

## Consolidated Financial Statements for the Year Ended March 31, 2007

Corporate Name: Alfresa Holdings Corporation      Listing: Tokyo Stock Exchange and Osaka Securities Exchange  
Code No.: 2784

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

Representative: Arata Watanabe, Representative Director and President

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Scheduled date for General Meeting of Shareholders: June 28, 2007

Scheduled dividend payment start date: June 14, 2007

Scheduled date for filing Securities Report: June 28, 2007

Note: Rounded down to the nearest million yen

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

(1) Consolidated operating results      Percentages indicate changes over the same period in the previous fiscal year.

	Net sales		Operating income		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2007	1,589,842	12.6	21,987	48.1	27,580	42.1	11,941	68.8
Year ended March 31, 2006	1,411,639	18.1	14,846	127.2	19,405	86.0	7,073	120.5

	Earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2007	301.93	—	7.9	3.7	1.4
Year ended March 31, 2006	189.55	—	5.8	3.0	1.1

Reference: Profit or loss on equity method investments      Year ended March 31, 2007      ¥ – million      Year ended March 31, 2006      ¥ – million

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Year ended March 31, 2007	770,207	161,391	20.5	3,959.80
Year ended March 31, 2006	687,773	131,483	19.1	3,537.89

Reference: Shareholders' equity:      Year ended March 31, 2007      ¥157,738 million      Year ended March 31, 2006      ¥ – million

### (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, 2007	39,993	(11,422)	(1,991)	96,769
Year ended March 31, 2006	24,665	(9,992)	(8,555)	67,435

### 2. Cash dividends

Record date	Cash dividend per share			Total cash dividends	Dividend payout ratio (Consolidated)	Dividend on equity (Consolidated)
	Interim	Year-end	Full year			
	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2006	34.00	35.00	69.00	2,513	36.4	2.0
Year ended March 31, 2007	37.00	40.00	77.00	3,069	25.5	2.0
Year ending March 31, 2008 (Forecast)	41.00	41.00	82.00	—	19.4	—

### 3. Consolidated performance forecast for the year ending March 31, 2008 (April 1, 2007 - March 31, 2008)

(Percentages indicate changes from previous interim period for interim results and previous fiscal year for full-year results.)

	Net sales		Operating income		Ordinary profit		Net income		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim	809,000	3.6	10,760	7.4	13,500	6.9	7,000	18.1	175.72
Year ending March 31, 2008	1,743,000	9.6	25,700	16.9	31,500	14.2	16,800	40.7	421.74

Note: The consolidated performance forecast figures provided here take into account the effect of the consolidation of CS YAKUHIN CO., LTD. and RYUYAKU CO., LTD. that is scheduled to occur on October 1, 2007 through a process of management integration.

#### 4. Others

- (1) Significant change to subsidiaries during the period (those changes accompanying change in scope of consolidation):  
Yes.

New: 1 (Company name: Meisho Co., Ltd.) Excluded: 1 (Company name: Nissho Butsuryu Service Co., Ltd.)

Note: For details, please refer to *Current Status of the Group* on page 9.

- (2) Change to accounting policy, procedure, and method of presentation for preparing consolidated financial statements:

i. Change due to amendment of accounting standard: Yes

ii. Change due to other reasons: No

- (3) Outstanding shares (common shares):

	Year ended March 31, 2007	Year ended March 31, 2006
i. Shares outstanding at year-end (including treasury stock)	40,275,353 shares	38,775,353 shares
ii. Treasury stock at year-end	440,349 shares	1,658,543 shares

#### Reference: Summary of non-consolidated performance

Non-consolidated performance for the year ended March 31, 2007 (April 1, 2006 - March 31, 2007)

- (1) Non-consolidated operating results

Percentages indicate changes over the same period in the previous fiscal year.

	Net sales		Operating income		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2007	8,222	103.3	7,086	124.8	7,052	125.2	6,095	94.4
Year ended March 31, 2006	4,044	(33.5)	3,152	(40.1)	3,130	(40.2)	3,134	(40.6)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Year ended March 31, 2007	153.57	-
Year ended March 31, 2006	84.46	-

- (2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Year ended March 31, 2007	136,286	133,755	98.1	3,342.48
Year ended March 31, 2006	122,458	116,868	95.4	3,130.08

Reference: Shareholders' equity:

Year ended March 31, 2007 ¥133,755 million

Year ended March 31, 2006 ¥ - million

#### \*Disclaimer regarding appropriate use of forecasts and related points of note

The forecast statements shown in this document are based on information that was available at the time of preparation and a certain assumption that the Company assess as rational. Actual performance and other factors may differ from these forecasts due to various factors.

## 1. Business Results

### (1) Analysis of business results

#### Business results for the year ended March 31, 2007

Japan's economy during this consolidated fiscal year continued to move towards a moderate recovery as capital spending increased fueled by favorable corporate earnings and employment prospects improved, while consumer spending was not as strong.

In the ethical pharmaceutical market, a downward revision of the NHI drug prices by an average of 6.7% took effect on April 1, 2006. But with the expansion of markets for medications for lifestyle diseases, etc., the market showed a 1.5% growth (based on the Company's estimates).

Under these conditions, the Group has been promoting capital and business alliances with cooperative companies to enhance the Group's competitiveness as a proactive strategy to adapt to the changing environment. On October 1, 2005, through a stock exchange, SEIWA SANGYO CO., LTD. (head office: Hiroshima, Hiroshima Prefecture) became a wholly owned subsidiary, and on April 1, 2006, Meisho Co., Ltd. (head office: Kanazawa, Ishikawa Prefecture) became a wholly-owned subsidiary. Furthermore, we made consolidated subsidiary Odashima Limited (head office: Hanamaki, Iwate Prefecture) a wholly owned subsidiary through a stock exchange on March 30, 2007.

