

The Challenge of Being Essential

Annual Report **2011**

Fiscal year ended March 31, 2011

The MEDIPAL Group (or “MEDIPAL”) has a clear and compelling value proposition: provide safe, secure and low-cost wholesale distribution. We are committed to earning customer loyalty by competitively providing quality service, while generating shareholder value by operating with industry-leading efficiency.

Management PHILOSOPHY

Contributing to people’s health and the advancement of society through creation of value in distribution

Management POLICY

- ◆ Create a vitalized corporate culture to make the MEDIPAL Group trusted by society.
- ◆ Raise shareholder value and ensure thorough compliance.
- ◆ Faithfully create a free and open-minded corporate culture and train creative personnel.

Number one

in sales and
earnings in our industry

An industry-leading

23.6% share of
the prescription pharmaceutical
distribution market

More than

¥2.6
trillion

in net sales and growing

Contents

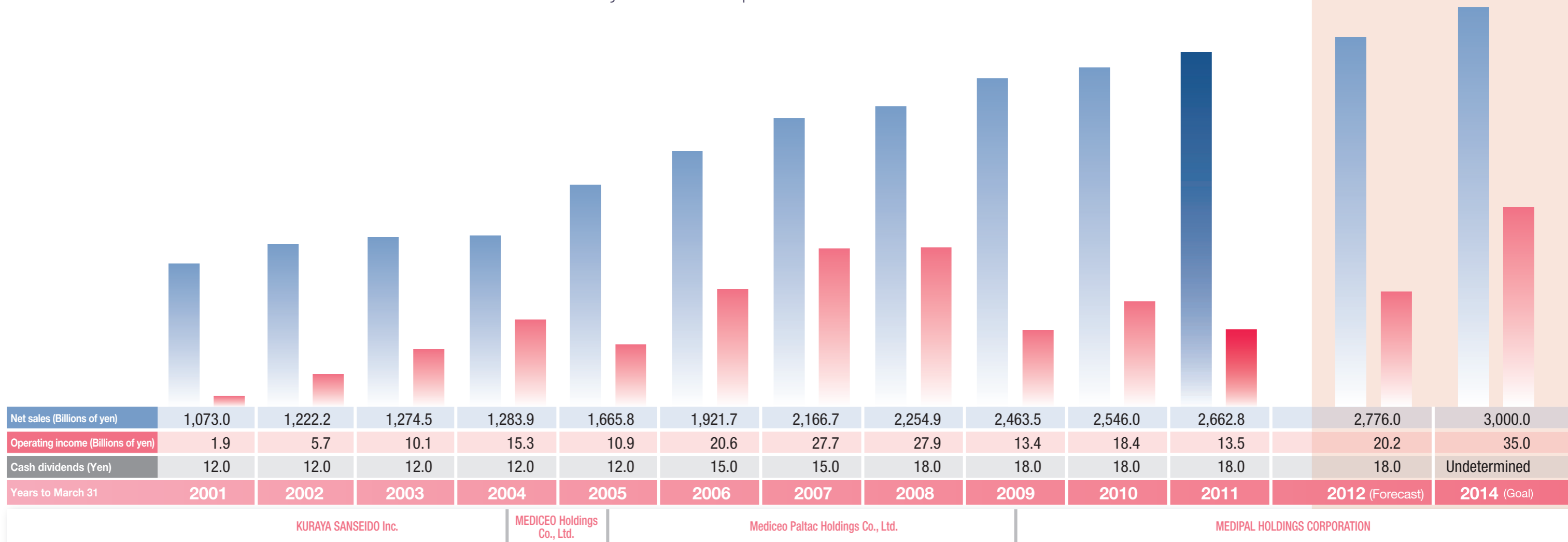
Profile	Inside Front Cover
Evolution to Generate Growth and Achieve Industry Leadership	2
Financial Highlights	4
MEDIPAL at a Glance	5
Highlights of the Fiscal Year Ended March 31, 2011	6
To Our Stakeholders	8
An Interview with President and CEO Sadatake Kumakura	9
The 2014 MEDIPAL Medium-Term Vision	16
Corporate Social Responsibility	20
Corporate Governance	21
Management Team	24
Financial Section	25
Subsidiaries and Affiliated Companies	53
Investor Information	54

Forward-Looking Statements

This annual report contains forward-looking statements regarding MEDIPAL HOLDINGS CORPORATION's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from information available about the Company at the time of publication.

Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's business; competitive pressures; related laws and regulations; product development programs; and changes in exchange rates.

Evolution to Generate Growth and Achieve Industry Leadership



April 2000:
Sanseido Co., Ltd., KURAYA CORPORATION and TOKYO PHARMACEUTICAL Co., Ltd. merged to form KURAYA SANSEIDO Inc.

March 2003:
USHIODA SANGOKUDO YAKUHIN CO., LTD. (Mito-shi, Ibaraki) became a wholly owned subsidiary of KURAYA SANSEIDO.

September 2003:
IZUTSU PHARMACEUTICAL CO., LTD. and HEISEI YAKUHIN CO., LTD. became wholly owned subsidiaries of KURAYA SANSEIDO.

April 2004:
EVERLTH Co., Ltd. and ATOL CO., LTD. became wholly owned subsidiaries of KURAYA SANSEIDO and the MEDICEO Group was inaugurated.

October 2004:
After spinning off its businesses, KURAYA SANSEIDO became an operating holding company and changed its corporate name to MEDICEO Holdings Co., Ltd. The pharmaceutical wholesale business was transferred to KURAYA SANSEIDO Spin-off Preparation Inc., which then changed its corporate name to KURAYA SANSEIDO Inc.

October 2005:
MEDICEO Holdings integrated its management with PALTAC CORPORATION and changed its corporate name to Mediceo Paltac Holdings Co., Ltd.

January 2007:
MARUZEN YAKUHIN CO., LTD. became a wholly owned subsidiary of Mediceo Paltac Holdings.

January 2008:
KOBASHOU. CO., LTD. became a wholly owned subsidiary of Mediceo Paltac Holdings.

April 2008:
PALTAC CORPORATION merged with KOBASHOU. CO., LTD. and changed its corporate name to PALTAC KS CORPORATION.

October 2009:
Mediceo Paltac Holdings separated its Group headquarters functions from its operating businesses to become a pure holding company and changed its corporate name to MEDIPAL HOLDINGS CORPORATION.

March 2010:
Paltac listed its shares on the Tokyo Stock Exchange and the Osaka Securities Exchange.

April 2010:
MARUZEN YAKUHIN CO., LTD., EVERLTH AGROTECH Co., Ltd., and the animal health products wholesale business of ATOL CO., LTD. were merged, with MARUZEN YAKUHIN CO., LTD. as the surviving company. MARUZEN YAKUHIN then changed its corporate name to MP AGRO CO., LTD. and became a wholly owned subsidiary of MEDIPAL HOLDINGS CORPORATION.

April 2009:
PALTAC KS CORPORATION changed its corporate name to Paltac Corporation.

October 2009:
KURAYA SANSEIDO Inc. took over purchasing, logistics, systems and other functions from Mediceo Paltac Holdings, merged with SENSHU YAKUHIN CO., LTD., USHIODA KURAYA SANSEIDO Inc., YAMAHIRO KURAYA SANSEIDO Inc., HEISEI YAKUHIN CO., LTD. and IZUTSU KURAYA SANSEIDO Inc., and changed its corporate name to MEDICEO CORPORATION.

2014 MEDIPAL Medium-Term Vision (April 2011-March 2014)

“By building a new distribution system focused on safety, security and low cost, we aim to be the most reliable corporate group for our customers and society.”

Financial Highlights

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2009, 2010 and 2011

	Millions of yen		2011	Percent change 2011/2010	Thousands of U.S. dollars (Note 1)
	2009	2010			2011
For the Year:					
Net sales	¥2,463,570	¥2,546,030	¥2,662,822	4.6%	\$32,024,317
Operating income	13,456	18,434	13,549	(26.5)	162,946
Net income	12,510	1,958	1,705	(12.9)	20,505
At Year-End:					
Total assets	¥1,117,287	¥1,166,487	¥1,284,680	10.1%	\$15,450,150
Total net assets	294,501	330,993	340,984	3.0	4,100,830
Per Share (Yen and U.S. Dollars):					
Net income (Note 2)	¥ 52.30	¥ 8.31	¥ 7.27	(12.5)%	\$ 0.09
Diluted net income	52.22	—	—	—	—
Total net assets (Note 3)	1,229.34	1,236.15	1,275.94	3.2	15.35
Cash dividends	18.00	18.00	18.00	0.0	0.22
Ratios:					
Return on assets (Note 4)	1.3%	1.7%	1.2%		
Return on equity (Note 5)	4.3	0.7	0.6		
Payout ratio	34.4	216.7	247.7		

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥83.15 to U.S. \$1.00, the approximate exchange rate on March 31, 2011.

2. Net income per share = (Net income – Officers' bonuses) / (Average shares outstanding during the year – Average treasury stock during the year)

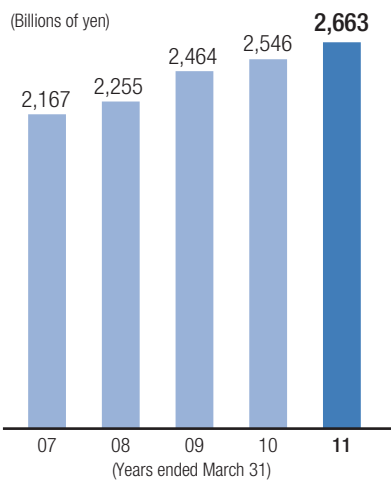
3. Total net assets per share = (Total net assets – Officers' bonuses) / (Shares outstanding at end of year – Treasury stock)

4. Return on assets = (Operating income + interest and dividend income) / Total assets at end of period

5. Return on equity = Net income / Average total net assets

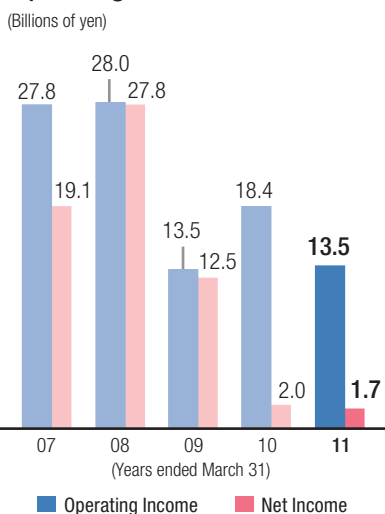
Net Sales

(Billions of yen)



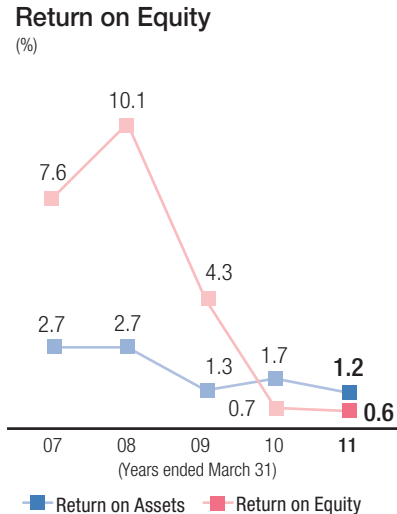
Operating Income / Net Income

(Billions of yen)



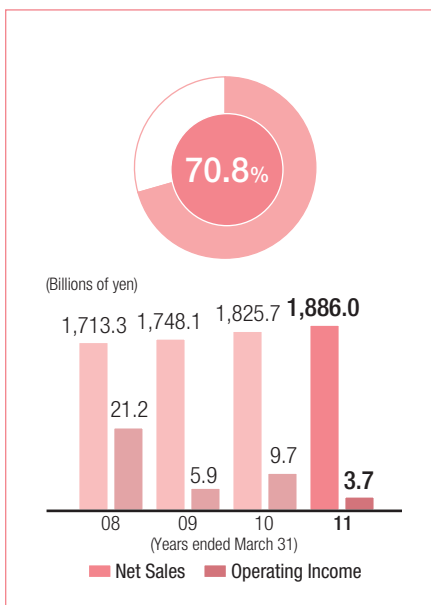
Return on Assets / Return on Equity

(%)



MEDIPAL at a Glance

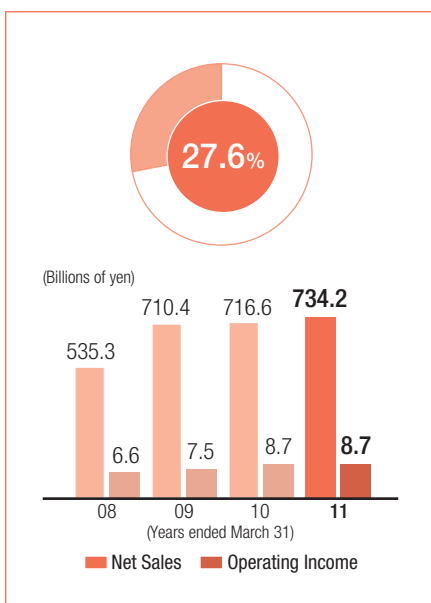
- ◆ MEDIPAL leads its industry as a multi-channel wholesaler covering prescription pharmaceuticals, over-the-counter (OTC) pharmaceuticals, cosmetics and other products.
- ◆ Healthcare system reform and the changing dynamics of pharmaceutical distribution have made scale and efficiency more important than ever. MEDIPAL has therefore adapted its business model to achieve economies of scale and transform service into a competitive advantage.
- ◆ MEDIPAL constantly innovates its customer-oriented approach to leverage its national scale and sophisticated information technologies in helping customers and suppliers manage inventories efficiently and lower costs.



Prescription Pharmaceutical Wholesale Business

Wholesale distribution of prescription pharmaceuticals, medical equipment, etc.

- ◆ Net sales of the Prescription Pharmaceutical Wholesale Business increased 3.3 percent year on year to ¥1,885,966 million.
- ◆ Area logistics centers (ALCs) raise efficiency and optimize distribution. With the start of operations at the Minami Osaka ALC in June 2010 and the Nagoya ALC in July 2011, our ALCs now serve the three critical markets of Tokyo, Osaka and Nagoya.
- ◆ While ensuring continued leadership in Japan, MEDIPAL is deploying its experience to expand in China's high-potential prescription pharmaceutical wholesale market. We are working with strong partners from China and Japan to generate growth while controlling risk.



Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

Wholesale distribution of cosmetics, daily necessities, soap, detergents, over-the-counter pharmaceuticals, etc.

- ◆ Net sales of the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business increased 2.5 percent year on year to ¥734,178 million.
- ◆ With the completion of regional distribution centers (RDCs) in Yokohama and Okinawa during the fiscal year ended March 31, 2011, Paltac Corporation has nearly completed a nationwide distribution network that has raised productivity throughout the supply chain and generated economies of scale.
- ◆ MEDIPAL is building on its relationships with Japanese retailers and manufacturers to meet their needs for overseas expansion. In March 2011, Paltac concluded a business alliance with a Chinese partner that will export products for sale in China as an important first step in expanding Chinese sales channels.

2010

April 2010

MP AGRO CO., LTD. Established

MP AGRO CO., LTD. was created on April 1 with the merger of MARUZEN YAKUHIN CO., LTD., EVERLTH AGROTECH Co., Ltd. and the animal health products wholesale business of ATOL CO., LTD. This integration of the animal health products and food products wholesale businesses established a more agile business operating structure. The integration was aimed at creating a company that can contribute to society and promote the sound advancement of the industry.



MP AGRO CO., LTD. head office

New Company Established through Joint Investment with Qol Co., Ltd. and GROWELL HOLDINGS CO., LTD.

GMQ Co., Ltd. was established on April 30 through a joint investment by MEDIPAL, Qol Co., Ltd. and GROWELL HOLDINGS CO., LTD. The activities of the new company include planning and operation of a new type of pharmacy and training of pharmacists to meet the needs of Japan's rapidly aging population.

June 2010

Voluntary Early Retirement Offer

MEDIPAL offered early retirement to employees of three wholly owned subsidiaries in the prescription pharmaceutical wholesale business – MEDICEO CORPORATION, EVERLTH Co., Ltd. and ATOL CO., LTD. – in order to promote reform of their cost structures that will further streamline management and give employees more independence by broadening their future options. A total of 93 employees accepted the offer.

October 2010

MEDICEO CORPORATION Sets Up Specialty Pharma Department

On October 1, MEDICEO CORPORATION established the Specialty Pharma Department (renamed Assist Representative – Specialty Pharma Promotion Department on July 1, 2011) to handle and deliver not only frequently used drugs but also specialty pharma products that address unmet medical needs and fundamentally change existing treatments. The department will use the MEDIPAL Group's pharmaceutical logistics infrastructure to meet medical needs through tie-ups with pharmaceutical manufacturers from the clinical research stage (distribution of investigational new drugs), consistent lot traceability from distribution centers to customers, and post-marketing surveillance contract services.

January 2011

Paltac Corporation Completes Construction of RDC* Yokohama

On January 21, Paltac Corporation completed construction of RDC Yokohama in Zama, Kanagawa Prefecture, to further improve services for customers and expand shipping capacity. As Paltac's largest regional distribution center, RDC Yokohama is able to bundle deliveries of cosmetics, daily necessities and over-the-counter pharmaceuticals, which previously had been shipped separately. This lightens receiving work for customers and contributes to the environment by reducing the number of delivery truck trips. RDC Yokohama was selected by the Ministry of Economy, Trade and Industry as an FY 2010 Green Logistics Partnership Dissemination Project.



February 2011

2014 MEDIPAL Medium-Term Vision Unveiled

On February 4, MEDIPAL announced the 2014 MEDIPAL Medium-Term Vision, which sets new goals that the MEDIPAL Group will aim to achieve in the three-year period ending March 31, 2014. (See pages 16-19 for details.)

Paltac Corporation Completes Construction of RDC Okinawa

On February 7, Paltac Corporation completed construction of RDC Okinawa in Uruma, Okinawa Prefecture. The prefecture's first full-line distribution center, RDC Okinawa handles cosmetics, daily necessities and over-the-counter pharmaceuticals.

