Management's Discussion and Analysis

Scope of Consolidation

The Mediceo Paltac Group (the "Group") consists of 31 subsidiaries and 7 affiliates, with Mediceo Paltac Holdings Co., Ltd. (the "Company") as the core. The scope of consolidation includes 12 subsidiaries. The Group companies are primarily engaged in sales of pharmaceuticals, cosmetics, daily necessities and other goods, and provision of services.

KOBASHOU.CO., LTD. ("Kobashou"), which became a wholly owned subsidiary of Mediceo Paltac on January 1, 2008, merged with its wholly owned subsidiaries KS-HOKKAIDO CO., LTD., KS-TOUHOKU CO., LTD., KS-TOUKAI CO., LTD. and SEIEI CO., LTD. on April 1, 2008. On the same date, Kobashou merged with PALTAC CORPORATION, a wholly owned subsidiary of Mediceo Paltac and the surviving company.

PALTAC CORPORATION changed its name to PALTAC KS CORPORATION on April 1, 2008. PALTAC KS CORPORATION made EIKO CO., LTD. a subsidiary on April 1, 2008. On October 1, 2008, PALTAC KS CORPORATION and EIKO CO., LTD. merged, with PALTAC KS CORPORATION as the surviving company.

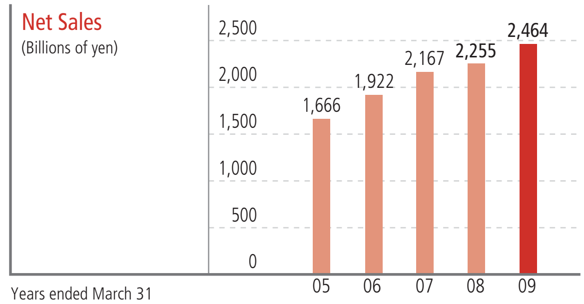
Overview of Results

In the year ended March 31, 2009, harsh conditions prevailed in the Japanese economy as the economic environment rapidly deteriorated, including decreased consumer spending and capital investment and continued major adjustments in employment. In addition, there were concerns about the further impact of the financial crisis that originated in the United States.

In these economic conditions, the Mediceo Paltac Group carried out business innovations revolving around three basic strategies – a competitive strategy, a value strategy and an internal operations strategy – aimed at building a new, customer-oriented business model that is highly responsive to changes in the market environment and customer needs.

Consolidated net sales increased 9.3 percent, or ¥208,634 million, compared with the previous fiscal year to ¥2,463,570 million, operating income decreased 51.9 percent, or ¥14,495 million, to ¥13,456 million and net income decreased 55.0 percent, or ¥15,284 million, to ¥12,510 million.

In addition, Mediceo Paltac and Alfresa Holdings Corporation had reached a basic agreement to merge on an equal footing effective April 1, 2009, and signed a basic agreement on the merger on October 10, 2008. However, the two companies decided to dissolve the basic agreement upon resolutions of their respective boards of directors on January 9, 2009 because the period for additional review by the Japan Fair Trade Commission would extend beyond the original planned merger date, making it difficult to realize the merger effects at an early date and posing a significant profit risk.



Sales and Income

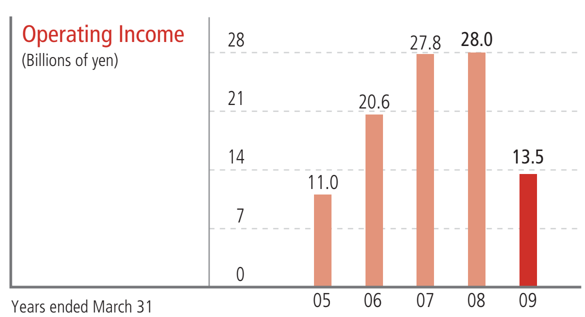
Net Sales

Consolidated net sales increased 9.3 percent, or ¥208,634 million, compared with the previous fiscal year to ¥2,463,570 million. Factors supporting the increase included the addition of Kobashou to the scope of consolidation and initiatives to strengthen sales.

