, we plan to begin sales of imported *Afinion* testing equipment this fall. In the China business, we have conducting surveys and research, and are nearing the point where our direction will be clear and we can make an announcement. Both of these are developments that show promise for the future.



Medi With
メデイウイズ
The *Medi With* logo



The first five products in the *Medi With* lineup

Paltac Business: This Year's Primary Focus for Growth as a Business that Can Produce Results

By consolidating healthcare-related business and completing employee transfers, we have established the foundation for the Paltac business, which we believe will begin generating synergy at an early stage. The healthcare-related business had been unprofitable for many years at Mediceo, but turned around in the first year after the integration, and is now contributing to profits. Two years from now in 2009, sales of over-the-counter (OTC) pharmaceuticals will begin at convenience stores, home centers and other types of stores under the revised Pharmaceutical Affairs Law. The functions of the existing OTC pharmaceutical wholesale industry will not be sufficient to handle the sudden increase in customers. The Mediceo Paltac Group, which has over 1,000 sales representatives, will therefore wield considerable power, and I have high expectations that our accomplishments up to now will bear fruit. Even the largest OTC pharmaceutical wholesalers have only about 150 to 160 sales representatives, which indicates the unprecedented nature and overwhelming strength of Paltac's sales force. From this fiscal year through March 2009, I want to make the Paltac business the primary focus in the Group, and I believe it will be a business with good potential.

Corporate Governance: Thorough Employee Training to Instill Good Practices

The Mediceo Paltac Group seeks to earn the trust of all its stakeholders — shareholders, customers, employees, consumers and society — and fulfill its social responsibility by steadily conducting its business activities while ensuring sound, transparent management. In other words, we aim to realize our management philosophy of “contributing to people’s health and the advancement of society through creation of value in distribution.”

According to a May 2007 article in a Japanese business magazine on M&A success and failure, about 50 percent of merged companies see their stock prices decline after the merger. These are given as examples of failure, but the fact is that 50 percent of mergers are successful. The Mediceo Paltac Group ranked third in the list of successful mergers. Even in terms of corporate governance, while many companies have adopted systems such as the “company with committees” system and brought in outside directors, the Mediceo Paltac Group has long been well regarded for its management system. We have worked to enhance not only the form but the substance of corporate governance, and we are proud to be recognized for sound management.

Requirements for thorough internal control systems are also increasing. We plan to take steps to strengthen our internal controls, including measures to respond to the introduction of the Japanese version of the Sarbanes-Oxley Act.

Our Group’s slogan, “Bright and Energetic,” incorporates the Mediceo Paltac Group’s CSR philosophy and standards of conduct. We believe that practice is important in promoting the diffusion and sharing of this philosophy, and therefore the Group is using various case studies to conduct employee training at every level. Our goal is to ensure that the Mediceo Paltac Group maintains the trust of society.



Increasing Corporate Value

In last year’s annual report, I said that we are approaching the third step in the Mediceo Paltac Group’s growth process: establishing a new business model through business innovation and IT strategies. Until we realize this third step, our policy for use of capital will be to balance stable dividends with allocation of cash for investment in future growth. We are confident that with the completion of the third step, we will establish ourselves as a completely new and unprecedented type of wholesaler, and put the Mediceo Paltac Group on track for major growth.

I hope that our shareholders will continue to support the Mediceo Paltac Group with a long-term perspective, in expectation of significant returns in the future.

August 2007

Sadatake Kumakura
President and Chief Executive Officer

CORPORATE SOCIAL RESPONSIBILITY

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 treat-

ment and people's health and beauty. 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 include the establishment of an internal hotline to deal with various issues that arise within the Group, and under the environment category, the formulation of plans

that examines CSR-related case studies.

The CSR Committee also promoted understanding of its CSR activities with the publication of CSR at the Mediceo Paltac Group, a booklet for officers and employees throughout the 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.

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.

ment 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 Mediceo Paltac Group recognizes the extreme importance of managing and controlling all manner of risks arising in the course of its ongoing business activities. The CSR Committee has therefore classified internal risks into six categories — compliance, pharmaceuticals control, disaster measures, information management, respect for human rights and environmental protection — 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. In the

for global warming countermeasures and resource conservation.

CSR Committee activities in the year ended March 31, 2007 included the first CSR Conference in December 2006, attended by directors in charge of CSR at each Group business. The Committee Chairman used this opportunity to explain the Mediceo Paltac Group's future CSR policy and measures such as distribution of a Group-wide CSR Report

Our Stance

1. Establish the Mediceo Paltac brand
2. Work to convey accurate information as the first step in CSR
3. Value the opportunity to meet people and emphasize the importance of trust
4. Generate funds through high-quality profitability (funds are the corporate lifeline)
5. Work thoroughly to solve problems and reform management
6. Enhance dialogue by empathic listening
7. Learn for yourself, then share this learning with others

CORPORATE GOVERNANCE

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 13 directors, and holds monthly meetings attended by corporate auditors. The term of office of directors was reduced from two years to one year to support the creation of an optimal, agile management structure and promote shareholder confidence. Retirement benefits for directors and corporate auditors

