

Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2006

Corporate Name: Alfresa Holdings Corporation

(Code: 2784, 1st sections of Tokyo Stock Exchange and Osaka Securities Exchange)

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1. Matters related to the preparation of quarterly financial information

(1) Simplified accounting method is applied.

The figures for inventories were not actually counted at the end of the third quarter, but are based on the book inventory method, considering the actual inventories counted at the end of the previous interim fiscal year. In addition, simplified procedures were partially used for other insignificant amounts.

(2) There are no changes in accounting method from the most recent consolidated fiscal year.

(3) There are changes in the scope of consolidation and the application of equity method accounting:

Consolidation (new): 3 companies (Exclusion): -

Equity method (new): - (Exclusion): -

2. Consolidated performance for the third quarter of the fiscal year ending

March 31, 2006 (April 1, 2005 – December 31, 2005)

(1) Consolidated operating results

(Rounded down to the nearest million yen)

	Net sales		Operating income		Ordinary profit		Net income	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
Nine months ended December 31, 2005	1,068,954	19.0	10,483	112.6	14,095	77.4	6,744	59.0
Nine months ended December 31, 2004	898,094	9.8	4,932	(49.6)	7,944	(34.4)	4,242	(33.5)
[Ref.] Fiscal year ended March 31, 2005	1,195,313		6,534		10,431		3,207	

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended December 31, 2005	186.43		-	
Nine months ended December 31, 2004	124.48		-	
[Ref.] Fiscal year ended March 31, 2005	91.81		-	

Note: Percentages in net sales, operating income, ordinary profit and net income show changes from the same quarter of the previous year.

Qualitative information on the consolidated operating results

During the third quarter under review, the Japanese economy remained on a road to recovery due to improved corporate earnings and a moderate increase in consumer spending.

The pharmaceuticals market grew by about 5% thanks to robust sales of drugs related to lifestyle diseases.

Under such circumstances, the Alfresa Group strove to build up closer ties among its group companies by promoting joint purchasing and implementing joint sales promotion. On October 1, 2005, the Company made SEIWA SANGYO CO., LTD. (head office: Hiroshima-shi, Hiroshima) a wholly-owned subsidiary through a share exchange. Then, on December 20, 2005 the Company signed an agreement with Meisho Co., Ltd. (head office: Kanazawa-shi, Ishikawa) to conduct a share exchange on April 1, 2006, striving to further expand the Group.

In the wholesaling business, sales increased mainly in the dispensing pharmacy market due chiefly to favorable operations of the high-frequency regular distribution by delivery professionals, which was introduced into the Kansai region. With respect to profits, the Group pursued a profit-focused marketing system by cutting back on unprofitable transactions while boosting sales at fair prices by fully conforming with the pricing approval authority. Putting the emphasis on cash flows, the Group also endeavored to shorten the receivables turnover period by boosting the collection of accounts receivable.

As a result, net sales of the wholesaling business were 1,056,347 million yen (up 19.3% from the previous year) and operating income was 9,930 million yen (up 130.3%). Net sales included inter-segment sales of 2 million yen.

In the manufacturing business, the increased sales of a therapeutic agent for liver disorders and the hyperlipidemia improvement agent “EPL Capsule” and therapeutic agent for iron-deficiency anemia “Incremin Syrup” as well as sales of “Check Flu A•B,” a POCT (Point-of-Care Testing) reagent to detect influenza virus antigens that was launched in November 2005, contributed to the business performance.

As a result, net sales of the manufacturing business were 16,756 million yen (up 5.7% from the previous year) and operating income was 558 million yen (up 27.9%). Net sales included inter-segment sales of 4,516 million yen.

Accordingly, consolidated net sales for the third quarter under review were 1,068,954 million yen (up 19.0% from the previous year), operating income was 10,483 million yen (up 112.6%), ordinary profit was 14,095 million yen (up 77.4%) and net income was 6,744 million yen (up 59.0%).