*RDC: Regional Distribution Center

March 2011

Paltac Corporation Forms Business Tie-Up with Chinese Wholesaler

Paltac Corporation concluded a business alliance agreement on March 9 with Shanghai Y&F Daily Chemicals Co., Ltd., based in Shanghai, China. Paltac is currently expanding its business in 15 countries, primarily in Southeast Asia. With this agreement, the company will also develop business in the Chinese market, where further growth is expected, through exports of cosmetics, daily necessities and health foods and other products manufactured in Japan, and exchanges of market information.



Paltac Chairman and CEO Kunio Mikita (left) and Shanghai Y&F Daily Chemicals Chairman and General Manager Liu Guoping

To Our Stakeholders



In the Japanese economy during the fiscal year ended March 31, 2011, despite signs of recovery in employment and consumer spending, a mood of uncertainty emerged about the direction of the economy due to the impact of the Great East Japan Earthquake.

In these economic conditions, the MEDIPAL Group 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.

As part of measures to optimize its business operations, the animal health products wholesale business was concentrated at wholly owned subsidiary MARUZEN YAKUHIN CO., LTD. on April 1, 2010. This company changed its corporate name to MP AGRO CO., LTD. and was added to the scope of consolidation under

the Related Business classification as of the fiscal year ended March 31, 2011.

Regarding the main impacts of the Great East Japan Earthquake on the MEDIPAL Group, the Kamaishi Sales Branch of MEDICEO CORPORATION was destroyed by the tsunami, and the Ibaraki Distribution Center was temporarily unable to ship products due to power outages and other problems. In addition, operations at consolidated subsidiary Paltac Corporation's RDC Sendai and the Kazo Distribution Center were halted by the impact of the tsunami and a fire, respectively. However, with the concerted efforts of the Group, including the use of distribution centers in the Tokyo area and regions surrounding the disaster area to fulfill backup functions, the MEDIPAL Group was able to supply pharmaceuticals and daily necessities to its many customers in the disaster area and elsewhere.

The MEDIPAL Group is aggressively advancing business reforms aimed at creating a new, customer-oriented business model to make the Group more attuned to changes in the operating environment and in customer and consumer needs. The 2014 MEDIPAL Medium-Term Vision maps out our plan to establish a structure for accurately responding to the various apparent and underlying needs of customers and consumers by the fiscal year ending March 31, 2014. This new structure is based on providing high-quality distribution services that make full use of the new business foundation and wholesale functions created by our business reforms. We are mobilizing the full capabilities of the MEDIPAL Group to create distribution that makes people happy.

I hope that our stakeholders will help us to achieve our vision with their valued support in expectation of the MEDIPAL Group's future growth.

August 2011

A handwritten signature in black ink, appearing to read 'Sadatake Kumakura'.

Sadatake Kumakura
President and CEO

An Interview with President and CEO Sadatake Kumakura

Q1

To begin, how did the MEDIPAL Group fulfill its role as a wholesaler after the Great East Japan Earthquake in March 2011?

Regardless of the conditions, the MEDIPAL Group puts every effort into fulfilling its role of delivering the necessary products when they are needed, in the exact amount required.

As a result of the earthquake and tsunami in March 2011, some of our branches and distribution centers in Tohoku and northern Kanto collapsed or were damaged by fire, halting operations. However, with the concerted efforts of the rest of the Group, such as replacing the functions of the damaged facilities with those of distribution centers in the Tokyo area and near the disaster area, we were able to supply pharmaceuticals and daily necessities to our many customers in the disaster area and elsewhere.

This disaster especially highlighted the importance of ensuring a stable supply of pharmaceuticals, our primary mission as a pharmaceutical wholesaler. The MEDIPAL Group puts every effort into delivering products safely and securely regardless of the conditions, and I think we did that very well. Although the earthquake shook the Tokyo area strongly as well, Kanagawa ALC, our state-of-the-art logistics center in Yokohama, supplied pharmaceuticals without disruption because it is a seismic-isolated structure equipped with power-generation equipment.

I visited our facilities in the disaster area two weeks after the earthquake. I had imagined the mood would be gloomy, but our employees were hard at work. The deep appreciation that customers showed for their efforts to supply pharmaceuticals made them feel needed by the people of Japan. I was very gratified to see them working energetically with a strong sense of purpose. In addition to protecting the lives of employees and their families, we had thorough crisis management and risk measures in place. For example, we had drawn up a business continuity plan to maintain a stable supply of products, and upgraded and practiced our Disaster Response Manual. This reconfirmed my belief that our actions meet the expectations of our customers even in a major disaster such as this.



Damage from the earthquake and tsunami: Spilled inventory at MEDICEO CORPORATION's Sendai building warehouse (left) and Paltac Corporation's RDC Sendai (right)



In-house power generator and emergency shipping motorcycles for use in the event of a disaster



The disaster headquarters at the head office on March 15, 2011

Q2

Although sales were up, profits declined in the fiscal year ended March 31, 2011. What is your analysis and assessment of this performance?

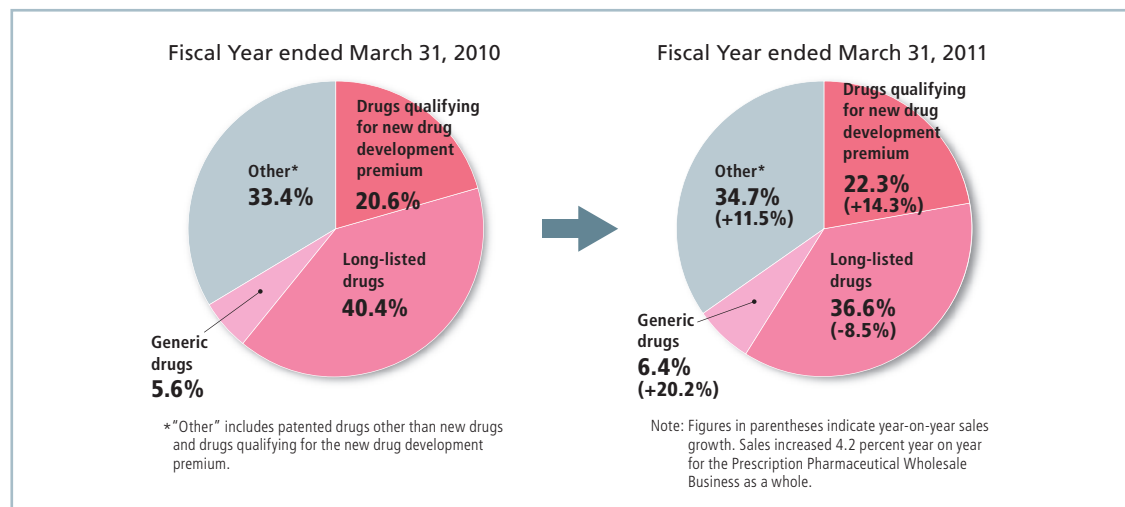
Sales increased because of expanding demand for new products and our aggressive marketing of lifestyle disease medications. However, profit levels in the Prescription Pharmaceutical Wholesale Business dropped more than expected due to higher purchasing costs and lower selling prices under Japan's new drug pricing system.

Net sales increased 4.6 percent year-on-year to ¥2,662,822 million as a result of expanding demand for new products and aggressive marketing of lifestyle disease medications in the Prescription Pharmaceutical Wholesale Business, but operating income decreased 26.5 percent to ¥13,549 million. Net income decreased 12.9 percent to ¥1,705 million due to extraordinary losses including special retirement benefits and loss on disaster.

Under the new drug pricing system, which includes a premium to promote new drug development that started on a trial basis in the fiscal year ended March 31, 2011, purchasing costs increased as a percentage of net sales while profit margins eroded due to changes in product mix. In addition, selling prices declined due to tougher price negotiations with customers. These and other factors caused a larger-than-expected decrease in profit levels in the Prescription Pharmaceutical Wholesale Business. As changes in the market are dramatically altering the pharmaceutical wholesale earnings structure, we knew when we drew up our plan for the fiscal year that the gross profit margin would probably decline, but I am frustrated that it worsened more than we expected.

The structural decline in profits is an issue facing the entire industry, and results for the fiscal year ended March 31, 2011 were poor for pharmaceutical wholesalers across the board. However, because of our high sales growth, we produced better results than our competitors in terms of profits. This demonstrates the validity of our strategy of achieving sales growth while reducing distribution costs in selling, general and administrative expenses as the benefits of the area logistics centers (ALCs) take effect.

Effect on Earnings Due to Changes in Product Mix





The 2014 MEDIPAL Medium-Term Vision was launched in April 2011. What were the assumptions and issues in formulating this vision, and what is your image of the MEDIPAL Group in three years?



In addition to achieving a cost structure that allows us to survive in a low-margin market, we will strive to earn the support of customers with safe, secure, low-cost logistics.

First, the business environment in our core Prescription Pharmaceutical Wholesale Business will be important. Sales will increase as Japan’s population ages and medicine advances. However, the mix of pharmaceutical products we sell is changing with the new drug pricing system, and our earnings characteristics are changing as a result. Sales are growing for low-priced generics and “specialty drugs,” which have thin profit margins for wholesalers because they have high unit prices, are used by relatively few patients, and do not involve sales promotions by wholesalers. On the other hand, sales of primary-care drugs, which are long-listed drugs that wholesalers have traditionally handled as their main source of earnings, are shrinking significantly. Using our comprehensive wholesale capabilities to broaden sales of widely used drugs nationwide has been the strength of our core wholesale business, but specialty drugs, which do not require much promotion by wholesalers, will account for an increasing share of sales. Therefore, we have to assume that gross profit margins in the wholesale business will decline.

Moreover, price levels at dispensing pharmacies, which account for a large proportion of sales, are typically unstable, and all major wholesalers have become full-line suppliers, prompting customers to drastically reduce the number of wholesalers they do business with. As a result, competition for survival among pharmaceutical wholesalers is intensifying. In addition, the performance of pharmaceutical wholesalers has alternated between good and bad years in tandem with the NHI (National Health Insurance) drug price revisions every two years. Sales and profits should have rebounded in the fiscal year ended March 31, 2011, but the introduction of the new drug pricing system broke up that cycle for profits. We drew up our next growth strategy with the assumption that the current situation will continue, and that profits would not return to their previous levels.

The MEDIPAL Group’s goal is to create distribution that makes people happy. To that end, we aim to earn support from customers by making them feel that the MEDIPAL Group is the only wholesaler that can supply products safely and securely, and at a low cost. Accordingly, we want to enhance and expand our wholesale functions and further solidify our competitive advantage. If we can get our customers to feel the attraction of doing business with MEDIPAL, we can establish lasting relationships with them. This magnetic effect must be so powerful that there will be no comparison with our previous customer retention initiatives. By increasing the number of customers that support MEDIPAL’s services, I believe we can achieve our consolidated management goals of net sales of ¥3 trillion and operating income of ¥35 billion in the fiscal year ending March 31, 2014.

Expanding ALC Services

Nagoya ALC began operations in July 2011



Location: Kiyosu, Aichi Prefecture
 Site area: 31,273m²
 Floor area: 24,617m²

**Main areas covered:
 Chubu and Hokuriku**



Picking system using SPIEC, * a high-tech cart developed by the MEDIPAL Group

*SPIEC = Scan Piece Picking Cart



Complete packing for each customer with automatic packing machines

Q4

What are your specific business strategies for achieving your vision of enhancing and expanding wholesale functions and further solidifying the Group's competitive advantage?

ALCs and ARs will be the keys to creating new value and expanding earnings.

In the Prescription Pharmaceutical Wholesale Business, we aim to create new value and expand earnings by further enhancing distribution and information provision, the two basic functions of a wholesaler. Key points in accomplishing this will be the nationwide expansion of ALC functions and the use of "assist representatives" (ARs), a newly introduced class of employees with medical representative (MR) qualifications.*

Our state-of-the-art ALCs are based on the concept of eliminating inefficiency at all stages from the manufacturer to the end user to optimize the entire distribution process. Following the opening of Kanagawa ALC in September 2009 and Minami Osaka ALC in June 2010, Nagoya ALC began operations in July 2011. As a result, our ALCs now cover the critical markets of Tokyo, Nagoya and Osaka. One of the effects confirmed at Kanagawa ALC and Minami Osaka ALC is an increased frequency of orders resulting from our high delivery rate of 99.55 percent due to the large number of items in stock at the ALCs. We have also achieved industry-leading shipping accuracy with just a few errors per 1,000,000 lines shipped. And we offer various services such as Saturday delivery and partial lot sales. These capabilities are much appreciated by customers and are proven to boost sales. In addition, ALC costs do not change even when sales increase, which has had a positive effect in lowering cost ratios.

During the next three years, we will move forward with preparations for the nationwide expansion of ALC functions. At the same time, we will develop a next-generation system that will not only attract customers with the benefits of using the ALCs, but will also leverage ALC functions to play a role in improving customers' operations.

To enhance our function of providing information, we plan to increase the number of ARs with MR qualifications from 100 to 300 over the next three years. ARs have broad pharmaceutical knowledge and support marketing specialists (MSs) from a neutral standpoint. In order to acquire MR qualifications, candidates must undergo 300 hours of training in one year and then pass a six-subject exam. It is a difficult exam that requires intensive preparation. Pharmaceutical manufacturers give candidates a hiatus from work to study during the month prior to the exam date. However, the level of difficulty is even higher for employees of wholesalers because they have to prepare for the exam while doing their daily jobs. Having 300 ARs will give the MEDIPAL Group a considerable advantage over other wholesalers, who currently have none.

We plan to use ARs to develop new business and promote the strategic and unparalleled differentiation of the MEDIPAL Group.

* Medical representatives (MRs) are employees of pharmaceutical companies who are qualified to provide information on the efficacy, quality and safety profiles of pharmaceuticals to physicians and other healthcare providers in Japan. To obtain MR qualifications, individuals must first pass an exam held by the MR Education & Accreditation Center of Japan and then accumulate a set number of hours of on-the-job education and training, upon which they receive official MR certification from the Center.

Assist representative (AR) is a new position created by the MEDIPAL Group, and a first in the Japanese pharmaceutical wholesale industry. In the MEDIPAL Group, a marketing specialist (MS) who obtains MR qualifications becomes an assist representative (AR). The role of an AR is to assist MRs and MSs from the perspective of an MR.





Please explain initiatives in China in the Prescription Pharmaceutical Wholesale Business.

We are actively exploring opportunities in China to expand our business there.

To provide better pharmaceutical distribution for the people of China, MEDIPAL and Mitsubishi Corporation entered into a comprehensive alliance with Sinopharm Group Co., Ltd. in 2009, and invested in its subsidiary Sinopharm Medicine Holding Beijing Huahong Co., Ltd. (Beijing Huahong). In September 2010, MEDIPAL concluded an agreement to increase its equity interest in Beijing Huahong, and completed payment for the increase in March 2011. With this increase, MEDIPAL and Mitsubishi each has a 20 percent stake in Beijing Huahong. Both companies will utilize their functions to expand business transactions in China while actively exploring new opportunities.



What is the management policy for the Prescription Pharmaceutical Wholesale Business in the fiscal year ending March 31, 2012, the first year of the 2014 MEDIPAL Medium-Term Vision?

We will accelerate expansion of ALC services and work to secure reasonable profits.

First, we need to rapidly expand ALC services to all of Japan. We will start out with five locations in the fiscal year ending March 31, 2012, using the experience we have gained to move forward quickly. Increasing our gross profit margin will be difficult given current trends, so we will focus on top-line growth and reduction of SG&A expenses. To maintain the gross profit margin at the level of the fiscal year ended March 31, 2011, we will strive to secure reasonable profits, aided by recognition from pharmaceutical manufacturers of our actions and track record for scrupulously keeping our pharmaceutical price levels at the same level or within a target range year on year.

Power-saving measures will also be important because of the earthquake and the nuclear power plant accident it caused. We therefore created the Electric Power-Saving Committee at subsidiary MEDICEO CORPORATION. It set strict targets and has been implementing measures to save electricity, including turning off signboard illumination, removing some light bulbs and reducing lighting use in offices, limiting use of air-conditioning, and encouraging employees to dress in warm-weather business attire earlier than usual. The Ministry of Economy, Trade and Industry has exempted pharmaceutical manufacturers and wholesalers from mandatory reductions in power consumption during the summer, so our distribution centers have it relatively easy. Nevertheless, we will continue our measures to reduce Group-wide electricity consumption by 15 percent as part of our corporate social responsibility.



What will be the strategy in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business?

In addition to expanding our share of business among existing customers and making cost innovations, we will strengthen logistical outsourcing services and overseas business.

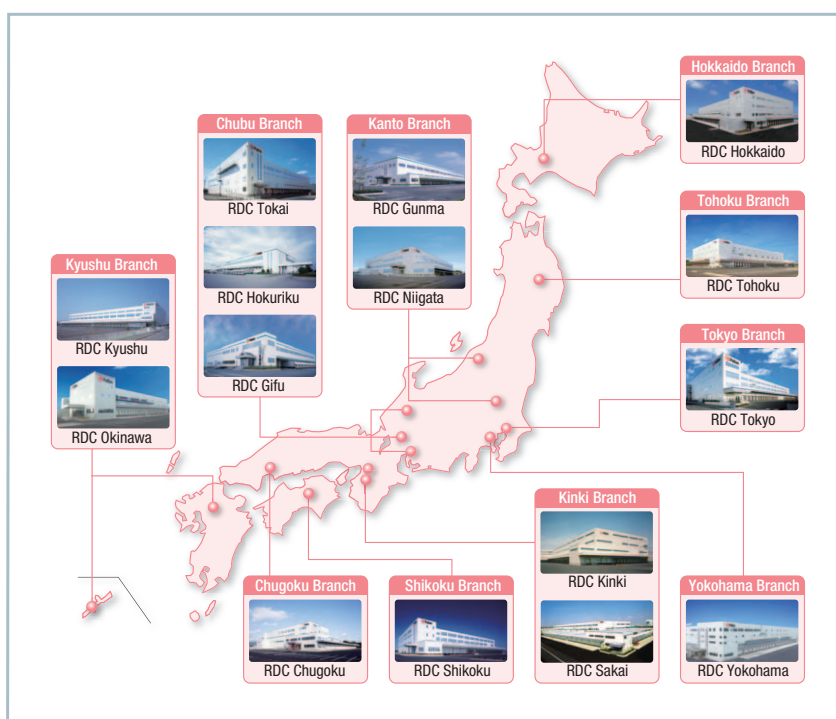
We positioned the fiscal year ended March 31, 2011 as the stage of establishing a foundation for medium-to-long-term growth, and made aggressive capital investments. With the completion of RDC Yokohama, our largest regional distri-

tribution center, in January 2011, followed by RDC Okinawa in February, we have almost finished building a nationwide distribution network handling a full line of products related to beauty and health. In October 2010, we moved to strengthen our supply chain logistics (SCL, or logistical outsourcing services) business by completing a distribution center in Takatsuki, Osaka Prefecture, that specializes in the SCL business. Operations there have started smoothly. These large-scale capital investments have been accompanied by nonrecurring initial costs that reduced profits. However, such investments have largely ended for now, and we will focus on strengthening measures to expand sales and earnings.