In addition, in October 2006, the Company and consolidated subsidiary Meisho Co., Ltd. concluded a business cooperation agreement with CS YAKUHIN CO., LTD. (head office: Nagoya, Aichi Prefecture) to collaborate in OTC pharmaceutical wholesaling. Also, in March 2007 the Company concluded a business cooperation agreement with grocery wholesaler NIPPON ACCESS, INC. (head office Setagaya Ward, Tokyo) and CS YAKUHIN CO., LTD. relating to wholesaling of food and OTC pharmaceuticals, etc.

At the same time as strengthening sales with an emphasis on securing appropriate profits, we have been working to achieve group synergy through aggressive promotion of joint purchasing and joint sales promotion, and striving toward further reducing costs.

As a result of our efforts outlined above, in the fiscal year ended March 31, 2007, the Group posted consolidated net sales of 1,589,842 million yen (up 12.6% from the previous year), operating income of 21,987 million yen (up 48.1% from the previous year), ordinary profit of 27,580 million yen (up 42.1% from the previous year), and net income of 11,941 million yen (up 68.8% from the previous year).

An outline of performance by segment for the fiscal year under review is as follows:

In the Wholesaling Business, alongside the addition of SEIWA SANGYO CO., LTD. and Meisho Co., Ltd. to the Group as consolidated subsidiaries, the effect of full-line dealings between manufacturers and each consolidated subsidiary and the strengthening of the sales structure for customers through the full-fledged introduction of professional delivery staff contributed to significant expansion in sales.

On the other hand, with respect to over-the-counter pharmaceuticals, a phased reorganization has been under way since the previous period, and the transfer of business operations from Alfresa Corporation to CS YAKUHIN CO., LTD. was completed in August 2006.

In terms of profits, the Company has strengthened sales in light of marginal gains such as compliance with an authorized price limit in order to secure appropriate profits. The Company has also worked toward the expansion of joint purchasing and joint sales promotion with the Group companies, as well as further cost reductions.

In addition, Alfresa Corporation commenced construction of the Kanagawa Distribution Center in Odawara, Kanagawa Prefecture in November 2006. This center will serve as the new distribution base for Kanagawa Prefecture, Shizuoka Prefecture and other areas.

As a result, consolidated net sales in the Wholesaling Business, for the fiscal year under review reached 1,572,429 million yen (up 12.7% from the previous year) and operating income was 20,354 million yen (up 48.9% from the previous year). The net sales figure includes inter-segment sales of 4 million yen.

In the Manufacturing Business, Anafranil, a therapeutic agent for depression and depressive states for which the manufacturing and marketing right was transferred in January 2006, made significant contributions to the increase in sales of pharmaceuticals. In the area of diagnostic reagents, Check Ad, a reagent for detection of adenovirus which is a POCT diagnostic reagent (rapid diagnostic reagent), and Capilia Flu A+B, an influenza A and B virus antigen detection reagent that was launched in September 2006, contributed to the increase in sales.

Furthermore, we launched a new product, Modiodal, a narcolepsy treatment, on March 28, 2007. Alfresa Pharma Corporation sells Modiodal jointly with TANABE SEIYAKU CO., LTD., and both companies are also working on development for the expansion of indications as a treatment for drowsiness accompanying obstructive sleep apnea syndrome.

As a result, net sales for the Manufacturing Business were 24,832 million yen (up 12.8% from the previous year) and operating income was 739 million yen (up 82.5% from the previous year). The net sales figure includes inter-segment sales of 7,414 million yen.

### Performance forecast for the year ending March 31, 2008

	(Millions of yen)				
	Net sales	Operating income	Ordinary profit	Net income	Earnings per share (yen)
Year ending March 31, 2008	1,743,000	25,700	31,500	16,800	421.74
Year ended March 31, 2007	1,589,842	21,987	27,580	11,941	301.93
Rate of change (%)	9.6	16.9	14.2	40.7	-

We anticipate continued moderate growth in the ethical pharmaceutical market in the year ending March 31, 2008 due to the continued aging of the population and the increase in lifestyle diseases. In the context of such an environment, we intend to more aggressively pursue business expansion in the year ending March 31, 2008, the first fiscal year of the Alfresa Group's three-year medium-term management plan, "07-09 Medium-term Management Plan: Advancement and Expansion" from April 2007 until March 2010 as described in "3. Management Policies."

In the Wholesaling Business, we will continue sales at appropriate prices and further promote joint purchasing and joint sales promotion at the same time as focus our efforts on further reductions in the selling, general and administrative expenses ratio, and the development and strengthening of information systems and the distribution system. Also, we will add CS YAKUHIN CO., LTD. and RYUYAKU CO., LTD. (head office: Urazoe, Okinawa Prefecture) to the Alfresa Group as wholly owned subsidiaries on October 1, 2007. Regarding results in the year ending March 31, 2008 for the Wholesaling Business, we forecast net sales of 1,725,000 million yen and operating income of 24,800 million yen.

In the Manufacturing Business, the Alfresa Group will continue to work towards the expansion of sales of the narcolepsy treatment Modiodal, launched on March 28, 2007, and POCT reagents (rapid diagnostic reagents). At the same time, the Alfresa Group will work to promote the expansion of indications for Modiodal and work towards enhancement of the product line. Regarding results in the year ending March 31, 2008 for the Manufacturing Business, we forecast net sales of 26,600 million yen and operating income of 1,050 million yen.