(2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
Nine months ended December 31, 2005	738,690	134,001	18.1	3,595.45
Nine months ended December 31, 2004	610,002	111,689	18.3	3,301.48
[Ref.] Fiscal year ended March 31, 2005	609,351	111,075	18.2	3,281.01

Consolidated cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Ending balance of cash and cash equivalents
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Nine months ended December 31, 2005	12,205	(5,425)	(7,511)	60,575
Nine months ended December 31, 2004	(15,781)	(3,520)	(4,856)	34,661
[Ref.] Fiscal year ended March 31, 2005	10,169	(4,039)	(7,566)	57,379

Qualitative information on consolidated financial position

Compared to the end of the previous fiscal year, the consolidated financial position at every section substantially increased, mainly because three firms, which were made into wholly-owned subsidiaries through share exchange, became consolidated companies.

Assets

Assets rose by 129,338 million yen. This was mainly on account of an increase of 75,880 million yen in trade notes and accounts receivable, a rise of 21,314 million yen in inventories, a rise of 9,289 million yen in investment in securities, and an increase of 8,876 million yen in miscellaneous receivable.

Liabilities

Liabilities increased by 106,684 million yen. This was mainly due to a rise of 107,247 million yen in trade notes and accounts payable, a rise of 3,898 million yen in income taxes payable, and a decrease of 3,770 million yen in short-term debt.

Shareholders' equity

Shareholders' equity rose by 22,925 million yen. This was mainly attributable to an increase of 422 million yen in paid-in capital, a rise of 18,314 million yen in capital surplus, a rise of 4,626 million yen in retained earnings, an increase of 3,298 million yen in unrealized gain on securities, and a rise of 3,765 million yen in treasury stock (a fall in shareholders' equity).

Cash and cash equivalents (net cash) at end of the third quarter were 60,575 million yen, up 3,196 million yen from the end of the previous consolidated fiscal year. Cash flows in different activities were as follows:

Cash flow from operating activities

Net cash provided by operating activities was 12,205 million yen, mainly because net income before income taxes totaled 12,158 million yen and accounts payable increased by 71,281 million yen, while accounts receivable rose by 46,575 million yen, inventories grew by 14,961 million yen, and

miscellaneous receivable increased by 6,116 million yen.

Cash flows from investing activities

Net cash used in investing activities was 5,425 million yen. This was mainly attributable to payment of 3,341 million yen for the purchase of tangible fixed assets, payment of 2,392 million yen for the acquisition of long-term prepaid expenses and payment of 1,415 million yen for the purchase of intangible fixed assets, despite proceeds of 1,411 million yen from sale of tangible fixed assets and proceeds of 1,399 million yen from sale of investment in securities.

Cash flows from financing activities

Net cash used in financing activities was 7,511 million yen. This was mainly due to a net decrease of 3,784 million yen in short-term debt, cash dividends paid totaling 2,052 million yen and a payment of 1,735 million yen for the purchase of treasury stock.

Reference

Consolidated performance forecast for the fiscal year ending March 31, 2006
(April 1, 2005 – March 31, 2006)

(Millions of yen)

	Net sales	Ordinary profit	Net income
Fiscal year ending March 31, 2006	1,400,000	17,500	6,100

Reference: Estimated earnings per share: ¥163.67

Qualitative information on performance forecast

Consolidated net sales and ordinary profit are expected to exceed the forecasts initially made for the fiscal year, mainly due to robust sales of drugs related to lifestyle diseases. Meanwhile, net income is likely to fall short of the figures originally projected, because we plan to partially write down deferred tax assets after a review.

Note: The performance forecast above reflects the judgment by the Company and its group companies on the basis of information available at the time these materials were prepared. Please note that actual results may differ due to various factors.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Rounded down to the nearest million yen)