In addition, we will bolster our operations outside Japan to meet the overseas expansion needs of retailers and manufacturers in Japan. As part of that effort, in March 2011, Paltac entered into a business alliance for the import and sale of cosmetics and other products from Japan with Shanghai Y&F Daily Chemicals Co., Ltd., a major wholesale distributor based in Shanghai, China. I believe this will lead to expansion of our sales channels in the fast-growing Chinese market.



Paltac's Nationwide Distribution Network



You have added another outside director. How does this fit with your efforts to enhance corporate governance?

We now have two outside directors, and want them to actively express their views.

We recently added another outside director to fill a vacant director position. Some foreign shareholders have requested that we recruit more independent outside directors and women, a trend that is seen worldwide. We want to present ourselves as an open company by responding to these requests, so we invited Ms. Michiko Kawanobe, an attorney and former prosecutor, to be an outside director. This gives us two outside directors, both of them women. Ms. Eiko Koizumi, who was appointed earlier, has spoken up very energetically at board meetings, and I'm grateful that she has expressed views that did not occur to the rest of us. Now that we have two outside directors, I look forward to having them play an even more active role.



In June 2011, you implemented a disposal of treasury stock to grant MEDIPAL HOLDINGS CORPORATION stock to employees. Please explain the intention behind this.

Our intention is to create an environment that facilitates acquisition of our stock by Group employees so that they share the same perspective as shareholders and management.

To achieve the targets in the 2014 MEDIPAL Medium-Term Vision, it will be vital for employees to perform their daily work with a perspective like that of shareholders and management. Our intention was to make that idea a reality by providing an environment to facilitate the acquisition of MEDIPAL HOLDINGS CORPORATION stock so that all full-time Group employees can become shareholders. Each employee will receive 100 shares free of charge, with their companies bearing the full purchase cost. We used the shelf registration system to dispose of treasury stock for the purpose of granting stock to the companies. Since we were the first company in Japan to try this approach, we needed to report to the Ministry of Finance and they accepted our initiatives.



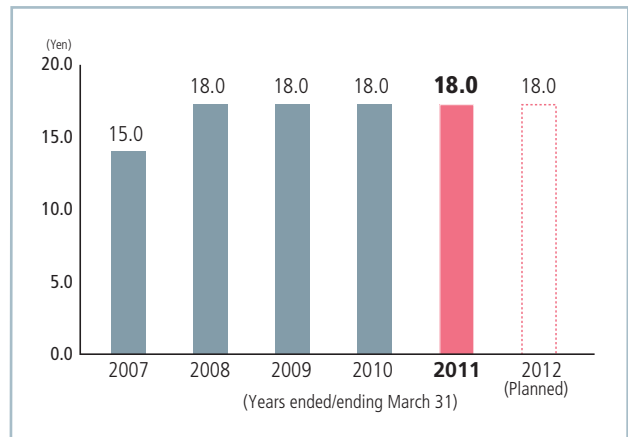
What is your policy on shareholder returns, and do you have any concluding remarks for shareholders?

Among pharmaceutical wholesalers, the MEDIPAL Group has a bright future as a promising group because we will transform the substance of our business to offer more than just scale.

Our basic policy regarding shareholder returns has not changed. We aim to increase shareholder value through sustained growth in profits. While proactively making investments for future growth, we seek to maintain stable dividends, with a target payout ratio of 25 percent, and deliver shareholder returns based on performance.

Increasing corporate value is the foremost concern for shareholders, and achieving that is my mission. Buying a company’s stock is essentially buying that company’s future growth potential. Pharmaceutical wholesalers in Japan have become large-scale enterprises and achieved nationwide coverage through repeated realignments. While this has been seen as a positive development, the actual substance of their businesses has not changed. Today’s market environment will not permit that. We are now in an age when business substance will determine the winners and losers in our industry. As I explained last year, the MEDIPAL Group has outdone its competitors in building the structure necessary to meet the challenges ahead. Looking at the initiatives we are taking under the new 2014 MEDIPAL Medium-Term Vision, and our increasingly motivated employees, I can say that the MEDIPAL Group has become a company with a lot of promise. A net sales target of ¥3 trillion is by no means small, but we want to go beyond size to dramatically transform the substance of our business. By doing so, we will encourage investors to buy our growth potential rather than that of our competitors. I hope they will see us as a promising company and continue to support the MEDIPAL Group with a long-term perspective.

Cash Dividends per Share



Initiatives under the 2014 MEDIPAL Medium-Term Vision launched in April 2011

Over the three years from April 2008 through March 2011, the MEDIPAL Group has closely followed changes in the market environment and in customer and consumer needs, and is adapting to these changes by proactively making business innovations and restructuring Group operations to enhance and expand its business operations.

We formulated the 2014 MEDIPAL Medium-Term Vision to make the most of the new business foundation and wholesale functions created by these reforms. Our objective over the three years from April 2011 through March 2014 is to establish a structure throughout the Group that will allow us to respond accurately to the apparent and underlying needs of customers and consumers through high-quality distribution services.

Basic Policy of the 2014 MEDIPAL Medium-Term Vision

By building a new distribution system focused on safety, security and low cost, we aim to be the most reliable corporate group for our customers and society.

The pharmaceuticals, medical equipment, cosmetics, daily necessities and other products that the MEDIPAL Group handles are indispensable in helping people live safe, secure lives. A stable supply of these products will always be needed, regardless of changes in the social environment. The MEDIPAL Group views this role as its primary mission, and we will make a concerted effort as a Group to create distribution that makes people happy.

Winning Customer Support with Safe, Secure, Low-cost Delivery

The MEDIPAL Group will focus on providing safe and secure products and distribution services at low cost that play a positive role in the operations of our customers so that they are attracted by the substance and high quality of our services. In this way, we hope to gain strong support from customers, which will ensure the further growth of the MEDIPAL Group.

Overview of the 2014 MEDIPAL Medium-Term Vision

Creating New Distribution That Makes People Happy

The MEDIPAL Group's Targets (Year ending March 31, 2014; consolidated basis)

Net Sales: **¥3 trillion** Operating Income: **¥35.0 billion**



Capital Investment: ¥36.0 billion (total investment over 3 years)

Logistics: ¥21.5 billion	Branches: ¥7.6 billion
(Prescription Pharmaceutical Wholesale Business: ¥15.6 billion)	Information systems: ¥6.9 billion
(Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business: ¥5.9 billion)	

Shareholder Returns

Increase shareholder value through sustained growth in profits.

Maintain stable dividends with a target payout ratio of 25 percent.

Note: Intersegment eliminations are not accounted for in the figures above. Therefore, the simple totals do not match the consolidated figures.

Reduce the Cost Ratio and Ensure Operating Income by Growing Sales

Promotion of "ASL"* concept

We will attract customers with the merits of MEDIPAL

Safe, Secure, Low Cost

- We reliably deliver the items needed
- We provide high-quality distribution services that support customers' management

Prescription Pharmaceutical Wholesale Business

Pharmaceuticals

- Enhance the quality of distribution
- Enhance the quality of information provision

Medical Equipment

- From partially optimized wholesale to a solution-based wholesale model

Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

- Evolution of the wholesale business
- Investments in growth businesses

Related Business

- Initiatives to leverage our business scale

*ASL: Attention of Safety & Security at Low Cost

Prescription Pharmaceutical Wholesale Business

We will provide new value and generate new sources of earnings by enhancing the quality of distribution and information provision, our basic functions as a wholesaler.

Enhancing the Quality of Distribution

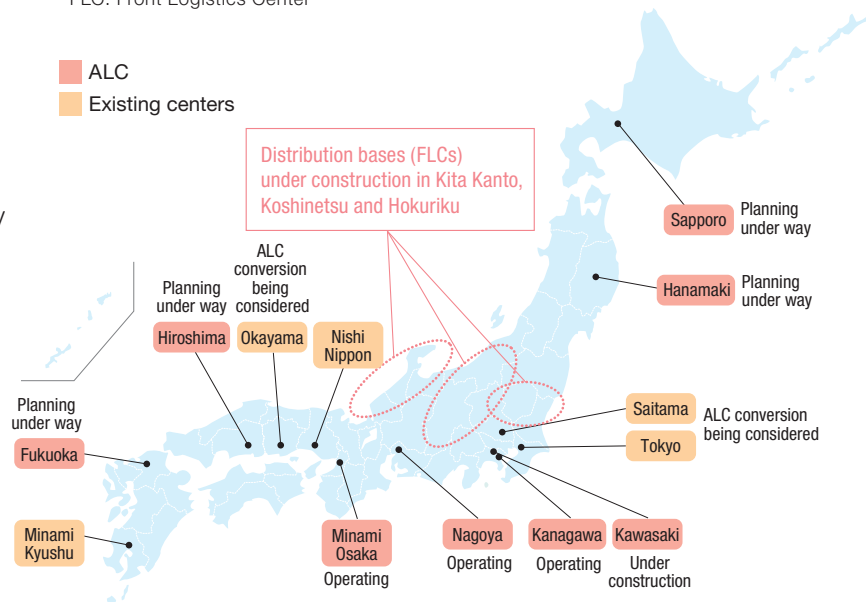
We established area logistics centers (ALCs) in the Tokyo, Nagoya and Osaka markets based on our extensive research and examination of ways to optimize pharmaceutical distribution as a whole from the standpoint of customers and configure distribution functions that enable low-cost operation even when volume increases. Over the next three years, we plan to steadily expand the network of ALCs to cover all of Japan, including Hokkaido, Tohoku and the Tokyo metropolitan area.

Expanding ALC Functions Nationwide

STEP 1 Start by revising front-end distribution (change branches into FLCs*)

STEP 2 Design that combines ALCs and FLCs in each area

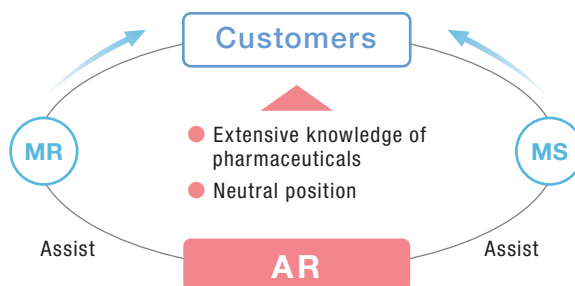
*FLC: Front Logistics Center



Enhancing the Quality of Information Provision

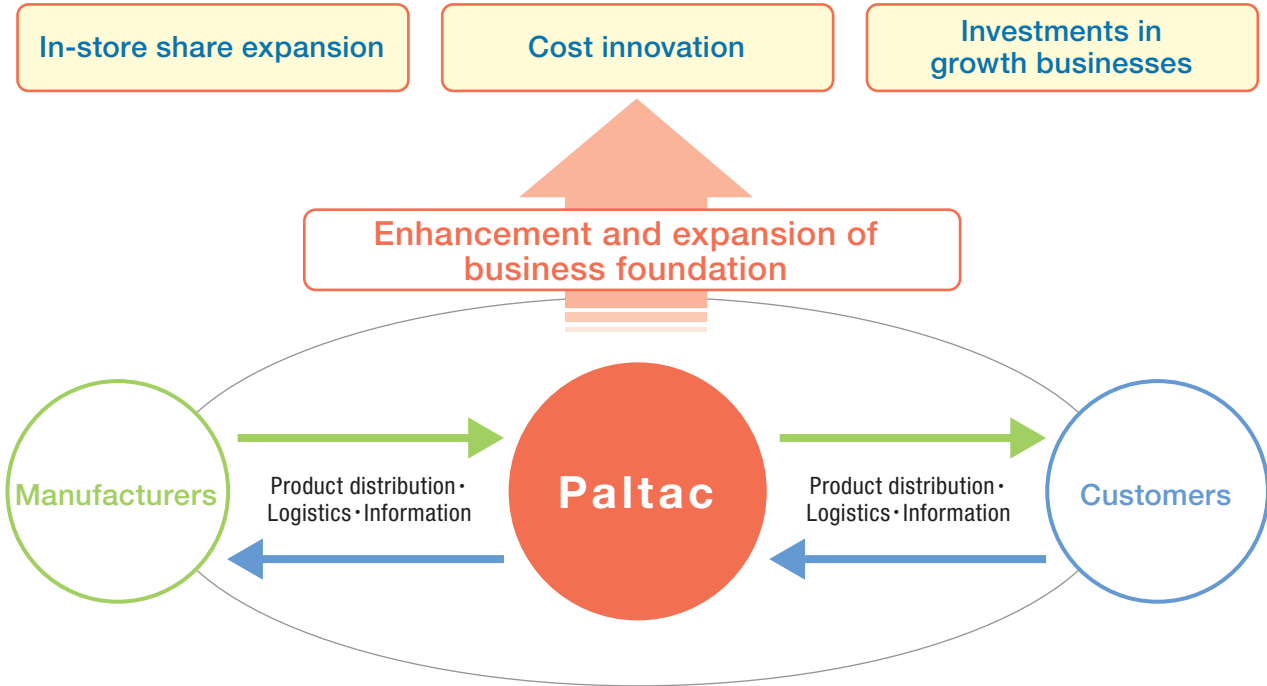
To create new value, we will increase the number of “assist representatives” (ARs) who have MR qualifications, thus enhancing the ability of our sales representatives to make proposals to customers.

Establish a Valuable, Optimal Support System



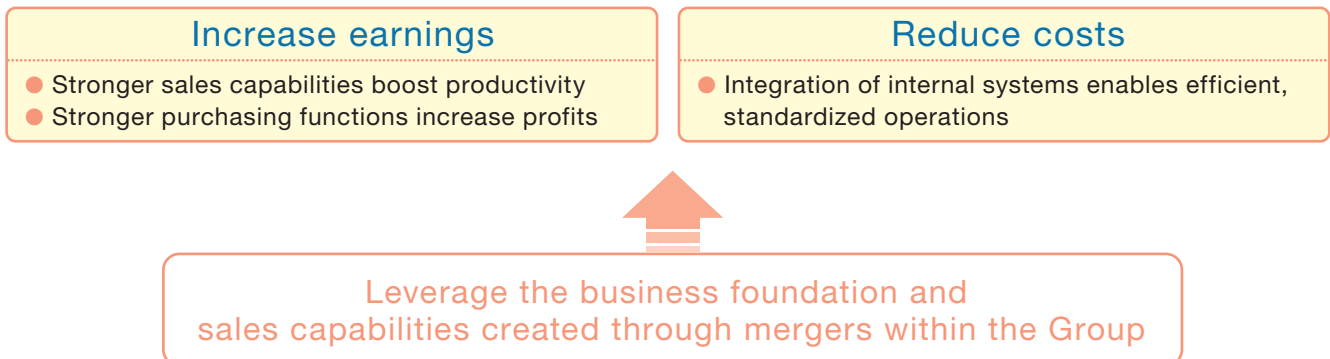
Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

In addition to evolving our existing wholesale business, we will aggressively invest in supply chain logistics (SCL, or logistical outsourcing) services and new growth businesses including overseas businesses to enhance and expand the business foundation.



Related Business

We will work to increase earnings and further reduce costs by leveraging our industry-leading scale in the animal health products wholesale business, achieved through mergers within the Group.



Corporate Social Responsibility

By implementing a management philosophy of “contributing to people’s health and the advancement of society through creation of value in distribution,” the MEDIPAL Group promotes original initiatives to fulfill its social responsibility as the largest multi-channel wholesaler in Japan.

The MEDIPAL Group has grown into one of Japan’s leading distributors, handling prescription pharmaceuticals, medical equipment, reagents, cosmetics, daily necessities and OTC pharmaceuticals. We focus on corporate social responsibility (CSR) initiatives because we believe it is our duty as a corporate group to contribute to medical treatment and people’s health and beauty, not only by achieving large scale but also by practicing quality management.

The MEDIPAL Group is aggressively advancing business reforms aimed at creating a new, customer-oriented business model to make the Group more attuned to changes in the operating environment and in customer and consumer needs. The MEDIPAL Group has formulated the 2014 MEDIPAL Medium-Term Vision that maps out how we aim to establish a structure for accurately responding to the various apparent and underlying needs of customers and consumers by the fiscal year ending March 31, 2014. The new structure is based on providing high-quality distribution services that make full use of the new business foundation and wholesale functions created by our business reforms.

The pharmaceuticals, medical equipment, daily necessities and other items handled by the MEDIPAL Group are indispensable in enabling people to lead safe, secure lives. A stable supply of these items is always required regardless of conditions in the social environment. We consider this role our primary mission, and are mobilizing the full capabilities of the MEDIPAL Group to create distribution that makes people happy.

In response to electric power shortages brought on by the effects of the Great East Japan Earthquake, MEDICEO CORPORATION, a wholly owned subsidiary of MEDIPAL HOLDINGS CORPORATION, formed an Electric Power-Saving Committee to proactively save electricity by implementing various measures in coordination with MEDIPAL Group companies.

Current CSR Initiatives

MEDIPAL Holdings has a CSR Committee consisting of five members and two observers. In addition, directors responsible for CSR from each Group company comprise the MEDIPAL CSR General Meeting, which was held three times in the fiscal year ended March 31, 2011 to discuss the MEDIPAL Group’s CSR activities.

The MEDIPAL Group recognizes the critical importance of managing and controlling all manner of risks arising in the course of its business activities. The CSR Committee has therefore classified internal risks into six categories – compliance, pharmaceutical management, disaster planning, information management, respect for human rights and environmental preservation – in order to identify top priority issues and work toward their resolution.