Operating Income

Lower National Health Insurance (NHI) drug prices have heightened competition among prescription pharmaceutical wholesalers, and consumers have become more budget-conscious. These and other factors caused selling prices to decrease in the Prescription Pharmaceutical Wholesale Business and the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business. As a result, gross profit decreased 2.3 percent, or ¥4,417 million, compared with the previous fiscal year to ¥187,237 million. Selling, general and administrative (SG&A) expenses increased 6.2 percent, or ¥10,078 million, compared with the previous fiscal year to ¥173,781 million, with efforts throughout the Group to reduce costs and other factors offsetting the increase in SG&A expenses due to the increase in the number of consolidated subsidiaries.

As a result, operating income decreased 51.9 percent, or ¥14,495 million, year on year to ¥13,456 million.



Results by Business Segment

The following segment information does not include intersegment sales and transfers.

Prescription Pharmaceutical Wholesale Business

(Millions of yen)

Years ended March 31	2008	2009	Change (%)
Net sales	¥1,713,320	¥1,748,145	2.0%
Operating income	21,244	5,876	(72.3)
Assets	844,579	863,526	2.2
Depreciation	6,876	7,537	9.6
Capital expenditures	15,481	10,990	(29.0)

NHI drug prices were reduced by an average of 5.2 percent on April 1, 2008. Moreover, patients continued to cut back on checkups due to the worsening economy and concerns about increased insurance costs associated with the implementation of a new health care system for those over 75 years of age. In these conditions, all companies in the Mediceo Paltac Group focused on measures to strengthen sales centered on new products and lifestyle disease medications, and vigorously conducted proposal-based sales activities from the perspective of helping customers manage their operations. However, selling price negotiations remained generally difficult amid the worsening operating environment for medical institutions, dispensing pharmacies and other customers, and selling prices declined more than anticipated.

As a result, sales of the Prescription Pharmaceutical Wholesale Business increased 2.0 percent, or ¥34,816 million, year on year to ¥1,748,145 million, while operating income decreased 72.3 percent, or ¥15,368 million, to ¥5,876 million.

Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

(Millions of yen)

Years ended March 31	2008	2009	Change (%)
Net sales	¥535,282	¥710,381	32.7%
Operating income	6,564	7,521	14.6
Assets	258,733	252,119	(2.6)
Depreciation	3,179	3,665	15.3
Capital expenditures	1,822	8,588	371.4

In the market for cosmetics, daily necessities and over-the-counter pharmaceuticals, prices and sales volume trended downward as consumers became increasingly budget-conscious starting in October 2008. Wholly owned subsidiary PALTAC KS CORPORATION (name changed to Paltac Corporation on April 1, 2009) merged with KOBASHOU.CO., LTD. on April 1, 2008 and has completed integration of distribution and systems in the Kinki, Tokai and Shikoku areas to enhance its product selection as a leading company and to respond to customer needs more precisely. In addition, PALTAC KS merged with its wholly owned subsidiary EIKO CO., LTD. on October 1, 2008, to promote further efficiency and optimization in overall distribution. Meanwhile, PALTAC KS integrated the cosmetics and daily necessities business with the OTC pharmaceuticals business, and focused on creating a stronger corporate structure that can contribute to raising productivity throughout the supply chain from manufacturing to consumption.

As a result, sales of the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business increased 32.7 percent, or ¥175,099 million, compared with the previous fiscal year to ¥710,381 million, and operating income increased 14.6 percent, or ¥957 million, to ¥7,521 million.

Related Business

(Millions of yen)

Years ended March 31	2008	2009	Change (%)
Net sales	¥6,334	¥5,044	(20.4)%
Operating income	76	17	(77.6)
Assets	2,893	2,051	(29.1)
Depreciation	2	23	NM
Capital expenditures	2	364	NM

Sales of food additives increased as a result of growth in sales of ingredients for home use, despite the impact of a decline in the restaurant industry due to worsening economic conditions. On the other hand, sales of industrial chemicals were sluggish due to inventory adjustments and restrained capital investment in the semiconductor, IT, automotive and other industries.

As a result, Related Business sales decreased 20.4 percent, or ¥1,290 million, compared with the previous fiscal year to ¥5,044 million, and operating income decreased 77.6 percent, or ¥59 million, to ¥17 million.