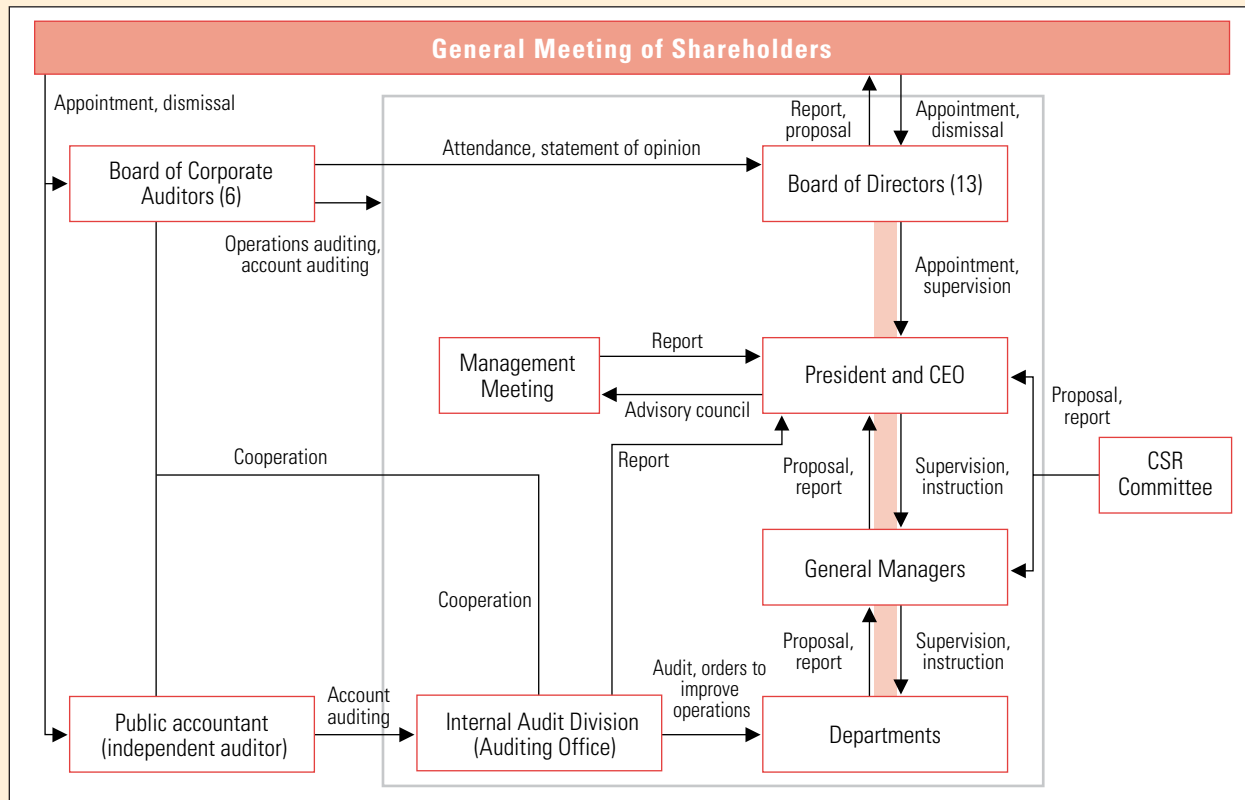
The Mediceo Paltac Group ensures sound, transparent management in developing its operational framework in order to continuously improve corporate value.

were abolished to clarify performance-based management evaluation.

The Company has adopted the executive officer system to clearly separate management decision-making and supervision from business execution. In addition, to promote efficient Group management activities, the representative directors, directors and individuals so designated by the President form the Management Meeting. Functioning as an advisory council, the Management Meeting convenes twice a month, in principle, to share information on the Group's

management strategies and deliberate and consider business solutions.

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



(as of March 31, 2007)

Upgrading Internal Control Systems and Strengthening Risk Management Systems

In accordance with the enforcement of the Corporation Law as of May 1, 2006, the Company established and is implementing the basic policy for systems that ensure the appropriateness of business operations, or internal control systems, based on Article 362, Paragraph 5 of the Law.

The Company sets rules and guidelines, conducts training and prepares a manual with regard to its risk management system, and promotes thorough familiarity with them among employees. If a risk materializes and is expected to have a serious impact, a director in charge of crisis management appointed in advance takes a leadership role.

As a system to ensure efficient execution of duties by directors, the Company has established a Corporate Planning Division, Administration Division, Pharmaceutical Sales Division and Logistics Division, and the Board of Directors appoints a director or executive officer as general manager to oversee and manage each division. The president and CEO holds meetings of the Management Meeting and the CSR Committee, and promotes unified efforts and cooperation among different units. The annual budget is prepared based on the medium-term management plan formulated by the Board of Directors, and

performance management is conducted with the use of information technology. In addition, the department in charge of investor relations works to make timely disclosure to ensure transparency and fairness in the markets of the Company and its subsidiaries.

Strengthening the Audit System

The four-member Auditing Office, under the direct control of the President, conducts regular, Company-wide internal audits. Based on the Basic Audit Policy prepared each fiscal year, the Auditing 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 Auditing 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 full-time corporate auditors and three part-time 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. As of June 29, 2006, the Company has been receiving the auditing services of KPMG AZSA & Co. The Group is providing all necessary information and data in order to create and upgrade an environment for conducting appropriate audits.

