

Financial Section



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)	
	2003	2004	2005	2006	2007	2008	2008	
For the Year:								
Net sales	¥1,274,503	¥1,283,926	¥1,665,816	¥1,921,714	¥2,166,763	¥2,254,936	\$22,506,597	
Gross profit.....	114,923	116,805	137,806	161,603	188,235	191,654	1,912,905	
Selling, general and administrative expenses ..	104,763	101,450	126,819	140,995	160,459	163,703	1,633,925	
Operating income	10,160	15,355	10,987	20,608	27,776	27,951	278,980	
Net income	5,016	7,879	8,730	20,843	19,106	27,794	277,413	
Depreciation and amortization	5,204	5,709	7,625	9,126	9,663	10,057	100,379	
Capital expenditures (cash base)	6,206	4,974	7,812	9,064	12,236	16,076	160,455	
At Year-End:								
Total assets	¥ 638,589	¥ 626,626	¥ 848,416	¥ 993,491	¥1,032,931	¥1,104,833	\$11,027,378	
Interest-bearing debt	33,730	23,275	15,660	38,400	42,058	39,834	397,585	
Total net assets.....	112,261	128,988	168,104	242,413	261,112	290,692	2,901,407	
Per Share (Yen and U.S. Dollars):								
Net income (Note 2)	¥ 36.48	¥ 55.19	¥ 45.90	¥ 97.64	¥ 82.86	¥ 119.20	\$ 1.19	
Diluted net income.....	31.50	48.65	43.52	94.22	82.29	118.53	1.18	
Total net assets (Note 3)	828.14	893.84	904.59	1,051.97	1,128.39	1,219.50	12.17	
Cash dividends	12.00	12.00	12.00	15.00	15.00	18.00	0.18	
Ratios:								
Return on assets (Note 4)	1.6%	2.4%	1.4%	2.2%	2.7%	2.7%		
Return on equity (Note 5)	4.5	6.5	5.9	10.2	7.6	10.1		
Number of employees	7,741	7,468	9,496	11,078	10,664	11,391		

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥100.19 to U.S. \$1.00, the approximate exchange rate on March 31, 2008.

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 41 subsidiaries and 8 affiliates, with Mediceo Paltac Holdings Co., Ltd. (the "Company") as the core. Seventeen Group subsidiaries are consolidated, compared with eleven in the previous fiscal year. Group companies are primarily engaged in wholesale distribution of prescription and over-the-counter ("OTC") pharmaceuticals, cosmetics, daily necessities and other products, and related business.

On January 1, 2008, the Company made KOBASHOU.CO., LTD. a wholly owned subsidiary through a simple exchange of shares. As a result, this company and its subsidiaries, KS-HOKKAIDO CO., LTD., KS-TOUHOKU CO., LTD., KS-TOUKAI CO., LTD. and SEIEI CO., LTD. are included in the scope of consolidation as of the year ended March 31, 2008.

ATOL Naha Yakuhin Co., Ltd. became a subsidiary on January 15, 2008 after ATOL Co., Ltd., a wholly owned subsidiary of the Company, subscribed to a private placement of its shares. It is therefore included in the scope of consolidation as of the year ended March 31, 2008.

In both of these cases, the companies are consolidated only in the consolidated balance sheets for the fiscal year ended March 31, 2008 because the deemed acquisition date is the balance sheet date.

OVERVIEW OF RESULTS

During the year ended March 31, 2008, the economic recovery weakened in Japan due to flat consumer spending and capital investment. Issues including the subprime mortgage crisis and high crude oil prices were also cause for concern.

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 building a new, customer-oriented business model.

