

Consolidated Balance Sheets

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
As of March 31, 2009 and 2010

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Current assets:			
Cash and time deposits (Notes 4, 5 and 13)	¥ 143,292	¥ 137,755	\$ 1,480,600
Notes and accounts receivable, trade (Note 4)	556,843	571,259	6,139,929
Securities (Note 4)	—	18,711	201,107
Inventories	115,143	120,437	1,294,465
Deferred income taxes (Note 17)	6,960	6,560	70,507
Accounts receivable, other (Note 4)	50,014	52,992	569,561
Other current assets	3,519	3,737	40,166
Allowance for doubtful accounts	(1,565)	(1,612)	(17,326)
Total current assets	874,206	909,839	9,779,009
Property and equipment (Notes 8 and 9):			
Buildings and structures (Note 13)	127,245	136,986	1,472,334
Machinery, equipment and vehicles	24,153	29,580	317,928
Land (Notes 10 and 13)	83,073	93,053	1,000,140
Construction in progress	11,006	6,819	73,291
Other tangible fixed assets	20,151	18,346	197,184
Total property and equipment	265,628	284,784	3,060,877
Accumulated depreciation	(94,792)	(100,206)	(1,077,020)
Net property and equipment	170,836	184,578	1,983,857
Intangible assets:			
Goodwill	5,916	1,800	19,347
Software	3,933	6,667	71,657
Other intangible assets	3,456	1,030	11,070
Total intangible assets	13,305	9,497	102,074
Investments and other non-current assets:			
Investment securities (Notes 4, 6 and 13)	44,178	50,118	538,672
Long-term loans receivable (Note 4)	415	87	935
Deferred income taxes (Note 17)	343	—	—
Other assets	16,132	14,164	152,236
Allowance for doubtful accounts	(2,128)	(1,796)	(19,304)
Total investments and other non-current assets	58,940	62,573	672,539
Total assets	¥1,117,287	¥1,166,487	\$12,537,479

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)
	2009	2010	2010
Current liabilities:			
Notes and accounts payable, trade (Notes 4 and 13)	¥ 716,767	¥ 719,438	\$ 7,732,567
Short-term bank loans (Notes 4 and 11)	28,813	37,837	406,675
Long-term debt due within one year (Notes 4 and 11)	3,489	1,956	21,023
Income taxes payable (Note 17)	532	4,371	46,980
Provision for employees' bonuses	7,518	8,373	89,994
Other current liabilities	24,263	26,198	281,577
Total current liabilities	781,382	798,173	8,578,816
Long-term liabilities:			
Long-term debt (Notes 4 and 11)	6,999	6,304	67,756
Deferred income taxes (Note 17)	7,601	8,792	94,497
Deferred income taxes – land revaluation (Note 10)	1,628	1,668	17,928
Employees' severance and retirement benefits (Note 12)	16,780	14,819	159,276
Other long-term liabilities	8,396	5,738	61,672
Total long-term liabilities	41,404	37,321	401,129
Contingent liabilities (Note 14)			
Net assets (Note 15):			
Shareholders' equity:			
Common stock:			
Authorized – 900,000,000 shares in 2009 and 2010			
Issued – 244,524,496 shares in 2009 and 2010	22,398	22,398	240,735
Capital surplus	134,625	134,625	1,446,958
Retained earnings	160,797	158,783	1,706,610
Treasury stock	(7,782)	(13,500)	(145,099)
Valuation and translation adjustments:			
Unrealized gains on securities, net of taxes (Note 6)	2,138	5,177	55,643
Deferred gains or losses on hedges	—	1	11
Land revaluation differences, net of taxes (Note 10)	(17,675)	(17,533)	(188,446)
Total	294,501	289,951	3,116,412
Minority interests	—	41,042	441,122
Total net assets	294,501	330,993	3,557,534
Total liabilities and total net assets	¥1,117,287	¥1,166,487	\$12,537,479

Consolidated Statements of Changes in Net Assets

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Shareholders' equity			
Common stock			
Balance at beginning of year	¥ 21,813	¥ 22,398	\$ 240,735
Changes during the year			
Issuance of new stock	585	—	—
Net change during the year	585	—	—
Balance at end of year	22,398	22,398	240,735
Capital surplus			
Balance at beginning of year	134,040	134,625	1,446,958
Changes during the year			
Issuance of new stock	585	—	—
Disposal of treasury stock	—	(0)	(0)
Net change during the year	585	(0)	(0)
Balance at end of year	134,625	134,625	1,446,958
Retained earnings			
Balance at beginning of year	153,532	160,797	1,728,257
Changes during the year			
Cash dividends paid	(5,138)	(3,788)	(40,714)
Net income	12,511	1,958	21,045
Reversal of land revaluation differences	(108)	(184)	(1,978)
Net change during the year	7,265	(2,014)	(21,647)
Balance at end of year	160,797	158,783	1,706,610
Treasury stock			
Balance at beginning of year	(7,665)	(7,782)	(83,641)
Changes during the year			
Acquisition of treasury stock	(117)	(5,718)	(61,458)
Disposal of treasury stock	—	0	0
Net change during the year	(117)	(5,718)	(61,458)
Balance at end of year	(7,782)	(13,500)	(145,099)
Total shareholders' equity			
Balance at beginning of year	301,720	310,038	3,332,309
Changes during the year			
Issuance of new stock	1,170	—	—
Cash dividends paid	(5,137)	(3,788)	(40,714)
Net income	12,510	1,958	21,045
Acquisition of treasury stock	(117)	(5,718)	(61,458)
Disposal of treasury stock	—	0	0
Reversal of land revaluation differences	(108)	(184)	(1,978)
Net change during the year	8,318	(7,732)	(83,105)
Balance at end of year	¥310,038	¥302,306	\$3,249,204

