

## Consolidated Financial Statements for the Year Ended March 31, 2006

Corporate Name: Alfresa Holdings Corporation  
Code No.: 2784

Listing: Tokyo Stock Exchange and Osaka Securities Exchange  
Location of Head Office: Tokyo

(URL: <http://www.alfresa.com>)

Representative: Futoshi Yokoi, President

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Board of Directors' Meeting for Account Settlement: May 12, 2006

U.S. Accounting Standards: Not applied

### 1. Consolidated performance for the year ended March 31, 2006 (April 1, 2005 - March 31, 2006)

#### (1) Consolidated operating results

Note: Rounded down to the nearest million

	Net Sales		Operating Income		Ordinary Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2006	1,411,639	18.1	14,846	127.2	19,405	86.0
Year ended March 31, 2005	1,195,313	12.1	6,534	(47.3)	10,431	(31.7)

	Net Income		Earnings per Share	Diluted Earnings per Share	Return on Equity	Ratio of Ordinary Profit to Total Assets	Ratio of Ordinary Profit to Net Sales
	Millions of yen	%	Yen	Yen	%	%	%
Year ended March 31, 2006	7,073	120.5	189.55	–	5.8	3.0	1.4
Year ended March 31, 2005	3,207	(50.6)	91.81	–	2.9	1.7	0.9

Notes: (1) Profit or loss on equity method investments March 2006: ¥ – March 2005: ¥ –  
 (2) Average number of shares outstanding during the period (consolidated) March 2006: 36,428,143 March 2005: 34,020,682  
 (3) Change in accounting method None  
 (4) Percentage of net sales, operating income, ordinary profit and net income show the change from the previous year.

#### (2) Consolidated financial position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	Millions of yen	Millions of yen	%	Yen
Year ended March 31, 2006	687,773	131,483	19.1	3,537.89
Year ended March 31, 2005	609,351	111,075	18.2	3,281.01

Note: Number of outstanding shares at the end of the period (consolidated) March 2006: 37,116,810 March 2005: 33,828,402

#### (3) Consolidated cash flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Ending Balance of Cash and Cash Equivalents
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2006	24,665	(9,992)	(8,555)	67,435
Year ended March 31, 2005	10,169	(4,039)	(7,566)	57,379

#### (4) Scope of consolidation / Application of equity method accounting

Number of consolidated subsidiaries: 11      Number of unconsolidated subsidiaries based on the equity method: –      Number of affiliates based on the equity method: –

#### (5) Change in scope of consolidation / Application of equity method accounting

Consolidation: (New) 3 (Exclusion) 2      Equity method: (New) – (Exclusion) –

### 2. Consolidated performance forecast for the year ending March 31, 2007 (April 1, 2006 - March 31, 2007)

	Net Sales	Ordinary Profit	Net Income
	Millions of yen	Millions of yen	Millions of yen
Interim period	757,000	10,700	4,000
Year ending March 31, 2007	1,533,000	23,600	10,000

Reference: Estimated earnings per share for March 2007: ¥253.25

Note: The estimated earnings per share for the year ending March 2007 is calculated taking into consideration the fact that the number of consolidated outstanding shares at the end of the period increased by 2,370,000 shares due to a stock exchange with Meisho Co., Ltd. on April 1, 2006.

\* The above-mentioned prognoses are based on currently available information, and thus include many uncertain factors. Actual results may differ from those forecasts depending on changes in the business conditions.

## 1. Current Status of the Group

The Company has its basic role to formulate the management vision of the entire group and establish the management plan based on the vision as well as continuously enhance the corporate value by effectively utilizing management resources of the group.

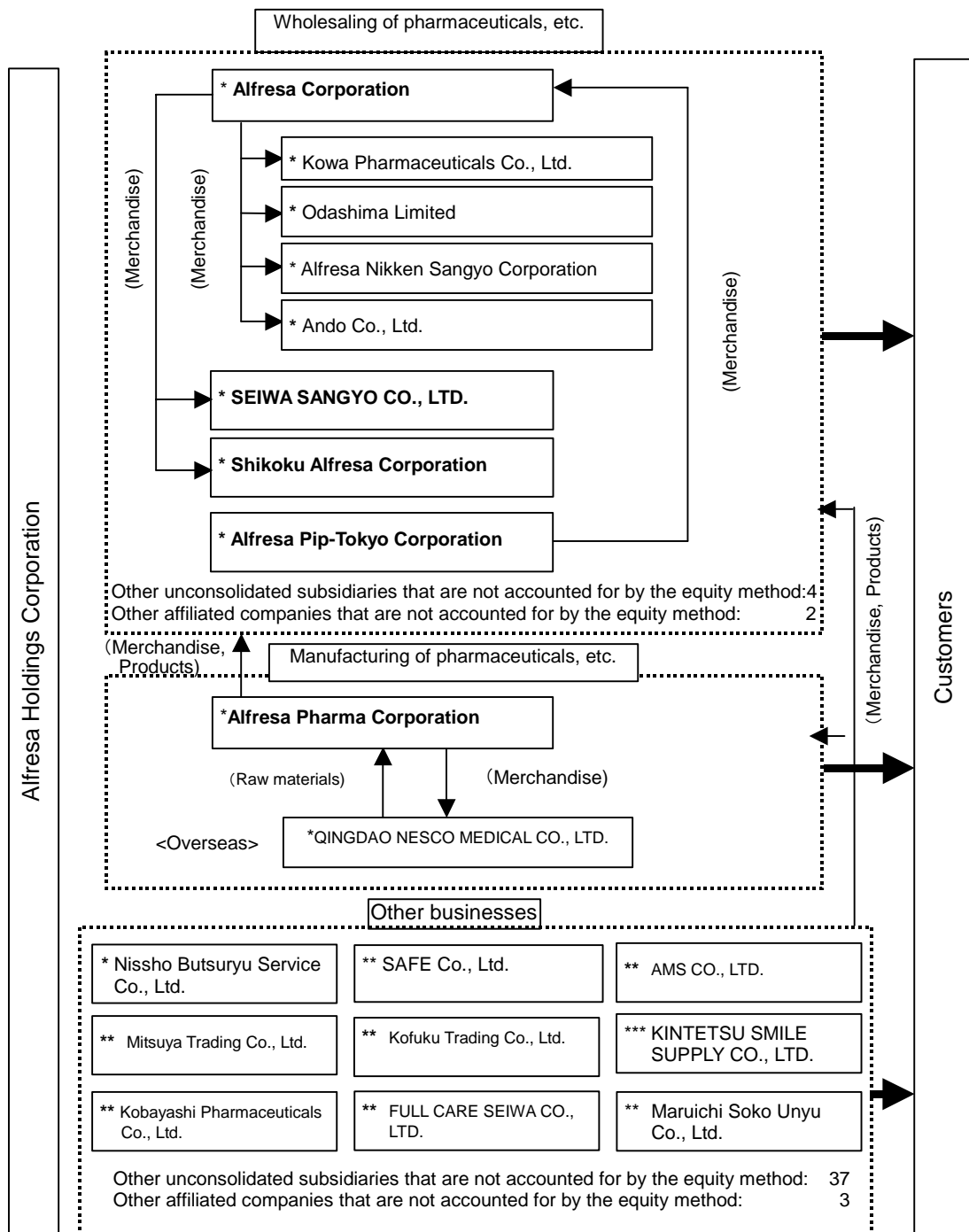
Our main businesses consist of wholesaling of pharmaceuticals, diagnostic reagents and medical devices/equipment centered on Alfresa Corporation, and manufacturing and marketing of pharmaceuticals, diagnostic reagents and medical devices/equipment centered on Alfresa Pharma Corporation.