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 year ended March 31, 2007 was ¥580 million. Of this, ¥486 million was paid to directors, and ¥93 million to corporate auditors.

The Company also paid KPMG AZSA & Co. ¥54 million for services provided pursuant to Article 2, Paragraph 1 of the Certified Public Accountants Law; no compensation was paid for other services. These figures do not include consumption tax.

MANAGEMENT TEAM



from left:
Osamu Watanabe,
Sadatake Kumakura,
Kunio Mikita,
Genichiro Tanabe

(As of June 26, 2007)

Chairman

OSAMU WATANABE
(President of ATOL Co., Ltd.)

President and CEO

SADATAKE KUMAKURA*
(Chairman of Business Innovation Committee)

Vice Presidents

KUNIO MIKITA*
(President of PALTAC CORPORATION)

GENICHIRO TANABE*
(Chairman of KURAYA SANSEIDO Inc. and
IZUTSU KURAYA SANSEIDO Inc.)

Managing Directors

JYURO YAMAGISHI
(General Manager of Information Systems and
Distribution Division; General Manager of
Information Systems Management Division; Vice
Chairman of Business Innovation Committee;
Representative Director of PALTAC CORPORATION)

SHUICHI WATANABE
(In charge of pharmaceutical sales;
President of KURAYA SANSEIDO Inc.)

BUNICHI MURAYAMA
(General Manager of Administration Division;
Chairman of CSR Committee; Chairman of
YAMAHIRO KURAYA SANSEIDO Inc.)

Directors

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

TAKURO HASEGAWA
(General Manager of Corporate Planning Division)

TSUYOSHI UEHARA
(General Manager of Logistics Division, Information
System and Distribution Division)

YASUHIRO CHOUFUKU
(General Manager of Pharmaceutical Sales Division)

Corporate Auditors

AKIRA KISE
(Full-time Corporate Auditor)

KAZUO MISAKI
(Full-time Corporate Auditor)

IKUO TAKAHASHI
(Outside Full-time Corporate Auditor)

SUSUMU TAKAGI
(Outside Corporate Auditor)

SACHIO ITASAWA
(Outside Corporate Auditor)

*Representative Director

(As of July 1, 2007)

Senior Managing Executive Officer

HIROSHI YARIMIZU
(Bureau Chief of Business Innovation Committee;
Director of ATOL Co., Ltd.)

Managing Executive Officer

TOSHIO HIRASAWA
(Manager of Finance & Accounting Department;
Corporate Auditor of YAMAHIRO KURAYA SANSEIDO
Inc.; Corporate Auditor of KURAYA KASEI, INC.)

Executive Officers

FUMINARI HIKITA
(Manager of Legal Affairs/CSR Promotion Office)

YUJI TANIGUCHI
(Manager of General Affairs Department; Manager
of Environment/Safety Group)

HIDEAKI TAKEMURA
(Manager of Scientific Information Department;
Manager of Sales Training Department; Manager of
Learning Group)

KAZUNORI TOYOTA
(Manager of Corporate Planning Department)

TOSHIHIKO KUME
(Supervisor of Business Promotion Department)

KYUJIRO SHIMOMAKI
(Deputy General Manager of Logistics Division)

KAZUYOSHI SUMIYA
(Deputy General Manager of Information Systems
Management Division)

MASAO SHIBAMIYA
(Manager of Purchasing Department)

MASANORI KAWAHARA
(Manager of Sales Planning Department; Manager
of Staff Group)

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	2007	2007
For the Year:							
Net sales	¥1,222,222	¥1,274,503	¥1,283,926	¥1,665,816	¥1,921,714	¥2,166,763	\$18,362,398
Gross profit	106,644	114,923	116,805	137,806	161,603	188,235	1,595,212
Selling, general and administrative expenses	100,863	104,763	101,450	126,819	140,995	160,459	1,359,822
Operating income	5,781	10,160	15,355	10,987	20,608	27,776	235,390
Net income	2,951	5,016	7,879	8,730	20,843	19,106	161,915
Depreciation and amortization	4,866	5,204	5,709	7,625	9,126	9,663	81,890
Capital expenditures (cash base)	5,663	6,206	4,974	7,812	9,064	12,236	103,695
At Year-End:							
Total assets	¥ 644,248	¥ 638,589	¥ 626,626	¥ 848,416	¥ 993,491	¥1,032,931	\$ 8,753,653
Interest-bearing debt	41,177	33,730	23,275	15,660	38,400	42,058	356,424
Total net assets	110,650	112,261	128,988	168,104	242,413	261,112	2,212,814
Per Share (Yen and U.S. Dollars):							
Net income (Note 2)	¥ 21.67	¥ 36.48	¥ 55.19	¥ 45.90	¥ 97.64	¥ 82.86	\$ 0.70
Diluted net income	18.92	31.50	48.65	43.52	94.22	82.29	0.70
Total net assets (Note 3)	823.75	828.14	893.84	904.59	1,051.97	1,128.39	9.56
Cash dividends	12.00	12.00	12.00	12.00	15.00	15.00	0.13
Ratios:							
Return on assets (Note 4)	0.9%	1.6%	2.4%	1.4%	2.2%	2.7%	
Return on equity (Note 5)	2.5	4.5	6.5	5.9	10.2	7.6	
Number of employees	7,780	7,741	7,468	9,496	11,078	10,664	

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥118.00 to U.S. \$1.00, the approximate exchange rate on March 31, 2007.