Other Income (Expenses)

Total other income (expenses) amounted to net other income of ¥8,127 million, a decrease of 46.5 percent, or ¥7,062 million, compared with net other income of ¥15,189 million for the previous fiscal year. Research fee income increased 8.2 percent, or ¥434 million, year on year to ¥5,720 million and amortization of negative goodwill totaled ¥7,142 million. However, loss on devaluation of investment securities totaled ¥2,466 million and loss on impairment of fixed assets, which encompasses lease assets, buildings and structures, totaled ¥3,228 million. Moreover, additional retirement benefits for employees totaled ¥1,005 million.

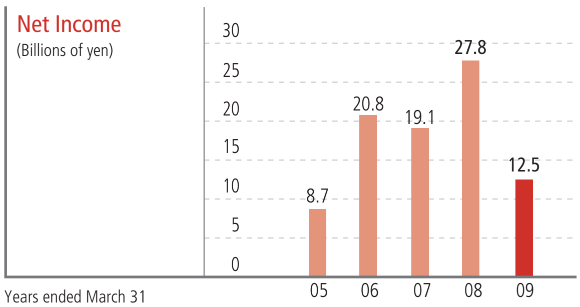
As a result, income before income taxes and minority interests decreased 50.0 percent, or ¥21,557 million, year on year to ¥21,583 million.

Costs, Expenses and Income as a Percentage of Net Sales

Years ended March 31	2007	2008	2009	Increase (decrease) 2009/2008
Cost of sales	91.3%	91.5%	92.4%	0.9pts
Gross profit	8.7	8.5	7.6	(0.9)
SG&A expenses	7.4	7.3	7.1	(0.2)
Operating income	1.3	1.2	0.5	(0.7)
Income before income taxes and minority interests	1.6	1.9	0.9	(1.0)
Net income	0.9	1.2	0.5	(0.7)

Net Income

Income taxes decreased to ¥9,076 million from ¥15,346 million for the previous fiscal year. Consequently, net income decreased 55.0 percent, or ¥15,284 million, year on year to ¥12,510 million. Net income per share decreased to ¥52.30 from ¥119.20 for the previous fiscal year. Fully diluted net income per share decreased to ¥52.22 from ¥118.53 for the previous fiscal year.



Dividends

Mediceo Paltac Holdings considers returns to shareholders one of its highest management priorities. The Company's basic policy for distribution of profits is to provide dividends that are linked to profits from business activities, while securing the necessary internal reserves to strengthen its financial position and aggressively expand its business. The Company's basic target is to raise the dividend level in stages to a consolidated payout ratio of 25 percent in the year ending March 31, 2011.

The Company maintains a basic policy of paying dividends from earnings twice annually in an interim and a year-end dividend. The Board of Directors is responsible for decisions regarding dividends.

For the year ended March 31, 2009, the Company emphasized stable dividends in paying cash dividends of ¥18.00 per share, the same as for the previous fiscal year. This consisted of a year-end cash dividend of ¥7.00 per share and an interim cash dividend of ¥11.00 per share. As a result, the consolidated payout ratio was 34.4 percent.

The Company will effectively deploy its internal reserves for purposes including promotion of innovations for deepening and expanding businesses that are responsive to change. The Company will also appropriately make repurchases of its own stock to enable agile management and swift decision-making in response to changes in the business environment.

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 Flows

In the year ended March 31, 2009, on a consolidated basis, cash and cash equivalents at the end of the year decreased 5.7 percent, or ¥8,279 million, from the end of the previous fiscal year to ¥138,067 million.

Cash Flow Highlights

(Millions of yen)

Years ended March 31	2007	2008	2009	Increase (decrease) 2009/2008
Cash flows from operating activities	¥ 19,837	¥ 23,965	¥ 23,371	¥ (594)
Cash flows from investing activities	(20,138)	(12,436)	(21,835)	(9,399)
Cash flows from financing activities	(1,691)	(8,131)	(10,208)	(2,077)
Cash and cash equivalents at end of year	142,439	146,346	138,067	(8,279)

Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥594 million compared with the previous fiscal year to ¥23,371 million. Main factors increasing cash were income before income taxes and minority interests of ¥21,583 million and a ¥27,217 million increase in notes and accounts payable, while the main factors decreasing cash were a ¥7,797 million increase in notes and accounts receivable – trade and a ¥9,966 million increase in inventories.