The description of business and the relationship relating to the relevant business between the Company and affiliates are as follows.

Classification of business	Company name	Main line of business
Wholesaling of pharmaceuticals, etc.	Alfresa Corporation	Ethical drugs, diagnostic reagents, over-the-counter drugs, medical devices/materials
	SEIWA SANGYO CO., LTD.	Ethical drugs, diagnostic reagents, medical devices/materials
	Shikoku Alfresa Corporation	Ethical drugs, diagnostic reagents, medical devices/materials
	Alfresa Pip-Tokyo Corporation	Medical materials and other products, SPD business*
	Kowa Pharmaceuticals Co., Ltd.	Ethical drugs, diagnostic reagents, medical devices/materials
	Odashima Limited	Ethical drugs, diagnostic reagents, medical devices/materials
	Alfresa Nikken Sangyo Corporation	Ethical drugs, diagnostic reagents, medical devices/materials
	Ando Co., Ltd.	Ethical drugs, diagnostic reagents, medical devices/materials
	Advanced Healthcare Service Co., Ltd.	Over-the-counter drugs
	Fine Small-Lot Packaging Center Co., Ltd.	Ethical drugs
	FAMILY CARE CO., LTD.	Others (health foods, etc.)
Manufacturing of pharmaceuticals, etc.	NORMECA ASIA CO., LTD. etc.	Others (wholesaling of emergency and disaster supplies), etc.
	Alfresa Pharma Corporation	Pharmaceuticals, diagnostic reagents, medical devices/equipment and other products (pharmaceutical raw materials, etc.)
Other businesses	QINGDAO NESCO MEDICAL CO., LTD.	Medical devices/equipment
	Nissho Butsuryu Service Co., Ltd.	Transportation, warehousing, insurance agency
	SAFE Co., Ltd.	Information services relating to pharmaceuticals, etc.
	AMS CO., LTD.	Insurance agency, real estate management, sales of daily necessity and miscellaneous goods, etc., staffing service
	Mitsuya Trading Co., Ltd.	Insurance agency
	Kofuku Trading Co., Ltd.	Insurance agency, sales of stamps
	KINTETSU SMILE SUPPLY CO., LTD.	Rental service of nursing care equipment, etc.
	Kobayashi Pharmaceuticals Co., Ltd.	Management of dispensing pharmacies, import and sales of pharmaceutical bulk powder
	FULL CARE SEIWA CO., LTD.	Rental service of nursing care equipment, etc.
Maruichi Soko Unyu Co., Ltd. etc.	Transportation, etc.	

\*SPD (Supply Processing and Distribution): Concept to enhance rationalization, promote efficiency and improve the management system by consolidating everything from procurement to distribution and consumption for the entire range of in-hospital supplies. As medical institutions are required to operate more efficiently, they are increasingly outsourcing the product management.

The relationship of the Company and main affiliated companies is as follows:



→ : Business relation    Parenthesis ( ) : Main contents of business.  
 \* Consolidated subsidiaries  
 \*\* Unconsolidated subsidiaries that are not accounted for by the equity method  
 \*\*\* Affiliated companies that are not accounted for by the equity method

Notes:

1. OKAUCHI KANKODO, Ltd., Kowa Yakuhin Co., Ltd. and DAIWA Pharmaceutical Wholesalers Co., Ltd. became wholly owned subsidiaries of the Company by stock exchange on April 1, 2005.
2. OKAUCHI KANKODO, Ltd. absorbed Kowa Yakuhin Co., Ltd. and DAIWA Pharmaceutical Wholesalers Co., Ltd. and changed the corporate name to Shikoku Alfresa Corporation on October 1, 2005.
3. SEIWA SANGYO CO., LTD. became a wholly owned subsidiary of the Company by stock exchange on October 1, 2005. SEIWA SANGYO falls under the category of specified subsidiary (“Tokutei Kogaisha”) of the Company.