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Valuation and translation adjustments			
Unrealized gains on securities, net of taxes			
Balance at beginning of year	¥ 6,772	¥ 2,138	\$ 22,978
Changes during the year			
Changes in items other than shareholders' equity (net)	(4,634)	3,039	32,665
Net change during the year	(4,634)	3,039	32,665
Balance at end of year	2,138	5,177	55,643
Deferred gains or losses on hedges			
Balance at beginning of year	—	—	—
Changes during the year	—	1	11
Net change during the year	—	1	11
Balance at end of year	—	1	11
Land revaluation differences, net of taxes			
Balance at beginning of year	(17,824)	(17,675)	(189,972)
Changes during the year			
Changes in items other than shareholders' equity (net)	149	142	1,526
Net change during the year	149	142	1,526
Balance at end of year	(17,675)	(17,533)	(188,446)
Total valuation and translation adjustments			
Balance at beginning of year	(11,052)	(15,537)	(166,994)
Changes during the year			
Changes in items other than shareholders' equity (net)	(4,485)	3,182	34,202
Net change during the year	(4,485)	3,182	34,202
Balance at end of year	(15,537)	(12,355)	(132,792)
Minority interests			
Balance at beginning of year	24	—	—
Changes during the year			
Changes in items other than shareholders' equity (net)	(24)	41,042	441,122
Net change during the year	(24)	41,042	441,122
Balance at end of year	—	41,042	441,122
Total net assets			
Balance at beginning of year	290,692	294,501	3,165,315
Changes during the year			
Issuance of new stock	1,170	—	—
Cash dividends paid	(5,137)	(3,788)	(40,714)
Net income	12,510	1,958	21,045
Acquisition of treasury stock	(117)	(5,718)	(61,458)
Disposal of treasury stock	—	0	0
Reversal of land revaluation differences	(108)	(184)	(1,978)
Changes in items other than shareholders' equity (net)	(4,509)	44,224	475,324
Net change during the year	3,809	36,492	392,219
Balance at end of year	¥294,501	¥330,993	\$3,557,534

Consolidated Statements of Cash Flows

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 21,583	¥ 8,688	\$ 93,379
Adjustments to reconcile income before income taxes to net cash flows provided by operating activities:			
Depreciation and amortization	11,225	11,441	122,969
Loss on impairment of fixed assets	3,228	1,142	12,274
Amortization of goodwill (negative goodwill)	(3,945)	2,892	31,083
(Decrease) increase in employees' severance and retirement benefits	1,764	(850)	(9,136)
Decrease in allowance for doubtful accounts	(1,159)	(285)	(3,063)
Interest and dividend income	(1,511)	(1,619)	(17,401)
Interest expenses	841	842	9,050
Loss (gain) on sales of investment in subsidiaries	(7)	5,190	55,782
Loss on change in interest in a consolidated subsidiary	—	3,938	42,326
Additional retirement benefits for employees	1,005	6,962	74,828
Increase in notes and accounts receivable – trade	(7,797)	(15,996)	(171,926)
Increase in inventories	(9,966)	(5,394)	(57,975)
Increase in notes and accounts payable	27,217	4,704	50,559
Increase (decrease) in accrued consumption taxes	(2,647)	1,201	12,908
Other, net	(1,025)	1,523	16,370
Subtotal	38,806	24,379	262,027
Interest and dividends received	1,508	1,612	17,326
Interest expenses paid	(854)	(831)	(8,932)
Payment for additional retirement benefits for employees	—	(7,452)	(80,094)
Income taxes paid	(16,089)	(3,715)	(39,929)
Net cash provided by operating activities	23,371	13,993	150,398
Cash flows from investing activities:			
Increase in time deposits	(8,844)	(10,045)	(107,964)
Decrease in time deposits	8,880	10,250	110,168
Payments for purchase of marketable securities	—	(18,711)	(201,107)
Payments for purchase of property and equipment	(16,881)	(25,603)	(275,183)
Proceeds from sale of property and equipment	1,736	509	5,471
Payments for purchase of investment securities	(4,817)	(2,361)	(25,376)
Proceeds from sale of investment securities	823	42	451
Payment for acquisition of investment in subsidiaries	(95)	(223)	(2,397)
Proceeds from sale of investment in affiliates	41	18,713	201,129
Payments for acquisition of investment in subsidiaries due to change in scope of consolidation	(99)	—	—
Disbursement of loans	(21)	(67)	(720)
Collection of loans	238	452	4,858
Payments for business transfer	(308)	—	—
Other, net	(2,488)	(2,801)	(30,106)
Net cash used in investing activities	(21,835)	(29,845)	(320,776)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans – net	(3,325)	9,024	96,990
Repayment of lease obligation	(2,387)	(1,825)	(19,615)
Proceeds from long-term debt	5,880	1,500	16,122
Repayment of long-term debt	(4,872)	(3,475)	(37,350)
Proceeds from stock issuance to minority shareholders	—	14,477	155,600
Payment for redemption of bonds	(220)	—	—
Payment for redemption of convertible bonds	(29)	—	—
Purchase of treasury stock	(117)	(5,718)	(61,457)
Cash dividends paid to shareholders	(5,138)	(3,788)	(40,714)
Other, net	—	0	0
Net cash provided by (used in) financing activities	(10,208)	10,195	109,576
Net decrease in cash and cash equivalents	(8,672)	(5,657)	(60,802)
Cash and cash equivalents at beginning of year (Note 5)	146,346	138,067	1,483,953
Increase (decrease) in cash and cash equivalents due to merger of consolidated subsidiaries	393	45	484
Cash and cash equivalents at end of year (Note 5)	¥138,067	¥132,455	\$1,423,635

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2009 and 2010

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

MEDIPAL HOLDINGS CORPORATION (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 Financial Instruments and Exchange Act 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 Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English 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 Financial Instruments and Exchange Act. 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, 2010, which was ¥93.04 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 (5 subsidiaries in the year ended March 31, 2010 and 12 subsidiaries in the year ended March 31, 2009).

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.

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

MEDICEO MEDICAL CO., LTD. changed its corporate name to MM CORPORATION on October 1, 2009.

