

# Consolidated Financial Statements for the Fiscal Year Ended March 31, 2011

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan. May 13, 2011

## MEDIPAL HOLDINGS CORPORATION

Code number: 7459

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Annual General Meeting of Shareholders (scheduled):

June 24, 2011

Start of distribution of dividends (scheduled):

June 3, 2011

Filing of Securities Report (*Yuka Shoken Hokokusho*) (scheduled):

June 24, 2011

Preparation of Supplementary Materials for Financial Results: Yes

Presentation Meeting for Financial Results: Yes

Stock exchange listing: Tokyo

<http://www.medipal.co.jp>

Note: All amounts are rounded to the nearest million yen.

## 1. Consolidated Results for Fiscal 2011 (April 1, 2010 - March 31, 2011)

### (1) Sales and Income

(Percentages represent change compared to the previous fiscal year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Fiscal 2011	2,662,821	4.6	13,548	(26.5)	22,888	(14.6)
Fiscal 2010	2,546,029	3.3	18,433	37.0	26,802	(7.6)

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)	Return on equity (%)	Ordinary income/total assets (%)	Operating income/net sales (%)
Fiscal 2011	1,704	(12.9)	7.27	—	0.6	1.9	0.5
Fiscal 2010	1,958	(84.3)	8.31	—	0.7	2.3	0.7

(Reference) Equity in earnings of affiliates: ¥317 million (Fiscal 2010: ¥— million)

### (2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Net assets per share (¥)
Fiscal 2011	1,284,679	340,983	23.3	1,275.94
Fiscal 2010	1,166,486	330,992	24.9	1,236.15

(Reference) Net worth: ¥299,281 million (Fiscal 2010: ¥289,951 million)

### (3) Cash Flows

	Cash flows from operating activities (¥ million)	Cash flows from investing activities (¥ million)	Cash flows from financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
Fiscal 2011	49,474	(24,100)	(10,101)	148,563
Fiscal 2010	13,992	(29,845)	10,194	132,454

## 2. Dividends

	Dividends per share (¥)					Total dividends paid (full year) (¥ million)	Payout ratio (consolidated) (%)	Dividends/net assets (consolidated) (%)
	1st quarter	Interim	3rd quarter	Year-end	Full year			
Fiscal 2010	—	9.00	—	9.00	18.00	4,222	216.7	1.5
Fiscal 2011	—	9.00	—	9.00	18.00	4,222	247.7	1.4
Fiscal 2012 (est.)	—	9.00	—	9.00	18.00		41.8	

## 3. Projected Results for Fiscal 2012 (April 1, 2011 - March 31, 2012)

(Percentages represent change compared to the previous interim period or fiscal year, as applicable)

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Interim period	1,371,000	3.9	7,800	(50.3)	12,400	(37.0)	2,300	(51.2)	9.81
Full term	2,776,000	4.3	20,200	49.1	29,300	28.0	10,100	492.5	43.06

#### 4. Other

- (1) Changes in the state of material subsidiaries during the period (changes in specified subsidiaries due to changes in the scope of consolidation: None  
New: —  
Eliminated: —

- (2) Changes in accounting principles, procedures, and methods of presentation, etc., related to the preparation of the consolidated financial statements (changes in material items that form the basis of preparation of the consolidated financial statements)

(a) Changes related to revisions of accounting standards: Yes

(b) Changes other than (a) above: None

Note: For details, see “Preparation of the Consolidated Financial Statements” on page 19.

Number of shares issued and outstanding (common stock)

(a) Number of shares at the end of the period (including treasury stock)	Year ended March 31, 2011	244,524,496	Year ended March 31, 2010	244,524,496
(b) Number of treasury shares at the end of the period	Year ended March 31, 2011	9,966,425	Year ended March 31, 2010	9,965,301
(c) Average number of shares outstanding (cumulative with earlier quarters)	Year ended March 31, 2011	234,558,597	Year ended March 31, 2010	235,730,344

(Reference) Summary of Unconsolidated Results

#### 1. Unconsolidated Results for Fiscal 2011 (April 1, 2010 – March 31, 2011)

(1) Sales and Income (Percentages represent change compared with the previous fiscal year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Fiscal 2011	8,848	(98.9)	7,043	96.8	7,659	(14.2)
Fiscal 2010	822,512	(49.1)	3,579	61.6	8,925	(45.2)

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Fiscal 2011	(15,639)	—	(66.68)	—
Fiscal 2010	5,452	(37.3)	23.13	—

Note: The Company conducted a demerger on October 1, 2009 to become a pure holding company. As a result, net sales for the fiscal years ended March 31, 2010 and 2011 vary significantly.

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Net assets per share (¥)
Fiscal 2011	251,499	196,652	78.2	838.40
Fiscal 2010	254,707	214,272	84.1	913.51

(Reference) Net worth: ¥196,652 million (Fiscal 2010: ¥214,272 million)

#### \*Items Regarding the Implementation of Audit Procedures

This summary of consolidated results is exempt from the audit procedures based on the Financial Instruments and Exchange Act. Audit procedures for the financial statements based on the Financial Instruments and Exchange Act had not been completed at the time of disclosure of this summary of consolidated results.

#### Note: Cautionary Remarks Regarding Proper Use of Projected Results and Other Items

The projected results are based on information available at the time of this announcement. Actual results may differ from the figures in the projection owing to a wide range of factors in the future. See page 4 of the attached materials for items concerning the projected results.

Table of Contents of Attached Materials

<b>1. Business Results</b>	<b>2</b>
(1) Analysis of Business Results	2
(2) Analysis of Financial Position	5
(3) Basic Policy for Distribution of Profits and Dividends for the Fiscal Years Ended March 31, 2011 and Ending March 31, 2012	6
(4) Business and Other Risks	6
<b>2. Corporate Group</b>	<b>8</b>
<b>3. Management Policies</b>	<b>10</b>
(1) Basic Management Policy	10
(2) Target Management Indicators	10
(3) Medium-to-Long-Term Management Strategies of the Company	11
<b>4. Consolidated Financial Statements</b>	<b>12</b>
(1) Consolidated Balance Sheets	12
(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income	14
Consolidated Statements of Income	14
Consolidated Statements of Comprehensive Income	15
(3) Consolidated Statements of Changes in Net Assets	16
(4) Consolidated Statements of Cash Flows	18
(5) Notes Regarding Assumptions of Going Concern	19
(6) Preparation of the Consolidated Financial Statements	19
(7) Significant Changes in Basis of Preparation of Consolidated Financial Statements	23
(8) Changes in Disclosure Policy	23
(9) Supplemental Information	23
(10) Notes to Consolidated Financial Statements	23
Consolidated Statements of Comprehensive Income	23
Segment Information	24
Per Share Information	27
Subsequent Events	28
<b>5. Unconsolidated Financial Statements</b>	<b>29</b>
(1) Unconsolidated Balance Sheets	29
(2) Unconsolidated Statements of Income	31
<b>6. Others</b>	<b>32</b>
(1) Changes in Officers	32
(2) Changes in Executive Officers	32

# 1. Business Results

## (1) Analysis of Business Results

### *Business Results for the Fiscal Year Ended March 31, 2011*

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. (Kitahiroshima-shi, Hokkaido) 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 MEDICEO CORPORATION (Chuo-ku, Tokyo), the Kamaishi Branch (Kamaishi-shi, Iwate Prefecture) was destroyed by the tsunami, and the Ibaraki Distribution Center (Mito City, Ibaraki Prefecture) was temporarily unable to ship products due to power outages and other problems. In addition, at consolidated subsidiary Paltac Corporation (Chuo-ku, Osaka), the RDC Sendai (Iwanuma-shi, Miyagi Prefecture) and the Kazo Distribution Center (Kazo-shi, Saitama Prefecture) were rendered inoperable 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 substitute 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 for the period totaled ¥2,662,821 million (a 4.6 percent increase compared with the previous fiscal year) and operating income was ¥13,548 million (a 26.5 percent decrease). Ordinary income was ¥22,888 million (a 14.6 percent decrease) and net income was ¥1,704 million (a 12.9 percent decrease) due to losses from special retirement benefits and the disaster, which were accounted for in extraordinary losses.

A summary of results by principal business segments follows below.

### Prescription Pharmaceutical Wholesale Business

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 scheme, 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, wholly owned subsidiary MEDICEO CORPORATION built the 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, we 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 MEDIPAL'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 were ¥1,887,665 million (a 3.4 percent increase compared with the previous fiscal year) and operating income was ¥3,688 million (a 62.0 percent decrease).

### Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

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 Corporation 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 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 were ¥734,759 million (a 2.4 percent increase compared with the previous fiscal year), and operating income was ¥8,725 million (a 0.6 percent increase).