## Status of the consolidated subsidiaries

Name	Address	Capital (millions of yen)	Main line of business	Ratio of voting rights (%)	Relationship with the Company
Alfresa Corporation *	Chiyoda-ku, Tokyo	4,000	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the Company relating to management services. Interlocking director: 3
SEIWA SANGYO CO., LTD. *	Hiroshima, Hiroshima Prefecture	1,144	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the Company relating to management services. Interlocking director: 2
Shikoku Alfresa Corporation	Takamatsu, Kagawa Prefecture	161	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the company relating to management services. Interlocking director: none
Alfresa Pip-Tokyo Corporation *	Sumida-ku, Tokyo	400	Wholesaling of pharmaceuticals, etc.	51.0	It has concluded a basic contract with the company relating to management services. Interlocking director: 2
Kowa Pharmaceuticals Co., Ltd.	Koriyama, Fukushima Prefecture	104	Wholesaling of pharmaceuticals, etc.	67.6 (67.6)	It is responsible for the Tohoku region in the group. Interlocking director: 1
Odashima Limited	Hanamaki, Iwate Prefecture	30	Wholesaling of pharmaceuticals, etc.	55.1 (55.1)	It is responsible for the Tohoku region in the group. Interlocking director: 1
Alfresa Nikken Sangyo Corporation	Gifu, Gifu Prefecture	190	Wholesaling of pharmaceuticals, etc.	51.0 (51.0)	It has concluded a basic contract with the company relating to management services. Interlocking director: None
Ando Co., Ltd.	Takasaki, Gunma Prefecture	300	Wholesaling of pharmaceuticals, etc.	50.9 (50.9)	It is responsible for Gunma Prefecture in the group. Interlocking director: None
Alfresa Pharma Corporation *	Chuo-ku, Osaka	1,000	Manufacturing of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the company relating to management services. Interlocking director: 2
QINGDAO NESCO MEDICAL CO., LTD.	Qingdao, Shandong, China	300	Manufacturing of pharmaceuticals, etc.	100.0 (100.0)	It supplies raw materials to Alfresa Pharma Corporation. Interlocking director: None
Nissho Butsuryu Service Co., Ltd.	Chuo-ku, Osaka	70	Other businesses (transportation, warehousing, etc.)	84.2 (84.2)	It mainly conducts transportation business for commercial products of Alfresa Corporation. Interlocking director: None

Note 1. In the column of “Main line of business,” segments by business type are stated.

2. Asterisk mark means specified subsidiaries.

3. Ratio of voting rights owned by subsidiaries of the Company is indicated within the parenthesis, which is included in the total ratio.

## **2. Management Policies**

### **(1) Basic management policies**

The Alfresa group, as a member of the healthcare industry, engages in wide-ranging businesses under our Group Mission “to maximize our corporate value by creating innovative value and earning the trust of society through contribution to people’s health mainly in the field of medical care.” Also, we would like to create a fresh life for all the people based on our “Healthcare Consortium” concept for providing comprehensive healthcare services.

### **(2) Basic policies on profit share**

Returning profits to our shareholders is one of our key policies. As for dividends, over 2% dividend on equity is the target with the exact rate to be determined according to the consolidated business performance of the Company, fully taking into consideration such factors as the enhancement of the corporate constitution as well as future business developments. In connection with the enforcement of the Company Law, we plan to amend our Articles of Incorporation so that we will be able to distribute surplus profit by establishing a record date for distribution in addition to March 31, September 30 each year. However, the distribution of surplus profit on additional record dates is an issue we should examine in the future.

### **(3) Methodology and policy to lower the trading unit of shares**

As the lowering of the trading unit of shares increases liquidity and encourages more investors to participate in the capital market, it is one of our issues to be considered. The Alfresa Group continues to contemplate its costs and effect, based on analyses of share prices, trading volume, the number of shareholders, composition of shareholders and other factors.

### **(4) Target management benchmark**

We formulated a medium-term management plan that lasts until the year ending March 31, 2008. In the plan, our target for the final year of the medium-term is to achieve group-wide net sales of 2 trillion yen, a net income margin of 1% and 10% of return on equity (ROE).

### **(5) Medium to long term management strategies**

Our priority issues in the medium-term management plan are “Strengthening of corporate governance system”, “Promotion of CSR” and “Development of new main system”.

#### **“Strengthening of corporate governance system”**

We will enhance cooperation within the Group through group conferences among divisions, including president’s conferences, for the purpose of strengthening both the governance of the Group and the foundation of management. The Company has also established an Advisory Board that will utilize the advice and proposals of independent advisors for improving the efficiency and transparency of the company’s overall management.

#### **“Promotion of CSR”**

We are highly conscious of the importance of corporate social responsibility (CSR) as a responsible member of the healthcare industry and make every effort to fulfill our social role through the stable distribution of pharmaceuticals and the provision of information about their proper usage. In addition, we strive to achieve compliance, internal controls, and timely and adequate disclosure to maximize the satisfaction of our stakeholders.

#### “Development of new main system”

We will construct the most appropriate new backbone information system for the Alfresa Group from a medium to long-term perspective. By utilizing the new backbone information system, we plan to reduce back-office work through the standardization and integration of business processes.

#### **(6) Issues to address**

In the ethical pharmaceutical industry, responding to rising medical expenses has become an important policy issue in light of the aging society and the development of medical technology. Accordingly, the business environment surrounding the Company is becoming difficult because of measures to curtail the national medical expenditure, such as the implementation of the average 6.7% reduction in the drug price standard through the NHI drug price revision on April 1, 2006. In addition, the distribution of ethical pharmaceuticals has been changing drastically through developments such as the separation of drug dispensing from medical practice, corporate reorganization, and the joint/volume purchasing of pharmaceuticals.