SENSHU YAKUHIN CO., LTD., USHIODA KURAYA SANSEIDO Inc., YAMAHIRO KURAYA SANSEIDO Inc., HEISEI YAKUHIN CO., LTD. and IZUTSU KURAYA SANSEIDO Inc. merged with the Company's consolidated subsidiary KURAYA SANSEIDO Inc., the surviving company, on October 1, 2009. These companies therefore were excluded from the scope of consolidation as of October 1, 2009. KURAYA SANSEIDO Inc. changed its corporate name to MEDICEO CORPORATION on the same date.

ATOL Naha Yakuin Co., Ltd. merged with the Company's consolidated subsidiary ATOL CO., LTD., the surviving company, on October 1, 2009, and

therefore was excluded from the scope of consolidation as of October 1, 2009.

KURAYA KASEI, INC. was excluded from the scope of consolidation in the third quarter of the year ended March 31, 2010 because the Company transferred all of its shares of this subsidiary on November 30, 2009. This company's profit and loss and cash flows through December 31, 2009 are consolidated.

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. 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 the estimated useful lives up to 20 years using the straight-line method, or is charged to income in the year incurred if it is immaterial.

Software for its own use is amortized over the estimated useful life (5 years) using the straight-line method.

D. 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.

E. 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.

F. DERIVATIVES

Derivatives are stated at fair value.

G. INVENTORIES

Inventories are stated at cost, primarily determined by the average method, with book value written down as necessary to reflect any decrease in profitability. Loss on devaluation of inventories is recorded as cost of sales.

H. PROPERTY AND EQUIPMENT, AND DEPRECIATION

Property and equipment, excluding leased assets, are stated at cost. Depreciation is computed by the declining-balance method at rates based on their estimated useful lives except for buildings (excluding building improvements) acquired on or after April 1, 1998, which are depreciated by the straight-line method.

The estimated useful lives are as follows:

Buildings and structures: 3-50 years

Other tangible fixed assets: 4-15 years

Leased assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method with the lease periods as the useful lives and zero residual value.

I. 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.

J. 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.

K. 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 the consolidated balance sheet date based on the estimated amounts of projected benefit obligation and the fair value of the pension assets. Prior service costs and actuarial differences are recognized as expenses primarily from the fiscal year in which they arise, using the straight-line method over a fixed number of years not exceeding the estimated average remaining period of service.

L. 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.

M. 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.

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.

N. RECLASSIFICATIONS

Certain prior year amounts have been reclassified and restated to conform to the current year presentation.

These reclassifications and restatements had no effect on previously reported results of operations or retained earnings.

3. CHANGES IN ACCOUNTING STANDARDS

ACCOUNTING STANDARD FOR EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

Effective from the year ended March 31, 2010, the Companies have adopted the Partial Amendments to "Accounting Standard for Retirement Benefits (3)" (ASBJ Statement No. 19, July 31, 2008). This change had no effect on the consolidated financial statements for the year ended March 31, 2010.

4. FINANCIAL INSTRUMENTS

Effective from the year ended March 31, 2010, the Companies have applied "Accounting Standards for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 10, 2008).

(1) Policy for financial instruments

As a matter of policy, the Companies limit fund management to the use of instruments including short-term deposits and raise money by borrowing from financial institutions. The Companies use derivatives to reduce the risk noted in (2), not for speculative transactions.

(2) Types of financial instruments and related risk

Notes and accounts receivable and other monetary claims on customers and counterparties expose the Companies to customer credit risk.

Securities and investment securities consist primarily of investment trust units, held-to-maturity debt securities and shares of companies with which the Companies do business. Investment trust units expose the Companies to the risk of changes in market prices, and to credit risk in the form of delayed payments of interest or funds due upon redemption. The yield on certain held-to-maturity debt securities is structured to vary according to foreign exchange or interest rates, but this variability does not affect the principal. Investment securities expose the Companies to the risk of changes in market prices.

Long-term loans receivable expose the Companies to the credit risk of the borrowers.

Notes and accounts payable are almost entirely due within one year.

Interest-bearing debt includes short-term bank loans to fund working capital requirements associated with operations, and long-term loans to fund capital expenditures.

The Companies use derivatives including forward foreign exchange contracts to hedge the risk of exchange rate fluctuations associated with receivables.

(3) Risk management for financial instruments

1) Credit risk management

Credit risk is the risk of default by customers or counterparties. The Companies have procedures for managing receivable balances and due dates by counterparty and for regularly monitoring the financial condition of significant counterparties. The Companies also mitigate the risk of long-term loans receivable through procedures for monitoring borrowers.

2) Market risk management

Market risk includes the risk of fluctuations in foreign exchange rates and interest rates. The Companies mitigate the risks associated with investment

trust units with procedures to manage funding and fund management. Market prices of listed investment securities are determined quarterly.

3) Liquidity risk associated with funding

Liquidity risk is the risk of being unable to make scheduled payments. The Companies manage liquidity risk by creating and updating a capital deployment plan based on reports from each of the Companies.

(4) Supplemental information on the fair value of financial instruments

The fair value of financial instruments is based on market prices, or a reasonable estimate of fair value when market prices are not available. Estimates of fair value are subject to fluctuation because they employ variable factors and assumptions.

The table below summarizes the book value and the estimated fair values of financial instruments outstanding at March 31, 2010. Financial instruments for which fair value is not readily determinable are not included in the table below. Note 2 provides information on financial instruments that are not included as their fair value is not readily determinable.

