

TO OUR SHAREHOLDERS



Vigorous sales measures and customer-oriented proposals gave the Mediceo Paltac Group another year of increases in sales and income.

Sadatake Kumakura
President and Chief Executive Officer

Performance in the Year Ended March 31, 2008

In the fiscal year ended March 31, 2008, the economic expansion in Japan weakened due to flat consumer spending and capital investment. In addition, concerns arose about the possible further impact of the subprime mortgage crisis, high oil prices and other issues.

Based on a review by the Business Innovation Committee, the Mediceo Paltac Group implemented reforms centered on three fundamental strategies — competitive strategy, value strategy and IT strategy — with the aim of establishing a new, customer-oriented business model.

In addition, Mediceo Paltac Holdings, its wholly owned subsidiary PALTAC CORPORATION (“Paltac”), KOBAYASHI Pharmaceutical Co., Ltd. (“Kobayashi”) and Kobayashi’s subsidiary KOBASHOU.CO., LTD. (“Kobashou”) reached an agreement on a management integration between Paltac and Kobashou, which became a wholly owned subsidiary of Mediceo Paltac Holdings through a simple exchange of shares on January 1, 2008. Subsequently, Paltac and Kobashou merged on April 1, 2008, with Paltac as the surviving company. As part of this merger, Paltac changed its company name to PALTAC KS CORPORATION.

Meanwhile, ATOL Co., Ltd., a wholly owned subsidiary of Mediceo Paltac Holdings, subscribed to a private placement of shares by ATOL Naha Yakuhin Co., Ltd. on January 15, 2008, and made it a subsidiary. In addition, Paltac assumed control of the cosmetics and everyday sundries wholesale business operated by TAIHEI PALTAC CORPORATION on March 1, 2008. Through these transactions, the Mediceo Paltac Group created the foundation for aggressively expanding its business in Okinawa Prefecture, which had been a gap in the Group’s market coverage.

Moreover, the Mediceo Paltac Group took steps to enhance its sales capabilities and strengthen internal management. For sales, we introduced mobile computers that feature pharmaceutical ordering functions as well as functions for efficiently and expeditiously providing the wide range of information customers need and advanced presentation functions. For internal management, we adopted mobile phones equipped with sophisticated security functions, with a view toward future business innovations and sharing of internal information.

As a result of these initiatives, consolidated net sales increased 4.1 percent over the previous fiscal year to ¥2,254,936 million, primarily because we vigorously carried out sales measures and exercised our customer-oriented proposal capabilities. Selling prices of prescription pharmaceuticals decreased, but we moved to increase sales and to maintain prices for cosmetics and daily necessities, while also lowering the ratio of selling, general and administrative expenses to net sales by making cost reductions throughout the Mediceo Paltac Group. As a result, consolidated operating income increased 0.6 percent to ¥27,951 million. However, whereas in the previous year we recorded an extraordinary loss totaling ¥10,379 million on additional retirement benefits for employees due to voluntary retirement and job transfers, as well as impairment losses, the extraordinary loss in the year ended March 31, 2008 decreased to ¥3,205 million, mainly due to loss on the sale and disposal of property and equipment and loss on valuation of stock in affiliates. As a result, net income increased 45.5 percent from the previous fiscal year to ¥27,794 million. Net income per share increased to ¥119.20 from ¥82.86 in the previous fiscal year.

Cash dividends per share increased ¥3.00 from the previous fiscal year to ¥18.00, resulting in a consolidated payout ratio of 15 percent.

Increasing Corporate Value

The Mediceo Paltac Group is currently carrying out business innovations aimed at creating a new, customer-oriented business model that is responsive to changes in the market environment and customer needs. We have formulated a concrete vision of what we want the Mediceo Paltac Group to accomplish in the next five years through these innovations. At the same time, in order to realize this vision, we have drawn up a medium-term management plan that includes policies and targets for the three years beginning April 2008.

We intend to harness the collective strengths of the Mediceo Paltac Group to successfully carry out the medium-term management plan. I hope that our shareholders will help us accomplish our goals with their continued understanding and support, in expectation of the Mediceo Paltac Group's further growth.

August 2008



Sadatake Kumakura
President and Chief Executive Officer
Mediceo Paltac Holdings Co., Ltd.