In this environment, the Alfresa Group is aggressively promoting the advancement and expansion of business through strategic alliances with other companies in the pharmaceutical and other industries to create a “healthcare consortium” that contributes to the life and health of people through medical-related industries, particularly the manufacture and distribution of ethical pharmaceuticals.

In the wholesaling business, the Alfresa Group is striving to increase market share throughout Japan to establish a nationwide distribution system as the core business of the Group. To this end, we are expanding the Group and deploy the effectively integrated sales promotion as a group. We are also making efforts to achieve reasonable profits through appropriate profit management and independent price negotiations, as we believe that it is necessary to provide high-quality pharmaceutical distribution services. In addition, we endeavor to operate our business with an accurate focus on the needs of our customer so that we can become a value-creating corporate group.

In the manufacturing business, the Alfresa Group will continue to expand its product line particularly in such areas as generic drugs and POCT (Point-of-care Testing) reagents (rapid test reagents) through our sales and business alliances with other companies. In addition, we aim to obtain early manufacturing approval for CN-801, a therapeutic agent for chronic sleeping disorder (narcolepsy). The Group is also working to expand the indications of CN-801 to include obstructive sleep apnea syndrome and attention deficit hyperactivity disorder through joint development with Tanabe Seiyaku Co., Ltd.

As mentioned in our medium to long-term management strategies above, as its top priority issues, the Alfresa Group will enhance its efforts to strengthen the corporate governance system, promote CSR, and develop a new main system.

### **3. Business Results and Financial Position**

#### **(1) Business results**

##### **Overview of business results for the fiscal year ended March 31, 2006**

Japan's economy during this consolidated fiscal year continued to move towards a moderate recovery as evidenced by the increase in production and exports accompanying the improvement in corporate profits. Consumer spending has also increased backed by an improvement in employment conditions and consumer confidence.

In this economic environment, the ethical pharmaceutical industry saw market growth of approximately 4.5% partly due to the expansion of drugs for lifestyle diseases including cardiovascular pharmaceuticals.

Based on our corporate philosophy, "Alfresa creates a fresh life for all," the Group is vigorously pushing forward the construction of a system that will make sustainable growth possible from a long-term perspective. To enhance the Group's competitiveness, we have been promoting capital and business alliances with cooperative companies. In April 2005, OKAUCHI KANKODO, Ltd. (Kagawa Prefecture), Kowa Yakuhin Co., Ltd. (Tokushima Prefecture) and DAIWA Pharmaceutical Wholesalers, Co., Ltd. (Ehime Prefecture) became wholly owned subsidiaries through stock exchanges (to establish the present Shikoku Alfresa Corporation). In addition, the Company and Alfresa Corporation concluded a business cooperation agreement with CS YAKUHIN Co., Ltd. (Ehime Prefecture). In a further expansion of the Group, in October 2005, SEIWA SANGYO CO., LTD. (Hiroshima Prefecture) became a wholly owned subsidiary through a stock exchange, and in December 2005, the Company concluded a stock exchange agreement with Meisho Co., Ltd. (Ishikawa Prefecture) that set the date of the stock exchange on April 1, 2006.

Based on our medium-term management plan, which concludes in the year ending March 2008, the Group has been striving to achieve group-wide net sales of 2 trillion yen, net income margin of 1% and ROE of 10% by the final year of the plan.

As a result of our efforts outlined above, in the fiscal year ended March 31, 2006 the Group posted consolidated net sales of 1,411,639 million yen (up 18.1% year-on-year), operating income of 14,846 million yen (up 127.2%), ordinary profit of 19,405 million yen (up 86.0%), and net income of 7,073 million yen (up 120.5%).

#### **Overview of major businesses in the Alfresa group**

##### Results of the wholesaling business

In the wholesaling business, the Alfresa Group established a sales system through which each Group company is able to accurately meet the needs of customers in its operating region and strengthened collaboration among Group companies through joint purchasing and other measures to realize the effects of group synergy. In addition, amidst the continuing trend of the separation of drug dispensing from medical practice nationwide, we worked to construct a distribution system to meet the needs of our customers for high frequency delivery by expanding the areas in which we use specialized delivery personnel.

Sales increased significantly from the previous year due to an increase in the number of consolidated subsidiaries and our efforts to expand market share in areas where we had established operations.

We posted higher profits than in the previous year thanks to the implementation of improvements to unprofitable transactions, the operation of a sales system focusing on profitability characterized by the reinforcement of sales at appropriate prices through the full compliance with the price approval authorization system, and the further cost reductions. We also strengthened our collection of accounts receivable to shorten the collection period in order to bolster cash flow.

As a result, consolidated net sales in the wholesaling business, for the fiscal year under review reached 1,394,968 million yen (up 18.4% year-on-year) and operating income was 13,665 million yen (up 137.3%). The net sales figure includes inter-segment sales of 3 million yen.

### Results of the manufacturing business

In the manufacturing business, sales of the antiepileptic Mystan, the therapeutic agent for iron-deficiency anemia Incremin Syrup, and the antidepressant agent Anafranil for which we obtained the manufacturing and sales rights in January 2006, contributed to the expansion of sales in the pharmaceutical division. In the diagnostic reagents division, sales growth was seen for Hemotect, an immunological fecal occult blood testing equipment, Hemo Auto, an exclusive test reagent, and Check Flu A·B, a POCT reagent that was launched in November 2005. The medical device division also saw an increase in sales for the Nespron Cable System for spinal fusion, and launched Monodiox, an absorbable monofilament surgical suture in March 2006.

As a result, consolidated net sales in the manufacturing business, for the fiscal year under review reached 22,023 million yen (up 5.5% year-on-year) and operating income totaled 405 million yen (down 11.9%), partly due to the increase in depreciation expenses. The net sales figure includes inter-segment sales of 5,847 million yen.