Current compliance initiatives include ensuring thorough compliance with laws. In the area of pharmaceutical management, the CSR Committee works

to ensure strict compliance with the Pharmaceutical Affairs Law, which is the most closely related to the MEDIPAL Group’s business. In addition, we are taking measures to address the issues of global warming and resource conservation. In disaster planning, the CSR Committee has formulated a business continuity plan (BCP) for natural disasters and new strains of influenza. The BCP outlines the procedures and guidelines the Group must follow to fulfill its social mission in the event of an occurrence or outbreak and is based on the importance of continuing critical duties including the stable supply of pharmaceuticals and support for the disaster activities of medical institutions. In the wake of the Great East Japan Earthquake of March 11, 2011, shipments from the distribution centers of certain subsidiaries were temporarily disrupted. However, by taking steps in accordance with the BCP, such as using distribution centers in the Tokyo area and near the disaster region to replace their functions, we were able to supply pharmaceuticals and daily necessities to our many customers in the disaster-stricken region and elsewhere.

The CSR Committee’s initiatives to deepen understanding of CSR include distributing a booklet about the MEDIPAL Group’s CSR to all Group executives and employees, conducting educational activities and establishing an internal hotline to resolve issues within the Group. During the fiscal year ended March 31, 2011, the CSR Committee held CSR training three times for all Group employees, where each individual learned the basic thinking behind CSR. We also posted a monthly “CSR news” column on the Company intranet to enhance CSR awareness.

In addition, since October 2007 we have operated “CSR Post,” a tool that allows MEDIPAL Group employees to suggest ideas for advancing CSR initiatives.

Promotion of Corporate Ethics

In January 2005, the MEDIPAL Group compiled “Our Stance,” a set of decision-making and action guidelines to promote accurate, thorough understanding of its fundamental principles as a corporate Group engaged in the distribution of pharmaceuticals, cosmetics and daily necessities.

These guidelines were compiled in a booklet with detailed explanations, and distributed to all Group employees, who are instructed to keep the booklet on hand at all times. Other measures to promote thorough knowledge and practice of these standards include regular divisional meetings held for that purpose.

With the enactment of the Personal Information Protection Act, the Group established its Information Security Policy. This policy defines the management structure and handling procedures for all personal information in the Group’s possession, and educational programs are being conducted for all employees.

Our Stance

1. Establish the MEDIPAL brand
2. Work to convey accurate information as the first step in CSR
3. Value the opportunity to meet people and emphasize the importance of trust
4. Create cash inflows through high-quality profitability
(cash inflows are the corporate lifeline)
5. Work thoroughly to solve problems and reform management
6. Enhance dialogue through empathic listening
7. Learn for yourself, then share this learning with others

Corporate Governance

The MEDIPAL Group works to ensure sound, transparent management while conducting its business activities with a focus on maximizing corporate value.

While ensuring sound, transparent management and placing importance on maximizing corporate value, the MEDIPAL Group fulfills its responsibility to stakeholders to disclose high-quality information in order to enhance the soundness and transparency of its management by proactively disclosing quarterly explanations of financial results and other information.

The MEDIPAL Group 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. These business innovations are proceeding smoothly. 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 Company shifted to a pure holding company structure, under which it specializes in Group headquarters functions.

Corporate Governance System

The Board of Directors considers and decides matters stipulated by management policy and by law, as well as other important matters concerning corporate management, and also supervises the status of overall business execution. The Board consists of ten directors (two of whom are outside directors) and holds monthly meetings and when necessary, extraordinary meetings, attended by corporate auditors. Directors of the Company are

appointed as representative directors of main consolidated subsidiaries to share information.

The Company has adopted the executive officer system to clearly separate the functions of management decision-making and supervision from business execution. In addition, to promote efficient Group management activities, representative directors, directors and individuals designated by the President form the Management Meeting. Functioning as an advisory council, the Management Meeting convenes once a month, in principle, to share information on the Group's management strategies and deliberate and consider business solutions.

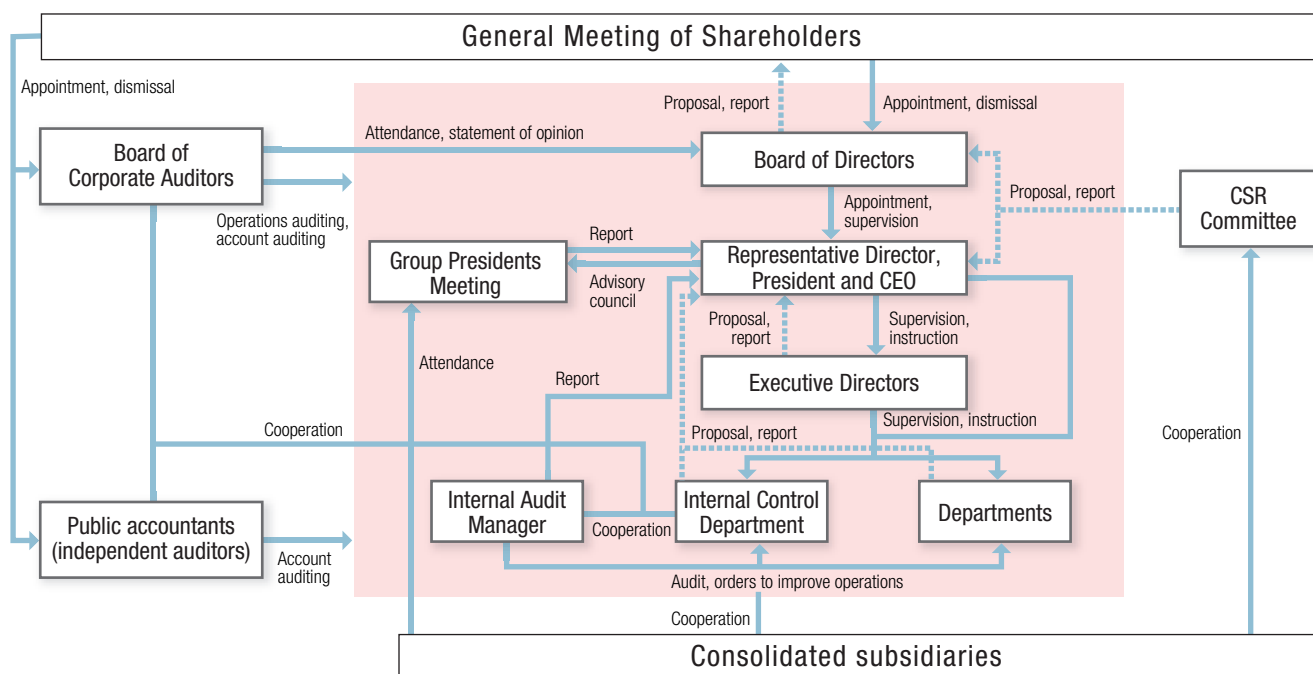
The Company has also adopted the auditor system, and has five corporate auditors, three of whom are from outside the Company. Corporate auditors attend the Management Meeting and conduct strict audits of the legality and adequacy of directors' execution of business based on the standards determined by the Board of Corporate Auditors, and exchange information with the public accountants. The MEDIPAL Group's corporate auditors also exchange information and cooperate with each other.

The Company has introduced various processes to facilitate execution of duties and auditing functions as mentioned above and decided that corporate governance is functioning effectively under the current system.

Outside Directors and Outside Corporate Auditors

The Company has appointed two outside directors and three outside corporate auditors.

Corporate Governance Structure



Outside Directors

Outside Directors Eiko Koizumi and Mitsuko Kawanobe have no personal, financial, transactional or other interests with the Company.

Ms. Koizumi was appointed as an outside director to offer advice on management from a broad outlook based on her specialized knowledge and abundant experience as a management consultant.

Ms. Kawanobe was appointed as an outside director to offer advice on management from a broad outlook based on her extensive experience in the legal profession and considerable insight into the law in general.

A system is in place so that the outside directors can, if necessary, contact the internal audit manager, corporate auditors, public accountants or internal control departments, and contact occurs in a suitable and appropriate manner.

Outside Corporate Auditors

Outside corporate auditors Ikuo Takahashi, Sachio Itasawa and Keiichi Toyokawa have no personal, financial, transactional, or other interest with the Company.

Mr. Takahashi was appointed as an outside corporate auditor to offer guidance and audit the Company's overall management from a broad outlook using his experience in the pharmaceutical industry in which the Company does business and his knowledge as a pharmacist.

Mr. Itasawa was appointed as an outside corporate auditor to audit because of his specialized knowledge and experience of corporate legal affairs based on his abundant experience cultivated while executing duties as a lawyer.

Mr. Toyokawa was appointed as an outside corporate auditor to audit overall management of the Company because of his abundant experience as a manager and broad outlook based on his involvement in corporate management over many years.

An information communication system is in place so that outside corporate auditors can actively exchange opinions with the internal audit manager, corporate auditors, public accountants and internal control departments directly or using such means as e-mail or telephone so that the part-time outside corporate auditors can share information in the same manner as full-time corporate auditors.

Revisions to the Tokyo Stock Exchange Securities Listing Regulations in December 2009 made it obligatory for listed companies to secure independent officers who act from the point of view of protecting general shareholders. The MEDIPAL Group has appointed five independent officers: Ms. Koizumi and Ms. Kawanobe, the outside directors, and Mr. Takahashi, Mr. Itasawa and Mr. Toyokawa, the outside corporate auditors.

Compensation of Officers and Independent Public Accountants, Method of Deciding Compensation Amounts and Their Calculation

The total amount of compensation paid to directors is set by resolution of the General Meeting of Shareholders. Directors' compensation consists of basic compensation and a bonus, with basic compensation decided in

advance at a Board of Directors meeting in accordance with Company regulations. The amount to be paid as bonuses is decided at a Board of Directors meeting, taking into account the consolidated results for each fiscal year. The Representative Director, President and CEO is entrusted with deciding the amount of individual bonuses.

Total compensation paid to directors in the fiscal year ended March 31, 2011 was ¥202 million, including payment to three directors (of whom one was an outside director) who retired as of the conclusion of the 101st General Meeting of Shareholders held on June 25, 2010 and three directors who retired during the fiscal year.

Total compensation paid to corporate auditors is set by resolution of the General Meeting of Shareholders. The amount of individual payments to each respective corporate auditor is decided after discussion among the corporate auditors.

Total compensation paid to corporate auditors in the fiscal year ended March 31, 2011 was ¥80 million.

The Company determines compensation for the independent public accountants in accordance with internal rules set by the Company, after the Finance Division reviews the appropriateness of an estimate of compensation, which is then approved by the Board of Corporate Auditors. The estimate is based on factors including the locations of audits, audit content, the estimated number of days of auditing and rate of compensation.

Total compensation for audits of the Company and its consolidated subsidiaries in the year ended March 31, 2011 was ¥323 million. Of this, ¥303 million was compensation for audit certification services and ¥20 million for non-auditing services. Compensation paid for audits under the Corporation Law and audits under the Financial Instruments and Exchange Act is not clearly distinguished in the audit contract between the Company and the independent public accountants, and cannot be practically separated. Therefore the total payment for both is shown as compensation for audits in the year ended March 31, 2011.

Basic Policy on Internal Control Systems

Details of the Company's Basic Policy on Internal Control Systems are outlined below.

Rules for Management of the Risk of Loss and Other Systems

The Company sets rules and guidelines, conducts training and prepares a manual for its risk management system, and promotes thorough familiarity with them among employees. If a risk materializes and is expected to have a serious impact, a director in charge of crisis management appointed in advance takes a leadership role. The Company will assiduously preclude the involvement of antisocial forces in management activities through integrated administration executed by designated divisions under the leadership of the director in charge of crisis management. In addition, in response to the system of internal control of financial reporting pursuant to the Financial Instruments and Exchange Act, an internal audit manager has been assigned

in the General Affairs Division to lead internal control maintenance and improvement functions. Furthermore, the internal audit manager is authorized to monitor the system to quickly discover risks of loss.

System to Ensure Efficient Execution of Duties by Directors

The Company executes duties through regulations related to the organization to clarify the division of duties and administrative authority between directors and executive officers, and to stipulate departments responsible for duties in order to make decisions efficiently and appropriately. The annual budget is prepared and business plans formed based on the medium-term management plan formulated by the Board of Directors, and their progress is verified so that business operations are carried out efficiently.

System to Ensure that Employees Perform Their Duties in Compliance with Laws and the Company's Articles of Incorporation

To ensure that it carries out its duties properly, the Company has established internal regulations and works to ensure that all employees are familiar with them, and has set up a point of contact for reports in the public interest, an audit and monitoring system. In addition, to continue to realize its management philosophy, the Company uses regular training and CSR Committee activities to ensure that employees are aware of the Company's social responsibilities and legal compliance.

System to Ensure Appropriate Business Operation in the Corporate Group Consisting of the Company and Its Subsidiaries

The MEDIPAL Group recognizes its social responsibility as a distributor that supports the medical, health and beauty fields to continue to provide the products and information it handles. To maintain a supply system that keeps risks that could be obstructive factors to a minimum, all of the above-mentioned systems are also established, operated and maintained by Group companies. In addition, the Company formulates regulations for Group companies and receives reports on and gives prior approval of important items to ensure proper execution of duties. Moreover, the Company conducts audits using uniform auditing standards in addition to an identical policy regarding internal controls for financial reporting to conduct effective evaluation.

System for Ensuring That Other Audits by Corporate Auditors Are Carried Out Effectively

The Representative Director, President and CEO shall meet regularly with corporate auditors to exchange opinions on issues including actions the Company should take, the risks to which the Company is exposed, and important auditing issues. The internal audit manager and independent auditors shall meet and otherwise cooperate with corporate auditors at the corporate auditors' request. In addition, corporate auditors shall attend important Company meetings. Furthermore, the Company shall secure a system that allows corporate auditors to effectively conduct their audits in ways such as obtaining the ancillary support of the internal audit manager and other administrative departments.

Internal Audits and Audits by the Corporate Auditors

The internal audit manager is in charge of conducting internal audits in accordance with internal auditing rules. The internal audit manager carries out on-site, paper and combined audits covering all aspects of the Company's business execution and organization and systems in accordance with the Basic Audit Policy prepared each fiscal year. Upon completion of the audits, the division prepares an audit report and submits it to the President. The MEDIPAL Group conducts audits based on uniform auditing standards.

In addition, internal audits include an evaluation of the effectiveness of internal controls related to financial reporting, which is implemented under a uniform policy throughout the Group.

Corporate audits are conducted by three full-time and two part-time corporate auditors. The corporate auditors attend all meetings of the Board of Directors in addition to important meetings within the Company, and conduct audits in areas including legal compliance and adherence to the Company's articles of incorporation and rules regarding competitive transactions and conflict of interest.

Corporate auditors for the Company and each Group company exchange information and cooperate with each other.

The internal audit manager, corporate auditors and public accountants hold regular meetings to confirm issues or exchange opinions, and cooperate to determine the scope of audits and audit schedules, among other things.

In addition, the internal audit manager, corporate auditors and public accountants hold regular meetings with internal control departments and cooperate with each other, including conducting interviews when necessary.

Special Item with a Material Impact on Corporate Governance

In March 2010, one of the Company's subsidiaries, Paltac Corporation, was listed on the Tokyo Stock Exchange and Osaka Securities Exchange.

Paltac is a cosmetics, daily necessities and OTC pharmaceutical wholesale company. Following an independent study of its business strategies, personnel policy and other factors, Paltac decided to list on the exchanges while cooperating as a subsidiary to generate synergy with other subsidiaries in the Prescription Pharmaceutical Wholesale Business.

The Company felt it was desirable from a Group management point of view that Paltac should enhance its corporate value by actively conducting business development with the independence to procure capital autonomously and carry out speedy decision-making. For the time being, the Company plans to retain a majority of shares in Paltac and to maintain its position as a consolidated subsidiary, and will ensure appropriate corporate governance in accordance with its ratio of voting rights.

Management Team



From left:
Bunichi Murayama,
Sadatake Kumakura,
Shuichi Watanabe

(As of June 24, 2011)

Members of the Board

Representative Director, President and CEO

Sadatake Kumakura

Representative Director, Executive Vice President

Shuichi Watanabe

Representative Director, President and CEO
of MEDICEO CORPORATION

Representative Director, Senior Managing Director

Bunichi Murayama

Director of MEDICEO CORPORATION

Directors

Toshihide Yoda

In charge of Strategy and Manager of
Business Development Department

Yasuhiro Choufuku

In charge of Pharmaceutical Sales and
Special Assignments from the President
Managing Director of MEDICEO
CORPORATION
General Manager of Sales Strategy Division

Takuro Hasegawa

In charge of Liaison
Chairman of CSR Committee
Representative Director, President and CEO
of EVERLTH Co., Ltd.

Kazushi Takao

Representative Director, President and CEO
of ATOL CO., LTD.

Kunio Mikita

Director and Corporate Advisor
Representative Director, Chairman and CEO
of Paltac Corporation

Eiko Koizumi

Outside Director
President of International Consulting of Japan
Director of SI Enterprise
Director of Koizumi Group

Michiko Kawanobe

Outside Director
Attorney at law
Professor at Chiba University Law School

Corporate Auditors

Akira Kise

Full-time Corporate Auditor
Corporate Auditor, MEDICEO CORPORATION
and MP AGRO CO., LTD.

Kazuo Misaki

Full-time Corporate Auditor
Corporate Auditor, MEDICEO CORPORATION
and ATOL CO., LTD.

Ikuo Takahashi

Outside Full-time Corporate Auditor
Corporate Auditor, MM CORPORATION

Sachio Itasawa

Outside Corporate Auditor
Attorney at law
Corporate Auditor, Kappa Create Co., Ltd.
and PILOT Corporation
Outside Director, NEC Fielding, Ltd.