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

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

4. Return on assets = (Operating income + interest and dividend income) / Total assets at end of period

5. Return on equity = Net income / Average total net assets

Scope of Consolidation

The Mediceo Paltac Group (the "Group") consists of 37 subsidiaries and 8 affiliates, with Mediceo Paltac Holdings Co., Ltd. (the "Company") as the core. Eleven Group subsidiaries are consolidated, unchanged from the previous fiscal year. Group companies are primarily engaged in wholesale distribution of pharmaceuticals, cosmetics, daily necessities and other products, and providing services. 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.

Overview of Results

During the year ended March 31, 2007, the Japanese economy recovered. Despite weakness in production in certain sectors, consumer spending trended upward, capital investment increased, and employment conditions improved.

The Group launched the Business Innovation Committee (BIC) on April 1, 2006 with the aim of structuring a new business model, primarily for the prescription pharmaceutical business, in order to realize stable long-term growth.

In addition, the Company acquired 34.0 percent of the common stock of Nihon Hospital Service Co., Ltd., which was a wholly owned subsidiary of Mitsubishi Corporation. By combining the functions and know-how of the Group and Nihon Hospital Service in supply processing and distribution (SPD), the Company intends to develop a sophisticated, high-value-added SPD business that handles a complete range of products from pharmaceuticals to medical materials.

In addition, to promote more efficient, enhanced sales activities, on April 1, 2006 KURAYA SANSEIDO Inc., a wholly owned subsidiary of the Company, transferred its prescription pharmaceutical wholesale business in Toyama, Ishikawa and Fukui prefectures to IZUTSU KURAYA SANSEIDO Inc. (formerly IZUTSU PHARMACEUTICAL CO., LTD.), a wholly owned subsidiary of the Company, and a portion of its medical equipment business in Osaka, Hyogo and Nara prefectures to MEDICEO MEDICAL CO., LTD., a wholly owned subsidiary of the Company.

On October 1, 2006, the OTC pharmaceutical wholesale businesses of wholly owned subsidiaries KURAYA SANSEIDO Inc. and EVERLTH Co., Ltd. were consolidated at wholly owned subsidiary PALTAC CORPORATION. By doing so, the Group aims to further strengthen and enhance customer service and has worked to reduce costs by making its business foundation stronger and more efficient.

The Group offered early retirement to employees of prescription pharmaceutical wholesale business companies (excluding MEDICEO MEDICAL CO., LTD.). As of September 30, 2006, 305 employees retired under this program.

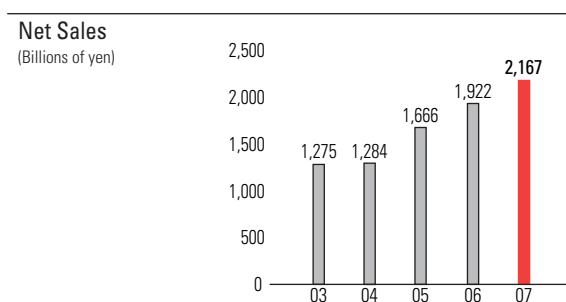
As a result, consolidated net sales for the year ended March 31, 2007

increased 12.8 percent compared with the previous fiscal year to ¥2,166,763 million, operating income increased 34.8 percent to ¥27,776 million, and net income decreased 8.3 percent to ¥19,106 million.

Sales and Income

Net Sales

Consolidated net sales increased 12.8 percent, or ¥245,049 million, year-on-year to ¥2,166,763 million. The increase in net sales was significantly higher than the overall growth of the market because of the full-year contribution of PALTAC CORPORATION to consolidated results.



Sales by Business Segment

Change in Business Classification

The Group changed its business segment classifications in connection with the management integration of the healthcare business into PALTAC CORPORATION in stages from April 1, 2006. As of the fiscal year ended March 31, 2007, the former Pharmaceutical Wholesale Business, Cosmetics and Daily Necessities Wholesale Business and Medical-Related Business have been changed to the Prescription Pharmaceutical Wholesale Business, the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, and Related Business, respectively. Prior-year data have been restated to allow year-on-year comparison.

The following segment information excludes intersegment sales and transfers.

Prescription Pharmaceutical Wholesale Business

The prescription pharmaceutical market was weak due to the effects of an average 6.7 percent reduction in National Health Insurance (NHI) drug price standards on April 1, 2006. The Group adjusted its selling prices to reflect the reduction, and conducted persistent negotiations with an emphasis on securing reasonable profits. Despite delays in reaching pricing agreements with some medical institutions and dispensing pharmacies, the Group increased the contract rate by March 31, 2007 and continued to work to maintain selling prices. In addition, the Group conducted detailed community-based sales activities, including providing a stable supply of products for

early prevalence of pollen allergy and for an outbreak of influenza, which was concentrated near the end of the period. As a result, sales of the Prescription Pharmaceutical Wholesale Business increased 0.2 percent compared with the previous fiscal year to ¥1,646,047 million. Segment operating income increased 37.4 percent year-on-year to ¥23,281 million.