In addition, we obtained ISO13485: 2003 certification (the international standard for medical device-quality management systems) for our Chiba Plant in February 2006 and Okayama Pharmaceutical Plant and the Research and Development Division (now the Ibaraki Research Center) in March 2006.

### Results of the other businesses

In the transportation and other businesses, net sales was 3,166 million yen (down 11.1% year-on-year) and operating income was 37 million yen (down 76.5%). The net sales figure includes inter-segment sales of 2,668 million yen.

## **(2) Financial position**

### **(i) Financial position**

At the end of the consolidated fiscal year under review, compared with the end of the previous term, total assets increased by 78,421 million yen, or 12.9%, year-on-year, to 687,773 million yen, mainly due to the consolidation of OKAUCHI KANKODO, Ltd. and Kowa Yakuhin Co., Ltd. (both are now Shikoku Alfresa Corporation) as wholly owned subsidiaries on April 1, 2005 through a stock exchange and SEIWA SANGYO CO., LTD. as a wholly owned subsidiary on October 1, 2005.

Specifically, current assets expanded by 59,390 million yen, or 11.8% year-on-year, to 564,397 million yen. Major factors behind the increase included a 42,540 million yen rise in trade notes and accounts receivable stemming from sales expansion, and a 12,955 million yen expansion of cash and deposits.

Tangible fixed assets reached 62,141 million yen, up 6,508 million yen, or 11.7%, year-on-year. This was mainly due to a 4,700 million yen increase in land holdings through new acquisitions.

Intangible fixed assets were 6,830 million yen, up 2,871 million yen, or 72.5%, from a year earlier. Increase in consolidation-related adjustments of 2,309 million yen were a major factor behind this increase.

Investments and other assets rose 9,650 million yen, or 21.6%, year-on-year to 54,404 million yen, mainly due to a 9,784 million yen rise in the valuation of investment securities at market value.

Total liabilities climbed 58,104 million yen, or 11.8%, year-on-year to 551,710 million yen.

Current liabilities rose 55,748 million yen, or 11.9%, to 524,948 million yen, mainly due to a 50,614 million yen increase in trade notes and accounts payable due to larger purchases.

Non-current liabilities reached 26,761 million yen, up 2,356 million yen, or 9.7%, from a year earlier.

Total shareholders' equity increased to 131,483 million yen, up 20,408 million yen, or 18.4%, year-on-year, which resulted in a shareholders' equity ratio of 19.1%. This reflected an increase in capital surplus due to a higher number of consolidated subsidiaries and higher retained earnings resulting from an increase in net income, which offset dividend payments, the acquisition of treasury stock, and a decline in land revaluation variance amount stemming from the reversal of deferred tax assets related to revaluation.

## (ii) Consolidated cash flows

As of the end of the consolidated fiscal year under review, cash and cash equivalents (hereinafter referred to as “net cash”) increased by 6,149 million yen from the end of the previous fiscal year to 67,435 million yen. Net cash provided by operating activities was 24,665 million yen, while net cash used in investing activities was 9,992 million yen, and net cash used in financing activities was 8,555 million yen. Net cash also increased 396 million yen due to stock exchanges.

### Cash flows from operating activities

Net cash provided by operating activities was 24,665 million yen (up 142.5% year-on-year). Despite increases of 12,897 million yen in trade notes and accounts receivable and of 2,857 million yen in miscellaneous receivables, there was also income before income taxes of 16,494 million yen, an increase in trade notes and accounts payable of 14,721 million yen, and a decrease in inventories of 4,729 million yen.

### Cash flows from investing activities

Net cash used in investing activities was 9,992 million yen (up 147.4% year-on-year). This amount was mainly used for payments of 5,283 million yen for the acquisition of long-term prepaid expenses (“Others” under “Investment and Other Assets”) such as expenses associated with the transfer of products, and for payment of 3,627 million yen to obtain tangible fixed assets such as land and buildings for a distribution center.

### Cash flows from financing activities

Net cash used in financing activities was 8,555 million yen (up 13.1% year-on-year). This was mainly due to the payment of 3,532 million yen for the purchase of treasury stock, a net decrease in short-term debt of 2,844 million yen, and the payment of 2,052 million yen in cash dividends.

## (ii) Cash flow indicator trends

	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
Shareholders' equity ratio (%)	21.1	18.2	19.1
Ratio of market capitalization to total assets (%)	37.9	24.6	38.8
Debt repayment period (year)	1.3	0.6	0.1
Interest coverage ratio (%)	69.6	156.9	340.9

- Notes:
1. Shareholders' equity ratio: Shareholders' equity / Total assets
  2. Ratio of market capitalization to total assets: Market capitalization / Total assets
  3. Debt repayment period: Interest-bearing debt / Operating cash flow
  4. Interest coverage ratio: Operating cash flow / Interest payments
  5. All figures are from financial statements calculated on a consolidated basis.
  6. Market capitalization is calculated by multiplying the term-end closing price by the term-end number of outstanding shares (excluding treasury stock).
  7. Interest-bearing debt indicates the total debt, appearing on the consolidated balance sheets, on which interest is being paid.
  8. Interest payments indicates the amount of interest paid appearing on the consolidated statements of cash flows.

### **(3) Business risks**

#### **(i) Business environment**

Japan's ethical pharmaceuticals market, where the Alfresa Group mainly conducts business, is strongly affected by the National Health Insurance system and medical policies. Therefore, notifications, as represented by NHI drug price revision, may have direct impacts on business results of the Group. If the medical system is dramatically changed, there could be a material effect on the Group's results.