Cash Flows from Investing Activities

Net cash used in investing activities increased ¥9,399 million compared with the previous fiscal year to ¥21,835 million. Payments for purchase of property and equipment totaling ¥16,881 million were the largest use of cash, and included construction of the new large-scale regional distribution center RDC Hokkaido.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥2,077 million compared with the previous fiscal year to ¥10,208 million. Primary uses of cash included a ¥2,317 million net repayment of short-term bank loans and long-term debt, and ¥5,138 million in cash dividends paid to shareholders.

Assets, Liabilities and Net Assets

As of March 31, 2009, total assets increased 1.1 percent, or ¥12,454 million, from a year earlier to ¥1,117,287 million.

Total current assets increased 1.4 percent, or ¥11,781 million, from a year earlier to ¥874,206 million. Factors included an ¥8,279 million decrease in cash and time deposits and a ¥9,167 million increase in notes and accounts receivable, trade. Inventories increased ¥10,432 million.

Net property and equipment as of March 31, 2009 increased 7.2 percent, or ¥11,532 million, from a year earlier to ¥170,836 million. Construction in progress increased ¥8,526 million from a year earlier. Land increased ¥3,104 million from a year earlier.

Total intangible assets decreased 4.2 percent, or ¥584 million, from a year earlier to ¥13,305 million, reflecting a decrease in goodwill.

Total investments and other non-current assets decreased 14.8 percent, or ¥10,275 million, from a year earlier to ¥58,940 million, primarily due to a ¥5,848 million decrease in investment securities.

Total liabilities increased 1.1 percent, or ¥8,645 million, from the end of the previous fiscal year to ¥822,786 million.

Total current liabilities increased 1.6 percent, or ¥12,348 million, from a year earlier to ¥781,382 million. Notes and accounts payable, trade increased ¥28,037 million, and short-term bank loans decreased ¥875 million. Income taxes payable decreased ¥7,875 million.

Working capital decreased ¥567 million compared to the end of the previous fiscal year to ¥92,824 million. The current ratio was essentially unchanged at 1.12 times.

Total long-term liabilities decreased 8.2 percent, or ¥3,703 million, from a year earlier to ¥41,404 million. Long-term debt increased 33.3 percent, or ¥1,747 million, from a year earlier to ¥6,999 million. Total interest-bearing debt as of March 31, 2009 decreased 1.3 percent, or ¥533 million, from a year earlier to ¥39,301 million. Deferred income taxes decreased ¥2,918 million and negative goodwill decreased ¥6,978 million.

Total net assets as of March 31, 2009 increased 1.3 percent, or ¥3,809 million from a year earlier to ¥294,501 million. Factors included an increase of ¥7,265 million in retained earnings, which offset a decrease of ¥4,634 million in unrealized gains on securities, net of taxes. The net worth ratio increased to 26.4 percent from 26.3 percent a year earlier. Return on equity decreased to 4.3 percent from 10.1 percent for the previous fiscal year.

Capital Expenditures

Group capital expenditures in the year ended March 31, 2009 totaled ¥16,881 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. Including software investment of ¥2,996 million, capital expenditures totaled ¥19,877 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 ¥8,000 million in construction of the Area Logistics Center in Totsuka-ku, Yokohama (Kanagawa ALC) and other projects. In addition, the Company invested ¥2,954 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 ¥8,521 million in projects including the construction of Paltac Corporation's new RDC Hokkaido.

In the Related Business, the Company invested ¥359 million in projects including new distribution warehouse facilities for KURAYA KASEI, INC.

Outlook for the Year Ending March 31, 2010

The Mediceo Paltac Group is currently promoting business innovations aimed at building 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. At the same time, in order to realize this vision, we have drawn up and are carrying out a medium-term management plan that includes policies and targets for the three years beginning April 2008.

However, with the economic downturn that began last year, the market environment of the Mediceo Paltac Group deteriorated more sharply than expected due to factors including fewer medical consultations by patients and declining consumer confidence, which had a substantial impact on earnings.

