

Management's Discussion and Analysis

Scope of Consolidation

The MEDIPAL Group consists of 21 subsidiaries and 8 affiliates, with MEDIPAL HOLDINGS CORPORATION (the Company) as the core. The scope of consolidation includes 5 subsidiaries. The Companies are primarily engaged in sales of pharmaceuticals, cosmetics, daily necessities and other goods, and provision of services.

On October 1, 2009, the Company clearly divided Group headquarters and operating company functions by shifting to a pure holding company structure, specializing in strategy and planning for the Group as a whole, and changed its corporate name to MEDIPAL HOLDINGS CORPORATION.

On the same date, the Company transferred its operating company functions (prescription pharmaceutical wholesale business) to its wholly owned subsidiary KURAYA SANSEIDO Inc. Subsequently, SENSHU YAKUHIN CO., LTD., USHIODA KURAYA SANSEIDO Inc., YAMAHIRO KURAYA SANSEIDO Inc., HEISEI YAKUHIN CO., LTD. and IZUTSU KURAYA SANSEIDO Inc. merged with KURAYA SANSEIDO Inc., the surviving company. KURAYA SANSEIDO Inc. then changed its corporate name to MEDICEO CORPORATION.

On October 1, 2009, ATOL CO., LTD. merged with its wholly owned subsidiary, ATOL Naha Yakuhin Co., Ltd., and MEDICEO MEDICAL CO., LTD. changed its corporate name to MM CORPORATION.

On April 1, 2009, PALTAC KS CORPORATION changed its corporate name to Paltac Corporation.

Overview of Results

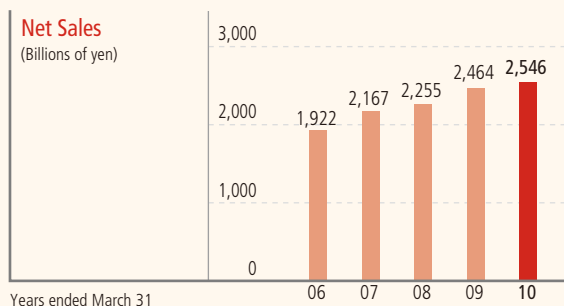
In the fiscal year ended March 31, 2010, while the Japanese economy picked up steadily and capital investment bottomed out, conditions were challenging, as the recovery was not yet self-sustaining and the unemployment rate remained high.

In these economic conditions, the MEDIPAL Group (the Company and its consolidated subsidiaries) has been carrying out business innovations aimed at establishing a new, customer-oriented business model that is highly responsive to changes in the industry environment and customer needs. In addition, the MEDIPAL Group has been making proactive investments to ensure stable earnings in the future.

These business innovations are proceeding smoothly. As discussed above, on October 1, 2009, based on its judgment that more speed-oriented decision-making is necessary to respond appropriately to the rapid changes in the operating environment, the MEDIPAL Group clearly divided Group headquarters functions and operating company functions by shifting to a pure holding company system and restructured operations by merging subsidiaries.

Meanwhile, as part of the comprehensive alliance the Company has had with Mitsubishi Corporation in the medical services business since September 2005, the two companies formed a comprehensive alliance with Sinopharm Group Co., Ltd. ("Sinopharm Group"), the largest pharmaceutical wholesaler in China. On October 27, 2009, the Company and Mitsubishi purchased stakes in Sinopharm Medicine Holding Beijing Huahong Co., Ltd. ("Beijing Huahong"), a subsidiary of Sinopharm Group, and launched a joint venture in the fields of pharmaceutical distribution and wholesaling in China.

Wholly owned subsidiary Paltac Corporation judged that in order to succeed in competition in the cosmetics, daily necessities and over-the-



counter (OTC) pharmaceutical wholesale industry, where competition is forecast to intensify in the future, faster decision-making and securing independence through its own fund raising are necessary to aggressively expand its business. It therefore began making preparations for the public listing of its shares. As a result, its listings on the Tokyo Stock Exchange and the Osaka Securities Exchange were approved, and it was listed on the First Section of each exchange on March 18, 2010.

With the listing, Paltac issued 7 million new shares, and the Company conducted a secondary offering of the 9 million Paltac shares it held.