Prescription Pharmaceutical Wholesale Business

Years ended March 31	(Millions of yen)		
	2006	2007	Change (%)
Sales	¥1,642,108	¥1,646,047	0.2%
Operating income	16,942	23,281	37.4
Assets	837,005	835,236	(0.2)
Depreciation	7,224	6,923	(4.2)
Capital expenditures	7,096	5,172	(27.1)

Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

Sales of cosmetics and daily necessities continued to increase steadily, primarily at drugstores. Sales of OTC pharmaceuticals were lackluster due to weak demand resulting from slumping sales of seasonal products and other items.

In order to provide high-quality, efficient distribution functions, PALTAC CORPORATION, which handles this business, completed construction of a large-scale, high-tech distribution center in Asaminami-ku, Hiroshima (RDC Chugoku) in December 2006.

On December 20, 2006, the Company and PALTAC CORPORATION agreed with Kobayashi Pharmaceutical Co., Ltd. and its consolidated subsidiary KOBASHOU CO., LTD. to begin discussions on a management integration between PALTAC CORPORATION and KOBASHOU CO., LTD.

As a result, sales of the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business increased 91.5 percent compared with the previous fiscal year to ¥514,753 million. Segment operating income increased 295.1 percent year-on-year to ¥3,939 million.

Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

Years ended March 31	(Millions of yen)		
	2006	2007	Change (%)
Sales	¥268,806	¥514,753	91.5%
Operating income	997	3,939	295.1
Assets	165,815	195,400	17.8
Depreciation	1,819	2,740	50.6
Capital expenditures	3,289	8,711	164.9

Related Business

Sales of industrial chemicals to the semiconductor and automobile industries were steady. On the other hand, food additive-related sales were weak due to unseasonable weather and other factors. As a result, sales of the Related Business decreased 44.8 percent compared with the previous fiscal year to ¥5,963 million. Segment operating income decreased 75.2 percent year-on-year to ¥64 million.

Related Business

Years ended March 31	(Millions of yen)		
	2006	2007	Change (%)
Sales	¥10,798	¥5,963	(44.8)%
Operating income	258	64	(75.2)
Assets	2,324	2,800	20.5
Depreciation	82	0	(100.0)
Capital expenditures	24	2	(91.7)

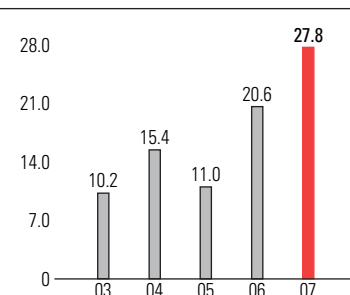
Operating Income

Gross profit increased 16.5 percent, or ¥26,632 million, year-on-year to ¥188,235 million, and the gross profit margin improved to 8.7 percent from 8.4 percent for the previous fiscal year. The Group compensated for the impact of the reduction of NHI drug price standards on April 1, 2006 by adjusting selling prices in tandem with the reduction and by conducting persistent negotiations with an emphasis on securing reasonable profits. The full-year contribution of PALTAC CORPORATION also supported consolidated results.

Selling, general and administrative (SG&A) expenses increased 13.8 percent year-on-year, or ¥19,464 million, to ¥160,459 million, and the ratio of SG&A expenses to net sales increased to 7.4 percent from 7.3 percent for the previous fiscal year. The Group worked to raise efficiency and reduce costs through the integration in stages of the Group's healthcare business within PALTAC CORPORATION from April 1, 2006. At the same time, SG&A expenses reflected the addition of the full-year expenses of PALTAC CORPORATION to consolidated results.

As a result, operating income increased 34.8 percent, or ¥7,168 million, year-on-year to ¥27,776 million, and the operating margin increased to 1.3 percent from 1.1 percent for the previous fiscal year.

Operating Income (Billions of yen)



Other Income (Expenses)

Total other income (expenses) amounted to net other income of ¥6,564 million, a decrease of 30.9 percent compared to net other income of ¥9,501 million for the previous fiscal year. Amortization of negative goodwill was ¥6,068 million, which offset additional retirement benefits for employees totaling ¥5,750 million incurred as a result of the voluntary early retirement program offered to employees of prescription pharmaceutical wholesale business companies discussed above.

As a result, income before income taxes and minority interests increased 14.1 percent, or ¥4,231 million, year-on-year to ¥34,340 million.

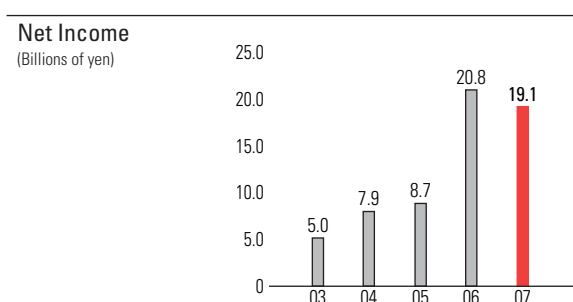
Costs, Expenses and Income as a Percentage of Net Sales

Years ended March 31	2005	2006	2007	Increase (decrease) 2007/2006
Cost of sales	91.7%	91.6%	91.3%	12.8
Gross profit	8.3	8.4	8.7	12.4
SG&A expenses	7.6	7.3	7.4	16.4
Operating income	0.7	1.1	1.3	34.8
Income before income taxes and minority interests	1.2	1.6	1.6	14.0
Net income	0.5	1.1	0.9	(8.3)

Net Income

Income taxes increased 64.4 percent, or ¥5,968 million, year-on-year to ¥15,234 million. Consequently, net income decreased 8.3 percent, or ¥1,737 million, year-on-year to ¥19,106 million.