Based on these forecasts, our outlook for consolidated results in the year ending March 31, 2008 is net sales of 1,743,000 million yen, operating income of 25,700 million yen, ordinary profit of 31,500 million yen, and net income of 16,800 million yen.

## **Progress on the Medium-Term Management Plan**

The Alfresa Group is working toward “Achievement of 2 trillion yen in group-wide net sales,” “Expansion of business domains through the ‘Healthcare Consortium’ vision,” and “Strengthening of the group management system” according to the Medium-Term Management Plan (for the three years from April 2005 to March 2008) announced on March 24, 2005. Progress up until the fiscal year ended March 31, 2007, the second fiscal year of the plan, is as follows:

### **“Achievement of 2 trillion yen in group-wide net sales”**

We have been aiming at the achievement of 2 trillion yen in group-wide net sales through the expansion of the domestic pharmaceutical distribution network. We made OKAUCHI KANKODO, Ltd. (Kagawa Prefecture), Kowa Yakuhin Co., Ltd. (Tokushima Prefecture), and DAIWA Pharmaceutical Wholesalers Co., Ltd. (Ehime Prefecture) wholly owned subsidiaries through a stock exchange in April 2005 (the three companies merged in October 2005, and the entity changed its trade name to Shikoku Alfresa Corporation). Furthermore, we made SEIWA SANGYO CO., LTD. in October 2005 and Meisho Co., Ltd. in April 2006, respectively, wholly owned subsidiaries through stock exchanges, and added the Shikoku, Chugoku, and Hokuriku regions to our business territory. Moreover, based on our customer-centric principle, we strengthened the sales system and the distribution system and maintained above market-level growth. Due to these factors, consolidated net sales for the fiscal year ended March 31, 2007 amounted to 1,589,842 million yen.

### **“Expansion of business domains through the ‘Healthcare Consortium’ vision”**

We are committed to making our “Healthcare Consortium” vision a reality to help enhance people’s daily lives and their health by establishing a broader circle of alliances with healthcare companies besides Group companies, to offer comprehensive medical care and healthcare information, products, and services. Alfresa Pip-Tokyo Corporation, a subsidiary engaged in SPD (supply, processing and distribution) business which was established as a joint venture company of the Company and PIP-Tokyo Co., Ltd., commenced business in April 2005. Also, the Company, NIPPON ACCESS, INC. and CS YAKUHIN CO., LTD. concluded a business cooperation agreement with a view to building systems to collaborate in various fields related to wholesaling of food and OTC pharmaceuticals, etc. in March 2007.

### **“Strengthening of the group management system”**

#### 1) Strengthening of the governance system

As part of the goal of strengthening group governance and the management base, group meetings in each division including Group President Conference are being held regularly to strengthen collaboration and internal control within the group. Furthermore, an Advisory Board comprising external advisors has been established and is working to promote efficient and transparent management.

#### 2) Promotion of CSR

To fulfill our corporate social responsibility, we created the “Alfresa Group Compliance Handbook” in October 2005, and we are working to educate the People (employees). Moreover, at the same time as establishing CSR promotion systems within each Group company, we have established the group-wide CSR Promotion Committee and published our first CSR Report in August 2006.

#### 3) Construction of the new backbone information system

In Alfresa Corporation, we are working toward full-scale operation of the new backbone information system for May 2007. After operation commences, we will promote its joint use by Group companies along with service level improvements and the leveling and streamlining of business operations.

## Achievement of target management benchmarks

Towards the plan for the fiscal year ending March 31, 2008, the final fiscal year of the Medium-Term Management Plan (for the three years from April 2005 to March 2008), the progress on the principal management benchmarks in the fiscal year ended March 31, 2007, the second year of the plan, was as follows:

We have formulated the “07-09 Medium-Term Management Plan: Advancement and Expansion,” a three year medium-term management plan which runs from April 2007 until March 2010, and the targets in the plan are described in “3. Management Policies (2) Target management benchmarks.”

	Consolidated net sales (millions of yen)	Net income margin (%)	ROE (%)
Year ending March 31, 2008	1,385,000	1.0	10.0
Year ended March 31, 2007	1,589,842	0.8	7.9
Progress rate (%)	114.8	80.0	79.0

Note: The figure for consolidated net sales target for the fiscal year ending March 31, 2008 is the projected figure at the time the medium-term management plan was announced (May 14, 2005), and does not include the increase due to addition of SEIWA SANGYO CO., LTD. and Meisho Co., Ltd. to consolidated subsidiaries on October 1, 2005 and April 1, 2006, respectively.

## (2) Analysis of financial position

### Analysis of assets, liabilities and net assets for the fiscal year ended March 31, 2007

At the end of the consolidated fiscal year under review, total assets increased by 82,433 million yen, or 12.0% up from the previous year, to 770,207 million yen, mainly due to the consolidation of Meisho Co., Ltd. as a wholly owned subsidiary through a stock exchange on April 1, 2006, and increases in net sales and net income. Liabilities, on the other hand, rose 57,105 million yen, or 10.4% up from the previous year to 608,815 million yen, while net assets expanded by 25,327 million yen, or 18.6% up from the previous year to reach 161,391 million yen, which resulted in the shareholders' equity ratio rising to 20.5%.