Consolidated net sales for the period increased 3.3 percent compared with the previous fiscal year to ¥2,546,030 million, and operating income increased 37.0 percent to ¥18,434 million. Net income decreased 84.3 percent to ¥1,958 million, due partly to the completion of amortization of negative goodwill, which was included in other income until completed in the fiscal year ended March 31, 2009. Additional retirement benefits for employees, included in other expenses, also reduced net income, as did loss on change in equity and loss on sales of affiliates' stocks in connection with the public listing of Paltac Corporation.

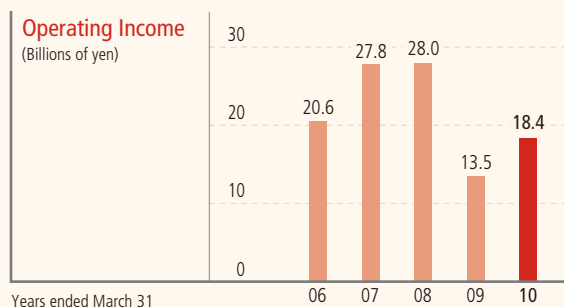
Sales and Income

Net Sales

Consolidated net sales increased 3.3 percent, or ¥82,460 million, compared with the previous fiscal year to ¥2,546,030 million. Factors supporting the increase included growth in sales of prescription pharmaceuticals and demand for products related to a new strain of influenza. Moreover, all companies in the MEDIPAL Group implemented measures to strengthen sales of lifestyle disease medications and new products.

Operating Income

Gross profit increased 2.1 percent, or ¥3,854 million, compared with the



previous fiscal year to ¥191,091 million as a result of efforts to maintain rational selling prices and secure reasonable profits. Selling, general and administrative (SG&A) expenses decreased 0.6 percent, or ¥1,124 million, compared with the previous fiscal year to ¥172,657 million, reflecting efforts throughout the MEDIPAL Group to reduce costs.

As a result, operating income increased 37.0 percent, or ¥4,978 million, year on year to ¥18,434 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	2009	2010	Change (%)
Net sales	¥1,748,145	¥1,825,740	4.4%
Operating income	5,876	9,695	65.0
Assets	863,526	827,875	(4.1)
Depreciation	7,537	7,397	(1.9)
Capital expenditures	10,990	11,225	2.1

Sales of prescription pharmaceuticals benefited from demand for products related to a new strain of influenza. Moreover, all companies in the MEDIPAL Group implemented measures to strengthen sales of lifestyle disease medications and new products, while working to maintain rational selling prices and secure reasonable profits.

In addition, with overall optimization of distribution as the primary theme, MEDICEO CORPORATION, a wholly owned subsidiary of the Company, established a state-of-the-art Area Logistics Center in Yokohama (Kanagawa ALC), which began operations in September 2009. Subsequently, the MEDIPAL Group successively consolidated sales bases in the Kanagawa area, and in December 2009 began supplying products to all of Kanagawa Prefecture from Kanagawa ALC. Furthermore, the Group completed construction of the Minami Osaka ALC in Yao, Osaka Prefecture, on March 4, 2010. The Group will work to further raise productivity and contribute to regional medical care.

Meanwhile, the MEDIPAL Group addressed the rapid deterioration of the earnings environment by reducing the compensation of officers and managers of the Company and its wholly owned subsidiaries in the Prescription Pharmaceutical Wholesale Business. In addition, as part of business streamlining measures, voluntary early retirement was offered to employees of the Company's subsidiaries in the Prescription Pharmaceutical Wholesale Business, with a retirement date of September 30, 2009, and 257 employees applied.

As a result, sales of the Prescription Pharmaceutical Wholesale Business increased 4.4 percent, or ¥77,595 million, compared with the previous fiscal year to ¥1,825,740 million, and operating income increased 65.0 percent, or ¥3,819 million, to ¥9,695 million.

Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

(Millions of yen)			
Years ended March 31	2009	2010	Change (%)
Net sales	¥710,381	¥716,607	0.9%
Operating income	7,521	8,677	15.4
Assets	252,119	279,071	10.7
Depreciation	3,665	3,927	7.1
Capital expenditures	8,588	17,696	106.1

In sales of cosmetics, daily necessities and OTC pharmaceuticals, the MEDIPAL Group endeavored to increase supply chain efficiency and productivity by enhancing merchandising functions and in-store solutions to support customers in effective merchandise selection and sales strategies, and by reinforcing its advanced logistics functions to help lower distribution costs from suppliers to sales outlets. To promote the realization of these efforts more strongly, the Group constructed two large-scale, high-tech distribution centers, RDC Hokkaido and RDC Tohoku, for the purpose of providing even higher-quality and lower-cost distribution services in the Hokkaido and Tohoku areas, thus strengthening and expanding its operating bases there.