Net income per share decreased to ¥82.86 from ¥97.64 for the previous fiscal year. Fully diluted net income per share decreased to ¥82.29 from ¥94.22 for the previous fiscal year.



Dividends

The Company considers returns to shareholders to be one of its highest management priorities. The Company's basic policy is to provide stable dividends while giving consideration to increasing internal reserves needed to strengthen its financial position and aggressively develop its business.

The Company also pays dividends from retained earnings twice yearly, with the distribution of retained earnings subject to a resolution of the Board of Directors.

Cash dividends applicable to the fiscal year ended March 31, 2007 totaled ¥15.00 per share, and consisted of an interim dividend of ¥7.50 and a year-end dividend of ¥7.50. As a result, the payout ratio was 18.1 percent.

Financial Strategy

The financial strategy of the 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.

Cash Flow

Net Cash Provided by Operating Activities

Net cash provided by operating activities decreased ¥21,959 million compared with the previous fiscal year to ¥19,837 million. The main components of cash from operating activities were income before income taxes and minority interests of ¥34,340 million (a year-on-year increase of 14.1 percent), depreciation and amortization of ¥9,663 million, loss on impairment of fixed assets of ¥2,768 million, increase in notes and accounts payable of ¥8,974 million, amortization of negative goodwill of ¥3,451 million, and increase in inventories of ¥8,771 million. Total decrease in allowances was ¥7,756 million, and cash paid for income taxes was ¥13,431 million.

Cash Flow Highlights

Years ended March 31	2005	2006	2007	Increase (decrease) 2007/2006
Net cash provided by operating activities	¥26,302	¥41,796	¥19,837	¥(21,959)
Net cash provided by (used in) investing activities	31,279	4,366	(20,138)	(24,504)
Net cash used in financing activities	(8,516)	(22,375)	(1,691)	20,684
Cash and cash equivalents at end of year	119,121	142,908	142,439	(469)

Net Cash Used in Investing Activities

Net cash used in investing activities totaled ¥20,138 million. In the previous fiscal year, investing activities provided net cash totaling ¥4,366 million. While proceeds from sale of property and equipment were ¥3,194 million, payments for purchase of property and equipment including RDC Chugoku totaled ¥12,236 million. Payments for purchase of investment securities were ¥4,151 million and payment for acquisition of investment in subsidiaries was ¥3,976 million. Proceeds from acquisition of investment in subsidiaries

due to change in the scope of consolidation totaling ¥10,628 million in the previous fiscal year did not recur.

Net Cash Used in Financing Activities

Net cash used in financing activities was ¥1,691 million, compared to ¥22,375 million in the previous fiscal year. The main components were a ¥3,615 million net increase in short-term bank loans, proceeds from long-term debt of ¥5,000 million, repayment of long-term debt totaling ¥6,370 million, and ¥3,798 million in payments for cash dividends to shareholders. Purchase of treasury stock totaled ¥138 million, compared to ¥16,873 million in the previous fiscal year.

In addition to the above, increase in cash and cash equivalents due to change in the scope of consolidation totaled ¥1,523 million. Consequently, cash and cash equivalents at the end of the period decreased ¥469 million (0.3 percent) from the end of the previous fiscal year to ¥142,439 million.

Assets and Liabilities

Total assets at March 31, 2007 increased 4.0 percent from a year earlier to ¥1,032,931 million.

Total current assets increased 2.8 percent from a year earlier to ¥795,808 million. Factors included a ¥3,406 million increase in cash, a ¥9,543 million increase in inventories and a ¥3,996 million increase in accounts receivable, other.

Net property and equipment as of March 31, 2007 increased 0.2 percent from a year earlier to ¥151,520 million. Buildings and structures increased ¥1,940 million from a year earlier, while land decreased ¥1,858 million from a year earlier.

Total intangible assets increased 119.8 percent from a year earlier to ¥13,494 million due to goodwill totaling ¥8,567 million.

Investments and other non-current assets increased 16.3 percent from a year earlier to ¥72,109 million. Factors included an increase of ¥9,001 million from a year earlier in investment securities.

Total current liabilities increased 2.1 percent from a year earlier to ¥716,061 million. This mainly consisted of a ¥15,044 million increase in notes and accounts payable and a ¥5,415 million increase in short-term bank loans.

Working capital increased 9.5 percent compared to the end of the previous fiscal year to ¥79,747 million. The current ratio was 1.11 times, compared to 1.10 times a year earlier.

Total long-term liabilities increased 11.9 percent from a year earlier to ¥55,758 million. While convertible bonds decreased ¥527 million and long-term debt decreased ¥1,168 million, deferred income taxes increased ¥6,020 million and negative goodwill totaled ¥13,978, up from consolidated adjustment account, which formerly presented goodwill, totaling ¥11,749 million a year earlier. Total interest-bearing debt as of March 31, 2007 increased 9.5

percent from a year earlier to ¥42,058 million.