The specific details of the individual items with respect to changes from the previous year are as follows:

Current assets expanded by 69,710 million yen, or 12.4% up from the previous year, to 634,107 million yen. Major factors behind the increase included a 31,003 million yen expansion of cash and deposits, a 21,278 million yen rise in trade notes and accounts receivable, and an 11,499 million yen rise in inventories.

Fixed assets reached 136,099 million yen, up 12,723 million yen, or 10.3% up from the previous year. This was mainly due to an increase of 6,832 million yen in investment securities a 2,194 million yen increase in buildings and structures and a 2,047 million yen increase in land.

Current liabilities rose 55,700 million yen, or 10.6% up from the previous year, to 580,648 million yen, mainly due to a 52,567 million yen increase in trade notes and accounts payable.

Non-current liabilities reached 28,167 million yen, up 1,405 million yen, or 5.3% up from the previous year.

With respect to net assets, the stock exchange with Meisho Co., Ltd. and Odashima Limited led to an increase in capital surplus of 10,122 million yen and a decrease in treasury stock of 5,779 million yen, resulting in an increase in net assets. Also, because of an increase in net income, there was an increase of retained earnings by 8,766 million yen.

## Analysis of cash flows for the fiscal year ended March 31, 2007

As of the end of the consolidated fiscal year under review, cash and cash equivalents (hereinafter, Net Cash”) was 96,769 million yen, an increase of ¥26,589 million compared with the previous year. Net Cash provided by operating activities was 39,993 million yen, while net cash used in investing activities was 11,422 million yen, and Net Cash used in financing activities was 1,991 million yen. In addition, Net Cash of 3,043 million yen was provided by stock exchanges.

### Cash flows from operating activities

Net Cash provided by operating activities was 39,993 million yen (up 62.1% from the previous year). This amount was mainly due to income before income taxes of 24,897 million yen and an increase in trade notes and accounts payable of 29,642 million yen, while there were an increase of 2,732 million yen in trade notes and accounts receivable, an increase of 7,381 million yen in inventories and a payment of 12,123 million yen for income taxes paid.

### Cash flows from investing activities

Net Cash used in investing activities was 11,422 million yen (9,992 million yen was used in the previous year). This amount was mainly used for payments of 7,818 million yen for purchase of tangible fixed assets, including land and buildings for a distribution center.

### Cash flows from financing activities

Net Cash used in financing activities was 1,991 million yen (8,555 million yen was used in the previous year). The significant items were proceeds from sale of treasury stock of 3,029 million yen, net decrease in short-term debt of 1,529 million yen and payment of 2,764 million yen in cash dividends.

### Cash flow indicator trends

	Year ended March 31, 2005	Year ended March 31, 2006	Year ended March 31, 2007
Equity ratio (%)	18.2	19.1	20.5
Ratio of market capitalization to total assets (%)	24.6	38.8	38.8
Debt repayment period (years)	0.6	0.1	0.0
Interest coverage ratio (%)	156.9	340.9	1,037.1

- Notes:
1. 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) Fundamental policy on the distribution of profits and dividend payment for current term and next term**

The Company has positioned the distribution of profits to shareholders as a key management policy. The Company determines the amount of profits distributed to shareholders based on consolidated financial results, while taking all matters into consideration including the need for a stable foundation for business operations and future business expansion, etc. In doing so, the Company targets an annual dividend on equity ratio of at least 2%.

In June 2006, in step with the Corporation Law that came into effect last year, the Articles of Incorporation were revised after receiving approval from the Company's General Meeting of Shareholders held in June 2006 to move the authority of determining the dividends of surplus from the General Meeting of Shareholders to the Board of Directors.

Based on the aforesaid fundamental policy, the Company plans to provide a term-end cash dividend of 40 yen per share, which combined with the interim cash dividend of 37 yen per share, is a full-term cash dividend of 77 yen per share.

For the next term, the Company plans to apply the same policy and aims to provide an interim cash dividend of 41 yen and a term-end cash dividend of 41 yen.