March 31	Millions of yen		
	Book value	Fair value	Difference
	¥137,755	¥137,755	¥ —
Cash and time deposits	571,259	571,259	—
Notes and accounts receivable, trade	50,415	50,415	—
Accounts receivable, other	Securities and investment securities:		
	4,301	3,619	(682)
Held-to-maturity debt securities	38	3,481	3,443
Investment in subsidiaries and affiliates	58,236	58,236	—
Available-for-sale securities	Long-term loans receivable (including portion due within one year)		
	157	157	(0)
Total assets	¥822,161	¥824,922	¥2,761
Notes and accounts payable, trade	¥719,438	¥719,438	¥ —
Short-term bank loans	37,837	37,837	—
Long-term debt due within one year	1,956	2,046	90
Long-term debt	6,304	6,245	(59)
Total liabilities	¥765,535	¥765,566	¥ 31
Derivatives*	¥ 2	¥ 2	¥ —

March 31	Thousands of U.S. dollars		
	Book value	Fair value	Difference
	\$1,480,600	\$1,480,600	\$ —
Cash and time deposits	6,139,929	6,139,929	—
Notes and accounts receivable, trade	541,864	541,864	—
Accounts receivable, other	Securities and investment securities:		
	46,227	38,897	(7,330)
Held-to-maturity debt securities	408	37,414	37,005
Investment in subsidiaries and affiliates	625,924	625,924	—
Available-for-sale securities	Long-term loans receivable (including portion due within one year)		
	1,687	1,687	(0)
Total assets	\$8,836,640	\$8,866,316	\$29,675
Notes and accounts payable, trade	\$7,732,567	\$7,732,567	\$ —
Short-term bank loans	406,675	406,675	—
Long-term debt due within one year	21,023	21,991	967
Long-term debt	67,756	67,122	(634)
Total liabilities	\$8,228,020	\$8,228,353	\$ 333
Derivatives*	\$ 21	\$ 21	\$ —

* The value of assets and liabilities arising from derivatives is shown at net value. Amounts in parentheses represent net liability.

Note 1: Methods to determine the estimated fair value of financial instruments and other information for securities and derivatives

Assets

a. Cash and time deposits, Notes and accounts receivable, trade, and accounts receivable, other: Book value approximates fair value because of their short settlement period.

b. Securities and investment securities: The fair value of investment trust units is based on quotes provided by financial institutions. The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on quotes provided by financial institutions.

c. Long-term loans receivable (including portion due within one year): The fair value of long-term loans receivable is calculated as discounted present value of total principal and interest using assumed interest rates for equivalent new loans.

Liabilities

a. Notes and accounts payable, trade and short-term bank loans: Book value approximates fair value because of their short settlement period.

b. Long-term debt due within one year and long-term debt: The fair value of long-term loans is calculated as discounted present value of total principal and interest using assumed interest rates for equivalent new loans.

Derivatives

Please refer to Note 7, Derivatives, of the notes to the consolidated financial statements.

Note 2: Financial instruments for which fair value is not readily determinable at March 31, 2010 consisted of the following:

March 31	Millions of yen	Thousands of U.S. dollars
	2010	2010
Unlisted equity securities	¥6,254	\$67,218

Note 3: The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2010 are as follows:

March 31	Millions of yen			
	2010	After one year through five years	After five years through ten years	After ten years
Cash and time deposits	¥137,755	¥ —	¥ —	¥ —
Notes and accounts receivable, trade	571,127	132	—	—
Accounts receivable, other	50,415	—	—	—
Securities and investment securities:	Held-to-maturity debt securities			
	—	—	300	—
Bonds	—	400	—	3,601
Other	Available-for-sale securities with contractual maturities			
	18,711	—	—	—
Other	Portion of long-term loans receivable due within one year			
	70	80	7	—
Total	¥778,078	¥612	¥307	¥3,601

	Thousands of U.S. dollars			
	2010			
March 31	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and time deposits	\$1,480,600	\$ —	\$ —	\$ —
Notes and accounts receivable, trade	6,138,510	1,419	—	—
Accounts receivable, other	541,864	—	—	—
Securities and investment securities:				
Held-to-maturity debt securities:				
Bonds	—	—	3,225	—
Other	—	4,299	—	38,704
Available-for-sale securities with contractual maturities:				
Other	201,107	—	—	—
Portion of long-term loans receivable due within one year	752	860	75	—
Total	\$8,362,833	\$6,578	\$3,300	\$38,704

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2009 and 2010 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Cash and time deposits	¥143,292	¥137,755	\$1,480,600
Time deposits with maturities over three months	(5,225)	(5,300)	(56,965)
Cash and cash equivalents	¥138,067	¥132,455	\$1,423,635

6. INVESTMENT SECURITIES

The Companies recognized ¥219 million (\$2,354 thousand) in loss on devaluation of investment securities for the year ended March 31, 2010, of which ¥215 million (\$2,311 thousand) applied to available-for-sale securities. The Companies 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. The Companies recognize impairment of equities for which fair value is not readily determinable net of amount deemed recoverable if the net assets per share of the issuer fall 50 percent or more below the acquisition cost.

(1) HELD-TO-MATURITY DEBT SECURITIES

March 31, 2010	Millions of yen		
	Book value	Fair value	Difference
Securities whose book value exceeds their acquisition cost:			
Debt securities	¥ 300	¥ 304	¥ 4
	¥ 300	¥ 304	¥ 4
Securities whose book value does not exceed their acquisition cost:			
Other securities	¥4,001	¥3,315	¥(686)
Total	¥4,301	¥3,619	¥(682)

March 31, 2010	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Securities whose book value exceeds their acquisition cost:			
Debt securities	\$ 3,225	\$ 3,267	\$ 43
	\$ 3,225	\$ 3,267	\$ 43
Securities whose book value does not exceed their acquisition cost:			
Other securities	\$43,002	\$35,630	\$(7,373)
Total	\$46,227	\$38,897	\$(7,330)

(2) AVAILABLE-FOR-SALE SECURITIES WITH A MARKET VALUE

March 31, 2010	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	¥19,071	¥35,425	¥16,354
	¥19,071	¥35,425	¥16,354
Securities whose book value does not exceed their acquisition cost:			
Equity securities	¥ 4,762	¥ 4,101	¥ (661)
Other securities	¥18,711	¥18,711	—
Total	¥42,544	¥58,237	¥15,693

March 31, 2010	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	\$204,976	\$380,750	\$175,773
	\$204,976	\$380,750	\$175,773
Securities whose book value does not exceed their acquisition cost:			
Equity securities	\$ 51,182	\$ 44,078	\$ (7,104)
Other securities	\$201,108	\$201,107	—
Total	\$457,266	\$625,935	\$168,669