In addition, the MEDIPAL Group upgraded its information services for customers, including sending merchandising information through a specialized website. As a result, sales of the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business increased 0.9 percent, or ¥6,226 million, compared with the previous fiscal year to ¥716,607 million, and operating income increased 15.4 percent, or ¥1,156 million, to ¥8,677 million.

Related Business

(Millions of yen)			
Years ended March 31	2009	2010	Change (%)
Net sales	¥5,044	¥3,683	(27.0)%
Operating income	17	18	5.9
Assets	2,051	—	NM
Depreciation	23	29	26.1
Capital expenditures	364	24	NM

In sales of industrial chemicals, inventory adjustments proceeded in the semiconductor and IT industries, and business with customers in newly industrialized countries expanded, but challenging conditions continued. Sales of food additives were weak due to the effect of unfavorable summer weather, although demand for domestic food products remained stable, reflecting food safety issues. As a result, Related Business sales were ¥3,683 million and operating income was ¥18 million.

On November 30, 2009, the Company transferred all shares of its wholly owned subsidiary KURAYA KASEI, INC. to MITANI SANGYO CO., LTD., which provides high-quality, high-value-added services in a wide range of business areas, including chemical products and information systems, based on its decision that this will contribute significantly to KURAYA KASEI's future growth.

Consequently, the year-on-year comparison of results in Related Businesses is omitted.

Other Income (Expenses)

Total other income (expenses) amounted to net other expenses of ¥9,746 million, compared with net other income of ¥8,127 million for the previous fiscal year. Main factors included the absence of amortization of negative goodwill, which was ¥7,142 million and completed in the fiscal year ended March 31, 2009. In addition, the MEDIPAL Group recognized loss on sales of affiliates' stocks of ¥5,190 million and loss on change in equity of ¥3,938 million, both nonrecurring charges in connection with the listing of Paltac shares. Moreover, additional retirement benefits for employees in connection with the voluntary early retirement offer totaled ¥6,962 million.

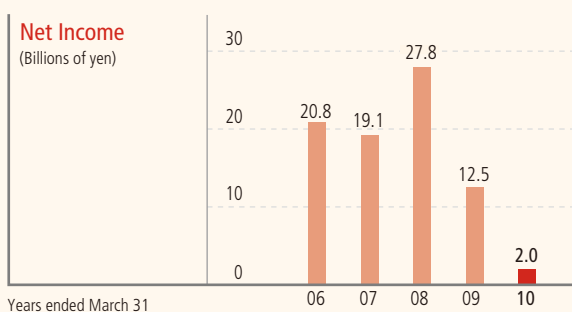
As a result, income before income taxes and minority interests decreased 59.7 percent, or ¥12,895 million, year on year to ¥8,688 million.

Costs, Expenses and Income as a Percentage of Net Sales

Years ended March 31	2008	2009	2010	Increase (decrease) 2010/2009
Cost of sales	91.5%	92.4%	92.5%	0.1
Gross profit	8.5	7.6	7.5	(0.1)
SG&A expenses	7.3	7.1	6.8	(0.3)
Operating income	1.2	0.5	0.7	0.2
Income before income taxes and minority interests	1.9	0.9	0.3	(0.6)
Net income	1.2	0.5	0.1	(0.4)

Net Income

Income taxes decreased to ¥6,730 million from ¥9,076 million for the previous fiscal year, and net income decreased 84.3 percent, or ¥10,552 million, year on year to ¥1,958 million. Net income per share decreased to ¥8.31 from ¥52.30 for the previous fiscal year.



Liquidity and Capital Resources

Funding and Liquidity Management

The MEDIPAL Group maintains liquidity at a level appropriate for operating requirements under a financial policy of funding business activities while maintaining a sound balance sheet. The Group invests in the necessary property and equipment according to its planned capital expenditure budget.

Cash Flows

Cash and cash equivalents (hereafter, "net cash") as of March 31, 2010

decreased 4.1 percent, or ¥5,612 million, from the end of the previous fiscal year to ¥132,455 million.