**(4) Business risks**

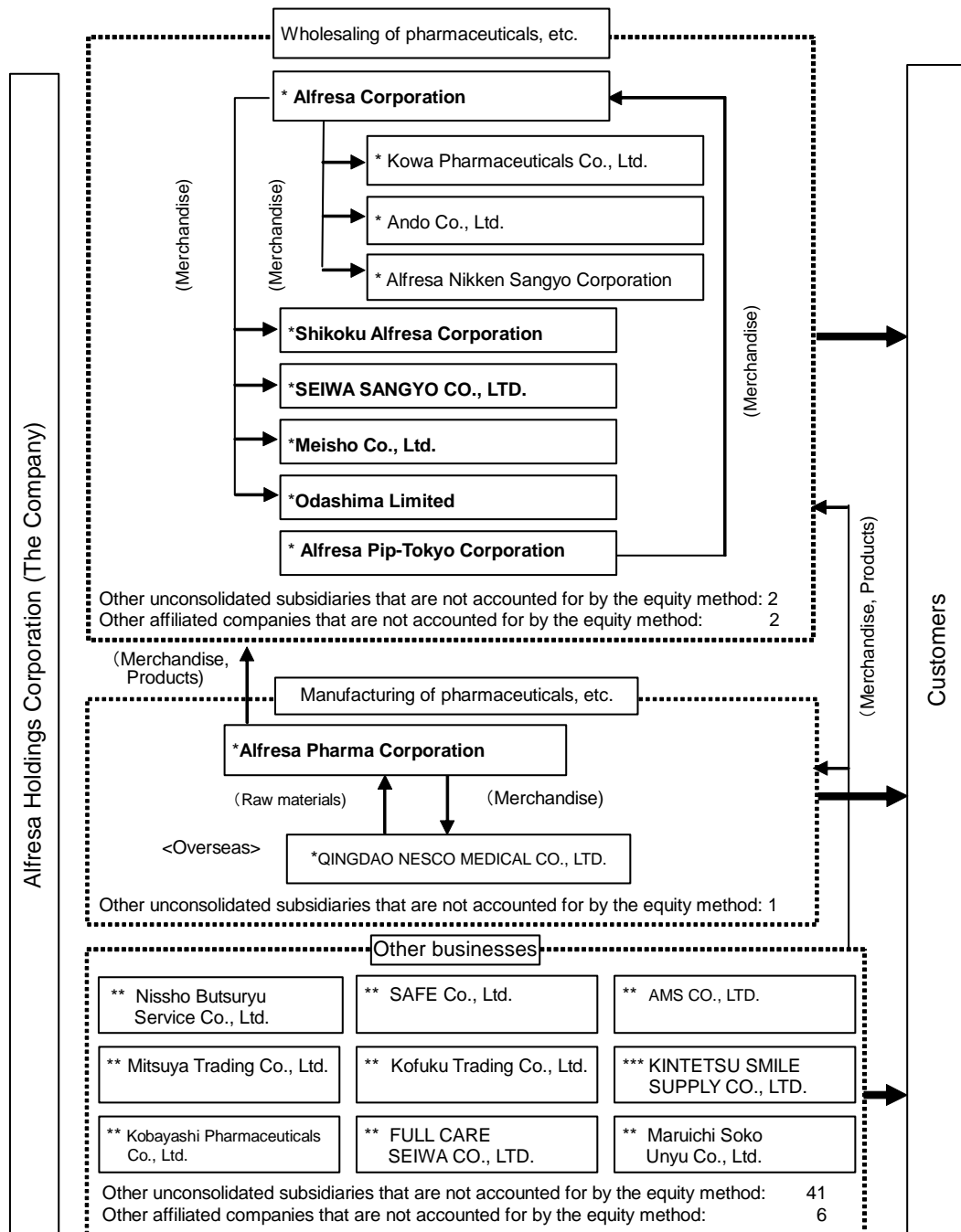
Disclosure of business risks will be omitted, as there are no new business risks of significance to disclosure that are not contained in "Business risks" of the most recent securities report (submitted June 29, 2006).

## 2. Current Status of the Group

The Company has a 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 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. Meisho Co., Ltd. became a wholly owned subsidiary of the Company through a stock exchange on April 1, 2006.
2. Odashima Limited, which was a subsidiary of Alfresa Corporation, became a wholly owned subsidiary of the Company through a stock exchange on March 30, 2007.

## 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 directors: 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 directors: 1
SEIWA SANGYO CO., LTD. *	Nishi-ku, Hiroshima	1,144	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the Company relating to management services. Interlocking directors: 2
Meisho Co., Ltd.	Kanazawa, Ishikawa Prefecture	395	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the Company relating to management services. Interlocking directors: 3
Odashima Limited	Hanamaki, Iwate Prefecture	30	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the Company relating to management services. Interlocking directors: 2
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 directors: 1
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 directors: 1
Kowa Pharmaceuticals Co., Ltd.	Koriyama, Fukushima Prefecture	104	Wholesaling of pharmaceuticals, etc.	67.6 (67.6)	It has concluded a basic contract with the Company relating to management services. Interlocking directors: 3
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 directors: None
Ando Co., Ltd.	Takasaki, Gunma Prefecture	300	Wholesaling of pharmaceuticals, etc.	50.9 (50.9)	It has concluded a basic contract with the Company relating to management services. Interlocking directors: None
QINGDAO NESCO MEDICAL CO., LTD.	Qingdao, Shandong, China	300	Manufacturing of pharmaceuticals, etc.	100.0 (100.0)	It manufactures surgical sutures. Interlocking directors: 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.

### **3. Management Policies**

With respect to the Medium-term Management Plan, a three-year plan for the period April 2005 through March 2008 was enacted. Since its enactment, significant changes have occurred to the management environment, and more companies joined the group. In response to these, a new three-year plan for the period April 2007 to March 2010 has been enacted entitled “07–09 Medium-term Management Plan: Advancement and Expansion”. An overview of management policy based on the 07–09 Medium-term Management Plan is provided below.

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

The Alfresa Group will carry forth its corporate activities based on the Group Philosophy, Group Mission, and the Group Vision.

##### **1) Group Philosophy**

“Alfresa creates a fresh life for all.”

We meet shareholders’ expectations.

We are always customer centric.

We value the happiness of the People.

We strive for symbiosis with society, the environment and other stakeholders as a good corporate citizen.

##### **2) Group Mission**

“Our mission is 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.”

##### **3) Group Vision**

“To be a ‘Healthcare Consortium’ that provides comprehensive healthcare services.”

A leading supplier of healthcare services in Japan

A healthcare partner trusted by customers

A corporate group trusted by stakeholders

A rewarding work environment where employees hold the Alfresa Dream in their mind

#### **(2) Target management benchmarks**

The following three benchmarks are of key importance in the Medium-term Management Plan and the targets to be achieved by the fiscal year ending March 31, 2010.

1. ROE (return on equity): 9% and above
2. ROA (return on assets): 2% and above
3. Equity ratio: 23% and above

#### **(3) Medium- to long-term management strategies and issues to address**

In the ethical pharmaceutical market, medical system reforms for curtailing medical expenditure are anticipated, however, modest growth is expected over the medium- to long-term. Due to relaxation of regulations in medical-related fields and changes in the needs of the market, we will be presented with expanded opportunities for the realization of a Healthcare Consortium.