Net assets as of March 31, 2007 increased 7.7 percent from a year earlier to ¥261,112 million. Factors included an increase of ¥13,813 million in retained earnings and an increase of ¥1,781 million in unrealized gains on securities. The net worth ratio increased to 25.3 percent from 24.4 percent a year earlier. Return on equity decreased to 7.6 percent from 10.2 percent for the previous fiscal year.

Capital Expenditures

Capital expenditures in the year ended March 31, 2007 totaled ¥12,236 million on a cash basis. The purpose of the investments was to further strengthen and enhance the efficiency of distribution functions, primarily in the Prescription Pharmaceutical Wholesale Business and the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business. Software investment was ¥1,423 million. The Company funded capital expenditures using internal capital resources and external borrowings.

Capital expenditures by business segment are as follows. In the Prescription Pharmaceutical Wholesale Business, the Company made investments of ¥3,598 million in construction of the Kuraya Sanseido Chiba Building and other projects. In addition, the Company invested ¥1,385 million in software to integrate core systems for sales, distribution and other operations.

In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, the Company invested ¥8,634 million in projects including the construction of PALTAC CORPORATION's RDC Chugoku, a distribution center in Hiroshima.

In the Related Business, the Company invested ¥2 million.

Outlook for the Fiscal Year Ending March 2008

The Group's Business Innovation Committee is vigorously promoting innovation in the core areas of competitive strategy, value strategy and information technology (IT) strategy with the aim of structuring a new customer-oriented business model. Other initiatives to deploy collective Group strengths in business development include aggressively continuing to reduce costs and capturing the synergies of the integration of PALTAC CORPORATION. Moreover, during the year ending March 2008 the Group will promote new businesses that respond to the needs of healthcare institutions and social change based on the comprehensive alliance in the medical business with Mitsubishi Corporation.

In the Prescription Pharmaceutical Wholesale Business, the Group will continue to negotiate selling prices with the aim of securing reasonable profits. We will anticipate the changes in the operating environment of core customer segments including healthcare institutions and dispensing pharmacies and work to provide added value that addresses these changes.

In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, the Group has integrated OTC pharmaceutical operations with the cosmetics and daily necessities operations of PALTAC CORPORATION in working to further raise customer satisfaction by establishing the foundation for enhancing the Group's functions and services as a wholesaler in these areas.

As a result, for the year ending March 31, 2008, the Company projects consolidated net sales of ¥2,175.0 billion (a year-on-year increase of 3.8 percent), consolidated operating income of ¥30.7 billion (a year-on-year increase of 10.5 percent) and consolidated net income of ¥24.3 billion (a year-on-year increase of 27.2 percent).

Risk Information

Among the business, management and other issues presented in this report, risks that may exert a significant influence on investor decisions include, but are not limited to, the following. Forward-looking statements in the following text are based on the judgment of the Group as of March 31, 2007.

Specific Regulations and Other Legal Issues

The Group handles various types of pharmaceuticals and related products. Therefore, it conducts 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 includes the implementation of medical system reforms. The content of these reforms may affect the business results of the Prescription Pharmaceutical Wholesale Business and the Related Business.

Drug Price Standards

The prescription pharmaceuticals handled by the Group's Prescription Pharmaceutical Wholesale Business are subject to National Health Insurance (NHI) drug price standards. The NHI drug price standards stipulate the range of pharmaceuticals that can be used under health insurance coverage and their billing prices. Accordingly, these standards 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

The Group is expanding its competitive scale and scope by merging with other wholesalers. Increased investment costs associated with improvement and expansion of 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 and Other Issues

Situations including the discontinuation of sales or recall of certain products due to defects, unforeseen side effects or tampering with certain products sold may affect business results.

System Problems

The Group's business operations rely heavily on computer network systems. Network interruptions due to natural disasters, accidents, computer viruses or other incidents may result in significant obstacles to product sales and distribution.

Default Risk

The Group generates receivables through its ongoing transactions with customers. Default due to issues including bankruptcy or civil rehabilitation among customers could affect business results.

Product Inventory Risk

Issues including bankruptcy or civil rehabilitation among suppliers could cause Group product inventory to decline in value or become unsaleable, which could affect business results.

Litigation Risk

The Group's operations may be subject to litigation seeking monetary damages.

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					Consolidated
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Total	Eliminations and Corporate	
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

June 29, 2006

SUBSIDIARIES AND AFFILIATED COMPANIES (As of June 29, 2007)

PRESCRIPTION PHARMACEUTICAL WHOLESALE COMPANIES

SENSHU YAKUHI 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 prescription pharmaceutical 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 prescription pharmaceutical 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 products, quasi-drugs, reagents, medical equipment and tools, clinical materials, and nursing 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 prescription pharmaceutical products
Homepage: <http://www.yamahiroks.jp/>

HEISEI YAKUHI 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 prescription pharmaceutical products
Homepage: <http://www.heiseiyakuhi.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 prescription pharmaceutical 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 prescription pharmaceutical 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 prescription pharmaceutical 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 equipment and laboratory instruments
Homepage: <http://www.e-truth.co.jp>