March 31, 2009	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	¥13,913	¥25,571	¥11,658
	¥13,913	¥25,571	¥11,658
Securities whose book value does not exceed their acquisition cost:			
Equity securities	¥ 9,650	¥ 9,057	¥ (593)
	¥ 9,650	¥ 9,057	¥ (593)
Total	¥23,563	¥34,628	¥11,065

(3) AVAILABLE-FOR-SALE SECURITIES SOLD DURING THE YEAR

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Proceeds from sales	¥ 502	¥11	\$118
Realized gains on sales	237	1	11
Realized losses on sales	(3)	(6)	(64)

(4) BOOK VALUE OF AVAILABLE-FOR-SALE SECURITIES WITHOUT A MARKET VALUE

March 31	Millions of yen
	2009
Held-to-maturity:	
Unlisted debt securities	¥3,600
Available-for-sale:	
Unlisted equity securities	2,943
Bonds	1
Investments in investment partnerships	—

(5) SCHEDULE FOR REDEMPTION OF AVAILABLE-FOR-SALE SECURITIES WITH A MATURITY AND HELD-TO-MATURITY DEBT SECURITIES

March 31	Millions of yen		
	2009		
	Due within one year	Due after one year through ten years	Due after ten years
Unlisted foreign securities (Total)	¥ —	¥ —	¥3,300
Unlisted domestic bonds (Total)	¥ —	¥ 300	¥ —

7. DERIVATIVES

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 of the assets and liabilities of hedging instruments are the same as those of the hedged items, the assessment of effectiveness is omitted because the effectiveness is clearly 100 percent.

As the derivatives are transacted solely with leading financial institutions, the subsidiary does not expect any credit risk.

The derivatives are executed and managed in accordance with the established policies and within the amount of hedged items. Information on the derivatives utilized by the certain subsidiary is not disclosed before March 31, 2009 as hedge accounting has been applied for all derivatives.

Currency-related transactions for the year ended March 31, 2010 are listed below.

Year ending March 31, 2010		Millions of yen		
Accounting Method	Type	Hedged Item	Notional amount	Fair value
Principle method	Buy: US\$	Accounts payable	¥49	¥2
Total			¥49	¥2
Year ending March 31, 2010		Thousands of U.S. dollars		
Accounting Method	Type	Hedged Item	Notional amount	Fair value
Principle method	Buy: US\$	Accounts payable	\$527	\$21
Total			\$527	\$21

Note : Calculation of fair value is based on the prices provided by financial institutions.

8. LOSS ON IMPAIRMENT OF FIXED ASSETS

Accumulated impairment losses are directly written off against the value of each asset based on the relevant rules for consolidated financial statements.

For business-use assets owned by the Companies 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, 2010, the Companies recorded loss on impairment of fixed assets for the following asset groups:

Application	Type	Location	Millions of yen	Thousand of U.S. dollars
Idle assets	Land and buildings, etc.	Kanto, 12 items	¥ 422	\$ 4,536
		Kinki, 5 items	259	2,784
		Others	171	1,837
Business assets	Land, buildings and leased assets, etc.	Kanto, 16 items	120	1,290
		Others	170	1,827
Total			¥1,142	\$12,274

During the year ended March 31, 2009, the Companies recorded loss on impairment of fixed assets for the following asset groups:

Application	Type	Location	Millions of yen
Idle assets	Land and buildings, etc.	Kinki, 3 items	¥ 172
		Others	77
Business assets	Land, buildings and leased assets, etc.	Kanto, 17 items	1,274
		Tokai, 5 items	621
		Others	226
Leased assets	Land and buildings, etc.	Kinki, 1 item	523
		Others	335
Total			¥3,228

The Prescription Pharmaceutical Wholesale Business of the Companies 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.

Loss on impairment of fixed assets totaled ¥1,142 million (\$12,274 thousand) for the year ended March 31, 2010, as presented below.

Item	Millions of yen	Thousands of U.S. dollars
Land	¥ 327	\$ 3,515
Buildings and structures	526	5,653
Leased assets	161	1,730
Other	128	1,376
Total	¥1,142	\$12,274

9. INVESTMENT AND RENTAL PROPERTY

Effective from the year ended March 31, 2010, the Companies have applied "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20, November 28, 2008) and "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23, November 28, 2008).

The Companies own rental office buildings (including land) and idle land in Tokyo and elsewhere. Net rent income for the year ended March 31, 2010 totaled ¥469 million (\$5,041 thousand). Rent income is included in other income and rent expense is primarily included in other expenses. The Companies recorded loss on impairment of investment and rental property of ¥701 million (\$7,534 thousand) for the year ended March 31, 2010 that is included in loss on impairment of fixed assets in other expenses.

The book value, net change and fair value of investment and rental property are as follows:

	Millions of yen			
	2010			
	Book value		Balance at March 31, 2010	Fair value at March 31, 2010
Balance at March 31, 2009	Net change			
Investment and rental property	¥13,668	¥(1,258)	¥12,410	¥14,376

	Thousands of U.S. dollars			
	2010			
	Book value		Balance at March 31, 2010	Fair value at March 31, 2010
Balance at March 31, 2009	Net change			
Investment and rental property	\$146,905	\$(13,521)	\$133,383	\$154,514

Notes:

1. Book value represents the acquisition cost less accumulated depreciation and impairment loss.
2. Net changes for the year ended March 31, 2010 mainly consist of loss on impairment of ¥701 million (\$7,534 thousand).
3. Fair value of principal properties at March 31, 2010 is mainly based on external appraisal values or real-estate tax appraisal values.

10. 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 at March 31, 2002.

The resulting land revaluation differences represent unrealized appreciation of land and are accounted for as land revaluation differences, net of taxes in net assets.

11. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The Company has overdraft facilities with 17 banks in order to support effective financing. The unexecuted balance of overdraft facilities at March 31, 2009 and 2010 is listed below.