Years ended March 31				(Millions of yen)
	2008	2009	2010	Increase (decrease) 2010/2009
Cash flows from operating activities	¥ 23,965	¥ 23,371	¥ 13,993	¥(9,378)
Cash flows from investing activities	(12,436)	(21,835)	(29,845)	(8,010)
Cash flows from financing activities	(8,131)	(10,208)	10,195	20,403
Cash and cash equivalents at end of year	146,346	138,067	132,455	(5,612)

Cash Flows From Operating Activities

Net cash provided by operating activities decreased ¥9,378 million compared with the previous fiscal year to ¥13,993 million. Main factors increasing cash included income before income taxes and minority interests of ¥8,688 million and increase in notes and accounts payable of ¥4,704 million. Depreciation and amortization was ¥11,441 million, while loss on sale of stock of affiliated companies of ¥5,190 million and loss on changes in equity of ¥3,938 million were non-cash charges included in the line item other, net. Main factors decreasing cash were a ¥15,996 million increase in notes and accounts receivable – trade and a ¥5,394 million increase in inventories.

Cash Flows From Investing Activities

Net cash used in investing activities increased ¥8,010 million compared with the previous fiscal to ¥29,845 million. The increased use of cash resulted mainly from an ¥8,722 million increase in payments for purchase of property and equipment to ¥25,603 million. Projects included construction of Kanagawa ALC and RDC Tohoku.

Cash Flows From Financing Activities

Net cash provided by financing activities was ¥10,195 million. In the previous fiscal year, financing activities used net cash of ¥10,208 million. The year-on-year change resulted mainly from ¥14,477 million in proceeds from stock issuance to minority shareholders and a net increase in borrowings of ¥7,049 million, while the main factors decreasing cash were purchase of treasury stock totaling ¥5,718 million and cash dividends paid to shareholders of ¥3,788 million.

Assets, Liabilities and Net Assets

As of March 31, 2010, total assets increased 4.4 percent, or ¥49,200 million, from a year earlier to ¥1,166,487 million.

Total current assets increased 4.1 percent, or ¥35,633 million, from a year earlier to ¥909,839 million. Factors included a ¥14,416 million increase in notes and accounts receivable, trade and a ¥18,711 million increase in securities.

Net property and equipment as of March 31, 2009 increased 8.0 percent, or ¥13,742 million, from a year earlier to ¥184,578 million. Buildings and structures increased ¥9,741 million and land increased ¥9,980 million from a year earlier.

Total intangible assets decreased 28.6 percent, or ¥3,808 million, from a year earlier to ¥9,497 million, mainly reflecting a decrease of ¥4,116 million in goodwill.

Total investments and other non-current assets increased 6.2 percent, or ¥3,633 million, from a year earlier to ¥62,573 million, primarily due to a ¥5,940 million increase in investment securities.

Total liabilities increased 1.5 percent, or ¥12,708 million, from the end of the previous fiscal year to ¥835,494 million.

Total current liabilities increased 2.1 percent, or ¥16,791 million, from a year earlier to ¥798,173 million. Notes and accounts payable, trade increased ¥2,671 million, and short-term bank loans increased ¥9,024 million. Income taxes payable increased ¥3,839 million.

Working capital increased ¥18,842 million from a year earlier to ¥111,666 million. The current ratio was 1.14 times, compared with 1.12 times a year earlier.

Total long-term liabilities decreased 9.9 percent, or ¥4,083 million, from a year earlier to ¥37,321 million. While deferred income taxes increased ¥1,191 million, employees' severance and retirement benefits decreased ¥1,961 million and lease obligation, which is included in other long-term liabilities, decreased ¥1,514 million. Long-term debt decreased 9.9 percent, or ¥695 million, from a year earlier to ¥6,304 million. Total interest-bearing debt as of March 31, 2010 increased 17.3 percent, or ¥6,796 million, from a year earlier to ¥46,097 million.

Total net assets as of March 31, 2010 increased 12.4 percent, or ¥36,492 million, from a year earlier to ¥330,993 million. Factors included minority interests of ¥41,042 million, which more than compensated for an increase in treasury stock of ¥5,718 million resulting from repurchase of stock. The net worth ratio was 24.9 percent, compared with 26.4 percent a year earlier. Return on equity decreased to 0.7 percent from 4.3 percent for the previous fiscal year.