In this environment, our medium- to long-term management strategies and issues to address are as follows:

- 1) Expansion of the wholesaling business of pharmaceuticals, etc. and pursuit of group synergy effects
  - i) Japan-wide expansion of wholesaling business of ethical pharmaceuticals
  - ii) Establishment of the wholesaling business of self-medication products
  - iii) Group development of the back-bone information system (promotion of joint use of the back-bone information system by Group companies)

- vi) Review of the group distribution system (optimal siting of distribution centers throughout Japan, and review of the delivery system)
  - v) Further expansion of joint purchasing and strengthening of group sales promotion
  - vi) Provision of high added-value through group sharing of the customer support function
- 2) Solidifying the business base of the manufacturing of pharmaceuticals, etc.
- i) Enhancement of the product line
  - ii) Expansion of capabilities in contract manufacturing
  - iii) Early development of and expansion of indications for Modiodal
- 3) Realization of Healthcare Consortium
- i) Support for strengthening the function of the wholesaling business of ethical pharmaceuticals
  - ii) Strengthening of collaboration in the medical device and diagnostic reagent fields
  - iii) Implement measures for new business category in response to health-related needs including prevention and care, etc.
  - iv) Development of pharmaceutical distribution business overseas
- \* “Healthcare Consortium” means that the Alfresa Group will strive to establish a system that can contribute to people’s lives and health by forming alliances not only with Group companies but also with other firms in the healthcare business to offer comprehensive medical care and healthcare information, products and services.
- 4) Enhancement of the group management base and strengthening of the administration system
- i Promotion of CSR-oriented management
  - ii Measures for internal control
  - iii Exertion of comprehensive strength through group management

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

Item	As of March 31, 2006		As of March 31, 2007		Change
	Millions of Yen		Millions of Yen		Millions of Yen
		Percentage (%)		Percentage (%)	
<b>(Assets)</b>					
<b>I Current assets</b>					
1. Cash and deposits	70,103		101,106		31,003
2. Trade notes and accounts receivable	380,743		402,022		21,278
3. Securities	84		114		30
4. Inventories	70,734		82,234		11,499
5. Deferred tax assets	3,440		6,741		3,300
6. Miscellaneous receivables	38,748		40,972		2,224
7. Others	1,376		1,775		398
Allowance for doubtful accounts	(834)		(860)		(26)
<b>Total current assets</b>	<b>564,397</b>	<b>82.1</b>	<b>634,107</b>	<b>82.3</b>	<b>69,710</b>
<b>II Fixed assets</b>					
1. Tangible fixed assets					
(1) Buildings and structures	58,059		62,133		
Accumulated depreciation	35,544	22,514	37,424	24,709	2,194
(2) Machinery, equipment and vehicles	7,785		7,975		
Accumulated depreciation	6,430	1,354	6,452	1,522	167
(3) Tools and fixtures	8,235		8,412		
Accumulated depreciation	6,950	1,285	6,785	1,627	341
(4) Land		36,424		38,472	2,047
(5) Construction in progress		561		2,006	1,444
<b>Total tangible fixed assets</b>	<b>62,141</b>	<b>9.0</b>	<b>68,337</b>	<b>8.9</b>	<b>6,196</b>
2. Intangible fixed assets					
(1) Goodwill	-		4,002		4,002
(2) Consolidation-related adjustments	2,309		-		(2,309)
(3) Others	4,520		3,718		(802)
<b>Total intangible fixed assets</b>	<b>6,830</b>	<b>1.0</b>	<b>7,720</b>	<b>1.0</b>	<b>889</b>
3. Investments and other assets					
(1) Investment securities	30,699		37,531		6,832
(2) Long-term loans	1,367		1,867		500
(3) Deferred tax assets	4,262		3,751		(510)
(4) Others	21,908		21,954		45
Allowance for doubtful accounts	(3,832)		(5,063)		(1,231)
<b>Total investments and other assets</b>	<b>54,404</b>	<b>7.9</b>	<b>60,040</b>	<b>7.8</b>	<b>5,636</b>
<b>Total fixed assets</b>	<b>123,376</b>	<b>17.9</b>	<b>136,099</b>	<b>17.7</b>	<b>12,723</b>
<b>Total assets</b>	<b>687,773</b>	<b>100.0</b>	<b>770,207</b>	<b>100.0</b>	<b>82,433</b>