Currently, Japanese medical expenditures tend to increase due to an aging population and the increase in lifestyle diseases. However, with solvency of financial resources of medical care insurance system declining, medical system reforms are implemented for the purpose of restraining medical expenditures. These reforms include the introduction of comprehensive payments of medical service fees and reviews of co-payment ratio and NHI drug price scheme. Also, the progress in the separation of drug dispensing from medical practice has been changing the composition of customers, replacing clinics and hospitals with a growing percentage of dispensing pharmacies. Further, there is concern about possible sales price decline due to the transformation of national hospitals into independent administrative institutions and the changes in purchase ways of medical institutions. The Alfresa Group will be responding to these trends by molding its chain of operations ranging from purchase to the collection of accounts receivable into a form that better fits present circumstances. Depending on the approach to such environment, however, there could be an impact on the Group's results.

#### **(ii) NHI drug price revisions**

Prices of ethical pharmaceuticals, which are main products of the Alfresa Group, are officially fixed by notification from the Ministry of Health, Labor and Welfare. These officially fixed prices are referred to as "NHI drug prices".

NHI drug prices, which are virtually functioning as an upper limit on selling prices, are revised downward roughly once in every two years according to actual prices and demand trends in the market. Accordingly, the Group's business results could be influenced by NHI drug price revisions.

#### **(iii) Changes in laws and other regulations**

The Alfresa Group's main business is wholesaling, manufacturing and sales of ethical pharmaceuticals. In accordance with Japan's Pharmaceutical Affairs Law and other regulations, the Group is required to register licenses and permits and obtain designations as well as various approvals and permissions relating to the development, manufacturing and import of ethical pharmaceuticals.

#### **(iv) Credit management**

The Alfresa Group's main customers are medical institutions and dispensing pharmacies, and medical system reforms such as restraint of medical expenses could affect the business of these customers. The Alfresa Group promotes conclusion of formal trading contracts and, at the same time, credit management department and respective persons in charge strive to fully perform credit administration. Although we will continue to tighten credit management, the Group's results could be affected by unforeseeable circumstances that hamper the collection of trade receivables.

#### **(v) Risks associated with the manufacturing business**

In the manufacturing business, we handle life-related products. Therefore, we allocate significant resources to processes ranging from product development to sales, and expend all possible means to ensure safety and reliability of the products. However, there are risks of product recalls, the cancellation of sales and other consequences of unforeseeable side effects of products or the contamination of product contents. These risks could be accompanied by lawsuits against the Group. In such case, there could be an impact on the Group's business results.

(vi) System integration

The Alfresa Group is currently integrating its systems to realize more efficient business operations. The group does utmost to ensure its smooth operation. However, if the systems fail to operate properly at the time of integration, it could pose a problem for business operations, primarily involving sales activities such as order input and product shipment. This could have an impact on the Group's business results.

(vii) Overseas transactions

In the manufacturing business, we have a production base in China, while export/import-based product transactions can be affected by political conflicts and substantial fluctuations of foreign exchanges. These factors could have an impact on the Group's results.

(viii) Impairment of fixed assets

The Group has adopted the asset-impairment accounting. However, the Group's business results or financial conditions could be affected when it becomes necessary to further decrease the book value of assets owned by the Group or offices of the Group with low profitability.

(ix) Risks regarding the leakage of personal data

The Group keeps and manages personal data obtained from all kinds of business partners. The Group formulated the personal data management policy in order to avoid the leakage of such personal data and is paying utmost attention to its storage and use. However, should personal data leak due to unforeseeable eventualities or accidents, there could be an impact on the Group's business results or financial conditions.

**(4) Performance forecast for the fiscal year ending March 31, 2007**

(Millions of yen)

	Net Sales	Operating Income	Ordinary Profit	Net Income	Earnings per Share (yen)
Year ending March 31, 2007	1,533,000	18,200	23,600	10,000	253.25
Year ended March 31, 2006	1,411,639	14,846	19,405	7,073	189.55
Rate of change (%)	8.6	22.6	21.6	41.3	-

In the fiscal year ending March 31, 2007, the difficult management environment in the ethical pharmaceuticals market is expected to continue with restraint of medical expenses such as the average 6.7% reduction in the drug price standard through the NHI drug price revision implemented on April 1, 2006.

In this environment, the Alfresa Group will endeavor to pursuit synergistic effects within the Group, and in the next fiscal year will continue business deployment with a goal of seeing concrete synergies.

In the wholesaling business, we introduced Meisho Co., Ltd. (Ishiwawa Prefecture) into our Group in April 2006 to further promote the establishment of a nationwide distribution system. We will strive to expand our market share nationwide by effectively deploying integrated sales promotion as a group. We are also making efforts to achieve reasonable profits through appropriate profit management and independent price negotiations.

In the manufacturing business, the Alfresa Group will continue to expand its product line particularly in such areas as generic drugs and POCT (Point-of-care Testing) reagents (rapid test reagents) through sales and business alliances with other companies.

For the fiscal year ending March 31, 2007, Alfresa Holdings Corporation forecasts consolidated net sales of 1,533,000 million yen, operating income of 18,200 million yen, ordinary profit of 23,600 million yen and net income of 10,000 million yen.