#### Related Business

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 ¥42,686 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.*

Note: Business segment sales include intersegment sales.

## *Outlook for the Fiscal 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 the predicted upcoming shortages of electric power, MEDICEO CORPORATION, a wholly owned subsidiary of the Company, has formed an Electric Power-Savings 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, MEDIPAL will grow and develop as a business with a competitive advantage. As part of these efforts, MEDIPAL's wholly owned subsidiary MEDICEO CORPORATION will put a state-of-the-art Area Logistics Center (ALC) into operation in July 2011 in Kiyosu-shi, Aichi Prefecture. MEDICEO CORPORATION 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 consolidated net sales of ¥2,776.0 billion (a year-on-year increase of 4.3 percent), consolidated operating income of ¥20.2 billion (a year-on-year increase of 49.1 percent), consolidated ordinary income of ¥29.3 billion (a year-on-year increase of 28.0 percent) and consolidated net income of ¥10.1 billion (a year-on-year increase of 492.5 percent).

## (2) Analysis of Financial Position

### A. Assets, Liabilities and Net Assets

As of March 31, 2011, total assets were ¥1,284,679 million, an increase of ¥118,193 million from a year earlier. The principal factors were a ¥31,766 million increase in notes and accounts receivable, trade, a ¥37,584 million increase in inventories and an ¥18,111 million increase in marketable securities.

Liabilities totaled ¥943,696 million, an increase of ¥108,202 million from the end of the previous fiscal year. This was mainly due to increases of ¥100,699 million in notes and accounts payable, trade.

Net assets were ¥340,983 million, an increase of ¥9,990 million from the end of the previous fiscal year. This was mainly due to an increase of ¥9,046 million in unrealized gains on securities, net of taxes.

### B. Cash Flows

In the fiscal year ended March 31, 2011, on a consolidated basis, cash and cash equivalents (hereafter, “net cash”) at the end of the year increased ¥16,108 million (12.2 percent) from the end of the previous fiscal year, to ¥148,563 million.

- Cash Flows from Operating Activities

The increase in net cash from operating activities was ¥49,474 million (an increase of ¥35,481 million compared with the previous fiscal year). Main factors were an increase of ¥27,451 million in notes and accounts receivable – trade and an increase of ¥37,240 million in inventories, offset by income before income taxes and minority interests of ¥8,638 million, depreciation and amortization of ¥12,157 million and increase in notes and accounts payable of ¥94,165 million.

- Cash Flows from Investing Activities

The decrease in net cash from investing activities was ¥241 million (a decrease of ¥5,744 million compared with the previous fiscal year). The main factor was ¥21,303 million in payments including for purchase of property and equipment for RDC Yokohama.

- Cash Flows from Financing Activities

The decrease in net cash from financing activities was ¥10,101 million (compared with an increase of ¥10,194 million in the previous fiscal year). Main factors were a net decrease of ¥3,860 million in debt, and cash dividends paid totaling ¥4,894 million.

#### Reference: Trends of Cash Flow Indicators

	Year ended March 31, 2007	Year ended March 31, 2008	Year ended March 31, 2009	Year ended March 31, 2010	Year ended March 31, 2011
Net worth ratio (%)	25.3	26.3	26.4	24.9	23.3
Net worth ratio on a market value basis (%)	50.3	39.0	22.5	22.3	13.4
Cash flow to interest-bearing debt ratio (%)	216.7	169.1	186.1	359.9	93.7
Interest coverage ratio (times)	47.9	42.9	27.4	16.8	72.2

Notes:

Net worth ratio: Net worth/Total assets

Net worth ratio on a market value basis: Total market value of stock/Total assets

Cash flow to interest-bearing debt ratio: Interest-bearing debt/Cash flow

Interest coverage ratio: Cash flows from operating activities/Interest expense

1. All indicators are calculated based on consolidated financial figures.

2. Total market value of stock is calculated based on the number of shares issued and outstanding (excluding treasury shares).

3. Cash flow is cash flows from operating activities.

4. Interest-bearing debt comprises all liabilities stated on the consolidated balance sheets on which the Company pays interest.

### **(3) Basic Policy for Distribution of Profits and Dividends for the Fiscal Years Ended March 31, 2011 and Ending March 31, 2012**

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 will effectively deploy its internal reserves for purposes including promotion of innovations for deepening and expanding businesses that are responsive to change. The Company will also appropriately make repurchases of its own stock, 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.

The Company will remain committed to improving its performance and increasing shareholder value.

For the fiscal year ended March 31, 2011, emphasizing stable dividends, the Company will pay a year-end dividend of ¥9.00 per share. Combined with the interim dividend of ¥9.00 per share, which was implemented on December 3, 2010, this will bring total dividends for the period to ¥18.00 per share, the same as for the previous fiscal year.

For the fiscal year ending March 31, 2012, the Company plans to pay interim and year-end dividends of ¥9.00 each, for total dividends of ¥18.00 per share.

### **(4) Business and Other Risks**

The main business and other risks of the MEDIPAL Group are as follows.

Statements regarding the future in the text are the judgments of the MEDIPAL Group as of March 31, 2011.

- **About risks related to specific legal regulations, etc.**

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.

- **About 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.

- **About NHI drug price standards**

Prescription pharmaceuticals, the products handled by the Prescription Pharmaceutical Wholesale business, are listed in the National Health Insurance (NHI) drug price standards, which stipulate the range of drugs that can be used in insured medical treatment and the billing prices of the drugs used. Therefore, the drug price standards act as a ceiling on selling prices. The prices set by the 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.

- **About 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.

- **About sales discontinuations, product recalls, etc.**

Business results may be affected in the event of a situation such as the discontinuation of sales or recall of products due to factors such as unforeseen side effects or tampering with products sold.

- **About system trouble**

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.

- **About default risk**

Business results would be affected in the event that a default occurs due to the bankruptcy or civil rehabilitation, etc. of customers, in regard to the credits associated with ongoing transactions that the MEDIPAL Group conducts with medical institutions.

- **About merchandise inventory risk**

Business results may be affected in the event that merchandise inventory held by the MEDIPAL Group declines in value or becomes unsaleable due to the bankruptcy or civil rehabilitation, etc. of suppliers.

- **About risks to financial condition and business performance from tie-ups, etc.**

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 as a result of these measures.

- **About litigation risk**

The MEDIPAL Group may be a party to litigation requesting payment of damages in the course of conducting business activities.

- **About 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.

- **About 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.

- **About risk of information leaks**

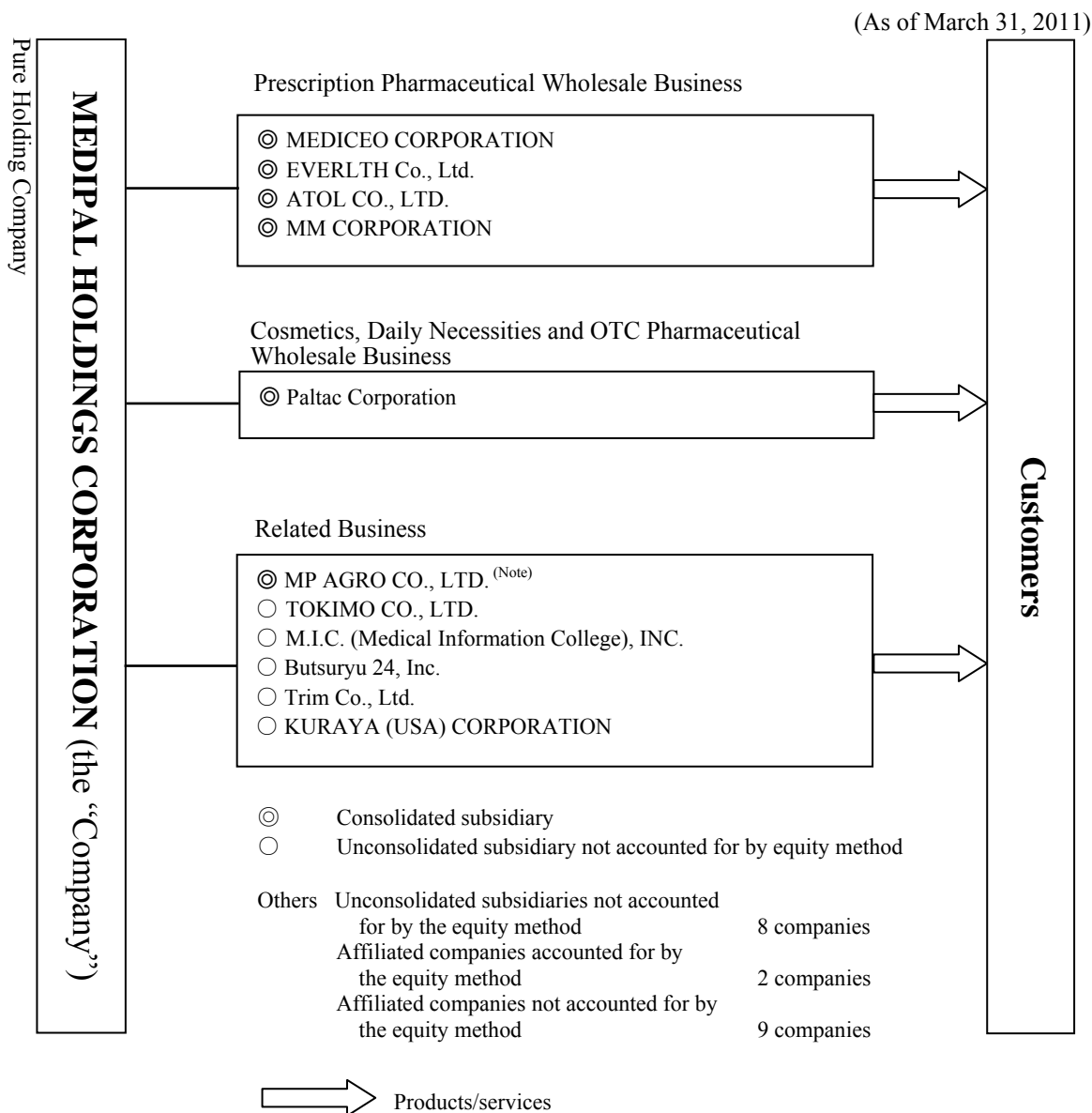
In storage of information assets held by the MEDIPAL Group, including customer information and confidential information, the Group works to maintain a management system to prevent information from leaking to parties outside the Group. However, if such an information leak occurs due to unforeseen circumstances,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