March 31	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Total overdraft facilities	¥159,723	¥148,997	\$1,601,429
Less amounts currently executed	(28,353)	(37,837)	(406,675)
Unexecuted balance	¥131,370	¥111,160	\$1,194,755

Short-term bank loans including overdraft facilities at March 31, 2009 and 2010 principally bore annual average interest rates of 1.32% and 0.95% per annum, respectively.

Long-term debt at March 31, 2009 and 2010 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Loans from banks	¥10,488	¥ 8,260	\$ 88,779
	10,488	8,260	88,779
Less amount due within one year	(3,489)	(1,956)	(21,023)
Amount due after one year	¥ 6,999	¥ 6,304	\$ 67,756

The annual maturities of long-term debt at March 31, 2010 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars
2011	1.57	¥1,956	\$21,023
2012	1.48	1,956	21,023
2013	1.48	1,584	17,025
2014	1.48	1,086	11,672
2015	1.48	1,678	18,035

The annual maturities of lease transactions at March 31, 2010 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars
2011	5.96	¥1,588	\$17,068
2012	8.88	1,028	11,049
2013	8.88	641	6,890
2014	8.88	353	3,794
2015	8.88	214	2,300

12. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

(1) OVERVIEW OF RETIREMENT BENEFIT PLAN

The Companies use contributory trustee employee pension plans established by the pharmaceutical industry, a contract-type corporate pension plan and an unfunded lump-sum retirement benefit plan as a defined benefit plan system, and a defined contribution pension plan as a defined contribution plan system. In addition, the Companies may pay a premium severance payment when employees retire.

(2) RETIREMENT BENEFITS

Employees' retirement benefits at March 31, 2009 and 2010 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Projected benefit obligation	¥(38,590)	¥(35,867)	\$(385,501)
Fair value of plan assets	20,943	22,657	243,519
Unfunded employees' severance and retirement benefits	(17,647)	(13,210)	(141,982)
Unrecognized actuarial difference	5,399	1,655	17,788
Unrecognized prior service costs	(145)	—	—
Subtotal	(12,393)	(11,555)	(124,194)
Prepaid pension expenses	4,387	3,264	35,082
Employees' severance and retirement benefits	¥(16,780)	¥(14,819)	\$(159,276)

Certain insignificant consolidated subsidiaries calculated the liabilities using the simplified method.

(3) NET PENSION EXPENSE

The components of net pension expense in 2009 and 2010 are listed below.

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Service costs	¥2,413	¥2,376	\$25,537
Interest costs on projected benefit obligations	735	729	7,835
Expected return on plan assets	(552)	(418)	(4,493)
Unrecognized actuarial difference	1,825	1,551	16,670
Amortization of prior service costs	(145)	(145)	(1,558)
Other	3,952	3,928	42,218
Net pension expense	¥8,228	¥8,021	\$86,210

In addition to the pension expense above, additional retirement benefits for employees amounting to ¥6,962 million (\$74,828 thousand) and ¥1,005 million were made for the years ended March 31, 2010 and 2009, respectively.

Service costs of consolidated subsidiaries using the simplified method were included in service costs above.

"Other" is the amount of premiums paid to the defined contribution pension plan and premiums paid to the welfare pension fund.

(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.

March 31	2009	2010
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0-3.0%	2.0%
Amortization period for prior service costs	3-5 years	3-5 years
Recognition period of actuarial difference	3-10 years	3-10 years

(5) FUNDED STATUS OF THE CONTRIBUTORY TRUSTEED EMPLOYEE PENSION PLANS ESTABLISHED BY THE PHARMACEUTICAL INDUSTRY

The Companies recognize contributions to several contributory trustee employee pension plans established by the pharmaceutical industry as retirement benefit expenses. The funded status of these plans at March 31, 2010 and 2009 were as follows:

2010	(Millions of yen)		
	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Other
Plan assets	¥ 325,177	¥ 217,352	¥ 88,777
Projected benefit obligation	502,794	388,740	127,740
Funded (unfunded) employees' severance and retirement benefits	¥(177,617)	¥(171,388)	¥ (38,963)

(Thousands of U.S. dollars)

2010	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Other
	Plan assets	\$ 3,495,024	\$ 2,336,113
Projected benefit obligation	5,404,063	4,178,203	1,372,958
Funded (unfunded) employees' severance and retirement benefits	\$(1,909,039)	\$(1,842,089)	\$(418,777)

(Millions of yen)

2009	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Other
	Plan assets	¥415,832	¥295,836
Projected benefit obligation	497,473	385,503	125,365
Funded (unfunded) employees' severance and retirement benefits	¥ (81,640)	¥ (89,666)	¥ (8,224)

(6) PERCENTAGE OF PLAN ASSETS ASCRIBABLE TO CONTRIBUTIONS BY THE MEDICEO GROUP

The percentage of the assets of each of these plans ascribable to contributions by the Companies at March 31, 2009 and 2010 were as follows:

	2009	2010
Tokyo Pharmaceutical Industry Employee Pension Fund	9.6%	9.6%
Osaka Pharmaceutical Industry Employee Pension Fund	4.8	4.9
Other	7.9	10.1

13. PLEDGED ASSETS

The Companies pledged the following assets to secure notes and accounts payable, trade in the amount of ¥37,859 million (\$406,911 thousand) and ¥35,927 million at March 31, 2010 and 2009, respectively.

March 31	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Land	¥1,947	¥1,765	\$18,970
Buildings and structures at net book value	193	181	1,945
Investment securities	429	494	5,310
Time deposits	1,120	1,120	12,038

14. CONTINGENT LIABILITIES

The Companies were contingently liable as guarantors for loans of unconsolidated subsidiaries, affiliates and others in the amount of ¥247 million (\$2,655 thousand) and ¥784 million at March 31, 2010 and 2009, respectively.

15. NET ASSETS

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 dividend 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 25, 2010, the shareholders approved cash dividends amounting to ¥2,111 million (\$22,689 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2010. Such appropriations are recognized in the period in which they are approved by the shareholders.