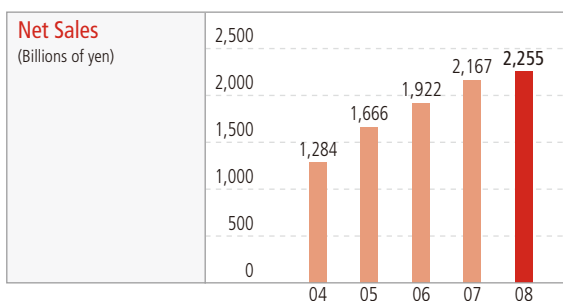
In addition, the Company and its wholly owned subsidiary PALTAC CORPORATION ("Paltac") reached an agreement with KOBAYASHI Pharmaceutical Co., Ltd. and its subsidiary KOBASHOU.CO., LTD. ("Kobashou") on management integration between Paltac and Kobashou. The four companies made Kobashou a wholly owned subsidiary of the Company through a simple exchange of shares on January 1, 2008. The four companies also decided to merge Paltac and Kobashou as of April 1, 2008, with Paltac as the surviving company and Kobashou as the dissolving company.

Furthermore, ATOL Co., Ltd., a wholly owned subsidiary of Mediceo Paltac, subscribed to a private placement of shares by ATOL Naha Yakuhin Co., Ltd. on January 15, 2008, and became a subsidiary. 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.

The Group took steps to enhance its sales capabilities and strengthen internal controls. Enhancements to sales capabilities included introducing mobile computers that feature pharmaceutical ordering functions along with functions for efficiently and expeditiously providing the wide range of information customers need and advanced presentation functions. Strengthening of internal controls included adopting mobile phones equipped with sophisticated security functions, with a view toward future business improvements and sharing of internal information.

Supported by the above, consolidated net sales increased 4.1 percent compared with the previous fiscal year to ¥2,254,936 million, operating income increased 0.6 percent to ¥27,950 million and net income increased 45.5 percent to ¥27,794 million.



SALES AND INCOME

NET SALES

Consolidated net sales increased 4.1 percent, or ¥88,173 million, compared with the previous fiscal year to ¥2,254,936 million. The increase in net sales was higher than the overall growth of the market because of the benefits of the group's multi-channel wholesaler business model, customer-oriented sales approaches to customer needs, and more aggressive sales of new products and lifestyle disease drugs.

SALES BY BUSINESS SEGMENT

The following segment information excludes intersegment sales and transfers.

PRESCRIPTION PHARMACEUTICAL WHOLESALE BUSINESS

Despite lower selling prices, sales of prescription pharmaceuticals were solid due to factors including the Group's efforts to tailor sales approaches to customer needs and to conduct more aggressive sales of new products and lifestyle disease drugs. In addition, the Group strengthened relationships with customers through unique approaches including holding training and seminars for customers and providing information tools for dispensing pharmacies. As a result, sales of the Prescription

Pharmaceutical Wholesale Business increased 4.1 percent compared with the previous fiscal year to ¥1,713,320 million. Segment operating income decreased 8.7 percent year-on-year to ¥21,244 million.

Prescription Pharmaceutical Wholesale Business

(Millions of yen)			
Years ended March 31	2007	2008	Change (%)
Sales	¥1,646,047	¥1,713,320	4.1%
Operating income	23,281	21,244	(8.7)
Assets	835,236	844,579	1.1
Depreciation	6,923	6,876	(0.7)
Capital expenditures	5,172	15,481	199.3

COSMETICS, DAILY NECESSITIES AND OTC PHARMACEUTICAL WHOLESALE BUSINESS

Sales of cosmetics and daily necessities increased steadily. The Group focused on creating ongoing mechanisms and making proactive capital investments aimed at maximizing customer satisfaction and minimizing distribution costs. In sales of OTC pharmaceuticals, the Group has strengthened its sales capabilities by consolidating business at Paltac based on its customer-oriented concept. Paltac built a large-scale, high-tech distribution center, RDC Sakai, in the city of Sakai, which began operating in May 2007. As a result, sales of the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business increased 4.0 percent compared with the previous fiscal year to ¥535,282 million. Segment operating income increased 66.6 percent year-on-year to ¥6,564 million.

Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

(Millions of yen)			
Years ended March 31	2007	2008	Change (%)
Sales	¥514,753	¥535,282	4.0%
Operating income	3,939	6,564	66.6
Assets	195,400	258,733	32.4
Depreciation	2,740	3,179	16.0
Capital expenditures	8,711	1,822	(79.1)

RELATED BUSINESS

Sales of industrial chemicals and food additives grew steadily due to strong demand accompanying improved conditions in the semiconductor and food industries. As a result, sales of the Related Business increased 6.2 percent compared with the previous fiscal year to ¥6,334 million. Segment operating income increased 18.8 percent year-on-year to ¥76 million.

Related Business

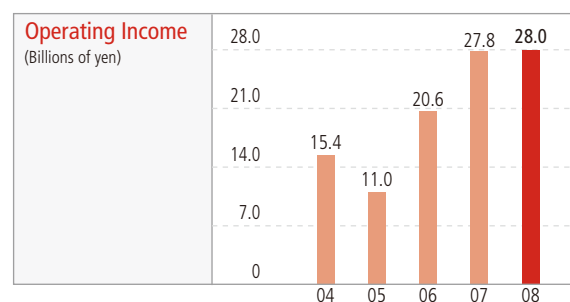
(Millions of yen)			
Years ended March 31	2007	2008	Change (%)
Sales	¥5,963	¥6,334	6.2%
Operating income	64	76	18.8
Assets	2,800	2,893	3.3
Depreciation	0	2	—
Capital expenditures	2	2	—

OPERATING INCOME

Gross profit increased 1.8 percent, or ¥3,419 million, year-on-year to ¥191,654 million, and the gross profit margin was 8.5 percent, compared with 8.7 percent for the previous fiscal year. Lower NHI drug prices caused the gross margin to decrease in the Prescription Pharmaceutical Wholesale business, but the gross margin improved in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale business.

Selling, general and administrative (SG&A) expenses increased 2.0 percent year-on-year, or ¥3,244 million, to ¥163,703 million, which was below the rate of increase in net sales. The ratio of SG&A expenses to net sales decreased to 7.3 percent from 7.4 percent for the previous fiscal year. SG&A expenses were lower than planned because of the Group's success at reducing costs and controlling personnel, overhead and depreciation expenses.

As a result, operating income increased 0.6 percent, or ¥175 million, year-on-year to ¥27,951 million, and the operating margin decreased to 1.2 percent from 1.3 percent for the previous fiscal year.



OTHER INCOME (EXPENSES)

Total other income (expenses) amounted to net other income of ¥15,189 million, an increase of 131.4 percent compared to net other income of ¥6,564 million for the previous fiscal year. A key factor was the absence of additional retirement benefits for employees as a result of the voluntary early retirement program offered to employees in the prescription pharmaceutical wholesale business totaling ¥5,750 million in the previous fiscal year. In addition, research fee income increased 4.1 per-

cent year-on-year to ¥5,286 million, and amortization of negative good-will increased 15.4 percent to ¥7,001 million.

As a result, income before income taxes and minority interests increased 25.6 percent, or ¥8,800 million, year-on-year to ¥43,140 million.

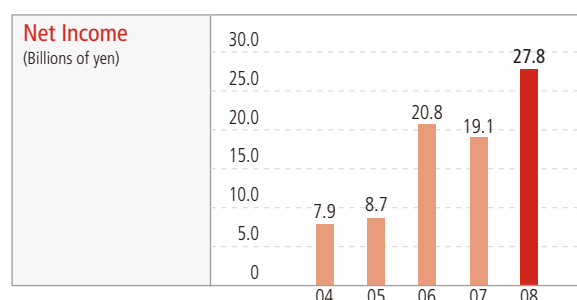
Costs, Expenses and Income as a Percentage of Net Sales

Years ended March 31	2006	2007	2008	Increase (decrease) 2008/2007
Cost of sales	91.6%	91.3%	91.5%	0.2 pts
Gross profit	8.4	8.7	8.5	(0.2)
SG&A expenses	7.3	7.4	7.3	(0.1)
Operating income	1.1	1.3	1.2	(0.1)
Income before income taxes and minority interests	1.6	1.6	1.9	0.3
Net income	1.1	0.9	1.2	0.3

NET INCOME

Income taxes increased marginally year-on-year to ¥15,346 million. Consequently, net income increased 45.5 percent, or ¥8,688 million, year-on-year to ¥27,794 million.