Various risks other than these exist, and the risks described here are not all of the risks of the MEDIPAL Group.

## 2. Corporate Group

The MEDIPAL Group consists of 19 consolidated subsidiaries and 11 affiliates, with MEDIPAL HOLDINGS CORPORATION as the core. The Group companies are primarily engaged in sales of pharmaceuticals, cosmetics, daily necessities and other goods, and provision of services.

The organization by business of the group companies is shown in the flow chart below.



Note: On April 1, 2010, EVERLTH AGROTECH Co., Ltd. merged with MARUZEN YAKUHIN CO., LTD., with the latter as the surviving company, and changed its corporate name to MP AGRO CO., LTD.

## Overview of Consolidated Subsidiaries

(As of March 31, 2011)

Company name	Address	Capital (¥ million)	Principal business	Percentage of voting rights (%)	Nature of relationship
MEDICEO CORPORATION	Chuo-ku, Tokyo	100	Prescription pharmaceutical wholesale business	100.0	Directors in common with the Company; loan of facilities
EVERLTH Co., Ltd.	Naka-ku, Hiroshima	1,510	Prescription pharmaceutical wholesale business	100.0	Directors in common with the Company
ATOL CO., LTD.	Hakata-ku, Fukuoka	3,965	Prescription pharmaceutical wholesale business	100.0	Directors in common with the Company
MM CORPORATION	Bunkyo-ku, Tokyo	100	Prescription pharmaceutical wholesale business	100.0	Directors in common with the Company; guarantee of debt
Paltac Corporation	Chuo-ku, Osaka	12,482	Cosmetics, daily necessities and OTC pharmaceutical wholesale business	57.0	Directors in common with the Company
MP AGRO CO., LTD. <sup>(Note 2)</sup>	Kita-Hiroshima, Hokkaido	44	Related business	100.0	Directors in common with the Company
Affiliated companies accounted for by the equity method					
Qol Co., Ltd. <sup>(Notes 2, 3)</sup>	Minato-ku, Tokyo	814	Operation of dispensing pharmacies	36.7 (4.5)	Directors in common with the Company, business alliance
MC Healthcare, Inc. <sup>(Note 2)</sup>	Minato-ku, Tokyo	548	Operational support for hospitals	20.0	

Notes:

1. Segment information names are used to describe the principal business of consolidated subsidiaries.
2. MP AGRO Co., Ltd., Qol Co., Ltd. and MC Healthcare, Inc. have been included with consolidated subsidiaries in affiliated companies accounted for by the equity method because of their increased significance.
3. Figures in parentheses under percentage of voting rights are the percentage of indirect voting rights.

### 3. Management Policies

#### (1) Basic Management Policy

##### Management Philosophy

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

##### Management Policy

1. Creating a vitalized corporate culture to make the MEDIPAL Group trusted by society
2. Management that raises shareholder value and thorough legal compliance
3. Faithfully create a free and open-minded corporate culture and train creative personnel

##### Basic Operating Policy

We raise the level of energy among the united companies of MEDIPAL.

We fully concentrate on reform and improvement.

We overcome organizational hurdles and sublimate knowledge into shared wisdom.

We pursue a basic policy of listening.

We work hard to create unity.

#### (2) Target Management Indicators

On February 4, 2011, the MEDIPAL Group announced the 2014 MEDIPAL Medium-Term Vision for the fiscal year ending March 31, 2014.

##### **Direction and Basic Policy of the 2014 MEDIPAL Medium-Term Vision**

The basic policy representing the direction of the MEDIPAL Group in the next three years is as follows: “By building a new distribution system focused on safety, security and low cost, we aim to be the most reliable business group for our customers and society.

##### **The 2014 MEDIPAL Medium-Term Vision in Our Three Main Businesses**

###### **Prescription Pharmaceutical Wholesale Business**

As we look at the rapidly changing market environment and the related changes in our earnings structure, we will grow and develop as a business with a competitive advantage by focusing on implementing distribution reforms that will strengthen our business foundation.

###### **Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business**

In our existing wholesale business, we will promote a more bottom-up structure. We will also make investments in new growth businesses to strengthen and expand the business foundation.

##### **Related Business**

We will work to raise profitability through sales activities that leverage our industry-leading scale in the animal health products wholesale business, achieved through mergers within the Group.

##### **Management Targets (Fiscal Year Ending March 31, 2014)**

Net sales                    ¥3 trillion

Operating income    ¥35 billion

##### **Shareholder Returns**

###### **Basic Policy**

Our basic policy is to increase shareholder value through sustained growth in profits. While proactively making strategic investments for future growth, we will seek to maintain stable dividends and deliver shareholder based on performance.

**Dividend Policy**

We will maintain stable dividends with a target payout ratio of 25 percent.

**(3) Medium-to-Long-Term Management Strategies of the Company**

Based on the 2014 MEDIPAL Medium-Term Vision through the fiscal year ending March 31, 2014, the MEDIPAL Group will continue to carry out business innovations aimed at creating a new, customer-oriented business model to establish a corporate group capable of more dynamic growth.

#### 4. Consolidated Financial Statements

##### (1) Consolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

	As of March 31, 2010	As of March 31, 2011
<b>ASSETS</b>		
Current assets		
Cash and time deposits	137,754	153,943
Notes and accounts receivable, trade	571,259	603,026
Marketable securities	18,711	18,723
Product inventory	120,436	158,021
Deferred income taxes	6,559	10,953
Accounts receivable, other	52,991	57,520
Other current assets	3,737	4,070
Allowance for doubtful accounts	(1,611)	(1,636)
Total current assets	909,839	1,004,623
Fixed assets		
Property and equipment:		
Buildings and structures (net)	66,983	72,273
Machinery, equipment and vehicles (net)	11,972	15,895
Land	93,053	94,874
Construction in progress	6,818	3,984
Other tangible fixed assets (net)	5,749	4,869
Total property and equipment	184,577	191,896
Intangible assets:		
Goodwill	1,800	63
Software	6,667	6,019
Other intangible assets	1,029	866
Total intangible assets	9,496	6,949
Investments and other non-current assets:		
Investment securities	50,118	68,230
Long-term loans receivable	86	94
Deferred income taxes	—	221
Other	14,164	14,641
Allowance for doubtful accounts	(1,795)	(1,977)
Total investments and other non-current assets	62,573	81,209
Total fixed assets	256,647	280,056
Total assets	1,166,486	1,284,679

(Millions of yen, rounded down to the nearest million)