Item	As of March 31, 2006		As of March 31, 2007		Change
	Millions of Yen	Percentage (%)	Millions of Yen	Percentage (%)	Millions of Yen
<b>(Liabilities)</b>					
I Current liabilities					
1. Trade notes and accounts payable	501,296		553,864		52,567
2. Short-term debt	1,760		230		(1,529)
3. Corporate bonds redeemed within a year	100		-		(100)
4. Income taxes payable	7,667		10,989		3,322
5. Deferred tax liabilities	176		-		(176)
6. Reserve for bonuses	5,371		5,633		261
7. Reserve for bonuses to directors and auditors	-		215		215
8. Allowance for sales rebates	71		97		26
9. Allowance for loss on sales returns	704		698		(6)
9. Others	7,801		8,920		1,119
Total current liabilities	524,948	76.3	580,648	75.4	55,700
II Non-current liabilities					
1. Long-term debt	847		294		(553)
2. Deferred tax liabilities	2,162		3,135		973
3. Deferred tax liabilities on land revaluation	773		852		79
4. Allowance for employees' retirement benefits	20,950		21,744		793
5. Allowance for loss on debt guarantee	473		373		(99)
6. Allowance for loss on transfer of business	482		451		(30)
7. Allowance for directors' retirement benefits	489		617		128
8. Others	583		697		113
Total non-current liabilities	26,761	3.9	28,167	3.6	1,405
Total liabilities	551,710	80.2	608,815	79.0	57,105
<b>(Minority interests)</b>					
Minority interests	4,579	0.7	-	-	(4,579)
<b>(Shareholders' equity)</b>					
I Paid-in capital	3,872	0.6	-	-	(3,872)
II Capital surplus	39,670	5.7	-	-	(39,670)
III Retained earnings	90,282	13.1	-	-	(90,282)
IV Shortfall on land revaluation	(5,674)	(0.8)	-	-	5,674
V Unrealized gain on available-for-sale securities	10,410	1.5	-	-	(10,410)
VI Foreign currency translation adjustments	38	0.0	-	-	(38)
VII Treasury stock, at cost	(7,116)	(1.0)	-	-	7,116
Total shareholders' equity	131,483	19.1	-	-	(131,483)
Total	687,773	100.0	-	-	(687,773)

Item	As of March 31, 2006		As of March 31, 2007		Change
	Millions of Yen	Percentage (%)	Millions of Yen	Percentage (%)	Millions of Yen
<b>(Net assets)</b>					
I Shareholders' equity					
1. Paid-in capital	-	-	4,020	0.5	4,020
2. Capital surplus	-	-	49,793	6.5	49,793
3. Retained earnings	-	-	99,049	12.9	99,049
4. Treasury stock, at cost	-	-	(1,336)	(0.2)	(1,336)
Total shareholders' equity	-	-	151,525	19.7	151,525
II Valuation and translation adjustments					
1. Unrealized gain on securities	-	-	11,885	1.5	11,885
2. Gain or loss on deferred hedge	-	-	0	0.0	0
3. Unrealized gain or loss on revaluation of land	-	-	(5,730)	(0.7)	(5,730)
4. Foreign currency translation adjustments	-	-	58	0.0	58
Total valuation and translation adjustments	-	-	6,213	0.8	6,213
III Minority interests	-	-	3,652	0.5	3,652
Total net assets	-	-	161,391	21.0	161,391
Total	-	-	770,207	100.0	770,207

**(2) Consolidated Income Statements**

Item	Year ended March 31, 2006		Year ended March 31, 2007		Change		
	Millions of Yen		Millions of Yen		Millions of Yen		
		Percentage (%)		Percentage (%)			
I Net sales		1,411,639	100.0		1,589,842	100.0	178,203
II Cost of sales		1,296,444	91.8		1,455,195	91.5	158,750
Total deduction		115,194	8.2		134,647	8.5	19,452
Reversal of allowance for returned unsold goods		758	0.1		737	0.0	(20)
Allowance for returned unsold goods		706	0.1		698	0.0	(7)
Gross profit		115,247	8.2		134,687	8.5	19,440
III Selling, general and administrative expenses		100,400	7.1		112,699	7.1	12,299
Operating income		14,846	1.1		21,987	1.4	7,140
IV Non-operating income							
1. Interest income	113			180			
2. Dividend income	380			577			
3. Information fees received	2,983			3,439			
4. Others	1,361	4,838	0.3	1,623	5,821	0.3	983
V Non-operating expenses							
1. Interest expenses	68			40			
2. Commission fees	27			43			
3. Others	183	279	0.0	144	228	0.0	(50)
Ordinary profit		19,405	1.4		27,580	1.7	8,174

Item	Year ended March 31, 2006			Year ended March 31, 2007			Change
	Millions of Yen		Percentage (%)	Millions of Yen		Percentage (%)	Millions of Yen
VI Extraordinary income							
1. Gain on sale of fixed assets	505			374			
2. Gain on sale of investment securities	14			8			
3. Reversal of allowance for doubtful accounts	266			-			
4. Reversal of allowance for losses on debt guarantee	115			152			
5. Gain on sale of investments in affiliates	97			44			
6. Gain on transfer of operations	165			-			
7. Subsidies of land plot readjustment programs	-			20			
8. Income for portion of joint development	268	1,432	0.1	514	1,115	0.1	(316)
VII Extraordinary loss							
1. Loss on sale of fixed assets	17			212			
2. Loss on disposal of fixed assets	256			281			
3. Loss on sale of investment securities	-			17			
4. Loss on devaluation of investment securities	276			89			
5. Loss on impairment of fixed assets	174			491			
6. Amortization of long-term prepaid expenses	94			-			
7. Voluntary retirement benefits	896			1,100			
8. Directors' retirement benefits	151			-			
9. Loss on transfer of business	2,237			-			
10. Loss on sale of shares of subsidiaries and affiliates	47			60			
11. Loss on devaluation of shares of subsidiaries and affiliates	-			59			
12. Loss on devaluation of investments in subsidiaries and affiliates	-			498			
13. Amortization of leaseholds	83			-			
14. Loss on cancellation of operating consignment contract	72			-			
15. Loss on cancellation of leases	33			-			
16. Expenses for withdrawal from employee pension funds program	-			235			
17. Expenses for system transition	-			670			
18. Loss on transfer of operations	-	4,343	0.3	82	3,798	0.2	(545)
Income before income taxes		16,494	1.2		24,897	1.6	8,402
Corporate, residential and enterprise taxes	8,868			14,905			
Corporate tax adjustments	280	9,149	0.7	(2,804)	12,101	0.8	2,951
Minority interests in net income		271	0.0		854	0.0	582
Net income		7,073	0.5		11,941	0.8	4,868