Keiichi Toyokawa

Outside Corporate Auditor
President, NITOBÉ BUNKA GAKUEN
Educational Foundation

(As of July 1, 2011)

Managing Executive Officers

Toshio Hirasawa

Manager of Finance & Accounting
Department

Fuminari Hikita

Manager of General Affairs Department

Executive Officers

Masaaki Shimizu

Manager of Secretarial Office

Kenichi Takase

Manager of Corporate Planning Department

Financial Section

Contents

Eleven-Year Summary	26
Management's Discussion and Analysis	28
Consolidated Balance Sheets	34
Consolidated Statements of Income	36
Consolidated Statements of Comprehensive Income	37
Consolidated Statements of Changes in Net Assets	38
Consolidated Statements of Cash Flows	39
Notes to Consolidated Financial Statements	40
Independent Auditors' Report	52

Eleven-Year Summary

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31

	2001	2002	2003	2004
For the Year:				
Net sales	¥1,073,016	¥1,222,222	¥1,274,503	¥1,283,926
Gross profit	96,741	106,644	114,923	116,805
Selling, general and administrative expenses	94,792	100,863	104,763	101,450
Operating income	1,949	5,781	10,160	15,355
Net income	1,337	2,951	5,016	7,879
Depreciation and amortization	4,025	4,866	5,204	5,709
Capital expenditures (cash basis)	4,287	5,663	6,206	4,974
At Year-End:				
Total assets	¥ 652,368	¥ 644,248	¥ 638,589	¥ 626,626
Interest-bearing debt	42,681	41,177	33,730	23,275
Total net assets	122,992	110,650	112,261	128,988
Per Share (Yen and U.S. Dollars):				
Net income (Note 2)	¥ 9.80	¥ 21.67	¥ 36.48	¥ 55.19
Diluted net income	9.02	18.92	31.50	48.65
Total net assets (Note 3)	899.68	823.75	828.14	893.84
Cash dividends	12.00	12.00	12.00	12.00
Ratios:				
Return on assets (Note 4)	0.4%	0.9%	1.6%	2.4%
Return on equity (Note 5)	1.1	2.5	4.5	6.5
Number of employees	8,226	7,780	7,741	7,468

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥83.15 to U.S. \$1.00, the approximate exchange rate on March 31, 2011.
2. Net income per share = (Net income – Officers' bonuses) / (Average shares outstanding during the year – Average treasury stock during the year)
3. Total net assets per share = (Total net assets – Officers' bonuses) / (Shares outstanding at end of year – Treasury stock)
4. Return on assets = (Operating income + interest and dividend income) / Total assets at end of period
5. Return on equity = Net income / Average total net assets

Millions of yen							Thousands of U.S. dollars (Note 1)	
2005	2006	2007	2008	2009	2010	2011	2011	
¥1,665,816	¥1,921,714	¥2,166,763	¥2,254,936	¥2,463,570	¥2,546,030	¥2,662,822	\$32,024,317	
137,806	161,603	188,235	191,654	187,237	191,091	188,147	2,262,742	
126,819	140,995	160,459	163,703	173,781	172,657	174,598	2,099,796	
10,987	20,608	27,776	27,951	13,456	18,434	13,549	162,946	
8,730	20,843	19,106	27,794	12,510	1,958	1,705	20,505	
7,625	9,126	9,663	10,057	11,225	11,441	12,158	146,218	
7,812	9,064	12,236	16,076	16,881	25,603	21,304	256,212	
¥ 848,416	¥ 993,491	¥1,032,931	¥1,104,833	¥1,117,287	¥1,166,487	¥1,284,680	\$15,450,150	
15,660	38,400	42,058	39,834	39,301	46,097	42,806	514,805	
168,104	242,413	261,112	290,692	294,501	330,993	340,984	4,100,830	
¥ 45.90	¥ 97.64	¥ 82.86	¥ 119.20	¥ 52.30	¥ 8.31	¥ 7.27	\$ 0.09	
43.52	94.22	82.29	118.53	52.22	—	—	—	
904.59	1,051.97	1,128.39	1,219.50	1,229.34	1,236.15	1,275.94	15.35	
12.00	15.00	15.00	18.00	18.00	18.00	18.00	0.22	
1.4%	2.2%	2.7%	2.7%	1.3%	1.7%	1.2%		
5.9	10.2	7.6	10.1	4.3	0.7	0.6		
9,496	11,078	10,664	11,391	11,451	11,363	11,661		

Management's Discussion and Analysis

Scope of Consolidation

The MEDIPAL Group consists of 19 subsidiaries and 11 affiliates, with MEDIPAL HOLDINGS CORPORATION (the Company) as the core. The scope of consolidation includes 6 subsidiaries. The Companies are primarily engaged in sales of pharmaceuticals, cosmetics, daily necessities and other goods, and provision of services.

On April 1, 2010, EVERLTH AGROTECH Co., Ltd. and the animal health products wholesale business of ATOL CO., LTD. merged with MARUZEN YAKUHIN CO., LTD., with the latter as the surviving company. MARUZEN YAKUHIN then changed its corporate name to MP AGRO CO., LTD.

Overview of Results

In the Japanese economy during the fiscal year ended March 31, 2011, despite signs of recovery in employment and consumer spending, a mood of uncertainty emerged about the direction of the economy due to the impact of the Great East Japan Earthquake.

In these economic conditions, the MEDIPAL Group 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.

As part of measures to optimize its business operations, the animal health products wholesale business was concentrated at wholly owned subsidiary MARUZEN YAKUHIN CO., LTD. on April 1, 2010. This company changed its corporate name to MP AGRO CO., LTD. and was added to the scope of consolidation under the Related Business classification as of the fiscal year ended March 31, 2011.

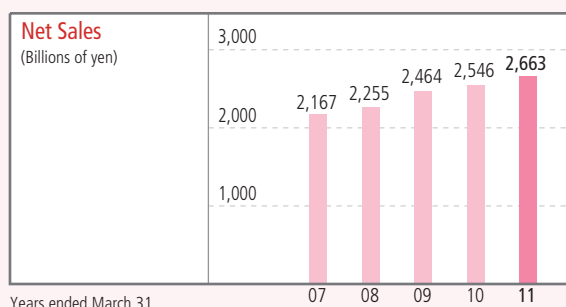
Regarding the main impacts of the Great East Japan Earthquake on the MEDIPAL Group, at wholly owned subsidiary MEDICEO CORPORATION, the Kamaishi Sales Branch was destroyed by the tsunami, and the Ibaraki Distribution Center was temporarily unable to ship products due to power outages and other problems. In addition, operations at consolidated subsidiary Paltac Corporation's RDC Sendai and the Kazo Distribution Center were halted by the impact of the tsunami and a fire, respectively. However, with the concerted efforts of the Group, including having distribution centers in the Tokyo area and regions surrounding the disaster area fulfill backup functions, the MEDIPAL Group was able to supply pharmaceuticals and daily necessities to its many customers in the disaster area and elsewhere.

Consolidated net sales increased 4.6 percent, or ¥116,792 million, compared with the previous fiscal year to ¥2,662,822 million. Operating income decreased 26.5 percent, or ¥4,885 million, to ¥13,549 million, and net income decreased 12.9 percent, or ¥253 million, to ¥1,705 million.

Sales and Income

Net Sales

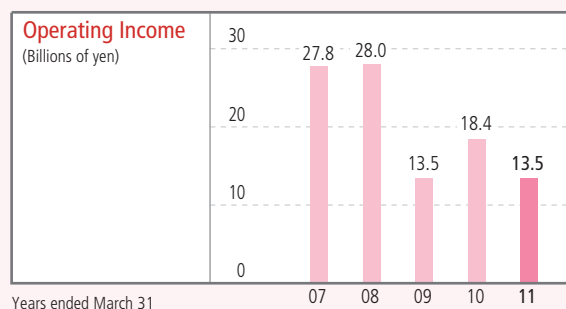
Consolidated net sales increased 4.6 percent, or ¥116,792 million, compared with the previous fiscal year to ¥2,662,822 million. In the Prescription Pharmaceutical Wholesale Business, the MEDIPAL Group aggressively promoted sales of new products and lifestyle disease medications. In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, stronger initiatives with customers led to expansion of in-store share, and in the Related Business segment, MP AGRO CO., LTD., a wholly owned subsidiary of the Company, was added to the scope of consolidation in the fiscal year ended March 31, 2011.



Operating Income

Gross profit decreased 1.5 percent, or ¥2,944 million, compared with the previous fiscal year to ¥188,147 million. In the Prescription Pharmaceutical Wholesale Business, under the new drug pricing scheme, purchasing and selling price negotiations became more challenging and competition among wholesalers intensified. In addition, selling, general and administrative expenses increased 1.1 percent, or ¥1,941 million, to ¥174,598 million due to factors including the addition of MP AGRO CO., LTD., a wholly owned subsidiary of the Company, to the scope of consolidation.

As a result, operating income decreased 26.5 percent, or ¥4,885 million, to ¥13,549 million.



Results by Segment

The following segment information does not include intersegment sales and transfers. The MEDIPAL Group changed its segment presentation effective April 1, 2010. Data for previous fiscal years has been restated accordingly. Note 19, "Segment Information," of the notes to the consolidated financial statements provides additional information.

Prescription Pharmaceutical Wholesale Business

(Millions of yen)			
Years ended March 31	2010	2011	Change (%)
Net sales	¥1,825,740	¥1,885,966	3.3%
Operating income	9,695	3,688	(62.0)
Assets	827,875	914,206	10.4
Depreciation	7,138	7,287	2.1
Capital expenditures	10,456	9,465	(9.5)

In sales of prescription pharmaceuticals, drug prices were reduced by an average of 6.5 percent in the National Health Insurance (NHI) drug price revisions implemented on April 1, 2010. Sales were steady, however, as the MEDIPAL Group aggressively worked to increase sales of new products and lifestyle disease medications, for which demand is growing. However, although the MEDIPAL Group made efforts to maintain rational selling prices and secure reasonable profits under the new drug pricing system, profit levels decreased more than anticipated as a result of increasingly challenging negotiations for purchasing and selling prices.

Moreover, to realize overall optimization of distribution, MEDICEO built Minami Osaka ALC, a state-of-the-art area logistics center, in Yao-shi, Osaka, and began operations there in June 2010. The company then successively consolidated operations of other operating bases at this facility, and by the end of August had achieved quality, efficient product supply to southern Osaka Prefecture as well as Nara and Wakayama Prefectures.

On the other hand, the MEDIPAL Group continued to transform the cost structure for further business streamlining. To broaden employees' independence and future options, voluntary early retirement was offered to employees of the Company's three wholly owned subsidiaries in the Prescription Pharmaceutical Wholesale Business, with a retirement date of September 30, 2010, and 93 employees applied.

As a result, sales of the Prescription Pharmaceutical Wholesale Business increased 3.3 percent, or ¥60,226 million, compared with the previous fiscal year to ¥1,885,966 million, and segment operating income decreased 62.0 percent, or ¥6,007 million, to ¥3,688 million.

Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

(Millions of yen)			
Years ended March 31	2010	2011	Change (%)
Net sales	¥716,607	¥734,178	2.5%
Operating income	8,677	8,726	0.6
Assets	279,071	289,134	3.6
Depreciation	3,436	3,593	4.6
Capital expenditures	17,615	14,337	(18.6)

In sales of cosmetics, daily necessities and over-the-counter pharmaceuticals, the challenging operating environment continued as selling prices fell due to consumers' tendency to economize. In this environment, consolidated subsidiary Paltac took measures aimed at improving the efficiency and productivity of the entire supply chain by strengthening its merchandising and in-store solution functions to support customers with an effective product assortment and sales activities as an intermediary distributor offering a full line of essentials related to health and beauty.

To promote the realization of these initiatives more strongly, Paltac opened the Takatsuki Distribution Center (Takatsuki-shi, Osaka Prefecture) in November 2010 for logistical outsourcing services, followed by RDC Yokohama (Zama-shi, Kanagawa Prefecture) in January 2011 and RDC Okinawa (Uruma-shi, Okinawa Prefecture) in February 2011. With the openings of these facilities, Paltac strengthened and expanded its business operations by establishing a system for providing high-quality, low-cost logistics services nationwide.

As a result, sales of the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business increased 2.5 percent, or ¥17,571 million, compared with the previous fiscal year to ¥734,178 million, and operating income increased 0.6 percent, or ¥49 million, to ¥8,726 million.

Related Business

(Millions of yen)			
Years ended March 31	2010	2011	Change (%)
Net sales	¥3,683	¥42,678	1,058.8%
Operating income	18	444	2,366.7
Assets	—	18,862	—
Depreciation	29	182	527.6
Capital expenditures	24	37	54.2

Sales of animal health products are mainly divided into products for livestock and for companion animals.*

In the market for livestock products, sales were solid overall as demand for related products increased despite the effect of foot-and-mouth disease and avian influenza on sales of some products. In the market for companion animal products, sales grew steadily due to aggressive sales activities, which offset the impact of the economic slump.

As a result, sales of the Related Business segment were ¥42,678 million, and operating income was ¥444 million.

Year-on-year comparisons of results are omitted because the business content of the Related Business segment was different in the previous fiscal year.

* "Companion animal" refers to an animal that has a companion-like presence and a close relationship with humans in daily life.

Other Income (Expenses)

Total other income (expenses) amounted to net other expenses of ¥4,910 million, compared with net other expenses of ¥9,746 million for the previous fiscal year. The principal factors were a loss on disaster of ¥4,984 million (see note 16 of the notes to consolidated financial statements) and additional retirement benefits for employees totaling ¥3,150 million in connection with the voluntary early retirement offer.

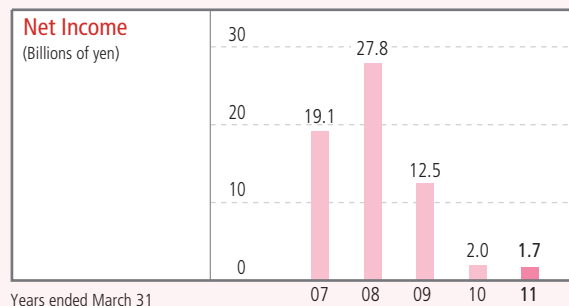
As a result, income before income taxes and minority interests decreased 0.6 percent, or ¥49 million, year on year to ¥8,639 million.

Costs, Expenses and Income as a Percentage of Net Sales

Years ended March 31	2009	2010	2011	Increase (decrease) 2011/2010
Cost of sales	92.4%	92.5%	92.9%	0.4
Gross profit	7.6	7.5	7.1	(0.4)
SG&A expenses	7.1	6.8	6.6	(0.2)
Operating income	0.5	0.7	0.5	(0.2)
Income before income taxes and minority interests	0.9	0.3	0.3	0.0
Net income	0.5	0.1	0.1	0.0

Net Income

Income taxes decreased to ¥5,425 million from ¥6,730 million for the previous fiscal year, and net income decreased 12.9 percent, or ¥253 million, year on year to ¥1,705 million. Net income per share decreased to ¥7.27 from ¥8.31 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, 2011 increased 12.2 percent, or ¥16,108 million, from the end of the previous fiscal year to ¥148,563 million.

Cash Flow Highlights

Years ended March 31	2009	2010	2011	Increase (decrease) 2011/2010
Cash flows from operating activities	¥ 23,371	¥ 13,993	¥ 49,474	¥35,481
Cash flows from investing activities	(21,835)	(29,845)	(24,101)	5,744
Cash flows from financing activities	(10,208)	10,195	(10,101)	(20,296)
Cash and cash equivalents at end of year	138,067	132,455	148,563	16,108

Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥35,481 million compared with the previous fiscal year to ¥49,474 million. Main factors increasing cash included income before income taxes and minority interests of ¥8,639 million and increase in notes and accounts payable of ¥94,165 million. Depreciation and amortization was ¥12,158 million. Main factors decreasing cash were a ¥27,451 million increase in notes and accounts receivable – trade and a ¥37,241 million increase in inventories.

Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥5,744 million compared with the previous fiscal year to ¥24,101 million. One of the main factors in the year-on-year change was a decrease in payments for purchase of property and equipment to ¥21,304 million. Projects included construction of RDC Yokohama.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥10,101 million. In the previous fiscal year, financing activities provided net cash of ¥10,195 million. The year-on-year change resulted mainly from a net decrease in borrowings of ¥3,860 million and cash dividends paid to shareholders of ¥4,894 million.

Assets, Liabilities and Net Assets

As of March 31, 2011, total assets increased 10.1 percent, or ¥118,193 million, from a year earlier to ¥1,284,680 million.

Total current assets increased 10.4 percent, or ¥94,784 million, from a year earlier to ¥1,004,623 million. Factors included a ¥31,767 million increase in notes and accounts receivable, trade and a ¥37,585 million increase in inventories.

Net property and equipment as of March 31, 2011 increased 4.0 percent, or ¥7,319 million, from a year earlier to ¥191,897 million. Main factors included an increase of ¥7,302 million in buildings and structures including RDC Yokohama, an increase of ¥6,435 million in machinery, equipment and vehicles and an increase of ¥1,821 million in land from a year earlier.

Total intangible assets decreased 26.8 percent, or ¥2,547 million, from a year earlier to ¥6,950 million, mainly reflecting a decrease of ¥1,736 million in goodwill.

Total investments and other non-current assets increased 29.8 percent, or ¥18,637 million, from a year earlier to ¥81,210 million, primarily due to an ¥18,112 million increase in investment securities.

Total liabilities increased 13.0 percent, or ¥108,202 million, from a year earlier to ¥943,696 million.

Total current liabilities increased 12.8 percent, or ¥102,463 million, from a year earlier to ¥900,636 million. This was primarily due to an increase of ¥100,699 million in notes and accounts payable, trade.

Working capital decreased ¥7,679 million from a year earlier to ¥103,987 million. The current ratio was 1.12 times, compared with 1.14 times a year earlier.

Total long-term liabilities increased 15.4 percent, or ¥5,739 million, from a year earlier to ¥43,060 million, mainly because deferred income taxes increased ¥5,517 million. Total interest-bearing debt as of March 31, 2011 decreased 7.1 percent, or ¥3,291 million, from a year earlier to ¥42,806 million.

Total net assets as of March 31, 2011 increased 3.0 percent, or ¥9,991 million, from a year earlier to ¥340,984 million. This was mainly due to an increase of ¥9,047 million in unrealized gains on securities, net of taxes.

The net worth ratio was 23.3 percent, compared with 24.9 percent a year earlier. Return on equity decreased to 0.6 percent from 0.7 percent for the previous fiscal year.

Capital Expenditures

Capital expenditures for the MEDIPAL Group in the fiscal year ended March 31, 2011 totaled ¥21,303 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 ¥1,404 million, capital expenditures totaled ¥22,708 million. The Company funded capital expenditures using internal capital resources and external borrowings.