	As of March 31, 2010	As of March 31, 2011
<b>LIABILITIES</b>		
Current liabilities:		
Notes and accounts payable, trade	719,437	820,137
Short-term bank loans	37,837	35,002
Long-term debt due within one year	1,956	1,956
Income taxes payable	4,370	7,427
Provision for employees' bonuses	8,372	7,980
Allowance for losses on sales returns	770	708
Provision for disaster	—	942
Other current liabilities	25,428	26,481
Total current liabilities	798,172	900,635
Long-term liabilities:		
Long-term debt	6,304	5,848
Deferred income taxes	8,791	14,309
Deferred income taxes – land revaluation	1,668	1,665
Employees' severance and retirement benefits	14,818	15,046
Other long-term liabilities	5,738	6,191
Total long-term liabilities	37,321	43,060
Total liabilities	835,493	943,696
<b>NET ASSETS</b>		
Shareholders' equity		
Common stock	22,398	22,398
Capital surplus	134,625	134,625
Retained earnings	158,783	158,807
Treasury stock, at cost	(13,500)	(13,501)
Total shareholders' equity	302,306	302,329
Accumulated other comprehensive income		
Unrealized gains on securities, net of taxes	5,177	14,223
Gain (loss) on deferred hedges	0	1
Land revaluation differences, net of taxes	(17,533)	(17,273)
Total accumulated other comprehensive income	(12,355)	(3,048)
Minority interests	41,041	41,701
Total net assets	330,992	340,983
Total liabilities and total net assets	1,166,486	1,284,679

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2010	Year ended March 31, 2011
Net sales	2,546,029	2,662,821
Cost of sales	2,354,894	2,474,740
Gross profit	191,135	188,081
Reversal of allowance for losses on sales returns	726	774
Provision for losses on sales returns	770	708
Net gross profit	191,091	188,147
Selling, general and administrative expenses		
Wages and salaries	72,728	75,295
Welfare expenses	9,404	10,011
Provision for bonuses	8,351	7,952
Employees' severance and retirement benefit expenses	7,971	7,323
Shipping and delivery expenses	14,645	14,688
Rental expenses	5,228	5,292
Depreciation and amortization	10,711	11,278
Provision for doubtful accounts	59	120
Amortization of goodwill	2,891	893
Other	40,664	41,741
Total selling, general and administrative expenses	172,657	174,598
Operating income	18,433	13,548
Non-operating income		
Interest income	189	141
Dividend income	1,429	1,304
Research fee income	5,995	6,452
Real estate rental income	925	918
Equity in earnings of affiliated companies	—	317
Other non-operating income	1,688	1,914
Total non-operating income	10,288	11,048
Non-operating expenses		
Interest expense	842	695
Real estate rental expenses	585	585
Other non-operating expenses	432	428
Total non-operating expenses	1,859	1,708
Ordinary income	26,802	22,888
Extraordinary gains		
Gain on sale of fixed assets	4	95
Gain on sale of investment securities	0	12
Gain on changes in equity	—	102
Gain on disposal of golf memberships	3	9
Reversal of allowance for doubtful accounts	40	144
Gain on cancellation of shares due to absorption of a subsidiary	322	—
Total extraordinary gains	372	365
Extraordinary losses		
Loss on sale and disposal of fixed assets	732	392
Loss on impairment of fixed assets	1,142	2,629
Loss on disaster	—	4,983
Amortization of goodwill	—	969
Loss on sale of investment securities	5	3
Loss on valuation of investment securities	214	884
Loss on sale of stock of affiliates	5,190	—
Loss on valuation of equity in affiliates	4	—
Loss on changes in equity	3,938	—
Loss on valuation of investments	—	742
Loss on disposal of golf memberships	0	4
Loss on valuation of golf memberships	0	8
Special retirement benefits	6,961	3,149
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	665
Office relocation expenses	39	179
Restructuring expenses	256	—
Total extraordinary losses	18,486	14,614
Income before income taxes and minority interests	8,688	8,638
Current income taxes	6,389	10,738
Deferred income taxes	340	(5,313)
Total income taxes	6,729	5,425
Income before minority interests	—	3,213
Minority interests in net income of consolidated subsidiaries	—	1,508
Net income	1,958	1,704

Consolidated Statements of Comprehensive Income

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2010	Year ended March 31, 2011
Income before minority interests	—	3,213
Other comprehensive income		
Unrealized gains on securities, net of taxes	—	8,872
Gain (loss) on deferred hedges	—	0
Share in other comprehensive income of equity-method associates	—	(1)
Share in other comprehensive income of equity-method associates	—	8,872 <sup>*2</sup>
Comprehensive income	—	12,085 <sup>*1</sup>
(Attributable to)		
Shareholders of MEDIPAL HOLDINGS CORPORATION	—	10,753
Minority interests	—	1,332

## (3) Consolidated Statements of Changes in Net Assets

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2010	Year ended March 31, 2011
Shareholders' equity		
Common stock		
Balance at March 31, 2010	22,398	22,398
Changes during the year		
Total changes during the year	—	—
Balance at March 31, 2011	22,398	22,398
Capital surplus		
Balance at March 31, 2010	134,625	134,625
Changes during the year		
Disposal of treasury stock	(0)	(0)
Total changes during the year	(0)	(0)
Balance at March 31, 2011	134,625	134,625
Retained earnings		
Balance at March 31, 2010	160,797	158,783
Changes during the year		
Cash dividends paid	(3,787)	(4,222)
Change in scope of consolidation	—	65
Change in scope of equity method	—	2,733
Net income	1,958	1,704
Reversal of land revaluation differences	(183)	(257)
Total changes during the year	(2,013)	24
Balance at March 31, 2011	158,783	158,807
Treasury stock		
Balance at March 31, 2010	(7,782)	(13,500)
Changes during the year		
Acquisition of treasury stock	(5,718)	(1)
Disposal of treasury stock	0	0
Total changes during the year	(5,718)	(1)
Balance at March 31, 2011	(13,500)	(13,501)
Total shareholders' equity		
Balance at March 31, 2010	310,038	302,306
Changes during the year		
Cash dividends paid	(3,787)	(4,222)
Change in scope of consolidation	—	65
Change in scope of equity method	—	2,733
Net income	1,958	1,704
Acquisition of treasury stock	(5,718)	(1)
Disposal of treasury stock	0	0
Reversal of land revaluation differences	(183)	(257)
Total changes during the year	(7,731)	23
Balance at March 31, 2011	302,306	302,329

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2010	Year ended March 31, 2011
Accumulated other comprehensive income		
Unrealized gains on securities, net of taxes		
Balance at March 31, 2010	2,137	5,177
Changes during the year		
Changes in items other than shareholders' equity (net)	3,039	9,046
Total changes during the year	3,039	9,046
Balance at March 31, 2011	5,177	14,223
Gain (loss) on deferred hedges		
Balance at March 31, 2010	—	0
Changes during the year		
Changes in items other than shareholders' equity (net)	0	0
Total changes during the year	0	0
Balance at March 31, 2011	0	1
Land revaluation differences, net of taxes		
Balance at March 31, 2010	(17,675)	(17,533)
Changes during the year		
Changes in items other than shareholders' equity (net)	141	260
Total changes during the year	141	260
Balance at March 31, 2011	(17,533)	(17,273)
Total accumulated other comprehensive income		
Balance at March 31, 2010	(15,537)	(12,355)
Changes during the year		
Changes in items other than shareholders' equity (net)	3,182	9,307
Total changes during the year	3,182	9,307
Balance at March 31, 2011	(12,355)	(3,048)
Minority interests		
Balance at March 31, 2010	—	41,041
Changes during the year		
Changes in items other than shareholders' equity (net)	41,041	660
Total changes during the year	41,041	660
Balance at March 31, 2011	41,041	41,701
Total net assets		
Balance at March 31, 2010	294,500	330,992
Changes during the year		
Cash dividends paid	(3,787)	(4,222)
Change in scope of consolidation	—	65
Change in scope of equity method	—	2,733
Net income	1,958	1,704
Acquisition of treasury stock	(5,718)	(1)
Disposal of treasury stock	0	0
Reversal of land revaluation differences	(183)	(257)
Changes in items other than shareholders' equity (net)	44,223	9,967
Total changes during the year	36,491	9,990
Balance at March 31, 2011	330,992	340,983