Item	As of the end of current 3Q (Dec. 31, 2005)		As of the end of previous 3Q (Dec. 31, 2004)		Change		(Ref.) As of the end of previous FY (March 31, 2005)	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
(Assets)								
Current assets	613,332	83.0	506,284	83.0	107,047	21.1	505,006	82.9
Cash and deposits	62,377		34,132				57,148	
Trade notes and accounts receivable	414,083		353,571				338,202	
Securities	204		2,129				2,254	
Inventories	90,426		77,745				69,111	
Deferred tax assets	2,596		2,936				3,512	
Miscellaneous receivables	43,366		34,923				34,489	
Others	1,108		1,675				1,092	
Allowance for doubtful accounts	(830)		(830)				(805)	
Fixed assets	125,357	17.0	103,717	17.0	21,640	20.9	104,345	17.1
Tangible fixed assets	62,761	8.5	55,273	9.1	7,487	13.5	55,632	9.1
Buildings and structures	22,678		19,694				20,158	
Machinery, equipment and vehicles	1,378		1,505				1,461	
Tools and fixtures	1,302		1,237				1,205	
Land	36,683		31,765				31,723	
Construction in progress	719		1,070				1,083	
Intangible fixed assets	7,052	1.0	3,745	0.6	3,307	88.3	3,959	0.7
Consolidation-related adjustments	2,419		-				-	
Others	4,632		3,745				3,959	
Investments and other assets	55,543	7.5	44,698	7.3	10,845	24.3	44,753	7.3
Investment in securities	30,204		19,465				20,914	
Long-term loans	1,336		1,453				1,429	
Deferred tax assets	5,451		6,699				6,572	
Deferred tax assets on land revaluation	2,059		2,050				2,051	
Others	20,684		19,093				17,939	
Allowance for doubtful accounts	(4,193)		(4,064)				(4,154)	
Total	738,690	100.0	610,002	100.0	128,687	21.1	609,351	100.0

(Rounded down to the nearest million yen)

Item	As of the end of current 3Q (Dec. 31, 2005)		As of the end of previous 3Q (Dec. 31, 2004)		Change		(Ref.) As of the end of previous FY (March 31, 2005)	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
(Liabilities)	600,289	81.3	494,160	81.0	106,129	21.5	493,605	81.0
Current liabilities	574,055	77.7	469,325	76.9	104,730	22.3	469,200	77.0
Trade notes and accounts payable	557,930		452,011				450,682	
Short-term debt	905		4,665				4,676	
Corporate bonds redeemed within a year	100		748				500	
Income taxes payable	4,391		1,082				493	
Accrued bonuses	2,603		2,272				4,635	
Allowance for sales rebates	86		64				63	
Allowance for loss on sales returns	697		798				742	
Deferred tax liabilities	164		-				-	
Others	7,176		7,682				7,407	
Non-current liabilities	26,233	3.6	24,835	4.1	1,398	5.6	24,405	4.0
Corporate bonds	-		100				100	
Long-term debt	949		440				700	
Allowance for employees' retirement benefits	20,829		20,362				19,339	
Allowance for directors' retirement benefits	448		321				369	
Allowance for loss on debt guarantee	572		659				588	
Allowance for loss on transfer of business	482		-				-	
Deferred tax liabilities	2,125		1,492				1,593	
Deferred tax liabilities on land revaluation	174		-				-	
Consolidation-related adjustments	-		1,216				926	
Others	651		242				786	
(Minority interests)	4,399	0.6	4,152	0.7	246	5.9	4,670	0.8
Minority interests	4,399	0.6	4,152	0.7	246	5.9	4,670	0.8
(Shareholders' equity)	134,001	18.1	111,689	18.3	22,311	20.0	111,075	18.2
Paid-in capital	3,872	0.5	3,450	0.6	422	12.3	3,450	0.6
Capital surplus	39,670	5.4	21,356	3.5	18,314	85.8	21,356	3.5
Retained earnings	89,900	12.2	86,307	14.1	3,592	4.2	85,274	14.0
Shortfall on land revaluation	(2,990)	(0.4)	(2,976)	(0.5)	(14)	0.5	(2,977)	(0.5)
Unrealized gain on securities	9,818	1.3	6,047	1.0	3,770	62.3	6,520	1.0
Foreign currency translation adjustments	19	0.0	1	0.0	17	1,265.2	(22)	(0.0)
Treasury stock, at cost	(6,290)	(0.9)	(2,498)	(0.4)	(3,792)	151.8	(2,525)	(0.4)
Total	738,690	100.0	610,002	100.0	128,687	21.1	609,351	100.0