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

Item	As of March 31, 2005		As of March 31, 2006		Change
	Millions of Yen		Millions of Yen		Millions of Yen
		Percentage (%)		Percentage (%)	
<b>(Assets)</b>					
<b>I Current assets</b>					
1. Cash and deposits		57,148		70,103	12,955
2. Trade notes and accounts receivable		338,202		380,743	42,540
3. Securities		2,254		84	(2,171)
4. Inventories		69,111		70,734	1,622
5. Deferred tax assets		3,512		3,440	(72)
6. Miscellaneous receivables		34,489		38,748	4,258
7. Others		1,092		1,376	284
Allowance for doubtful accounts		(805)		(834)	(28)
Total current assets		505,006	82.9	564,397	59,390
<b>II Fixed assets</b>					
1. Tangible fixed assets					
(1) Buildings and structures	50,309		58,059		
Accumulated depreciation	30,150	20,158	35,544	22,514	2,355
(2) Machinery, equipment and vehicles	7,412		7,785		
Accumulated depreciation	5,951	1,461	6,430	1,354	(106)
(3) Tools and fixtures	8,335		8,235		
Accumulated depreciation	7,130	1,205	6,950	1,285	(80)
(4) Land		31,723		36,424	4,700
(5) Construction in progress		1,083		561	(521)
Total tangible fixed assets		55,632	9.1	62,141	6,508
2. Intangible fixed assets					
(1) Consolidation-related adjustments		-		2,309	2,309
(2) Others		3,959		4,520	561
Total intangible fixed assets		3,959	0.7	6,830	2,871
3. Investments and other assets					
(1) Investment securities		20,914		30,699	9,784
(2) Long-term loans		1,429		1,367	(62)
(3) Deferred tax assets		6,572		4,262	(2,310)
(4) Deferred tax assets on land revaluation		2,051		-	(2,051)
(5) Others		17,939		21,908	3,968
Allowance for doubtful accounts		(4,154)		(3,832)	322
Total investments and other assets		44,753	7.3	54,404	9,650
Total fixed assets		104,345	17.1	123,376	19,031
Total assets		609,351	100.0	687,773	78,421

Item	As of March 31, 2005		As of March 31, 2006		Change
	Millions of Yen	Percentage (%)	Millions of Yen	Percentage (%)	Millions of Yen
<b>(Liabilities)</b>					
I Current liabilities					
1. Trade notes and accounts payable	450,682		501,296		50,614
2. Short-term debt	4,676		1,760		(2,915)
3. Corporate bonds redeemed within a year	500		100		(400)
4. Income taxes payable	493		7,667		7,173
5. Deferred tax liabilities	-		176		176
6. Accrued bonuses	4,635		5,371		735
7. Allowance for sales rebates	63		71		8
8. Allowance for loss on sales returns	742		704		(37)
9. Others	7,407		7,801		393
Total current liabilities	469,200	77.0	524,948	76.3	55,748
II Non-current liabilities					
1. Corporate bonds	100		-		(100)
2. Long-term debt	700		847		146
3. Deferred tax liabilities	1,593		2,162		568
4. Deferred tax liabilities on land revaluation	-		773		773
5. Allowance for employees' retirement benefits	19,339		20,950		1,611
6. Allowance for loss on debt guarantee	588		473		(115)
7. Allowance for loss on transfer of business	-		482		482
8. Allowance for directors' retirement benefits	369		489		120
9. Consolidation-related adjustments	926		-		(926)
10. Others	786		583		(203)
Total non-current liabilities	24,405	4.0	26,761	3.9	2,356
Total liabilities	493,605	81.0	551,710	80.2	58,104
<b>(Minority interests)</b>					
Minority interests	4,670	0.8	4,579	0.7	(90)
<b>(Shareholders' equity)</b>					
I Paid-in capital	3,450	0.6	3,872	0.6	422
II Capital surplus	21,356	3.5	39,670	5.7	18,314
III Retained earnings	85,274	14.0	90,282	13.1	5,007
IV Shortfall on land revaluation	(2,977)	(0.5)	(5,674)	(0.8)	(2,696)
V Unrealized gain on available-for-sale securities	6,520	1.0	10,410	1.5	3,889
VI Foreign currency translation adjustments	(22)	(0.0)	38	0.0	60
VII Treasury stock, at cost	(2,525)	(0.4)	(7,116)	(1.0)	(4,591)
Total shareholders' equity	111,075	18.2	131,483	19.1	20,408
Total	609,351	100.0	687,773	100.0	78,421

## (2) Consolidated Income Statements

Item	Year ended March 31, 2005		Year ended March 31, 2006		Change		
	Millions of Yen		Millions of Yen		Millions of Yen		
		Percentage (%)		Percentage (%)			
I Net sales		1,195,313	100.0	1,411,639	100.0	216,325	
II Cost of sales		1,097,279	91.8	1,296,444	91.8	199,164	
Total deduction		98,034	8.2	115,194	8.2	17,160	
Reversal of allowance for returned unsold goods		681	0.1	758	0.1	76	
Allowance for returned unsold goods		767	0.1	706	0.1	(61)	
Gross profit		97,948	8.2	115,247	8.2	17,298	
III Selling, general and administrative expenses		91,414	7.6	100,400	7.1	8,986	
Operating income		6,534	0.6	14,846	1.1	8,312	
IV Non-operating income							
1. Interest income	115			113			
2. Dividend income	258			380			
3. Information fees received	2,563			2,983			
4. Depreciation of consolidation-related adjustments	288			-			
5. Others	1,233	4,458	0.4	1,361	4,838	0.3	379
V Non-operating expenses							
1. Interest expenses	67			68			
2. Commission fees	47			27			
3. Others	447	561	0.1	183	279	0.0	(282)
Ordinary profit		10,431	0.9	19,405	1.4	8,974	