## (4) Consolidated Statements of Cash Flows

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2010	Year ended March 31, 2011
Cash flows from operating activities		
Income before income taxes and minority interests	8,688	8,638
Depreciation and amortization	11,441	12,157
Loss on impairment of fixed assets	1,142	2,629
Amortization of goodwill	2,891	1,863
Increase (decrease) in employees' severance and retirement benefits – net	(849)	319
Increase (decrease) in accrued employees' bonuses	861	(609)
Increase (decrease) in allowance for doubtful accounts	(285)	(350)
Increase (decrease) in allowance for losses on sales returns	44	(65)
Interest and dividend income	(1,618)	(1,445)
Interest expenses	842	695
Equity in loss (earnings) of affiliated companies	—	(317)
Loss (gain) on disposal of fixed assets	728	297
Loss (gain) on sale of marketable securities and investment securities	4	(8)
Loss (gain) on valuation of marketable securities and investment securities	214	884
Loss (gain) on sale of stock of affiliated companies	5,190	—
Loss on valuation of stock of affiliated companies	4	—
Loss (gain) on changes in equity	3,938	(102)
Loss of valuation of investments	—	742
Loss (gain) on sale of golf memberships	(2)	(5)
Loss on valuation of golf memberships	0	8
Additional retirement benefits for employees	6,961	3,149
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	665
Loss on disaster	—	4,983
Decrease (increase) in notes and accounts receivable – trade	(15,995)	(27,451)
Decrease (increase) in inventories	(5,394)	(37,240)
Decrease (increase) in other current assets	(1,477)	(4,396)
Increase (decrease) in notes and accounts payable	4,703	94,165
Increase (decrease) in accrued consumption taxes	1,200	(1,443)
Increase (decrease) in other current liabilities	1,145	603
Subtotal	24,379	58,367
Interest and dividends received	1,611	1,693
Interest expenses paid	(830)	(685)
Payment for additional retirement benefits for employees	(7,452)	(2,941)
Payment for loss on disaster	—	(39)
Income taxes paid	(3,715)	(6,920)
Net cash provided by operating activities	13,992	49,474
Cash flows from investing activities		
Increase in time deposits	(10,045)	(8,980)
Decrease in time deposits	10,250	8,980
Payments for purchase of marketable securities	(18,711)	(12)
Payments for purchase of property and equipment	(25,602)	(21,303)
Proceeds from sale of property and equipment	509	2,604
Payments for purchase of intangible assets	(3,324)	(1,404)
Payments for purchase of investment securities	(2,361)	(2,870)
Proceeds from sale or redemption of investment securities	41	767
Payment for acquisition of investment in subsidiaries	(222)	(721)
Proceeds from sale of investment in affiliates	18,712	—
Proceeds from acquisition of investment in subsidiaries due to change in scope of consolidation	(201)	—
Disbursement of loans	(66)	(12)
Collection of loans	452	79
Other, net	724	(1,227)
Net cash used in investing activities	(29,845)	(24,100)
Cash flows from financing activities		
Increase (decrease) in short-term bank loans – net	9,024	(3,404)
Repayment of lease obligation	(1,824)	(1,345)
Proceeds from long-term debt	1,500	1,500
Repayment of long-term debt	(3,475)	(1,956)
Proceeds from stock issuance to minority shareholders	14,476	—
Purchase of treasury stock	(5,718)	(1)
Proceeds from sale of treasury stock	0	0
Cash dividends paid to shareholders	(3,787)	(4,222)
Cash dividends paid to minority shareholders	—	(672)
Net cash provided by (used in) financing activities	10,194	(10,101)
Net increase (decrease) in cash and cash equivalents	(5,657)	15,272
Cash and cash equivalents at beginning of year	138,067	132,454
Increase in cash and cash equivalents due to change in scope of consolidation	—	836
Decrease in cash and cash equivalents due to merger of consolidated subsidiaries	44	—
Cash and cash equivalents at end of year	132,454	148,563

(5) Notes Regarding Assumption of Going Concern  
None applicable

(6) Preparation of the Consolidated Financial Statements

Year ended March 31, 2010	Year ended March 31, 2011
<p><b>1. Scope of Consolidation</b></p> <p>(1) Number of Consolidated Subsidiaries: 5 companies</p> <ul style="list-style-type: none"> <li>▪ MEDICEO CORPORATION</li> <li>▪ EVERLTH Co., Ltd.</li> <li>▪ ATOL CO., LTD.</li> <li>▪ MM CORPORATION</li> <li>▪ Paltac Corporation</li> </ul> <p>PALTAC KS CORPORATION changed its corporate name to Paltac Corporation on April 1, 2009.</p> <p>MEDICEO MEDICAL CO., LTD. changed its corporate name to MM CORPORATION on October 1, 2009.</p> <p>SENSHU YAKUHIH CO., LTD., USHIODA KURAYA SANSEIDO Inc., YAMAHIRO KURAYA SANSEIDO Inc., HEISEI YAKUHIH CO., LTD. and IZUTSU KURAYA SANSEIDO Inc. merged with the Company's consolidated subsidiary KURAYA SANSEIDO Inc., the surviving company, on October 1, 2009. These companies therefore are excluded from the scope of consolidation as of the third quarter of the year ended March 31, 2010.</p> <p>KURAYA SANSEIDO Inc. changed its corporate name to MEDICEO CORPORATION.</p> <p>ATOL Naha Yakuhin Co., Ltd. merged with the Company's consolidated subsidiary ATOL CO., LTD., the surviving company, on October 1, 2009, and therefore is excluded from the scope of consolidation as of the third quarter of the year ended March 31, 2010.</p> <p>KURAYA KASEI, INC. is excluded from the scope of consolidation as of the third quarter of the year ended March 31, 2010 because the Company transferred all of its shares of this subsidiary on November 30, 2009. This company's profit and loss and cash flows through December 31, 2009 are consolidated.</p> <p>(2) Unconsolidated Subsidiaries</p> <p>Significant unconsolidated subsidiaries:</p> <ul style="list-style-type: none"> <li>▪ EVERLTH AGROTECH Co., Ltd.</li> </ul> <p>Reason for exclusion from consolidation:</p> <p>The unconsolidated subsidiary is small in scale, and its total assets, net sales, net income (equity equivalent) and retained earnings (equity equivalent) would not have a material effect on the interim consolidated financial statements.</p>	<p><b>1. Scope of Consolidation</b></p> <p>(1) Number of Consolidated Subsidiaries: 6 companies</p> <ul style="list-style-type: none"> <li>▪ MEDICEO CORPORATION</li> <li>▪ EVERLTH Co., Ltd.</li> <li>▪ ATOL CO., LTD.</li> <li>▪ MM CORPORATION</li> <li>▪ Paltac Corporation</li> <li>▪ MP AGRO CO., LTD.</li> </ul> <p>MP AGRO CO., LTD. was included in the scope of consolidation because of its increased significance.</p> <p>(2) Unconsolidated Subsidiaries</p> <p>Significant unconsolidated subsidiaries:</p> <ul style="list-style-type: none"> <li>▪ Trim Co., Ltd.</li> </ul> <p>Reason for exclusion from consolidation:</p> <p>The unconsolidated subsidiary is small in scale, and its total assets, net sales, net income (equity equivalent) and retained earnings (equity equivalent) would not have a material effect on the interim consolidated financial statements.</p>

<p><b>2. Application of the Equity Method</b></p> <p>(1) The equity method is not applied to any unconsolidated subsidiaries or affiliated companies.</p> <p>(2) The equity method is not applied to unconsolidated subsidiaries (EVERLTH AGROTECH Co., Ltd. and others) and affiliates (Nihon Hospital Service Co., Ltd. and others) as the total assets, net sales, net income and retained earnings of these companies would not have a material effect on the consolidated financial statements, and the importance of these companies in the aggregate is not significant.</p>	<p><b>2. Application of the Equity Method</b></p> <p>(1) Number of affiliated companies accounted for by the equity method: Two</p> <ul style="list-style-type: none"> <li>▪ Qol Co., Ltd.</li> <li>▪ MC Healthcare, Inc.</li> </ul> <p>Qol Co., Ltd. and MC Healthcare, Inc. have been made affiliated companies accounted for by the equity method starting with the year ending March 31, 2011 due to an increase in their significance.</p> <p>(2) The equity method is not applied to unconsolidated subsidiaries (Trim Co., Ltd. and others) and affiliated companies (Medical Data Vision Co., Ltd and others) as the net income and retained earnings of these companies would not have a material effect on the consolidated financial statements, and the importance of these companies in the aggregate is not significant.</p>
<p><b>3. Accounting Periods of Consolidated Subsidiaries</b></p> <p>The accounting periods of all consolidated subsidiaries end on the consolidated account settlement date.</p>	<p><b>3. Accounting Periods of Consolidated Subsidiaries</b></p> <p>The accounting periods of all consolidated subsidiaries end on the consolidated account settlement date.</p>
<p><b>4. Accounting Standards</b></p> <p>(1) Accounting Standards for Valuation of Major Assets</p> <p><b>a. Valuation of Securities</b></p> <p><b>Held-to-maturity bonds:</b> Amortized cost method (Straight-line method)</p> <p><b>Other marketable securities:</b> <b>Securities quoted on stock exchanges:</b> Valued at market based on market prices at the year-end consolidated account settlement date (valuation differences are fully capitalized and selling prices are computed using the moving-average method)</p> <p><b>Securities without market prices:</b> Valued at cost using the moving-average method</p> <p><b>b. Derivatives</b> Valued at market</p> <p><b>c. Valuation of Inventories</b> Valued at cost mainly using the moving-average method (Balance sheet values are calculated by the book value devaluation method based on the decline in profitability.)</p> <p>(2) Method of Depreciation of Major Depreciable Assets</p> <p><b>a. Property, plant and equipment (excluding leased assets)</b> The Company and its consolidated subsidiaries primarily use the declining-balance method. However, for buildings (excluding attached facilities) acquired on or after April 1, 1998, the straight-line method is employed. Estimated useful lives are primarily 3-50 years for buildings and structures and 4-15 years for machinery and equipment and carriers.</p> <p><b>Additional Information:</b> Pursuant to a revision of the Corporation Tax Law, the Company and its consolidated subsidiaries reviewed the useful lives of machinery and equipment in property and equipment, and changed the number of years of useful life as of the fiscal year ended March 31, 2009. This change has no material effect on profit and loss.</p>	<p><b>4. Accounting Standards</b></p> <p>(1) Accounting Standards for Valuation of Major Assets</p> <p><b>a. Valuation of Securities</b></p> <p><b>Held-to-maturity bonds:</b> Amortized cost method (Straight-line method)</p> <p><b>Other marketable securities:</b> <b>Securities quoted on stock exchanges:</b> Valued at market based on market prices at the year-end consolidated account settlement date (valuation differences are fully capitalized and selling prices are computed using the moving-average method)</p> <p><b>Securities without market prices:</b> Valued at cost using the moving-average method</p> <p><b>b. Derivatives</b> Valued at market</p> <p><b>c. Valuation of Inventories</b> Valued at cost using the moving-average method (Balance sheet values are calculated by the book value devaluation method based on the decline in profitability.)</p> <p>(2) Method of Depreciation of Major Depreciable Assets</p> <p><b>a. Property, plant and equipment (excluding leased assets)</b> The Company and its consolidated subsidiaries primarily use the declining-balance method. However, for buildings (excluding attached facilities) acquired on or after April 1, 1998, the straight-line method is employed. Estimated useful lives are primarily 3-50 years for buildings and structures and 4-15 years for machinery and equipment and carriers.</p>