(2) Quarterly Consolidated Income Statements

(Rounded down to the nearest million yen)

Item	Nine months ended December 31, 2005		Nine months ended December 31, 2004		Change		(Ref.) Year ended March 31, 2005	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
Net sales								
Net sales	1068,954	100.0	898,094	100.0	170,859	19.0	1,195,313	100.0
Cost of sales								
Cost of sales	984,330	92.1	825,029	91.9	159,300	19.3	1,097,279	91.8
Reversal of allowance for returned unsold goods	758		681				681	0.1
Allowance for returned unsold goods	698		826				767	0.1
Gross profit	84,684	7.9	72,920	8.1	11,763	16.1	97,948	8.2
Selling, general and administrative expenses	74,200	6.9	67,988	7.6	6,211	9.1	91,414	7.6
Operating income	10,483	1.0	4,932	0.5	5,551	112.6	6,534	0.6
Non-operating income	3,845	0.3	3,348	0.4	496	14.8	4,458	0.4
Interest income	84		77				115	
Dividend income	368		254				258	
Information fees received	2,230		1,921				2,563	
Depreciation of consolidation-related adjustments	90		216				288	
Others	1,072		878				1,233	
Non-operating expenses	233	0.0	335	0.0	(101)	(30.4)	561	0.1
Interest expenses	57		48				67	
Commission fees	19		44				47	
Additional retirement benefits	-		70				-	
Others	156		172				447	
Ordinary profit	14,095	1.3	7,944	0.9	6,150	77.4	10,431	0.9

(Rounded down to the nearest million yen)

Item	Nine months ended December 31, 2005		Nine months ended December 31, 2004		Change		(Ref.) Year ended March 31, 2005	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
Extraordinary income	532	0.0	-	-	532	-	72	0.0
Gain on sale of fixed assets	515		-				-	
Reversal of allowance for loss on debt guarantee	16		-				72	
Extraordinary loss	2,468	0.2	533	0.1	1,935	363.0	4,932	0.4
Loss on sale of fixed assets	44		-				-	
Loss on disposal of fixed assets	161		130				273	
Loss on impairment of fixed assets	176		122				771	
Loss on sale of available-for-sale securities	47		-				-	
Loss on cancellation of leases	33		-				153	
Integration expenses	-		280				286	
Loss on liquidation of affiliates	-		-				485	
Voluntary retirement benefits	891		-				2,961	
Full amortization of long-term prepaid expenses	69		-				-	
Amortization of leaseholds	83		-				-	
Directors' retirement benefits	151		-				-	
Loss on cancellation of operating consignment contract	72		-				-	
Loss on transfer of business	737		-				-	
Income before income taxes	12,158	1.1	7,411	0.8	4,746	64.0	5,571	0.5
Corporate, residential and enterprise taxes	5,461	0.5	3,614	0.4	1,846	51.1	3,159	0.3
Corporate tax adjustments	(95)	(0.0)	(725)	(0.1)	630	(86.9)	(1,150)	(0.1)
Minority interests in net income	47	0.0	280	0.0	(232)	(83.1)	354	0.0
Net income	6,744	0.6	4,242	0.5	2,502	59.0	3,207	0.3

(3) Quarterly Consolidated Statements of Retained Earnings

(Rounded down to the nearest million yen)

	Nine months ended December 31, 2005	Nine months ended December 31, 2004	(Ref.) Year ended March 31, 2005
Item	¥ Million	¥ Million	¥ Million
Capital surplus			
Beginning balance	21,356	18,623	18,623
Increase in capital surplus	18,314	2,732	2,732
(Increase due to stock exchange)	18,260	2,732	2,732
(Gain on disposal of treasury stock)	53	-	-
Ending balance	39,670	21,356	21,356
Retained earnings			
Beginning balance	85,274	84,048	84,048
Increase in retained earnings	6,757	4,249	3,214
(Net income)	6,744	4,242	3,207
(Reversal of gain on land revaluation)	12	-	-
(Increase due to exclusion from equity method)	-	6	6
Decrease in retained earnings	2,131	1,989	1,988
(Dividends)	2,052	1,707	1,707
(Directors' bonuses)	78	56	56
(Reversal of gain on land revaluation)	-	225	223
Ending balance	89,900	86,307	85,274