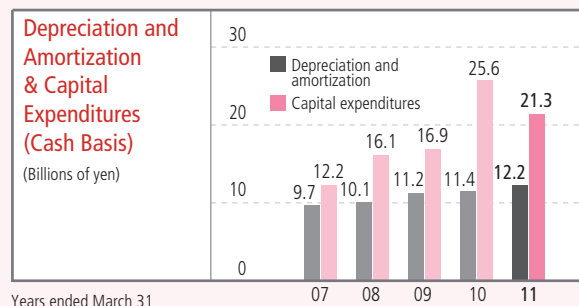
Capital expenditures by segment are as follows.

In the Prescription Pharmaceutical Wholesale Business, the Company made investments of ¥8,199 million in construction of MEDICEO's Nagoya ALC and other projects. In addition, the Company invested ¥1,315 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 ¥13,086 million in projects including the construction of Paltac's new RDC Yokohama.

In the Related Business segment, the Company invested ¥11 million.

Paltac's RDC Sendai was destroyed by the Great East Japan Earthquake and the Kazo Distribution Center was destroyed by fire.



Outlook for the Year Ending March 31, 2012

The MEDIPAL Group is aggressively advancing business reforms aimed at creating a new, customer-oriented business model to make the Group more attuned to changes in the operating environment and in customer and consumer needs. The MEDIPAL Group has formulated the 2014 MEDIPAL Medium-Term Vision that maps out how we aim to establish a structure for accurately responding to the various apparent and underlying needs of customers and consumers by the fiscal year ending March 31, 2014. The new structure is based on providing high-quality distribution services that make full use of the new business foundation and wholesale functions created by our business reforms.

The pharmaceuticals, medical equipment, daily necessities and other items handled by the MEDIPAL Group are indispensable in enabling people to lead safe, secure lives. A stable supply of these items is always required regardless of conditions in the social environment. We consider this role our primary mission, and are mobilizing the full capabilities of the MEDIPAL Group to create distribution that makes people happy.

To deal with possible shortages of electric power due to the effects of the Great East Japan Earthquake, MEDICEO formed the Electric Power-Saving Committee to proactively save electricity by implementing various measures in coordination with MEDIPAL Group companies.

In the Prescription Pharmaceutical Wholesale Business, the MEDIPAL Group is facing a rapidly changing market environment and accompanying changes in the earnings structure. By advancing distribution reforms to strengthen its business foundation, the MEDIPAL Group will grow and develop as a business with a competitive advantage. As part of these efforts, MEDICEO put a state-of-the-art area logistics center (ALC) into operation in July 2011 in Kiyosu-shi, Aichi Prefecture. MEDICEO is also preparing to establish facilities in the Hokkaido, Tohoku and Tokyo areas.

In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, selling prices are declining due to greater price competition among companies as consumers continue to economize and deflation persists. Due to these and other factors, including supply shortages for some products and weakening consumer sentiment brought on by the effects of the Great East Japan Earthquake, the operating environment is expected to remain challenging.

To deal with these conditions, the MEDIPAL Group will work to contribute further to the overall supply chain by delivering a stable supply of products and maintaining efficient business operations capable of providing low-cost, high-quality services.

In the Related Business segment, mergers within the Group will enable us to leverage the advantages of a nationwide scale in purchasing and sales. In addition, we will work to further increase profitability through more efficient business operations.

As a result, for the fiscal year ending March 31, 2012, we forecast that consolidated net sales will increase 4.3 percent year on year to ¥2,776.0 billion, consolidated operating income will increase 49.1 percent year on year to ¥20.2 billion, and consolidated net income will increase 492.5 percent year on year to ¥10.1 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 pay stable dividends, with a target consolidated payout ratio of 25 percent.

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 fiscal year ended March 31, 2011, 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.

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, 2011.

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.

Consolidated Balance Sheets

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
As of March 31, 2010 and 2011

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Current assets:			
Cash and time deposits (Notes 4, 5 and 13)	¥ 137,755	¥ 153,943	\$ 1,851,389
Notes and accounts receivable, trade (Note 4)	571,259	603,026	7,252,267
Securities (Note 4)	18,711	18,724	225,183
Inventories	120,437	158,022	1,900,445
Deferred income taxes (Note 17)	6,560	10,954	131,738
Accounts receivable, other (Note 4)	52,992	57,520	691,762
Other current assets	3,737	4,071	48,960
Allowance for doubtful accounts	(1,612)	(1,637)	(19,687)
Total current assets	909,839	1,004,623	12,082,057
Property and equipment (Notes 8 and 9):			
Buildings and structures (Note 13)	136,986	144,288	1,735,274
Machinery, equipment and vehicles	29,580	36,015	433,133
Land (Notes 10 and 13)	93,053	94,874	1,140,998
Construction in progress	6,819	3,984	47,913
Other tangible fixed assets	18,346	17,708	212,964
Total property and equipment	284,784	296,869	3,570,282
Accumulated depreciation	(100,206)	(104,972)	(1,262,442)
Net property and equipment	184,578	191,897	2,307,840
Intangible assets:			
Goodwill	1,800	64	770
Software	6,667	6,019	72,387
Other intangible assets	1,030	867	10,427
Total intangible assets	9,497	6,950	83,584
Investments and other non-current assets:			
Investment securities (Notes 4, 6 and 13)	50,118	68,230	820,565
Long-term loans receivable (Note 4)	87	95	1,143
Deferred income taxes (Note 17)	—	221	2,658
Other assets	14,164	14,642	176,091
Allowance for doubtful accounts	(1,796)	(1,978)	(23,788)
Total investments and other non-current assets	62,573	81,210	976,669
Total assets	¥1,166,487	¥1,284,680	\$15,450,150

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)
	2010	2011	2011
Current liabilities:			
Notes and accounts payable, trade (Notes 4 and 13)	¥ 719,438	¥ 820,137	\$ 9,863,343
Short-term bank loans (Notes 4 ,11 and 13)	37,837	35,002	420,950
Long-term debt due within one year (Notes 4 and 11)	1,956	1,956	23,524
Income taxes payable	4,371	7,427	89,321
Provision for employees' bonuses	8,373	7,981	95,983
Provision for disaster	—	943	11,341
Other current liabilities	26,198	27,190	326,999
Total current liabilities	798,173	900,636	10,831,461
Long-term liabilities:			
Long-term debt (Notes 4 and 11)	6,304	5,848	70,331
Deferred income taxes (Note 17)	8,792	14,309	172,087
Deferred income taxes – land revaluation (Note 10)	1,668	1,665	20,024
Employees' severance and retirement benefits (Note 12)	14,819	15,046	180,950
Asset retirement obligations	—	1,067	12,832
Other long-term liabilities	5,738	5,125	61,635
Total long-term liabilities	37,321	43,060	517,859
Contingent liabilities (Note 14)			
Net assets (Note 15):			
Shareholders' equity:			
Common stock:			
Authorized –900,000,000 shares in 2010 and 2011			
Issued –244,524,496 shares in 2010 and 2011	22,398	22,398	269,369
Capital surplus	134,625	134,625	1,619,062
Retained earnings	158,783	158,808	1,909,898
Treasury stock	(13,500)	(13,502)	(162,381)
Accumulated other comprehensive income:			
Unrealized gains on securities, net of taxes (Note 6)	5,177	14,224	171,064
Deferred gains or losses on hedges	1	1	12
Land revaluation differences, net of taxes (Note 10)	(17,533)	(17,272)	(207,722)
Total	289,951	299,282	3,599,302
Minority interests	41,042	41,702	501,528
Total net assets	330,993	340,984	4,100,830
Total liabilities and total net assets	¥1,166,487	¥1,284,680	\$15,450,150

Consolidated Statements of Comprehensive Income

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
 Years ended March 31, 2010 and 2011

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Income before minority interests	¥ 3,214	\$ 38,653
Other comprehensive income:		
Unrealized gains on securities, net of taxes	8,873	106,711
Deferred gains or losses on hedges	1	12
Share of other comprehensive income of affiliates accounted for using equity method	(2)	(24)
Total other comprehensive income	8,872	106,699
Comprehensive income	¥12,086	\$145,352
Comprehensive income attributable to:		
Owners of the parent	¥10,754	\$129,333
Minority interests	1,332	16,019

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

Consolidated Statements of Changes in Net Assets

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Shareholders' equity			
Common stock			
Balance at beginning of year	¥ 22,398	¥ 22,398	\$ 269,369
Changes during the year			
Net change during the year	—	—	—
Balance at end of year	22,398	22,398	269,369
Capital surplus			
Balance at beginning of year	134,625	134,625	1,619,062
Changes during the year			
Disposal of treasury stock	(0)	(0)	(0)
Net change during the year	(0)	(0)	(0)
Balance at end of year	134,625	134,625	1,619,062
Retained earnings			
Balance at beginning of year	160,797	158,783	1,909,598
Changes during the year			
Cash dividends paid	(3,788)	(4,222)	(50,776)
Change in scope of consolidation	—	66	794
Change in scope of equity method	—	2,733	32,868
Net income	1,958	1,705	20,505
Reversal of land revaluation differences	(184)	(257)	(3,091)
Net change during the year	(2,014)	25	300
Balance at end of year	158,783	158,808	1,909,898
Treasury stock			
Balance at beginning of year	(7,782)	(13,500)	(162,358)
Changes during the year			
Acquisition of treasury stock	(5,718)	(2)	(23)
Disposal of treasury stock	0	0	0
Net change during the year	(5,718)	(2)	(23)
Balance at end of year	(13,500)	(13,502)	(162,381)
Total shareholders' equity			
Balance at beginning of year	310,038	302,306	3,635,671
Changes during the year			
Cash dividends paid	(3,788)	(4,222)	(50,776)
Change in scope of consolidation	—	66	794
Change in scope of equity method	—	2,733	32,868
Net income	1,958	1,705	20,505
Acquisition of treasury stock	(5,718)	(2)	(23)
Disposal of treasury stock	0	0	0
Reversal of land revaluation differences	(184)	(257)	(3,091)
Net change during the year	(7,732)	23	277
Balance at end of year	¥302,306	¥302,329	\$3,635,948

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Accumulated other comprehensive income			
Unrealized gains on securities, net of taxes			
Balance at beginning of year	¥ 2,138	¥ 5,177	\$ 62,261
Changes during the year			
Changes in items other than shareholders' equity (net)	3,039	9,047	108,803
Net change during the year	3,039	9,047	108,803
Balance at end of year	5,177	14,224	171,064
Deferred gains or losses on hedges			
Balance at beginning of year	—	1	12
Changes during the year			
Changes in items other than shareholders' equity (net)	1	0	0
Net change during the year	1	0	0
Balance at end of year	1	1	12
Land revaluation differences, net of taxes			
Balance at beginning of year	(17,675)	(17,533)	(210,861)
Changes during the year			
Changes in items other than shareholders' equity (net)	142	261	3,139
Net change during the year	142	261	3,139
Balance at end of year	(17,533)	(17,272)	(207,722)
Total accumulated other comprehensive income			
Balance at beginning of year	(15,537)	(12,355)	(148,588)
Changes during the year			
Changes in items other than shareholders' equity (net)	3,182	9,308	111,942
Net change during the year	3,182	9,308	111,942
Balance at end of year	(12,355)	(3,047)	(36,646)
Minority interests			
Balance at beginning of year	—	41,042	493,590
Changes during the year			
Changes in items other than shareholders' equity (net)	41,042	660	7,938
Net change during the year	41,042	660	7,938
Balance at end of year	41,042	41,702	501,528
Total net assets			
Balance at beginning of year	294,501	330,993	3,980,673
Changes during the year			
Cash dividends paid	(3,788)	(4,222)	(50,776)
Change in scope of consolidation	—	66	794
Change in scope of equity method	—	2,733	32,868
Net income	1,958	1,705	20,505
Acquisition of treasury stock	(5,718)	(2)	(23)
Disposal of treasury stock	0	0	0
Reversal of land revaluation differences	(184)	(257)	(3,091)
Changes in items other than shareholders' equity (net)	44,224	9,968	119,880
Net change during the year	36,492	9,991	120,157
Balance at end of year	¥330,993	¥340,984	\$4,100,830

Consolidated Statements of Cash Flows

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2011	2011
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 8,688	¥ 8,639	\$ 103,897
Adjustments to reconcile income before income taxes to net cash flows provided by operating activities:			
Depreciation and amortization	11,441	12,158	146,218
Loss on impairment of fixed assets	1,142	2,630	31,630
Amortization of goodwill (negative goodwill)	2,892	1,864	22,417
(Decrease) increase in employees' severance and retirement benefits	(850)	320	3,848
Decrease in allowance for doubtful accounts	(285)	(350)	(4,209)
Interest and dividend income	(1,619)	(1,446)	(17,390)
Interest expenses	842	696	8,370
Equity in earnings of affiliates	—	(318)	(3,824)
Loss on sales of investment in subsidiaries	5,190	—	—
Loss (gain) on change of interest in a consolidated subsidiary	3,938	(103)	(1,239)
Additional retirement benefits for employees	6,962	3,150	37,883
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	665	7,998
Loss on disaster	—	4,984	59,940
Increase in notes and accounts receivable – trade	(15,996)	(27,451)	(330,138)
Increase in inventories	(5,394)	(37,241)	(447,877)
Increase in notes and accounts payable	4,704	94,165	1,132,471
Increase (decrease) in accrued consumption taxes	1,201	(1,443)	(17,355)
Other, net	1,523	(2,551)	(30,680)
Subtotal	24,379	58,368	701,960
Interest and dividends received	1,612	1,694	20,373
Interest expenses paid	(831)	(686)	(8,250)
Payment for additional retirement benefits for employees	(7,452)	(2,941)	(35,370)
Payment for loss on disaster	—	(39)	(469)
Income taxes paid	(3,715)	(6,922)	(83,247)
Net cash provided by operating activities	13,993	49,474	594,997
Cash flows from investing activities:			
Increase in time deposits	(10,045)	(8,980)	(107,998)
Decrease in time deposits	10,250	8,980	107,998
Payments for purchase of marketable securities	(18,711)	(13)	(156)
Payments for purchase of property and equipment	(25,603)	(21,304)	(256,212)
Proceeds from sale of property and equipment	509	2,604	31,317
Payments for purchase of investment securities	(2,361)	(2,871)	(34,528)
Proceeds from sale of investment securities	42	768	9,236
Payment for acquisition of investment in subsidiaries	(223)	(721)	(8,671)
Proceeds from sale of investment in affiliates	18,713	—	—
Disbursement of loans	(67)	(12)	(144)
Collection of loans	452	80	962
Other, net	(2,801)	(2,632)	(31,654)
Net cash used in investing activities	(29,845)	(24,101)	(289,850)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans – net	9,024	(3,404)	(40,938)
Repayment of lease obligation	(1,825)	(1,345)	(16,175)
Proceeds from long-term debt	1,500	1,500	18,040
Repayment of long-term debt	(3,475)	(1,956)	(23,524)
Proceeds from stock issuance to minority shareholders	14,477	—	—
Purchase of treasury stock	(5,718)	(2)	(24)
Cash dividends paid to shareholders	(3,788)	(4,222)	(50,776)
Cash dividends paid to minority shareholders	—	(672)	(8,082)
Other, net	0	0	0
Net cash provided by (used in) financing activities	10,195	(10,101)	(121,479)
Net (decrease) increase in cash and cash equivalents	(5,657)	15,272	183,668
Cash and cash equivalents at beginning of year (Note 5)	138,067	132,455	1,592,965
Increase in cash and cash equivalents resulting from change in scope of consolidation	—	836	10,054
Increase in cash and cash equivalents due to merger of consolidated subsidiaries	45	—	—
Cash and cash equivalents at end of year (Note 5)	¥132,455	¥148,563	\$1,786,687

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, 2010 and 2011

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, 2011, which was ¥83.15 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 (6 subsidiaries in the year ended March 31, 2011 and 5 subsidiaries in the year ended March 31, 2010).

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.

On April 1, 2010, EVERLTH AGROTECH Co., Ltd. and ATOL Co., LTD. merged with MARUZEN YAKUHIN CO., LTD., with the latter as the surviving company. MARUZEN YAKUHIN CO., LTD. then changed its corporate name to MP AGRO CO., LTD., which is included in the scope of consolidation from the year ended March 31, 2011 because of its increased significance.

B. EQUITY METHOD

Investments in affiliated companies (all those 20% to 50% owned and certain others 15% to 20% owned) are 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.

The Company began accounting for Qol Co., Ltd. and MC Healthcare, Inc. by the equity method in the year ended March 31, 2011 because of their increased significance.

C. INTANGIBLE ASSETS

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 DISASTER

Provision for disaster is provided in amounts at March 31, 2011 to cover expenditures including the cost of restoring assets damaged by the Great East Japan Earthquake and fire.

K. 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.

L. 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.

M. 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.

N. 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.

Cash dividends per share represent the actual amounts declared during the respective years.

O. 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 ASSET RETIREMENT OBLIGATIONS

Effective April 1, 2010, the Companies have adopted the "Accounting Standards for Asset Retirement Obligations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 18, issued on March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

As a result, operating income decreased by ¥55 million (\$661 thousand) and income before income taxes and minority interests decreased by ¥721 million (\$8,671 thousand) for the fiscal year ended March 31, 2011.

ACCOUNTING STANDARD FOR CONSOLIDATED FINANCIAL STATEMENTS

Effective March 31, 2011, the Companies have adopted the "Cabinet Office Ordinance Partially Revising Regulations on Terminology, Forms and Preparation of Consolidated Financial Statements" (Cabinet Office Ordinance No. 5, issued

on March 24, 2009), which is based on the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on December 26, 2008).

As a result, "Income before minority interests" is presented in the consolidated statements of income for the fiscal year ended March 31, 2011.

ACCOUNTING STANDARD FOR PRESENTATION OF COMPREHENSIVE INCOME

Effective March 31, 2011, the Companies have adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued on June 30, 2010).

As a result, the Companies have presented the consolidated statements of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011.