<p><b>b. Intangible assets (excluding leased assets)</b> The Company and its consolidated subsidiaries primarily use the straight-line method. However, software for internal use is depreciated using the straight-line method based on the estimated useful life within the Company (5 years).</p> <p><b>c. Leased assets</b> Leased assets related to finance lease transactions without ownership transfer are depreciated using the straight-line method with the lease periods as the useful lives and zero residual value.</p> <p><b>d. Long-term prepaid expenses</b> Long-term prepaid expenses are primarily amortized using the straight-line method.</p> <p>(3) Accounting Standards for Major Reserves</p> <p><b>a. Allowance for doubtful accounts</b> An allowance for doubtful accounts is provided in amounts deemed necessary to cover possible losses. It comprises the amount calculated in accordance with the corporate income tax regulations and the amount estimated to be uncollectible on an individual basis.</p> <p><b>b. Provision for employees' bonuses</b> To provide for payment of bonuses to employees, a consolidated reserve is set aside in the estimated amount required to be paid for the consolidated accounting period.</p> <p><b>c. Allowance for losses on sales returns</b> An allowance for losses on sales returns is provided based on the amount of trade receivables at the consolidated balance sheet date, multiplied by the actual rate of returns and the sales profit rate.</p> <p><b>d. _____</b></p> <p><b>e. Reserve for employees' severance and retirement benefits</b> The Company and its consolidated subsidiaries provide for employees' severance and retirement benefits in the estimated amount required to be paid at the consolidated balance sheet date, less the estimated fair value of pension assets related to contributory pension plans. Past service liability and actuarial differences are expensed on a straight-line basis over three years beginning in the fiscal year in which they arise.</p> <p><b>Change in Accounting Policies:</b> Starting from the year ended March 31, 2010, the Company has adopted the Partial Amendments (3) to Accounting Standard for Retirement Benefits (ASBJ Statement No. 19, July 31, 2008). This has no effect on the consolidated financial statements.</p> <p>(4) Significant Methods of Hedge Accounting</p> <p><b>a. Hedge Accounting Method</b> Deferral hedge accounting is applied. However, designation is applied to forward exchange contracts that qualify.</p>	<p><b>b. Intangible assets (excluding leased assets)</b> The Company and its consolidated subsidiaries primarily use the straight-line method. However, software for internal use is depreciated using the straight-line method based on the estimated useful life within the Company (5 years).</p> <p><b>c. Leased assets</b> Leased assets related to finance lease transactions without ownership transfer are depreciated using the straight-line method with the lease periods as the useful lives and zero residual value.</p> <p><b>d. Long-term prepaid expenses</b> Long-term prepaid expenses are primarily amortized using the straight-line method.</p> <p>(3) Accounting Standards for Major Reserves</p> <p><b>a. Allowance for doubtful accounts</b> An allowance for doubtful accounts is provided in amounts deemed necessary to cover possible losses. It comprises the amount calculated in accordance with the corporate income tax regulations and the amount estimated to be uncollectible on an individual basis.</p> <p><b>b. Provision for employees' bonuses</b> To provide for payment of bonuses to employees, a consolidated reserve is set aside in the estimated amount required to be paid for the consolidated accounting period.</p> <p><b>c. Allowance for losses on sales returns</b> An allowance for losses on sales returns is provided based on the amount of trade receivables at the consolidated balance sheet date, multiplied by the actual rate of returns and the sales profit rate.</p> <p><b>d. Provision for disaster</b> A provision for disaster losses is made in the estimated required amount at March 31, 2011 to cover expenditures including the cost of restoring assets damaged by the Great East Japan Earthquake and fire.</p> <p><b>e. Reserve for employees' severance and retirement benefits</b> The Company and its consolidated subsidiaries provide for employees' severance and retirement benefits in the estimated amount required to be paid at the consolidated balance sheet date, less the estimated fair value of pension assets related to contributory pension plans. Past service liability and actuarial differences are expensed on a straight-line basis over three years beginning in the fiscal year in which they arise.</p> <p>(4) Significant Methods of Hedge Accounting</p> <p><b>a. Hedge Accounting Method</b> Deferral hedge accounting is applied. However, designation is applied to forward exchange contracts that qualify.</p>
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<p><b>b. Hedging instruments and hedged items</b> Hedging instruments: Derivative transactions (forward exchange contracts) Hedged items: Foreign currency debt and foreign currency transactions</p> <p><b>c. Hedging policy</b> The Company uses hedging instruments to reduce risks from changes in exchange rates and to lock in cash flow, and does not engage in speculative transactions.</p> <p><b>d. Method of assessing hedge effectiveness</b> For forward exchange contracts, as a rule, the Company compares the total exchange rates of hedged items to the total market fluctuation of hedging instruments during the period from the time hedging begins until the point when its effectiveness is determined, and makes an assessment based on the amount of fluctuation of the two. However, if the material terms for the assets and liabilities of hedging instruments and hedged items are identical, the assessment of effectiveness is omitted because the effectiveness is clearly 100 percent.</p> <p>(5) _____</p> <p>(6) _____</p> <p>(7) Other Accounting for consumption taxes Consumption taxes and local consumption taxes are excluded from the amounts in the financial statements.</p>	<p><b>b. Hedging instruments and hedged items</b> Hedging instruments: Derivative transactions (forward exchange contracts) Hedged items: Foreign currency debt and foreign currency transactions</p> <p><b>c. Hedging policy</b> The Company uses hedging instruments to reduce risks from changes in exchange rates and to lock in cash flow, and does not engage in speculative transactions.</p> <p><b>d. Method of assessing hedge effectiveness</b> For forward exchange contracts, as a rule, the Company compares the total exchange rates of hedged items to the total market fluctuation of hedging instruments during the period from the time hedging begins until the point when its effectiveness is determined, and makes an assessment based on the amount of fluctuation of the two. However, if the material terms for the assets and liabilities of hedging instruments and hedged items are identical, the assessment of effectiveness is omitted because the effectiveness is clearly 100 percent.</p> <p>(5) Method and Period for Amortization of Goodwill Goodwill is regularly amortized over the estimated useful lives up to 20 years using the straight-line method. However, goodwill is charged to income in the year incurred if the amount is immaterial.</p> <p>(6) Scope of Cash in Consolidated Statements of Cash Flows In the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, readily available deposits and short-term highly liquid investments with little risk of fluctuation in value and with maturities not exceeding three months from the time of purchase.</p> <p>(7) Other Accounting for consumption taxes Consumption taxes and local consumption taxes are excluded from the amounts in the financial statements.</p>
<p><b>5. Valuation of Assets and Liabilities of Consolidated Subsidiaries</b> The assets and liabilities of the consolidated subsidiaries are valued using the full mark-to-market method.</p>	<p><b>5. Valuation of Assets and Liabilities of Consolidated Subsidiaries</b> _____</p>
<p><b>6. Amortization of Goodwill and Negative Goodwill</b> Goodwill and negative goodwill are amortized regularly on a straight-line basis over the period in which they have an effect, within 20 years. However, if the amount is insignificant, the goodwill is charged to income in the year in which it arises.</p>	<p><b>6. Amortization of Goodwill and Negative Goodwill</b> _____</p>
<p><b>7. Scope of Funds in the Consolidated Statements of Cash Flows</b> Funds (cash and cash equivalents) in the consolidated statements of cash flows comprise cash on hand, demand deposits, and short-term investments that are readily convertible into cash, are exposed to insignificant risk of changes in value and are redeemable in three months or less.</p>	<p><b>7. Scope of Funds in the Consolidated Statements of Cash Flows</b> _____</p>