Net income per share increased to ¥119.20 from ¥82.86 for the previous fiscal year. Fully diluted net income per share decreased to ¥118.53 from ¥82.29 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, 2008 increased to ¥18.00 per share from ¥15.00 per share for the previous fiscal year, and consisted of an interim dividend of ¥7.50 and a year-end dividend of ¥10.50. As a result, the payout ratio was 15.1 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 increased ¥4,128 million compared with the previous fiscal year to ¥23,965 million. The primary source of cash from operating activities was income before income taxes and minority interests of ¥43,140 million, which increased 25.6 percent year-on-year. Depreciation and amortization totaled ¥10,057 million. Changes in working capital used cash totaling ¥10,316 million, while changes in working capital provided cash totaling ¥2,273 million the previous fiscal year. An increase in notes and accounts receivable - trade used cash totaling ¥12,962 million, reflecting growth in net sales. Decrease in inventories provided cash totaling ¥9,483 million, reflecting the Group's improved ability to control inventory while increasing sales. Decrease in notes and accounts payable used cash totaling ¥6,837 million, and cash paid for income taxes was ¥8,818 million.

Cash Flow Highlights

Years ended March 31	2006	2007	2008	Increase (decrease) 2008/2007
Net cash provided by operating activities	¥ 41,796	¥ 19,837	¥ 23,965	¥ 4,128
Net cash provided by (used in) investing activities	4,366	(20,138)	(12,436)	7,702
Net cash used in financing activities	(22,375)	(1,691)	(8,131)	(6,440)
Cash and cash equivalents at end of year	142,908	142,439	146,346	3,907

NET CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities totaled ¥12,436 million, down from ¥20,138 million for the previous fiscal year. While payments for purchase of property and equipment increased to ¥16,076 million, proceeds from sale of property and equipment totaled ¥7,397 million. As a result, net payments for purchase of property and equipment decreased year-on-year to ¥8,679 million. At the same time, net proceeds from time deposits totaled ¥20 million, compared to net payments totaling ¥3,875 million for the previous fiscal year. Net payments for purchase of investment securities totaled ¥5,262 million, compared with ¥2,896 million for the previous fiscal year. Payment for acquisition of investment in subsidiaries

totaled ¥58 million, down substantially from ¥3,976 million in the previous fiscal year.

NET CASH USED IN FINANCING ACTIVITIES

Net cash used in financing activities was ¥8,131 million, compared to ¥1,691 million in the previous fiscal year. Decrease in short-term bank loans - net used cash totaling ¥4,004 million. Net repayment of long-term debt used cash totaling ¥590 million, compared with ¥1,370 million in the previous fiscal year. Cash dividends paid to shareholders totaled ¥3,472 million.

Consequently, cash and cash equivalents at the end of the period increased 2.7 percent, or ¥3,907 million, from the end of the previous fiscal year to ¥146,346 million.

ASSETS AND LIABILITIES

Total assets at March 31, 2008 increased 7.0 percent from a year earlier to ¥1,104,833 million.

Total current assets increased 8.4 percent from a year earlier to ¥862,425 million. Factors included a ¥3,897 million increase in cash and time deposits and a ¥54,828 million increase in notes and accounts receivable, trade. Inventories decreased ¥1,507 million.

Net property and equipment as of March 31, 2008 increased 5.1 percent from a year earlier to ¥159,304 million. Buildings and structures increased ¥2,979 million from a year earlier. Land increased ¥9,631 million from a year earlier, primarily reflecting purchase of land for the Kanagawa Area Logistics Center (Kanagawa ALC).