(4) Quarterly Consolidated Statements of Cash Flows

(Rounded down to the nearest million yen)

	Nine months ended December 31, 2005	Nine months ended December 31, 2004	(Ref.) Year ended March 31, 2005
Item	¥ Million	¥ Million	¥ Million
I Cash flows from operating activities			
Income before income taxes	12,158	7,411	5,571
Depreciation	2,663	1,932	2,659
Decrease in allowance for doubtful accounts	(173)	(12)	(80)
Increase (decrease) in allowance for employees' retirement benefits	164	608	(789)
Decrease in allowance for directors' retirement benefits	(270)	(1,042)	(1,028)
Decrease in allowance for bonuses	(2,520)	(2,117)	-
Interest and dividends income	(452)	(331)	(373)
Interest expenses	57	48	67
Depreciation of consolidation-related adjustments	(90)	(216)	(288)
Loss on impairment of fixed assets	176	122	771
Gain on sale of fixed assets	(515)	-	-
Loss on sale and disposal of fixed assets	205	130	273
Increase in trade notes and accounts receivable	(46,575)	(34,837)	(13,035)
Increase in inventories	(14,961)	(19,170)	(8,876)
Increase in miscellaneous receivables	(6,116)	(9,106)	(8,161)
Increase in trade notes and accounts payable	71,281	43,497	36,002
Others	(1,596)	2,916	2,027
Subtotal	13,434	(10,167)	14,740
Interest and dividends received	443	319	366
Interest paid	(59)	(43)	(64)
Income taxes paid	(1,613)	(5,890)	(4,871)
Net cash provided by (used in) operating activities	12,205	(15,781)	10,169

(Rounded down to the nearest million yen)

	Nine months ended December 31, 2005	Nine months ended December 31, 2004	(Ref.) Year ended March 31, 2005
Item	¥ Million	¥ Million	¥ Million
Cash flows from investing activities			
Payments into time deposits	(723)	(433)	(703)
Proceeds from maturity of time deposits	245	776	891
Payments for purchase of securities	-	-	(129)
Payments for purchase of tangible fixed assets	(3,341)	(1,674)	(2,227)
Proceeds from sale of tangible fixed assets	1,411	39	97
Payments for purchase of intangible fixed assets	(1,415)	(1,977)	(2,194)
Proceeds from sale of intangible fixed assets	57	-	-
Payments for acquisition of long-term prepaid expenses	(2,392)	-	-
Payments for purchase of securities	(632)	(40)	(77)
Proceeds from sale of securities	1,399	164	187
Payments for loans provided	(205)	(233)	(265)
Proceeds from collection of loans	319	272	425
Proceeds from liquidation of affiliates	-	87	-
Others	(146)	(501)	(43)
Net cash used in investing activities	(5,425)	(3,520)	(4,039)
Cash flows from financing activities			
Net decrease in short-term debt	(3,784)	(648)	(1,835)
Proceeds from long-term loans	700	300	300
Repayments of long-term debt	(437)	(602)	(1,259)
Payments of corporate bond redemption	(500)	(100)	(100)
Proceeds from sale of treasury stock	319	-	-
Payments for purchase of treasury stock	(1,735)	(2,070)	(2,097)
Cash dividends paid	(2,052)	(1,706)	(2,546)
Cash dividends paid to minority shareholders	(21)	(27)	(27)
Net cash used in financing activities	(7,511)	(4,856)	(7,566)
Translation difference of cash and cash equivalents	21	(2)	(6)
Increase (decrease) in cash and cash equivalents	(710)	(24,160)	(1,442)
Beginning balance of cash and cash equivalents	57,379	57,900	57,900
Increase in cash and cash equivalents due to stock exchange	3,906	921	921
Ending balance of cash and cash equivalents	60,575	34,661	57,379