4. FINANCIAL INSTRUMENTS

(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, 2011 and 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		
	2011		
	Book value	Fair value	Difference
Cash and time deposits	¥153,943	¥153,943	¥ —
Notes and accounts receivable, trade	603,026	603,026	—
Accounts receivable, other	55,405	55,405	—
Securities and investment securities:			
Held-to-maturity debt securities	4,301	3,527	(774)
Investment in subsidiaries and affiliates	2,922	3,233	311
Available-for-sale securities	73,491	73,491	—
Long-term loans receivable (including portion due within one year)	180	179	(1)
Total assets	¥893,268	¥892,804	¥(464)
Notes and accounts payable, trade	¥820,137	¥820,137	¥ —
Short-term bank loans	35,002	35,002	—
Long-term debt due within one year	1,956	2,032	76
Long-term debt	5,848	5,790	(58)
Total liabilities	¥862,943	¥862,961	¥ 18
Derivatives*	¥ 4	¥ 4	¥ —

March 31	Thousands of U.S. dollars		
	2011		
	Book value	Fair value	Difference
Cash and time deposits	\$ 1,851,389	\$ 1,851,389	\$ —
Notes and accounts receivable, trade	7,252,267	7,252,267	—
Accounts receivable, other	666,326	666,326	—
Securities and investment securities:			
Held-to-maturity debt securities	51,726	42,417	(9,309)
Investment in subsidiaries and affiliates	35,141	38,882	3,741
Available-for-sale securities	883,836	883,836	—
Long-term loans receivable (including portion due within one year)	2,165	2,153	(12)
Total assets	\$10,742,850	\$10,737,270	\$(5,580)
Notes and accounts payable, trade	\$ 9,863,343	\$ 9,863,343	\$ —
Short-term bank loans	420,950	420,950	—
Long-term debt due within one year	23,524	24,438	914
Long-term debt	70,331	69,633	(698)
Total liabilities	\$10,378,148	\$10,378,364	\$ 216
Derivatives*	\$ 48	\$ 48	\$ —

March 31	Millions of yen		
	2010		
	Book value	Fair value	Difference
Cash and time deposits	¥137,755	¥137,755	¥ —
Notes and accounts receivable, trade	571,259	571,259	—
Accounts receivable, other	50,415	50,415	—
Securities and investment securities:			
Held-to-maturity debt securities	4,301	3,619	(682)
Investment in subsidiaries and affiliates	38	3,481	3,443
Available-for-sale securities	58,236	58,236	—
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	¥ —

* 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

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

- Notes and accounts payable, trade and short-term bank loans: Book value approximates fair value because of their short settlement period.
- 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, 2011 and 2010 consisted of the following

March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Unlisted equity securities	¥6,254	¥6,240	\$75,045

Note 3: The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2011 and 2010 are as follows:

March 31	Millions of yen			
	2011			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and time deposits	¥153,943	¥—	¥—	¥—
Notes and accounts receivable, trade	603,025	1	—	—
Accounts receivable, other	55,405	—	—	—
Securities and investment securities				
Held-to-maturity debt securities:				
Bonds	—	—	300	—
Other	—	—	—	4,001
Available-for-sale securities with contractual maturities:				
Other	18,725	—	—	—
Portion of long-term loans receivable due within one year	85	71	15	9
Total	¥831,183	¥72	¥315	¥4,010

March 31	Thousands of U.S. dollars			
	2011			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and time deposits	\$1,851,389	\$—	\$—	\$—
Notes and accounts receivable, trade	7,252,255	12	—	—
Accounts receivable, other	666,326	—	—	—
Securities and investment securities				
Held-to-maturity debt securities:				
Bonds	—	—	3,608	—
Other	—	—	—	48,118
Available-for-sale securities with contractual maturities:				
Other	225,196	—	—	—
Portion of long-term loans receivable due within one year	1,022	854	180	108
Total	\$9,996,188	\$ 866	\$3,788	\$48,226

March 31	Millions of yen			
	2010			
	Within one year	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:				
Bonds	—	—	300	—
Other	—	400	—	3,601
Available-for-sale securities with contractual maturities:				
Other	18,711	—	—	—
Portion of long-term loans receivable due within one year	70	80	7	—
Total	¥778,078	¥612	¥307	¥3,601

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2010 and 2011 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Cash and time deposits	¥137,755	¥153,943	\$1,851,389
Time deposits with maturities over three months	(5,300)	(5,380)	(64,702)
Cash and cash equivalents	¥132,455	¥148,563	\$1,786,687

6. INVESTMENT SECURITIES

The Companies recognized ¥885 million (\$10,643 thousand) in loss on devaluation of investment securities for the year ended March 31, 2011, of which ¥885 million (\$10,643 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, 2011	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	¥3,222	¥(779)
Total	¥4,301	¥3,526	¥(775)

March 31, 2011	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Securities whose book value exceeds their acquisition cost:			
Debt securities	\$ 3,608	\$ 3,656	\$ 48
	\$ 3,608	\$ 3,656	\$ 48
Securities whose book value does not exceed their acquisition cost:			
Other securities	\$48,118	\$38,749	\$(9,369)
Total	\$51,726	\$42,405	\$(9,321)

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)

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

March 31, 2011	Millions of yen		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	¥16,751	¥48,199	¥31,448
	¥16,751	¥48,199	¥31,448
Securities whose book value does not exceed their acquisition cost:			
Equity securities	¥ 7,151	¥ 6,568	¥ (583)
Other securities	18,724	18,724	—
Total	¥42,626	¥73,491	¥30,865

March 31, 2011	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	\$201,455	\$579,663	\$378,208
	\$201,455	\$579,663	\$378,208
Securities whose book value does not exceed their acquisition cost:			
Equity securities	\$ 86,001	\$ 78,990	\$ (7,011)
Other securities	225,184	225,184	—
Total	\$512,640	\$883,837	\$371,197

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

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

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Proceeds from sales	¥11	¥68	\$818
Realized gains on sales	1	13	156
Realized losses on sales	(6)	(4)	(48)

7. DERIVATIVES

Currency-related transactions for the year ended March 31, 2011 and 2010 are listed below.

Year ended March 31, 2011			Millions of yen	
Accounting method	Type	Hedged item	Notional amount	Fair value
Principle method	Buy: US\$	Accounts payable	¥ 158	¥ 4
Total			¥ 158	¥ 4

Year ended March 31, 2011			Thousands of U.S. dollars	
Accounting method	Type	Hedged item	Notional amount	Fair value
Principle method	Buy: US\$	Accounts payable	\$1,900	\$48
Total			\$1,900	\$48

Year ended 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

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, 2011, 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, 9 items	¥ 456	\$ 5,484
		Others	208	2,502
Business assets	Land, buildings and leased assets, etc.	Hokuriku, 8 items	558	6,711
		Kinki, 7 items	274	3,295
		Others	323	3,885
Rental assets	Land and buildings, etc.	Kinki, 6 items	569	6,843
		Others	242	2,910
Total			¥2,630	\$31,630

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
Idle assets	Land and buildings, etc.	Kanto, 12 items	¥ 422
		Kinki, 5 items	259
		Others	171
Business assets	Land, buildings and leased assets, etc.	Kanto, 16 items	120
		Others	170
Total			¥1,142

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 ¥2,630 million (\$31,630 thousand) for the year ended March 31, 2011, as presented below.

Item	Millions of yen	Thousands of U.S. dollars
Land	¥1,018	\$12,243
Buildings and structures	1,466	17,631
Leased assets	58	698
Other	88	1,058
Total	¥2,630	\$31,630

9. INVESTMENT AND RENTAL PROPERTY

The Companies own rental office buildings (including land) and idle land in Tokyo and elsewhere. For the years ended March 31, 2011 and 2010, net rent income totaled ¥376 million (\$4,522 thousand) and ¥469 million, respectively. Rent income is included in other income and rent expense is primarily included in other expenses. For the years ended March 31, 2011 and 2010, the Companies recorded loss on impairment of investment and rental property of ¥1,228 million (\$14,768 thousand) and ¥701 million, respectively.

The book value, net change and fair value of investment and rental property as of March 31, 2011 and 2010 are as follows:

	Millions of yen			
	2011			
	Book value		Fair value	
	Balance at March 31, 2010	Balance at March 31, 2011	Net change	at March 31, 2011
Investment and rental property	¥12,410	¥(2,268)	¥10,142	¥11,497

	Thousands of U.S. dollars			
	2011			
	Book value		Fair value	
	Balance at March 31, 2010	Balance at March 31, 2011	Net change	at March 31, 2011
Investment and rental property	\$149,248	\$(27,276)	\$121,972	\$138,268

Notes:

- Book value represents the acquisition cost less accumulated depreciation and impairment loss.
- Net change for the year ended March 31, 2011 mainly consists of reduction due to sale of ¥1,761 million (\$21,179 thousand) and loss on impairment of ¥1,228 million (\$14,768 thousand).
- Fair value of principal properties at March 31, 2011 is mainly based on external appraisal values or real-estate tax appraisal values.

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

Notes:

- Book value represents the acquisition cost less accumulated depreciation and impairment loss.
- Net changes for the year ended March 31, 2010 mainly consist of loss on impairment of ¥701 million.
- 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 18 banks in order to support effective financing. The unexecuted balance of overdraft facilities at March 31, 2010 and 2011 is listed below.

March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Total overdraft facilities	¥148,997	¥149,302	\$1,795,574
Less amounts currently executed	(37,837)	(35,002)	(420,950)
Unexecuted balance	¥111,160	¥114,300	\$1,374,624

Short-term bank loans including overdraft facilities at March 31, 2010 and 2011 principally bore annual average interest rates of 0.95% and 0.76% per annum, respectively.

Long-term debt at March 31, 2010 and 2011 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Loans from banks	¥ 8,260	¥ 7,804	\$ 93,855
	8,260	7,804	93,855
Less amount due within one year	(1,956)	(1,956)	(23,524)
Amount due after one year	¥ 6,304	¥ 5,848	\$ 70,331

The annual maturities of long-term debt at March 31, 2011 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars
2012	1.57%	¥1,956	\$23,524
2013	1.35	1,584	19,050
2014	1.35	1,086	13,061
2015	1.35	1,678	20,180
2016	1.35	1,500	18,040

The annual maturities of lease transactions at March 31, 2011 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars
2012	5.47%	¥1,752	\$21,070
2013	10.05	874	10,511
2014	10.05	571	6,867
2015	10.05	410	4,931
2016	10.05	331	3,981

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, 2010 and 2011 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Projected benefit obligation	¥(35,867)	¥(36,264)	\$(436,128)
Fair value of plan assets	22,657	22,741	273,494
Unfunded employees' severance and retirement benefits	(13,210)	(13,523)	(162,634)
Unrecognized actuarial difference	1,655	1,250	15,033
Unrecognized prior service costs	—	—	—
Subtotal	(11,555)	(12,273)	(147,601)
Prepaid pension expenses	3,264	2,773	33,349
Employees' severance and retirement benefits	¥(14,819)	¥(15,046)	\$(180,950)

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

(3) NET PENSION EXPENSE

The components of net pension expense in 2010 and 2011 are listed below.

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Service costs	¥2,376	¥2,369	\$28,491
Interest costs on projected benefit obligations	729	710	8,539
Expected return on plan assets	(418)	(452)	(5,436)
Unrecognized actuarial difference	1,551	917	11,028
Amortization of prior service costs	(145)	—	—
Other	3,928	3,818	45,917
Net pension expense	¥8,021	¥7,362	\$88,539

In addition to the pension expense above, additional retirement benefits for employees amounting to ¥3,150 million (\$37,883 thousand) and ¥6,962 million were expensed for the years ended March 31, 2011 and 2010, 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	2010	2011
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	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, 2011 and 2010 were as follows:

2011	(Millions of yen)		
	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Other
Plan assets	¥403,992	¥254,274	¥102,592
Projected benefit obligation	458,224	365,248	118,162
Funded (unfunded) employees' severance and retirement benefits	¥(54,232)	¥(110,974)	¥(15,570)

2011	(Thousands of U.S. dollars)		
	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Other
Plan assets	\$4,858,593	\$3,058,016	\$1,233,818
Projected benefit obligation	5,510,812	4,392,640	1,421,070
Funded (unfunded) employees' severance and retirement benefits	\$ (652,219)	\$(1,334,624)	\$ (187,252)

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)

(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, 2010 and 2011 were as follows:

	2010	2011
Tokyo Pharmaceutical Industry Employee Pension Fund	9.6%	9.8%
Osaka Pharmaceutical Industry Employee Pension Fund	4.9%	4.6%
Other	10.1%	10.0%

13. PLEDGED ASSETS

The following assets were pledged as collateral as of March 31, 2011 and 2010.

March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Land	¥1,765	¥2,010	\$24,173
Buildings and structures at net book value	181	1,142	13,734
Investment securities	494	443	5,328
Time deposits	1,120	1,110	13,349

The liabilities associated with the pledged assets as of March 31, 2011 and 2010 were as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Notes and accounts payable, trade	¥37,859	¥42,288	\$508,575
Short-term bank loans	—	150	1,804

14. CONTINGENT LIABILITIES

The Companies were contingently liable as guarantors for loans of unconsolidated subsidiaries, affiliates and others in the amount of ¥102 million (\$1,227 thousand) and ¥247 million at March 31, 2011 and 2010, 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 24, 2011, the shareholders approved cash dividends amounting to ¥2,111 million (\$25,388 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2011. Such appropriations are recognized in the period in which they are approved by the shareholders.

16. OTHER INCOME (EXPENSES)

(1) LOSS ON DISASTER

Loss on disaster for the year ended March 31, 2011 consisted of expenses in connection with the Great East Japan Earthquake of March 2011 as follows:

	Millions of yen	Thousands of U.S. dollars
Loss on buildings	¥2,681	\$32,243
Loss on inventory	1,668	20,060
Allowance for doubtful accounts	263	3,163
Other	372	4,474
Total	¥4,984	\$59,940

(2) OTHER INCOME, NET

Other income (expenses) - "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2011 comprised the following:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Gain (loss) on sales of investment securities - net	¥ (5)	¥ 9	\$ 108
Loss on sales or disposal of property and equipment - net	(728)	(297)	(3,572)
Loss on devaluation of investments in capital	—	(742)	(8,924)
Office relocation expenses	(40)	(179)	(2,153)
Real estate rental income - net	341	333	4,005
Other, net	1,319	1,586	19,076
	¥ 887	¥ 710	\$ 8,540

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 77.5% and 62.8% for the years ended March 31, 2010 and 2011, 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 and 2011 was as follows:

Years ended March 31	2010	2011
Statutory tax rate	40.7%	40.7%
Non-deductible expenses for tax purposes	(15.5)	(27.3)
Per capita inhabitant taxes	4.6	4.8
Valuation allowance	(16.1)	10.0
Amortization of goodwill	13.3	8.0
Equity in earnings of affiliated companies	19.4	29.5
Consolidation adjustment upon sale of investment in a consolidated subsidiary	30.9	—
Other, net	0.2	(2.9)
Effective tax rate	77.5%	62.8%

Significant components of the deferred tax assets and liabilities of the Companies at March 31, 2010 and 2011 are as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Deferred tax assets:			
Excess allowance for doubtful accounts	¥ 350	¥ 1,100	\$ 13,229
Excess provision for employees' bonuses	3,471	3,309	39,795
Accrued enterprise taxes	285	703	8,455
Provision for employees' severance and retirement benefits	6,148	6,246	75,117
Loss on impairment of fixed assets	1,574	2,481	29,838
Tax loss carryforward	1,592	1,873	22,526
Loss on devaluation of investment securities	2,012	2,192	26,362
Defined contribution pension plan	180	1,767	21,251
Other	6,905	9,258	111,340
Subtotal	22,517	28,929	347,913
Valuation allowance	(7,563)	(8,606)	(103,499)
Total deferred tax assets	¥ 14,954	¥ 20,323	\$ 244,414
Deferred tax liabilities:			
Deferred gain on sale of fixed assets	(3,153)	(3,186)	(38,316)
Net unrealized holding gains on securities	(6,040)	(12,565)	(151,112)
Other	(7,993)	(7,706)	(92,677)
Total deferred tax liabilities	¥(17,186)	¥(23,457)	\$(282,105)
Net deferred tax assets	¥ (2,232)	¥ (3,134)	\$ (37,691)

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

March 31	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Deferred tax assets included in current assets	¥6,559	¥10,954	\$131,738
Deferred tax assets included in property and equipment	—	221	2,658
Deferred tax liabilities included in long-term liabilities	(8,792)	(14,309)	(172,087)

18. COMPREHENSIVE INCOME

(1) Comprehensive income for the fiscal year ended March 31, 2010 was as follows:

	Millions of yen	Thousand of U.S. dollars
	2010	2010
Comprehensive income attributable to owners of the parent	¥4,956	\$59,603
Comprehensive income attributable to minority interests	—	—
Total comprehensive income	¥4,956	\$59,603

(2) Other comprehensive income for the fiscal year ended March 31, 2010 was as follows:

	Millions of yen	Thousand of U.S. dollars
	2010	2010
Unrealized gains on securities, net of taxes	¥3,039	\$36,548
Deferred gains or losses on hedges	1	12
Land revaluation differences, net of taxes	(42)	(505)
Total other comprehensive income	¥2,998	\$36,055

19. SEGMENT INFORMATION

Effective April 1, 2010, the Companies have adopted the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, issued March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008).

(1) GENERAL INFORMATION ABOUT REPORTABLE SEGMENTS

The Company's reportable segments are components of the Company for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors in order to determine allocation of resources to segments and assess segment performance.

The Company is aiming to create a new, customer-oriented business model, and therefore has three reportable segments by customer: the Prescription Pharmaceutical Wholesale Business; the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business; and Related Business.

The Prescription Pharmaceutical Wholesale Business conducts wholesale business for hospitals, clinics, dispensing pharmacies and other customers. The Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business conducts wholesale business for drugstores, home centers,

convenience stores, supermarkets and other customers. The Related Business conducts wholesale business for animal hospitals, farms, agricultural cooperatives and other customers.

(2) BASIS OF MEASUREMENT FOR REPORTED SEGMENT PROFIT OR LOSS, SEGMENT ASSETS, SEGMENT LIABILITIES AND OTHER MATERIAL ITEMS

The accounting methods for the reported business segments are generally the same as those in 2. Summary of Significant Accounting Policies above. Segment income corresponds to the operating income of consolidated statements of income. Intersegment sales and transfer prices are based on market prices.