Item	Year ended March 31, 2005		Year ended March 31, 2006		Change	
	Millions of Yen	Percentage (%)	Millions of Yen	Percentage (%)	Millions of Yen	
VI Extraordinary income						
1. Gain on sale of fixed assets	-		505			
2. Gain on sale of investment securities	-		14			
3. Reversal of allowance for doubtful accounts	-		266			
4. Reversal of allowance for losses on debt guarantee	72		115			
5. Gain on sale of investments in affiliates	-		97			
6. Gain on transfer of business	-		165			
7. Charge for joint development	-	72	268	1,432	0.1	1,359
VII Extraordinary loss						
1. Loss on sale of fixed assets	-		17			
2. Loss on disposal of fixed assets	273		256			
3. Loss on devaluation of investment securities	-		276			
4. Loss on impairment of fixed assets	771		174			
5. Amortization of long-term prepaid expenses	-		94			
6. Voluntary retirement benefits	2,961		896			
7. Directors' retirement benefits	-		151			
8. Loss on transfer of business	-		2,237			
9. Loss on sale of investments in affiliates	-		47			
10. Amortization of leaseholds	-		83			
11. Loss on cancellation of operating consignment contract	-		72			
12. Loss on cancellation of leases	153		33			
13. Integration expenses	286		-			
14. Loss on liquidation of affiliates	485	4,932	-	4,343	0.3	(588)
Income before income taxes		5,571		16,494	1.2	10,923
Corporate, residential and enterprise taxes	3,159		8,868			
Corporate tax adjustments	(1,150)	2,009	280	9,149	0.7	7,140
Minority interests in net income		354		271	0.0	(83)
Net income		3,207		7,073	0.5	3,865

### (3) Consolidated Statements of Retained Earnings

Item	Year ended March 31, 2005		Year ended March 31, 2006	
	Millions of Yen		Millions of Yen	
<b>(Capital surplus)</b>				
I Beginning balance		18,623		21,356
II Increase in capital surplus				
1. Increase due to stock exchange	2,732		18,260	
2. Gain on disposal of treasury stock	-	2,732	53	18,314
III Ending balance		21,356		39,670
<b>(Retained earnings)</b>				
I Beginning balance		84,048		85,274
II Increase in retained earnings				
1. Net income	3,207		7,073	
2. Reversal of gain on land revaluation	-		65	
2. Increase due to exclusion from equity method	6	3,214	-	7,139
III Decrease in retained earnings				
1. Dividends	1,707		2,052	
2. Directors' bonuses	56		78	
3. Reversal of gain on land revaluation	223	1,988	-	2,131
IV Ending balance		85,274		90,282

**(4) Consolidated Statements of Cash Flows**

	Year ended March 31, 2005	Year ended March 31, 2006	Change
Item	Millions of Yen	Millions of Yen	Millions of Yen
I Cash flows from operating activities			
1. Income before income taxes	5,571	16,494	10,923
2. Depreciation	2,659	4,006	1,347
3. Decrease in allowance for doubtful accounts	(80)	(530)	(450)
4. Increase (decrease) in allowance for employees' retirement benefits	(789)	364	1,153
5. Decrease in allowance for directors' retirement benefits	(1,028)	(229)	798
6. Interest and dividends income	(373)	(493)	(120)
7. Interest expenses	67	68	1
8. Depreciation of consolidation-related adjustments	(288)	19	307
9. Loss on impairment of fixed assets	711	174	(597)
10. Gains on sale of fixed assets	-	(505)	(505)
11. Loss on sale and disposal of fixed assets	273	274	1
12. Increase in trade notes and accounts receivable	(13,035)	(12,897)	137
13. Decrease (increase) in inventories	(8,876)	4,729	13,606
14. Increase in miscellaneous receivables	(8,161)	(2,857)	5,304
15. Increase in trade notes and accounts payable	36,002	14,721	(21,281)
16. Others	2,027	2,517	490
Subtotal	14,740	25,858	11,118
17. Interest and dividends received	366	492	126
18. Interest paid	(64)	(72)	(7)
19. Income taxes paid	(4,871)	(1,613)	3,258
Net cash provided by operating activities	10,169	24,665	14,495

	Year ended March 31, 2005	Year ended March 31, 2006	Change
Item	Millions of Yen	Millions of Yen	Millions of Yen
<b>II</b> Cash flows from investing activities			
1. Payments into time deposits	(703)	(843)	(140)
2. Proceeds from maturity of time deposits	891	114	(776)
3. Payments for purchase of securities	(129)	(285)	(155)
4. Payments for purchase of tangible fixed assets	(2,227)	(3,627)	(1,400)
5. Proceeds from sale of tangible fixed assets	97	1,855	1,758
6. Payments for purchase of intangible fixed assets	(2,194)	(1,662)	531
7. Payments for acquisition of long-term prepaid expenses	-	(5,283)	(5,283)
8. Payments for purchase of investment securities	(77)	(904)	(827)
9. Proceeds from sale of investment securities	187	291	104
10. Payments for loans provided	(265)	(266)	(1)
11. Proceeds from collection of loans	425	378	(47)
12. Others	(43)	241	284
Net cash used in investing activities	(4,039)	(9,992)	(5,952)
<b>III</b> Cash flows from financing activities			
1. Net decrease in short-term debt	(1,835)	(2,844)	(1,009)
2. Proceeds from long-term loans	300	700	400
3. Repayments of long-term debt	(1,259)	(625)	634
4. Payments of corporate bond redemption	(100)	(500)	(400)
5. Payments for purchase of treasury stock	(2,097)	(3,532)	(1,435)
6. Proceeds from sale of treasury stock	-	320	320
7. Cash dividends paid	(2,546)	(2,052)	494
8. Cash dividends paid to minority shareholders	(27)	(21)	6
Net cash used in financing activities	(7,566)	(8,555)	(988)
<b>IV</b> Translation difference of cash and cash equivalents	(6)	31	37
<b>V</b> Increase (decrease) in cash and cash equivalents	(1,442)	6,149	7,591
<b>VI</b> Beginning balance of cash and cash equivalents	57,900	57,379	(521)
<b>VII</b> Increase in cash and cash equivalents due to stock exchange	921	3,906	2,985
<b>VIII</b> Ending balance of cash and cash equivalents	57,379	67,435	10,055