## (7) Significant Changes in Basis of Preparation of Consolidated Financial Statements

Year ended March 31, 2010	Year ended March 31, 2011
_____	<p><b>Accounting Standard for Asset Retirement Obligations:</b> As of the year ended March 31, 2011, the Company applies the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, issued March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, issued March 31, 2008).</p> <p>As a result of this change, operating income decreased by ¥55 million, ordinary income decreased by ¥56 million and income before income taxes decreased by ¥721 million.</p>

## (8) Changes in Disclosure Policy

Year ended March 31, 2010	Year ended March 31, 2011
<p><b>Consolidated Balance Sheets:</b> Machinery, equipment and vehicles (net), which had been included in “Other tangible fixed assets (net)” in Property, plant and equipment until the previous fiscal year, is listed separately in the year ended March 31, 2010 because it accounts for more than 1 percent of total assets. Machinery, equipment and vehicles amounted to ¥8,623 million in the previous fiscal year.</p>	<p>_____</p> <p><b>Consolidated Balance Sheets:</b></p> <p><b>Consolidated Statements of Income:</b> As of the year ended March 31, 2011, the Company applies the “Cabinet Office Ordinance Partially Revising Regulations on Terminology, Forms and Preparation of Consolidated Financial Statements” (Cabinet Office Ordinance No. 5, issued March 24, 2009), which is based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued December 26, 2008). Accordingly, the Company presents “Income before minority interests” in the consolidated statements of income.</p>

## (9) Supplemental Information

Year ended March 31, 2010	Year ended March 31, 2011
_____	As of the year ended March 31, 2011, the Company applies the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, issued June 30, 2010). However, “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” for the year ended March 31, 2010 are included in “Valuation and translation adjustments” and in “Total valuation and translation adjustments.”

## (10) Notes to Consolidated Financial Statements

**Consolidated Statements of Comprehensive Income**

(April 1, 2010 - March 31, 2011)	(Millions of yen)
1. Comprehensive income in the immediately preceding fiscal year	
Comprehensive income attributable to shareholders of MEDIPAL HOLDINGS CORPORATION	¥4,956
<u>Comprehensive income attributable to minority interests</u>	<u>—</u>
Total	¥4,956
2. Other comprehensive income in the immediately preceding fiscal year	
Unrealized gains on securities, net of taxes	¥3,039
Gain (loss) on deferred hedges	0
<u>Land revaluation differences, net of taxes</u>	<u>(41)</u>
Total	¥2,998

## Segment Information

### a. Business Segment Information

(April 1, 2009 - March 31, 2010)

(Millions of yen, rounded down to the nearest million)

	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Related Business	Total	Eliminations and Corporate	Consolidated
I Net sales						
(1) Sales to outside customers	1,825,739	716,607	3,683	2,546,029	—	2,546,029
(2) Intersegment sales and transfers	374	886	1	1,261	(1,261)	—
Total	1,826,114	717,493	3,684	2,547,291	(1,261)	2,546,029
Operating expenses	1,816,419	708,816	3,666	2,528,902	(1,306)	2,527,596
Operating income	9,694	8,677	17	18,389	44	18,433
II Assets, depreciation and capital expenditures						
Assets	827,875	279,070	—	1,106,945	59,540	1,166,486
Depreciation	7,396	3,927	28	11,353	87	11,441
Impairment loss	723	418	—	1,142	—	1,142
Capital expenditures	11,225	17,695	24	28,944	10	28,955

Notes:

#### 1. Business Classification Method

Businesses are classified in consideration of similarities of product type, business group and market.

#### 2. Description of Business Classifications

Business Classification	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 the change, assets under the “Prescription Pharmaceutical Wholesale Business” decreased by ¥59,931 million compared with the former method of classification, and assets under “Eliminations and Corporate” increased by the same amount.

### b. Geographical Segment Information

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

### c. Overseas Sales

Overseas sales are omitted because they constituted less than 10 percent of total net sales for the years ended March 31, 2009 and March 31, 2010.

d. Segment Information

(April 1, 2010 - March 31, 2011)

1. 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 their 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. Calculation of Sales, Income and Loss, Assets, Liabilities and Other Items by Reportable Segment

The accounting methods for the reported business segments are generally the same as those in "Preparation of the Consolidated Financial Statements."

3. Sales, Income and Loss, Assets, Liabilities and Other Items by Reportable Segment

(April 1, 2009 - March 31, 2010)

(Millions of yen, rounded down to the nearest million)

	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Related Business	Total	Adjustment	Consolidated
Net sales						
Sales to outside customers	1,825,739	716,607	3,683	2,546,029	—	2,546,029
Intersegment sales and transfers	374	886	1	1,261	(1,261)	—
Total	1,826,114	717,493	3,684	2,547,291	(1,261)	2,546,029
Segment income	9,694	8,677	17	18,389	44	18,433
Segment assets	827,875	279,070	—	1,106,945	59,540	1,166,486
Other						
Depreciation	7,138	3,435	28	10,602	109	10,711
Amortization of goodwill	25	2,866	—	2,891	—	2,891
Increase in fixed an intangible assets	10,455	17,615	24	28,094	8	28,103

Notes: 1. Adjustments are as follows:

- (1) The net sales adjustment of ¥1,261 million represents elimination of intersegment transactions.
- (2) The segment income adjustment of ¥44 million represents elimination of intersegment transactions of ¥987 million, less group-wide expenses of ¥943 million that are not allocated to reportable segments.
- (3) The segment assets adjustment of ¥59,540 million represents elimination of intersegment transactions of ¥36,245 million, plus group-wide assets of ¥95,786 million that are not allocated to reportable segments.
- (4) The depreciation adjustment of ¥109 million represents group-wide depreciation expenses that are not allocated to reportable segments.
- (5) The increase in fixed and intangible assets adjustment of ¥8 million represents the group-wide assets that are not allocated to reportable segments.

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

(April 1, 2010 - March 31, 2011)

(Millions of yen, rounded down to the nearest million)

	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Related Business	Total	Adjustment	Consolidated
Net sales						
Sales to outside customers	1,885,965	734,178	42,677	2,662,821	—	2,662,821
Intersegment sales and transfers	1,699	580	8	2,289	(2,289)	—
Total	1,887,665	734,759	42,686	2,665,111	(2,289)	2,662,821
Segment expenses	3,688	8,725	444	12,857	691	13,548
Segment assets	914,206	289,134	18,861	1,222,202	62,477	1,284,679
Other						
Depreciation	7,286	3,593	182	11,062	216	11,278
Amortization of goodwill	—	830	63	893	—	893
Investments in affiliated companies accounted for by the equity method						
Increase in fixed and intangible assets	—	—	3,591	3,591	—	3,591
	9,464	14,337	36	23,839	5	23,844

Notes: 1. Adjustments are as follows:

- (1) The net sales adjustment of ¥2,289 million represents elimination of intersegment transactions.
- (2) The segment income adjustment of ¥691 million represents elimination of intersegment transactions of ¥2,495 million, less group-wide expenses of ¥1,804 million that are not allocated to reportable segments.
- (3) The segment assets adjustment of ¥62,477 million represents elimination of intersegment transactions of negative ¥48,161 million, plus group-wide assets of ¥110,638 million that are not allocated to reportable segments.
- (4) The depreciation adjustment of ¥216 million represents group-wide depreciation expenses that are not allocated to reportable segments.
- (5) The increase in fixed and intangible assets adjustment of ¥5 million represents the group-wide assets that are not allocated to reportable segments.

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

#### Additional Information

(April 1, 2010 - March 31, 2011)

As of the fiscal year ended March 31, 2011, the Company has 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 March 21, 2008).

### Per Share Information

Year ended March 31, 2010 (April 1, 2009 – March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 – March 31, 2011)
Net assets per share: ¥1,236.15	Net assets per share: ¥1,275.94
Net income per share: ¥8.31	Net income per share: ¥7.27
Diluted net income per share is not presented because there were no dilutive shares.	Diluted net income per share is not presented because there were no dilutive shares.