Notes: 1. On April 1, 2006, USHIODA SANGOKUDO YAKUHI 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: Wholesale distribution of cosmetics, daily necessities and OTC pharmaceuticals
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 fertilizers 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 and administration, equipment management, cleaning management, sanitation management, security services, sale of products for special environments, and other businesses
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: Provision of medical office training, workers and work services on a contract basis, medical management consulting
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 centers, collection and processing of distribution data, cargo vehicle transportation and worker dispatch

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, operations related to life insurance subscription
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: Provision of overseas medical information, introduction of medical-related products, support for overseas training seminars
Homepage: <http://www.kurayausa.com/>

INVESTOR INFORMATION (As of March 31, 2007)

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 10,664 (Consolidated basis)
801 (Parent company)

Paid-in Capital ¥21,743 million

Number of Outstanding Shares 243,093,358

Shareholders 13,631

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.

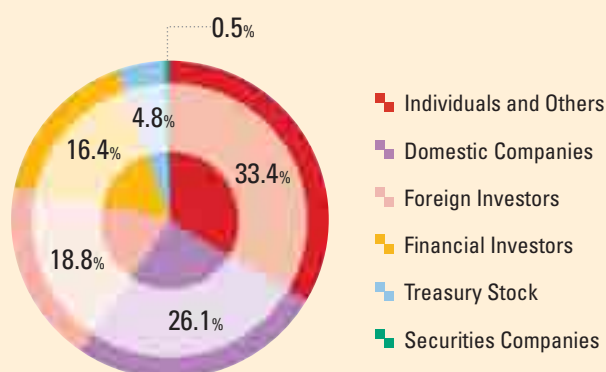
Further Information Corporate Communication Office
Tel: 81-3-3517-5171

Principal Shareholders

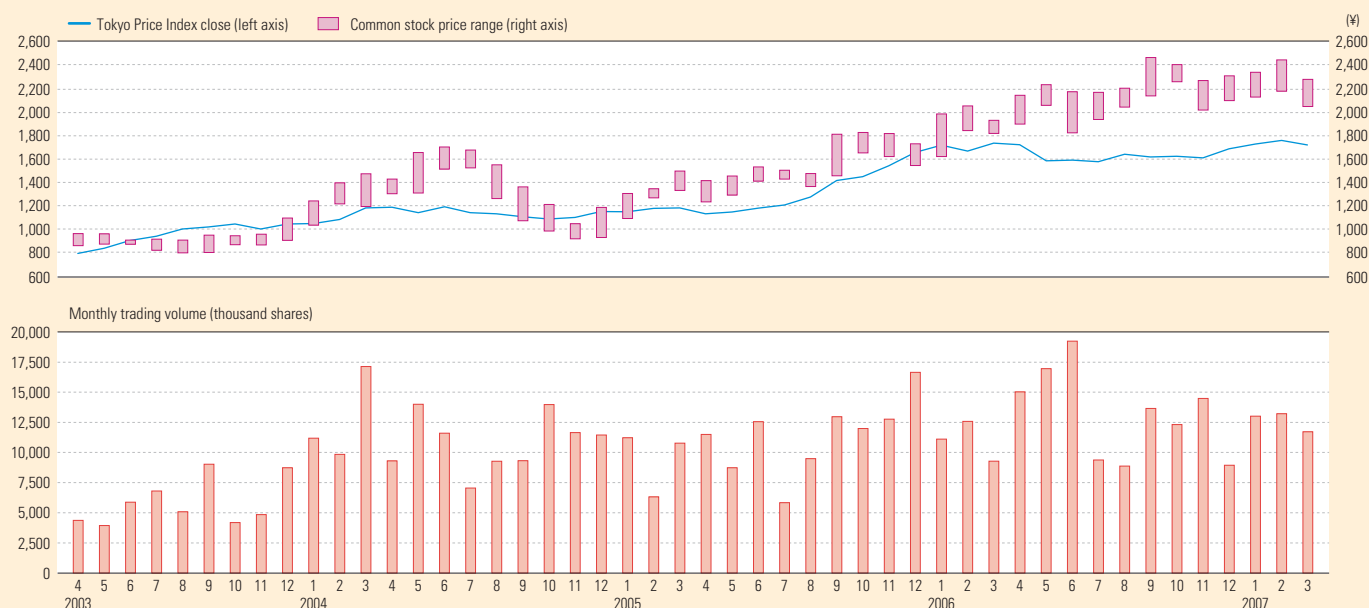
	Number of Shares Held (thousand)	Percentage of Total Shares
Takeda Pharmaceutical Company Limited	22,640	9.3%
State Street Bank and Trust Company	18,074	7.4
Employees Shareholders' Association of MP Group	8,232	3.4
The Master Trust Bank of Japan, Ltd. (trust account)	7,301	3.0
Japan Trustee Services Bank, Ltd. (trust account)	7,003	2.9
Astellas Pharma Inc.	6,404	2.6
Japan Trustee Services Bank, Ltd. (trust account 4)	4,281	1.8
State Street Bank and Trust Company 505041	3,759	1.6
Sadatake Kumakura	3,422	1.4
Dainippon Sumitomo Pharma Co., Ltd.	3,149	1.3

Note: The Company holds 11,691 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.