16. OTHER INCOME (EXPENSES)

Other income (expenses) - "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2009 and 2010 comprised the following:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Gain (loss) on sales of investment securities – net	¥ 235	¥ (5)	\$ (54)
Loss on sales or disposal of property and equipment – net	(567)	(728)	(7,825)
Loss on devaluation of golf club memberships	(5)	0	0
Office relocation expenses	(102)	(40)	(430)
Real estate rental income – net	590	341	3,665
Gain on sales of investment in affiliates	7	—	—
Loss on devaluation of investment in affiliates	(303)	(4)	(43)
Gain (loss) on sales of golf memberships – net	(10)	3	32
Loss on cancellation of shares due to absorption of a subsidiary – net	(886)	—	—
Other, net	1,428	1,320	14,188
	¥ 387	¥ 887	\$ 9,533

Loss on change in interests in a consolidated subsidiary Paltac Corporation resulted from the listing of its shares, which reduced the Company's ratio of share ownership in Paltac Corporation to 57.03 percent.

17. 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 42.0% and 77.5% for the years ended March 31, 2009 and 2010, respectively.

The reconciliation between the statutory tax rate and the effective tax rate of the Companies for financial statement purposes for the year ended March 31, 2010 was as follows:

Years ended March 31	2010
Statutory tax rate	40.7%
Non-deductible expenses for tax purposes	(15.5)
Per capita inhabitant taxes	4.6
Valuation allowance	(16.1)
Amortization of goodwill	13.3
Equity in earnings of affiliated companies	19.4
Consolidation adjustment upon sale of investment in a consolidated subsidiary	30.9
Others	0.2
Effective tax rate	77.5%

Reconciliation of the difference between the effective tax rate and the statutory tax rate is omitted for the year ended March 31, 2009 because it was less than 5 percentage points.

Significant components of the deferred tax assets and liabilities of the Companies at March 31, 2009 and 2010 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Deferred tax assets:			
Excess allowance for doubtful accounts	¥ 493	¥ 350	\$ 3,762
Accrued enterprise taxes	208	285	3,063
Excess provision for employees' bonuses	3,101	3,471	37,307
Provision for employees' severance and retirement benefits	6,727	6,148	66,079
Loss on impairment of fixed assets	1,650	1,574	16,917
Tax loss carryforward	1,767	1,592	18,422
Loss on devaluation of investment securities	2,368	2,012	21,625
Defined contribution pension plan	390	180	1,935
Other	8,099	6,905	72,904
Subtotal	24,803	22,517	242,014
Valuation allowance	(8,827)	(7,563)	(81,288)
Total deferred tax assets	¥ 15,976	¥ 14,954	\$ 160,726
Deferred tax liabilities:			
Deferred gain on sale of fixed assets	(2,707)	(3,153)	(33,889)
Net unrealized holding gains on securities	(4,404)	(6,040)	(64,918)
Other	(9,163)	(7,993)	(85,909)
Total deferred tax liabilities	¥(16,274)	¥(17,186)	\$(184,716)
Net deferred tax assets	¥ (298)	¥ (2,232)	\$ (23,990)

Net deferred tax assets included in the consolidated balance sheets consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2009	2010	2010
Deferred tax assets included in current assets	¥ 6,960	¥6,559	\$70,497
Deferred tax assets included in property and equipment	343	—	—
Deferred tax liabilities included in long-term liabilities	(7,601)	(8,792)	(94,497)

18. SEGMENT INFORMATION

Information by business segment for the years ended March 31, 2009 and 2010 is as follows:

Year ended March 31	Millions of yen					
	2010					
	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	¥1,825,740	¥716,607	¥3,683	¥2,546,030	¥ —	¥2,546,030
(2) Intersegment sales and transfers	375	886	1	1,262	(1,262)	—
Total sales	1,826,115	717,493	3,684	2,547,292	(1,262)	2,546,030
Operating expenses	1,816,420	708,816	3,666	2,528,902	(1,306)	2,527,596
Operating income	¥9,695	¥ 8,677	¥ 18	¥ 18,390	¥ 44	¥ 18,434
Assets, depreciation, impairment loss and capital expenditures:						
Assets	¥ 827,875	¥279,071	¥ —	¥1,106,946	¥59,541	¥1,166,487
Depreciation	7,397	3,927	29	11,353	88	11,441
Impairment loss	723	419	—	1,142	—	1,142
Capital expenditures	11,225	17,696	24	28,945	10	28,955

Year ended March 31	Thousands of U.S. dollars					
	2010					
	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	\$19,623,173	\$7,702,139	\$39,585	\$27,364,897	\$ —	\$27,364,897
(2) Intersegment sales and transfers	4,030	9,523	11	13,564	(13,564)	—
Total sales	19,627,203	7,711,662	39,596	27,378,461	(13,564)	27,364,897
Operating expenses	19,523,001	7,618,401	39,402	27,180,804	(14,037)	27,166,767
Operating income	\$ 104,202	\$ 93,261	\$ 194	\$ 197,657	\$ 473	\$ 198,130
Assets, depreciation, impairment loss and capital expenditures:						
Assets	\$ 8,898,055	\$2,999,473	\$ —	\$11,897,528	\$639,951	\$12,537,479
Depreciation	79,503	42,208	312	122,023	946	122,969
Impairment loss	7,771	4,503	—	12,274	—	12,274
Capital expenditures	120,647	190,198	258	311,103	107	311,210

Year ended March 31	Millions of yen					
	2009					
	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	¥1,748,145	¥710,381	¥5,044	¥2,463,570	¥ —	¥2,463,570
(2) Intersegment sales and transfers	859	648	2	1,509	(1,509)	—
Total sales	1,749,004	711,029	5,046	2,465,079	(1,509)	2,463,570
Operating expenses	1,743,128	703,508	5,029	2,451,665	(1,551)	2,450,114
Operating income	¥ 5,876	¥ 7,521	¥ 17	¥ 13,414	¥ 42	¥ 13,456
Assets, depreciation, impairment loss and capital expenditures:						
Assets	¥ 863,526	¥252,119	¥2,051	¥1,117,696	¥ (409)	¥1,117,287
Depreciation	7,537	3,665	23	11,225	—	11,225
Impairment loss	3,124	104	—	3,228	—	3,228
Capital expenditures	10,990	8,588	364	19,942	—	19,942

Notes:

- Method of business classification
Businesses are classified in consideration of similarities of product type, grouping 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 Pharmaceutical Wholesale Business	Wholesale distribution of cosmetics, daily necessities, soap, detergents, over-the-counter pharmaceuticals, etc.
Related Business	Sales of industrial chemicals, food additives, etc.