(3) INFORMATION ABOUT REPORTED SEGMENT PROFIT OR LOSS, SEGMENT ASSETS, SEGMENT LIABILITIES AND OTHER MATERIAL ITEMS

Segment information as of and for the fiscal year ended March 31, 2011 is as follows:

Year ended March 31	Millions of yen					
	2011					
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net sales:						
(1) Sales to outside customers	¥1,885,966	¥734,178	¥42,678	¥2,662,822	¥ —	¥2,662,822
(2) Intersegment sales and transfers	1,700	581	9	2,290	(2,290)	—
Total sales	1,887,666	734,759	42,687	2,665,112	(2,290)	2,662,822
Segment income (Operating income)	¥ 3,688	¥ 8,726	¥ 444	¥ 12,858	¥ 691	¥ 13,549
Segment assets	¥ 914,206	¥289,134	¥18,862	¥1,222,202	¥62,478	¥1,284,680
Other						
Depreciation	¥ 7,287	¥ 3,593	¥ 182	¥ 11,062	¥ 217	¥ 11,279
Amortization of goodwill	—	830	64	894	—	894
Investment in affiliates accounted for using the equity method	—	—	3,592	3,592	—	3,592
Capital expenditures	9,465	14,337	37	23,839	6	23,845

Year ended March 31	Thousands of U.S. dollars					
	2011					
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net sales:						
(1) Sales to outside customers	\$22,681,491	\$8,829,561	\$513,265	\$32,024,317	\$ —	\$32,024,317
(2) Intersegment sales and transfers	20,445	6,988	108	27,541	(27,541)	—
Total sales	22,701,936	8,836,549	513,373	32,051,858	(27,541)	32,024,317
Segment income (Operating income)	\$ 44,353	\$ 104,943	\$ 5,340	\$ 154,636	\$ 8,310	\$ 162,946
Segment assets	\$10,994,660	\$3,477,258	\$226,843	\$14,698,761	\$751,389	\$15,450,150
Other						
Depreciation	\$ 87,637	\$ 43,211	\$ 2,189	\$ 133,037	\$ 2,609	\$ 135,646
Amortization of goodwill	—	9,982	770	10,752	—	10,752
Investment in affiliates accounted for using the equity method	—	—	43,199	43,199	—	43,199
Capital expenditures	113,831	172,423	445	286,699	72	286,771

Notes:

1. Adjustments are as follows:

- The ¥2,290 million adjustment of net sales represents elimination of intersegment transactions.
- The ¥691 million adjustment of segment income represents elimination of intersegment transactions of ¥2,496 million, minus corporate expenses of ¥1,805 million that are not allocated to reportable segments.
- The ¥62,478 million adjustment of segment assets represents corporate assets of ¥110,638 million that are not allocated to reportable segments, minus elimination of intersegment transactions of ¥48,161 million.
- The ¥217 million adjustment of depreciation represents corporate depreciation expenses that are not allocated to reportable segments.
- The ¥6 million adjustment of capital expenditures represents corporate assets that are not allocated to reportable segments.

2. Segment income is adjusted to operating income as reported in the consolidated statements of income.

Segment information as of and for the fiscal year ended March 31, 2010, which is restated in conformity with the requirements of the Standard, is as follows:

Year ended March 31	Millions of yen					Adjustments (Note 1)	Consolidated (Note 2)
	2010						
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Total			
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	
Segment income (Operating income)	¥ 9,695	¥ 8,677	¥ 18	¥ 18,390	¥ 44	¥ 18,434	
Segment assets	¥ 827,875	¥279,071	¥ —	¥1,106,946	¥59,541	¥1,166,487	
Other							
Depreciation	¥ 7,138	¥ 3,436	¥ 29	¥ 10,603	¥ 109	¥ 10,712	
Amortization of goodwill	26	2,866	—	2,892	—	2,892	
Capital expenditures	10,456	17,615	24	28,095	9	28,104	

Notes:

1. Adjustments are as follows:

- (1) The ¥1,262 million adjustment of net sales represents elimination of intersegment transactions.
- (2) The ¥44 million adjustment of segment income represents elimination of intersegment transactions of ¥987 million, minus corporate expenses of ¥943 million that are not allocated to reportable segments.
- (3) The ¥59,541 million adjustment of segment assets represents corporate assets of ¥95,786 million that are not allocated to reportable segments, minus elimination of intersegment transactions of ¥36,245 million.
- (4) The ¥109 million adjustment of depreciation represents corporate depreciation expenses that are not allocated to reportable segments.
- (5) The ¥9 million adjustment of capital expenditures represents corporate assets that are not allocated to reportable segments.

2. Segment income is adjusted to operating income as reported in the consolidated statements of income.

Segment information as of and for the fiscal year ended March 31, 2010, which is in conformity with the former Standard applicable to the prior fiscal year, is as follows:

Year ended March 31	Millions of yen					Adjustments (Note 1)	Consolidated (Note 2)
	2010						
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Total			
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	

Notes:

1. Method of business classification
Businesses are classified in consideration of similarities of product type, grouping and market.
2. 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.

3. Operating expenses that are not allocated to any business segment but included in eliminations and corporate are ¥943 million for the fiscal year ended March 31, 2010, and principally consist of expenses related to pure holding company functions.
4. Assets that are not allocated to any business segment but included in eliminations and corporate are ¥220,705 million 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.
5. Depreciation and capital expenditures include amortization of long-term prepaid expenses.
6. 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 compared with the former method of classification, and assets under "Eliminations and Corporate" increased by the same amount.

(4) INFORMATION RELATED TO REPORTABLE SEGMENTS

1) Information about products and services

The information about products and services is included in "(3) INFORMATION ABOUT REPORTED SEGMENT PROFIT OR LOSS, SEGMENT ASSETS, SEGMENT LIABILITIES AND OTHER MATERIAL ITEMS".

2) Information about geographic areas

(a) Net sales

Information about net sales was not shown since sales to outside customers in Japan were more than 90% of net sales presented in the consolidated statements of income.

(b) Property and equipment

Information about property and equipment was not shown since there are no property and equipment outside Japan.

3) Information about major customers

Information about major customers was not shown since net sales to any single customer were less than 10% of the amount of net sales presented in the consolidated statements of income.

(5) INFORMATION ON LOSS ON IMPAIRMENT OF FIXED ASSETS BY REPORTABLE SEGMENT

Year ended March 31	Millions of yen					Total
	2011					
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Eliminations and Corporate		
Loss on impairment of fixed assets	¥1,922	¥707	¥1	¥—		¥2,630

Year ended March 31	Thousands of U.S. dollars				
	2011				
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Eliminations and Corporate	Total
Loss on impairment of fixed assets	\$23,115	\$8,503	\$12	\$—	\$31,630

(6) INFORMATION ON AMORTIZATION AND UNAMORTIZED GOODWILL BY REPORTABLE SEGMENT

Year ended March 31	Millions of yen				
	2011				
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Eliminations and Corporate	Total
Amortization of goodwill	¥—	¥1,800	¥64	¥—	¥1,864
Ending balance	—	—	64	—	64

Year ended March 31	Thousands of U.S. dollars				
	2011				
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Wholesale Business	Related Business	Eliminations and Corporate	Total
Amortization of goodwill	\$—	\$21,647	\$770	\$—	\$22,417
Ending balance	—	—	770	—	770

20. TRANSACTIONS WITH RELATED PARTIES

(Years ended March 31, 2011 and 2010)

None applicable.

21. 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.

22. SUBSEQUENT EVENTS

Cash Dividends

On May 13, 2011, the Board of Directors approved the payment of a cash dividend of ¥9.00 (\$0.11) per share to shareholders of record at March 31, 2011, for a total payment of ¥2,111 million (\$25,388 thousand).

Voluntary Early Retirement Offer

Paltac Corporation, a consolidated subsidiary, resolved at a Board of Directors meeting held on April 28, 2011 to offer voluntary early retirement to employees in order to quickly establish an appropriately sized workforce. The decision was made because increasingly severe competition is expected to continue, with a decline in selling prices in addition to the current slump in consumption.

(1) Consolidated subsidiaries included in the early retirement offer

One company in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

- Paltac Corporation

(2) Number of employees to be extended the offer

200

(3) Eligible employees

Employees who will be between the ages of 45 and 59 and have at least three years of service as of August 31, 2011.

(4) Offering period

July 1– July 15, 2011

(5) Retirement date

August 31, 2011

(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 ¥4,100 million (\$51,714 thousand).

(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, 2010 and 2011, the related consolidated statements of income and comprehensive income for the year ended March 31, 2011, statement of income for the year ended March 31, 2010, and statements of changes in net assets and cash flows for each of 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, 2010 and 2011, 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.

Without qualifying our opinions, we draw attention to the following.

As discussed in Note 22 to the consolidated financial statements, on April 28, 2011, the Board of Directors of Paltac Corporation resolved to offer voluntary early retirement to employees.

As discussed in Note 18 to the consolidated financial statements, the comprehensive income for the year ended March 31, 2010 is disclosed.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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 LLC

(KPMG AZSA LLC)

Tokyo, Japan

June 24, 2011

Subsidiaries and Affiliated Companies (As of April 1, 2011)

PRESCRIPTION PHARMACEUTICAL WHOLESALE COMPANIES

MEDICEO CORPORATION

2-7-15, Yaesu, Chuo-ku, Tokyo 104-8464
Phone: 81-3-3517-5050 Fax: 81-3-3517-5011
Established: April 2004
Lines of business: Wholesale distribution of
prescription pharmaceutical products
Homepage: <http://www.mediceo.co.jp/>

EVERLTH Co., Ltd.

Hiroshimahaibiru 21, 3-1 Kanayama-cho, Naka-ku,
Hiroshima-shi, Hiroshima 730-0022
Phone: 81-82-544-8301 Fax: 81-82-544-8350
Established: April 1950
Lines of business: Wholesale distribution of
prescription pharmaceutical products
Homepage: <http://www.everlth.co.jp/>

ATOL CO., LTD.

2-2-51, Hanmichibashi, Hakata-ku, Fukuoka-shi,
Fukuoka 812-9552
Phone: 81-92-451-8771 Fax: 81-92-451-8754
Established: January 1947
Lines of business: Wholesale distribution of
prescription pharmaceutical products
Homepage: <http://www.atol-com.co.jp/>

MM CORPORATION

1-15-19, Nishikata, Bunkyo-ku, Tokyo 113-0024
Phone: 81-3-3816-3546 Fax: 81-3-3816-1395
Established: May 1975
Lines of business: Manufacture, sale and repair of
medical equipment and laboratory instruments,
wholesale distribution of pharmaceutical products,
purchase and sale of previously owned items,
design, development and management of hospital
logistics systems on consignment, provision of
medical information, and consulting on medical
distribution and hospital administration
Homepage: <http://www.e-truth.co.jp>

COSMETICS, DAILY NECESSITIES AND OTC PHARMACEUTICAL WHOLESALE COMPANY

Paltac Corporation

1-5-9, Minami Kyuhoji-machi, Chuo-ku, Osaka-shi,
Osaka 541-0058
Phone: 81-6-6262-1286 Fax: 81-6-6264-6343
Established: December 1928
Lines of business: Wholesale distribution of cosmetics,
daily necessities and OTC pharmaceuticals
Homepage: <http://www.paltac.co.jp/>

RELATED COMPANIES

MP AGRO CO., LTD

6-2-13, Omagari Kogyo Danchi, Kita Hiroshima-shi,
Hokkaido 061-1274
Phone: 81-11-376-3860 Fax: 81-11-376-3755
Established: July 1956
Lines of business: Wholesale distribution of animal
health products, wholesale distribution of food and
food additives
Homepage: <http://www.mpagro.co.jp/>

TOKIMO CO., LTD.

Tanaka Bldg. 4F, 3-7-13, Misaki-cho, Chiyoda-ku,
Tokyo 101-0061
Phone: 81-3-3221-7381 Fax: 81-3-3221-7383
Established: June 1986
Lines of business: Facility management and
administration, equipment management, cleaning
management, sanitation management, security
services, sale of products for special environments,
and other businesses
Homepage: <http://www.tokimo-bm.co.jp/>

M.I.C. (Medical Information College), INC.

CIC Yushima Bldg. 9F, 3-37-4, Yushima, Bunkyo-ku,
Tokyo 113-0034
Phone: 81-3-3832-6181 Fax: 81-3-3832-6182
Established: August 1984
Lines of business: Provision of medical office training,
workers and work services on a contract basis,
medical management consulting
Homepage: <http://www.mic-kk.co.jp/>

Trim Co., Ltd.

3-1-7, Isobedori, Chuo-ku, Kobe-shi, Hyogo 651-0084
Phone: 81-78-230-5210 Fax: 81-78-230-5785
Established: February 1999
Lines of business: Nonlife insurance agency,
operations related to life insurance subscription
Homepage: <http://www.trim-insurance.co.jp/>

KURAYA (USA) CORPORATION

3625 Del Amo Blvd., Suite #150, Torrance, CA 90503,
U.S.A.
Phone: 1-310-542-4245 Fax: 1-310-542-4175
Established: July 1997
Lines of business: Provision of overseas medical
information, introduction of medical-related
products, support for overseas training seminars
Homepage: <http://www.kurayausa.com/>

BUTSURYU 24, INC.

Tokimo Yushima Bldg. 2F, 3-26-7, Yushima
Bunkyo-ku, Tokyo 113-0034
Phone: 81-3-5846-4821 Fax: 81-3-3837-1825
Established: June 1998
Lines of business: Management and operation of
distribution centers, collection and processing of
distribution data, cargo vehicle transportation and
worker dispatch
Homepage: <http://www.butsuryu24.co.jp/>

Investor Information (As of March 31, 2011)

Corporate Name MEDIPAL HOLDINGS CORPORATION

Head Office 2-7-15, Yaesu, Chuo-ku,
Tokyo 104-8461, Japan
Tel: 81-3-3517-5800
Fax: 81-3-3517-5811
<http://www.medipal.co.jp/>

Founded October 8, 1898

Established May 6, 1923

Number of Employees 11,661 (Consolidated basis)
44 (Parent company)

Paid-in Capital ¥22,398 million

Number of Outstanding Shares 244,524,496

Shareholders 15,803

Stock Listing Tokyo Stock Exchange, First Section

Ticker Code 7459

Trading Unit 100 shares

Transfer Agent for Common Stock The Sumitomo Trust & Banking Co., Ltd.

General Meeting of Shareholders The Ordinary General Meeting of Shareholders is held annually in June.

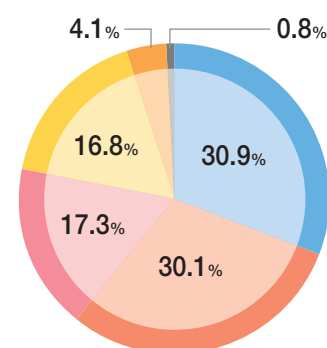
Further Information Corporate Communications Department
Tel: 81-3-3517-5171

Principal Shareholders

	Number of Shares Held (thousand)	Percentage of Total Shares
Takeda Pharmaceutical Company Limited	22,640	9.7%
State Street Bank and Trust Company	9,033	3.9
Japan Trustee Services Bank, Ltd. (Trust Account)	8,286	3.5
MEDICEO Employees Shareholders' Association of MP Group	7,944	3.4
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,544	3.2
Astellas Pharma Inc.	7,404	3.2
Eisai Co., Ltd.	5,845	2.5
Daiichi Sankyo Company, Limited	5,458	2.3
Kobayashi Pharmaceutical Co., Ltd.	5,074	2.2
Sadatake Kumakura	3,423	1.5

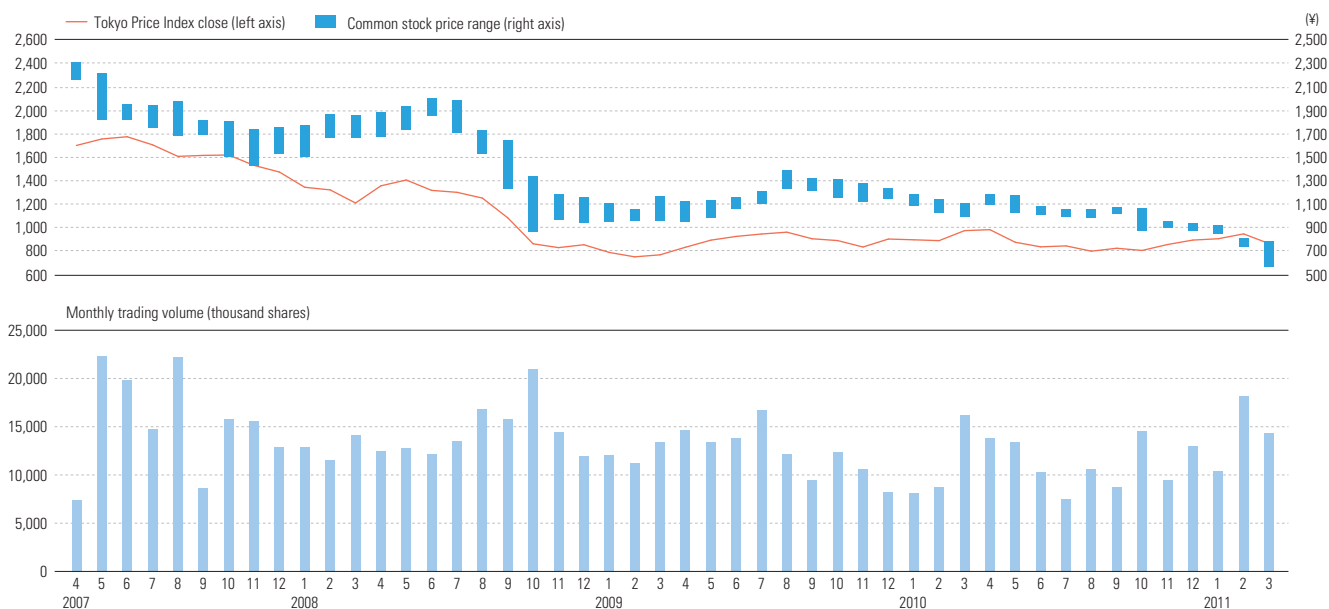
Note: The Company holds 9,966 thousand shares of treasury stock, which are excluded from the principal shareholders listed above.

Distribution of Shareholders



Note: Includes 9,966 thousand shares of treasury stock held by the Company.

MONTHLY STOCK PRICE RANGE & TRADING VOLUME (TOKYO STOCK EXCHANGE)



Life is Beautiful



In February 2011, we produced a commercial video to convey the MEDIPAL Group's philosophy. We posted it on the Company's website and YouTube. The main theme of the video is "One for all, All for one."

Please check it out: <http://www.medipal.co.jp/english/about/cm.html>