Total intangible assets increased 2.9 percent from a year earlier to ¥13,889 million, reflecting an increase in goodwill.

Investments and other non-current assets decreased 4.0 percent from a year earlier to ¥69,215 million, primarily due to a decrease in investment securities.

Total current liabilities increased 7.4 percent from a year earlier to ¥769,034 million. While notes and accounts payable, trade increased ¥42,400 million, short-term bank loans decreased ¥1,606 million. Income taxes payable increased to ¥8,407 million.

Working capital increased 17.1 percent compared to the end of the previous fiscal year to ¥93,391 million. The current ratio was 1.12 times, compared to 1.11 times a year earlier.

Total long-term liabilities decreased 19.1 percent from a year earlier to ¥45,107 million. Deferred income taxes decreased ¥3,511 million and negative goodwill decreased ¥7,000 million. Total interest-bearing debt as of March 31, 2008 decreased 5.3 percent from a year earlier to ¥39,834 million.

Net assets as of March 31, 2008 increased 11.3 percent from a year earlier to ¥290,692 million. Factors included an increase of ¥23,771 mil-

lion in retained earnings, which compensated for a decrease of ¥6,327 million in unrealized gains on securities, net of taxes. The net worth ratio increased to 26.3 percent from 25.3 percent a year earlier. Return on equity increased to 10.1 percent from 7.6 percent for the previous fiscal year.

CAPITAL EXPENDITURES

Capital expenditures in the year ended March 31, 2008 totaled ¥16,076 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 ¥1,142 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 ¥14,317 million in construction of the Kanagawa ALC and other projects. In addition, the Company invested ¥1,110 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 ¥1,756 million in projects including the construction of PALTAC CORPORATION's Regional Distribution Center Sakai.

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

OUTLOOK FOR THE FISCAL YEAR ENDING MARCH 2009

The Mediceo Paltac Group is currently implementing business innovations aimed at creating a new, customer-oriented business model that is responsive to changes in the market environment and customer needs. Through these innovations, we have formulated a concrete vision of what we want the Mediceo Paltac Group to accomplish five years from now. At the same time, in order to realize this vision, we have formulated a medium-term management plan that includes policies and targets for the three years beginning in April 2008. The Mediceo Paltac Group will aggressively carry out these reforms to deepen and expand businesses that adapt to change.

In the Prescription Pharmaceutical Wholesale Business, the Mediceo Paltac Group will respond to the need for enhanced functions to ensure a stable and uniform supply of prescription pharmaceuticals and other life-related products, while adapting to changes associated with healthcare system reforms and promoting business innovations designed to improve efficiency and maximize customer satisfaction.

In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale business, consumer needs are changing. For example, more new products

are on the market with shorter product life cycles, which has resulted in increased customer needs for store solutions that provide a higher level of in-store support. The Mediceo Paltac Group will promote business innovations to achieve enhanced functions at a low cost to meet evolving consumer needs. The integration of the know-how of Paltac and Kobashou will support the Mediceo Paltac Group's effort to achieve this goal.

In the Related Business segment, although declining consumer demand resulting from higher sales prices caused by the rising price of crude oil is cause for concern, the Group will work to raise the level of customer satisfaction through measures such as strengthening community-centered, solution-based sales.

As a result, for the year ending March 31, 2009, the Company projects consolidated net sales of ¥2,494.0 billion (a year-on-year increase of 10.6 percent), consolidated operating income of ¥31.6 billion (a year-on-year increase of 13.1 percent) and consolidated net income of ¥27.9 billion (a year-on-year increase of 0.4 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, 2008.

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 medical system reforms are being implemented as part of this. Depending on their content, 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 dur-

ing the last five years were as follows.

Implementation Date	Average Rate of Decrease
April 1, 2004	4.2%
April 1, 2006	6.7
April 1, 2008	5.2

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.