In view of these circumstances, the Mediceo Paltac Group believes that more speed-oriented innovations are essential in addition to business innovations from a medium-to-long-term perspective under its present vision and medium-term management plan. Therefore, we will undertake sweeping business innovations and organizational restructuring. On October 1, 2009, we will shift from an operating holding company system to a pure holding company system, and the company name will change to MEDIPAL HOLDINGS CORPORATION. On that same date, six of Mediceo Paltac's ten wholly owned subsidiaries in the Prescription Pharmaceutical Wholesale Business – SENSHU YAKUHIN CO., LTD., USHIODA KURAYA SANSEIDO Inc., KURAYA SANSEIDO Inc., YAMAHIRO KURAYA SANSEIDO Inc., HEISEI YAKUHIN CO., LTD. and IZUTSU KURAYA SANSEIDO Inc. – will merge with KURAYA SANSEIDO as the surviving company, which will change its name to MEDICEO CORPORATION.

Through these innovations, the Mediceo Paltac Group will expeditiously strengthen its functions and reduce costs, and will work to deepen and expand its business to adapt to change.

In the Prescription Pharmaceutical Wholesale Business, the Mediceo Paltac Group will adapt to the changes accompanying the progress of medical system reforms and promote business innovations aimed at maximizing efficiency and customer satisfaction. One concrete example of these business innovations is the construction of the Kanagawa ALC to contribute to healthcare in the area. Meanwhile, we will respond to needs for enhanced functions for a stable and uniform supply of prescription pharmaceuticals and other life-related products, and will also work to maintain selling prices to ensure reasonable profits as we continue tough price negotiations.

In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, we aim to be a company that can contribute to the overall supply chain in the midst of a severe consumer spending situation. We will complete integration of distribution and systems for cosmetics, daily necessities and OTC pharmaceuticals in the Hokkaido area in May 2009 and the Tohoku area in January 2010, and will further strengthen service functions in these areas. We also intend to enhance provision of logistics functions and store solution (in-store support) services to contribute to cost reductions for customers, thus building relationships for mutual growth as we put our full efforts into expanding this business.

In the Related Business, we will make full use of the functions of the distribution warehouse completed in March 2009 and strengthen community-based proposal sales to raise the level of customer satisfaction.

As a result, for the year ending March 31, 2010, we project (as of July 31, 2009) that consolidated net sales will increase 3.5 percent year on year to ¥2,551.0 billion, consolidated operating income will increase 48.6 percent year on year to ¥20.0 billion, and consolidated net income will decrease 20.9 percent year on year to ¥9.9 billion.

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 text are based on the judgment of the Group as of March 31, 2009.

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.

Healthcare System Reform

In Japan, fiscal reconstruction is an urgent issue, and healthcare 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 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
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.

Risk Related to Tie-ups and Other Partnerships

The Mediceo Paltac Group goes through ample and careful deliberation in forming business tie-ups and other partnerships. However, the Group's financial condition or business performance could be affected if the tie-up or other partnership is unable to proceed as originally planned.

Litigation Risk

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

Accident and Disaster Risk

The Mediceo Paltac Group has established crisis management systems and backup systems to prepare for natural disasters such as earthquakes and typhoons, an outbreak of a new strain of influenza, or other such events. However, if the Group's business operations are suspended in the event of a large-scale natural disaster, the Group's business performance could be affected due to decreased sales resulting from lost sales opportunities or an increase in recovery costs or other expenses.

Environmental Risk

The Mediceo Paltac Group conducts environment-conscious business operations while complying with related laws and regulations, and promotes re-use of resources, reduction of carbon dioxide and other such measures. However, further changes in the environment in the future or changes in environmental laws and regulations could affect the Group's business performance due to increased costs of environmental measures or other factors.

Information Leaks

In storage of information assets held by the Mediceo Paltac Group, including customer information and confidential information, the Group works to maintain a management system to prevent information from leaking to parties outside the Group. However, if such an information leak occurs due to unforeseen circumstances, it could affect the Group's business performance due to a decrease in public trust or an increase in expenses.