- Operating expenses that are not allocated to any business segment but included in eliminations and corporate are ¥943 million (\$10,135 thousand) for the fiscal year ended March 31, 2010, and principally consist of expenses related to pure holding company functions.
- Assets that are not allocated to any business segment but included in eliminations and corporate are ¥220,705 million (\$2,372,152 thousand) for the fiscal year ended March 31, 2010, and principally consist of surplus funds (cash, deposits and marketable securities), and long-term investments (investment securities) of the parent company.
- Depreciation and capital expenditures include amortization of long-term prepaid expenses.
- Change in Business Classification
Previously, the Company was included in the "Prescription Pharmaceutical Wholesale Business," but as of October 1, 2009 it clearly divided Group headquarters functions and operating company functions through a corporate separation, transferring operating company functions to its wholly owned subsidiary KURAYA SANSEIDO Inc. (currently MEDICEO CORPORATION) and becoming a pure holding company. Accordingly, in order to more accurately reflect the actual status of business, the Company's Group headquarters functions are recorded in "Eliminations and Corporate" from the third quarter ended December 31, 2009. This change did not have a material effect on operating income, depreciation and capital expenditures. As a result of this change, assets under the "Prescription Pharmaceutical Wholesale Business" decreased by ¥59,932 million (\$644,153 thousand) compared with the former method of classification, and assets under "Eliminations and Corporate" increased by the same amount.

Geographical Segment Information

Geographical segment information is not disclosed, as the Company has no consolidated subsidiaries or no branch offices outside Japan for the years ended March 31, 2009 and March 31, 2010.

Overseas Sales (April 1, 2009 - March 31, 2010)

Overseas sales are omitted because they constituted less than 10 percent of total net sales.

19. TRANSACTIONS WITH RELATED PARTIES

Effective from the year ended March 31, 2009, the Companies have applied "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11, October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13, October 17, 2006).

(Years ended March 31, 2010 and 2009)

None applicable.

20. BUSINESS COMBINATIONS

On October 1, 2009, Mediceo Paltac Holdings Co., Ltd. separated its prescription pharmaceutical wholesale business and transferred it to wholly owned consolidated subsidiary KURAYA SANSEIDO Inc. on October 1, 2009 through an absorption merger of six wholly owned consolidated subsidiaries – KURAYA SANSEIDO Inc., SENSHU YAKUHIN CO., LTD., USHIODA KURAYA SANSEIDO Inc., YAMAHIRO KURAYA SANSEIDO Inc., HEISEI YAKUHIN CO., LTD. and IZUTSU KURAYA SANSEIDO Inc. – with KURAYA SANSEIDO Inc. the surviving company. The combined company changed its corporate name to MEDICEO CORPORATION and Mediceo Paltac Holdings Co., Ltd. changed its corporate name to MEDIPAL HOLDINGS CORPORATION on the same date.

The separation and business combination are aimed at rapidly strengthening functions and reducing costs in response to changes in the operating environment. The clear division of Group headquarters functions and operating company functions (including the prescription pharmaceutical wholesale business and the cosmetics, daily necessities, and OTC pharmaceutical wholesale business) lets each business focus on its operations to accelerate decision-making, strengthen competitiveness, concentrate management resources and optimize allocation of human resources. The expected results are greater efficiency and enhanced responsiveness to customer requirements. MEDIPAL HOLDINGS CORPORATION has become the Group headquarters that specializes in planning for overall Group strategy as a pure holding company.

The Company applied "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003) and "Application Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, November 15, 2007), and treated the combination as a common control transaction.

21. SUBSEQUENT EVENTS

Cash Dividends

On May 14, 2010, the Board of Directors approved the payment of a cash dividend of ¥9.00 (\$0.10) per share to shareholders of record at March 31, 2010, for a total payment of ¥2,111 million (\$22,689 thousand).

Voluntary Early Retirement Offer

In response to a major decline in the profitability of the prescription pharmaceutical wholesale business due to changes in the industry environment, the Company resolved at a Board of Directors meeting held on May 14, 2010 to offer early retirement to employees of three of its wholly owned subsidiaries in the prescription pharmaceutical wholesale business, with a view to transforming the cost structure and broadening employees' independence and future options.

(1) Consolidated subsidiaries included in the early retirement offer

Three companies in the prescription pharmaceutical wholesale business:

- MEDICEO CORPORATION
- EVERLTH Co., Ltd.
- ATOL CO., LTD.

(2) Number of employees to be extended the offer

750

(3) Eligible employees

Employees (including seconded employees) who will be between the ages of 50 and 59 and have at least ten years of service as of March 31, 2011.

(4) Offering period

June 1– June 30, 2010

(5) Retirement date

September 30, 2010

(6) Estimated total amount of severance payments

The Company estimates that payment of special premium severance payments with the implementation of the plan will total approximately ¥9,700 million (\$104,256 thousand) for the three companies.

(7) Other

In addition to paying a special premium severance payment to employees who take early retirement, the Company will provide them with reemployment support such as outplacement and career counseling services.

Independent Auditors' Report

To the Shareholders and Board of Directors of MEDIPAL HOLDINGS CORPORATION:

We have audited the accompanying consolidated balance sheets of MEDIPAL HOLDINGS CORPORATION and consolidated subsidiaries as of March 31, 2009 and 2010, and the related consolidated statements of income, changes in net assets and cash flows for the years 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 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 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 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 MEDIPAL HOLDINGS CORPORATION and subsidiaries as of March 31, 2009 and 2010, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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

June 25, 2010