Notes: 1. The basis for calculation of net assets per share is as follows:

	Year ended March 31, 2010	Year ended March 31, 2011
Total of net assets section (million yen)	330,992	340,983
Amount excluded from net assets section (million yen)	41,041	41,701
[Minority interests]	[41,041]	[41,701]
Net assets at end of period related to common stock (million yen)	289,951	299,281
Number of shares of common stock at end of period used in calculation of net assets per share (thousand shares)	234,559	234,558

2. The basis for calculation of net income per share is as follows.

	Year ended March 31, 2010	Year ended March 31, 2011
Net income (million yen)	1,958	1,704
Amount not available to common shareholders (million yen)	—	—
Net income related to common stock (million yen)	1,958	1,704
Average number of common shares outstanding during the period (thousand shares)	235,730	234,558

## Subsequent Events

Year ended March 31, 2010	Year ended March 31, 2011
<p><b>Voluntary Early Retirement Offer</b>            In response to a major decline in the profitability of the prescription pharmaceutical wholesale business due to changes in the industry environment, the Company resolved at a Board of Directors meeting held on May 14, 2010 to offer early retirement to employees of three of its wholly owned subsidiaries in the prescription pharmaceutical wholesale business, with a view to transforming the cost structure and broadening employees' independence and future options.</p> <p>(1) Consolidated subsidiaries included in the early retirement offer            Three companies in the prescription pharmaceutical wholesale business:</p> <ul style="list-style-type: none"> <li>• MEDICEO CORPORATION</li> <li>• EVERLTH Co., Ltd.</li> <li>• ATOL CO., LTD.</li> </ul> <p>(2) Number of employees to be extended the offer            750</p> <p>(3) Eligible employees            Employees (including seconded employees) who will be between the ages of 50 and 59 and have at least ten years of service as of March 31, 2011.</p> <p>(4) Offering period            June 1– June 30, 2010</p> <p>(5) Retirement date            September 30, 2010</p> <p>(6) Estimated total amount of severance payments            The Company estimates that payment of special premium severance payments with the implementation of the plan will total approximately ¥9.7 billion for the three companies.</p> <p>(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.</p>	<p><b>Voluntary Early Retirement Offer</b>            Paltac Corporation, a wholly owned subsidiary of the Company, 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.</p> <p>(1) Consolidated subsidiaries included in the early retirement offer            One company in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business</p> <ul style="list-style-type: none"> <li>• Paltac Corporation</li> </ul> <p>(2) Number of employees to be extended the offer            200</p> <p>(3) Eligible employees            Employees (including seconded employees) who will be between the ages of 45 and 59 and have at least three years of service as of August 31, 2011.</p> <p>(4) Offering period            July 1– July 15, 2011</p> <p>(5) Retirement date            August 31, 2011</p> <p>(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 ¥4.1 billion</p> <p>(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.</p>

## 5. Unconsolidated Financial Statements

### (1) Unconsolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

	As of March 31, 2010	As of March 31, 2011
<b>ASSETS</b>		
Current assets		
Cash and time deposits	44,285	56,726
Marketable securities	18,711	18,723
Prepaid expenses	40	31
Deferred income taxes	150	86
Accounts receivable, other	127	159
Corporation tax refund receivable	1,381	922
Consumption taxes receivable	426	64
Other current assets	734	300
Allowance for doubtful accounts	(706)	(299)
Total current assets	65,150	76,716
Fixed assets		
Property and equipment:		
Buildings (net)	2,322	2,217
Structures (net)	10	9
Machinery and equipment (net)	18	17
Vehicles and delivery equipment (net)	2	1
Furniture and fixtures (net)	49	42
Land	3,932	3,932
Leased assets (net)	861	771
Total property and equipment	7,198	6,992
Intangible assets:		
Software	13	11
Other intangible assets	12	10
Total intangible assets	26	21
Investments and other assets:		
Investment securities	22,969	27,160
Affiliated companies	157,751	138,011
Investments	981	1,149
Long-term prepaid expenses	2	1
Other	636	1,454
Allowance for doubtful accounts	(9)	(8)
Total investments and other assets	182,332	167,768
Total fixed assets	189,556	174,782
Total assets	254,707	251,499

(Millions of yen, rounded down to the nearest million)

	As of March 31, 2010	As of March 31, 2011
<b>LIABILITIES</b>		
Current liabilities:		
Lease obligations	83	84
Accounts payable	137	61
Accrued expenses	18	13
Deposits payable	12	12
Deposits of subsidiaries and affiliates	35,001	47,000
Reserve for bonuses	37	32
Provision for disaster	—	1
Other current liabilities	83	90
Total current liabilities	35,373	47,297
Long-term liabilities:		
Lease obligations	798	713
Deferred income taxes	2,459	4,224
Reserve for loss on business of subsidiaries and affiliates	1,327	2,134
Other long-term liabilities	476	476
Total long-term liabilities	5,061	7,548
Total liabilities	40,435	54,846
<b>NET ASSETS</b>		
Shareholders' equity		
Common stock	22,398	22,398
Capital surplus		
Additional paid-in capital	163,372	163,372
Other capital surplus	4,389	4,389
Total capital surplus	167,762	167,762
Retained earnings		
Legal reserve	1,795	1,795
Other retained earnings		
Retained earnings carried forward	35,459	15,597
Total retained earnings	37,254	17,393
Treasury stock	(13,500)	(13,501)
Total shareholders' equity	213,915	194,052
Accumulated other comprehensive income		
Unrealized gains on securities, net of taxes	4,079	6,322
Land revaluation differences, net of taxes	(3,722)	(3,722)
Total accumulated other comprehensive income	356	2,600
Total net assets	214,272	196,652
Total liabilities and net assets	254,707	251,499

## (2) Unconsolidated Statements of Income

(Millions of yen, rounded down to the nearest million)

	Year ended March 31, 2010	Year ended March 31, 2011
Net sales	805,990	—
Cost of sales		
Opening inventory	44,961	—
Amount of goods purchased during the period	804,535	—
Transfers to other accounts	43,569	—
Cost of merchandise	805,927	—
Gross profit	62	—
Operating revenue		
Management fees	14,040	1,843
Dividends from affiliated companies	2,243	6,529
Real estate rental revenue	237	475
Total operating revenue	16,522	8,848
Operating expenses		
Cost of real estate rental	108	210
Selling, general and administrative expenses		
Wages and salaries	2,876	668
Welfare expenses	364	65
Outsourcing expenses	2,444	38
Provision for bonuses	37	32
Shipping and delivery expenses	1,652	—
System related expenses	1,221	—
Consulting fees	—	112
Rental expenses	236	50
Enterprise tax	—	153
Depreciation expenses	1,734	128
Other	2,328	344
Total selling, general and administrative expenses	12,896	1,594
Total operating expenses	13,005	1,804
Operating income	3,579	7,043
Non-operating income		
Interest income	59	25
Dividend income	2,719	647
Research fee income	2,309	—
Real estate rental income	367	—
Other non-operating income	382	114
Total non-operating income	5,838	787
Non-operating expenses		
Interest expense	189	157
Real estate rental expense	279	—
Other non-operating expenses	24	13
Total non-operating expenses	493	171
Ordinary income	8,925	7,659
Extraordinary gains		
Gain on sale of fixed assets	0	—
Gain on sale of investment securities	—	0
Gain on sale of stock of affiliates	141	—
Gain on disposal of golf memberships	—	0
Total extraordinary gains	141	1
Extraordinary losses		
Loss on sale and disposal of fixed assets	94	0
Loss on impairment of fixed assets	88	—
Loss on disaster	—	31
Loss on valuation of investment securities	50	744
Loss on sale of stock of affiliates	2,415	—
Loss on valuation of equity in affiliates	—	21,074
Loss on valuation of investments	—	742
Loss on disposal of golf memberships	—	3
Provision for loss on business of subsidiaries and affiliates	471	400
Restructuring expenses	17	—
Total extraordinary losses	3,138	22,995
Income (loss) before income taxes	5,928	(15,334)
Current income taxes	9	208
Deferred income taxes	466	97
Total income taxes	475	305
Net income (loss)	5,452	(15,639)

## 6. Others

### (1) Changes in Officers

(These matters were announced on April 28, 2011.)

#### (A) Changes in Representative Directors

None

#### (B) Changes in Directors and Corporate Auditors

##### i) Candidate for new appointment as director (1) (As of June 24, 2011)

Director	Michiko Kawanobe	(currently an attorney, professor at Chiba University Law School, and member of the Public Security Examination Commission) (Ms. Kawanobe is a candidate for outside director as defined in Article 2-15 of the Corporation Law.)
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##### ii) Retiring director (1) (As of June 24, 2011)

Director Kazuo Okamoto (currently Representative Director and Chairman of EVERLTH Co., Ltd.)

### (2) Changes in Executive Officers

None