Capital Expenditures

Capital expenditures for the MEDIPAL Group in the year ended March 31, 2010 totaled ¥25,603 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 ¥3,324 million, capital expenditures totaled ¥28,927 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 ¥7,951 million in construction of the Kanagawa ALC and other projects. In addition, the Company invested ¥3,269 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 Tohoku.

In the Related Business, the Company invested ¥23 million in projects including new distribution warehouse facilities for KURAYA KASEI, INC.

Outlook for the Year Ending March 31, 2011

In a rapidly changing operating environment, the MEDIPAL Group is emphasizing speed-oriented decision-making, and during the year ended March 31, 2010 restructured MEDIPAL Group companies as discussed above. The Group will build the base for sustained growth in its future operating environment by using the framework created by the restructuring to fully develop the capabilities of each Group company.

In the Prescription Pharmaceutical Wholesale Business, we will respond to a new system that involves a premium to promote new drug development and eliminate off-label use that was introduced on a trial basis with the National Health Insurance (NHI) drug price revisions in April 2010. We will also work to secure reasonable profits by negotiating prices commensurate with the value of each prescription pharmaceutical.

To adapt to changes in the industry environment, the MEDIPAL Group is establishing Area Logistics Centers (ALCs) as part of its business innovations aimed at maximizing efficiency and customer satisfaction. Following the start of operations at the Kanagawa ALC in September 2009, MEDICEO CORPORATION started up the Minami Osaka ALC in June 2010. With state-of-the-art distribution functions, the new ALCs will further raise productivity and contribute to regional health care.

In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, industry realignment including mergers and acquisitions and equity and business alliances across different business types is forecast to continue, centering on customers of this business. On the other hand, weak consumer spending will continue to stoke concerns about deflation, and the operating environment is likely to remain challenging.

To deal with these conditions, we will focus on increasing our in-store share by maintaining an efficient distribution network that can make a greater contribution to the overall supply chain and strengthening sales to key customers. In addition, we will endeavor to raise the MEDIPAL Group's corporate value by implementing measures including improvements to our efficient business management framework.

In the Related Business segment, on April 1, 2010, the MEDIPAL Group concentrated the animal health products wholesale business in wholly owned subsidiary MP AGRO CO., LTD. In addition to expanding the sales territory, we will build a flexible business operation structure, fortify sales and improve the internal control system to further enhance the operating efficiency and customer service of the animal health products wholesale business.

As a result, for the year ending March 31, 2011, we forecast that consolidated net sales will increase 4.1 percent year on year to ¥2,651.0 billion, consolidated operating income will increase 75.8 percent year on year to ¥32.4 billion, and consolidated net income will increase 574.1 percent year on year to ¥13.2 billion.

Dividend Policy

The Company 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, 2010, 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 ¥9.00 per share and an interim cash dividend of ¥9.00 per share. As a result, the consolidated payout ratio was 216.70 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 repurchase its own stock when appropriate, taking into account its financial condition, stock price trends and other factors, to execute a flexible capital policy in response to changes in the corporate environment.

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 MEDIPAL Group as of March 31, 2010.

Specific Regulations and Other Legal Issues

The MEDIPAL Group handles various types of pharmaceuticals and related products. Therefore, the Group 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.

NHI Drug Price Standards

The prescription pharmaceuticals handled by the MEDIPAL 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 for insured medical treatment and their billing prices. Accordingly, these standards function as an upper limit on selling prices. The prices set by the NHI drug price standards are based on surveys of prevailing market prices and are generally revised every two years. Changes in these prices may affect the business results of the prescription pharmaceutical wholesale business.

Investment Cost and Unit Selling Prices

The MEDIPAL Group is expanding its competitive scale and scope. Increased investment costs associated with improvement and expansion of the distribution and information systems to handle this expansion 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 business operations of the MEDIPAL Group are heavily reliant on computer network systems. Discontinuation of functions due to a natural disaster, accident, intrusion of a computer virus or other occurrences may result in significant obstacles to sales and product distribution.

Default Risk

The MEDIPAL 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 MEDIPAL Group product inventory to decline in value or become unsaleable, which could affect business results.

Risk Related to Tie-Ups and Other Partnerships

The MEDIPAL 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 MEDIPAL Group may be subject to litigation seeking monetary damages.

Accident and Disaster Risk

The MEDIPAL 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 MEDIPAL 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 MEDIPAL 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.