**(3) Consolidated Statement of Retained Earnings and Consolidated Statement of Changes in Shareholders' Equity**  
**Consolidated Statement of Retained Earnings**

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

**Consolidated Statement of Changes in Shareholders' Equity**  
**Consolidated Fiscal year (April 1, 2006 - March 31, 2007)**

(Rounded down to the nearest million yen)

	Shareholders' equity				
	Paid-in capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	3,872	39,670	90,282	(7,116)	126,709
Changes during the fiscal year					
Dividends of surplus (Note 1)			(2,764)		(2,764)
Directors' bonuses (Note 2)			(169)		(169)
Net income			11,941		11,941
Purchase of treasury stocks				(51)	(51)
Disposal of treasury stocks		528		2,138	2,667
Changes due to stock exchange	147	9,593		3,692	13,433
Decrease of consolidated subsidiaries			(241)		(241)
Changes during the fiscal year in items other than shareholders' equity (net)					—
Total changes during the fiscal year (net)	147	10,122	8,766	5,779	24,815
Balance as of March 31, 2007	4,020	49,793	99,049	(1,336)	151,525

	Valuation and translation adjustments					Minority interests	Total net assets
	Unrealized gains on securities	Gain or loss on deferred hedge	Unrealized gain or loss on revaluation of land	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2006	10,410	—	(5,674)	38	4,774	4,579	136,063
Changes during the fiscal year							
Dividends of surplus (Note 1)							(2,764)
Directors' bonuses (Note 2)							(169)
Net income							11,941
Purchase of treasury stocks							(51)
Disposal of treasury stocks							2,667
Changes due to stock exchange							13,433
Decrease of consolidated subsidiaries							(241)
Changes during the fiscal year in items other than shareholders' equity (net)	1,475	0	(55)	19	1,439	(926)	512
Total changes during the fiscal year (net)	1,475	0	(55)	19	1,439	(926)	25,327
Balance as of March 31, 2007	11,885	0	(5,730)	58	6,213	3,652	161,391

Notes: 1. These were items for the appropriation of profits resolved at the General Meeting of Shareholders held in June 2006 and interim dividend amounts resolved at the Board of Directors' Meeting in November 2006.

2. The profit appropriation items at the General Meeting of Shareholders held in June 2006

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

	Year ended March 31, 2006	Year ended March 31, 2007	Change
Item	Millions of Yen	Millions of Yen	Millions of Yen
I Cash flows from operating activities			
1. Income before income taxes	16,494	24,897	8,402
2. Depreciation	4,006	4,884	877
3. Loss on impairment of fixed assets	174	491	316
4. Increase (decrease) in allowance for doubtful accounts	(530)	659	1,189
5. Increase in reserve for bonuses to directors and auditors	–	215	215
6. Increase in allowance for employees' retirement benefits	364	6	(357)
7. Decrease in allowance for directors' retirement benefits	(229)	(14)	215
8. Interest and dividends income	(493)	(758)	(265)
9. Interest expenses	68	40	(27)
10. Depreciation of consolidation-related adjustments	19	–	(19)
11. Amortization of goodwill	–	1,097	1,097
12. Gains on sale of fixed assets	(505)	(374)	130
13. Loss on sale and disposal of fixed assets	274	493	219
14. Loss on devaluation of investments in subsidiaries and affiliates	–	498	498
15. Increase in trade notes and accounts receivable	(12,897)	(2,732)	10,165
16. Decrease (increase) in inventories	4,729	(7,381)	(12,111)
17. Increase in miscellaneous receivables	(2,857)	(1,219)	1,637
18. Increase in trade notes and accounts payable	14,721	29,642	14,920
19. Others	2,517	943	(1,574)
Subtotal	25,858	51,390	25,531
20. Interest and dividends received	492	765	272
21. Interest paid	(72)	(38)	33
22. Income taxes paid	(1,613)	(12,123)	(10,509)
Net cash provided by operating activities	24,665	39,993	15,328

	Year ended March 31, 2006	Year ended March 31, 2007	Change
Item	Millions of Yen	Millions of Yen	Millions of Yen
<b>II Cash flows from investing activities</b>			
1. Payments into time deposits	(843)	(3,264)	(2,421)
2. Proceeds from maturity of time deposits	114	1,544	1,429
3. Payments for purchase of securities	(285)	–	285
4. Payments for purchase of tangible fixed assets	(3,627)	(7,818)	(4,190)
5. Proceeds from sale of tangible fixed assets	1,855	1,693	(162)
6. Payments for purchase of intangible fixed assets	(1,662)	(212)	1,450
7. Payments for acquisition of long-term prepaid expenses	(5,283)	(90)	5,193
8. Payments for purchase of investment securities	(904)	(3,315)	(2,410)
9. Proceeds from sale of investment securities	291	182	(109)
10. Payments for loans provided	(266)	(812)	(546)
11. Proceeds from collection of loans	378	671	293
12. Others	241	0	(241)
Net cash used in investing activities	(9,992)	(11,422)	(1,429)
<b>III Cash flows from financing activities</b>			
1. Net decrease in short-term debt	(2,844)	(1,529)	1,314
2. Proceeds from long-term loans	700	–	(700)
3. Repayments of long-term debt	(625)	(553)	71
4. Payments of corporate bond redemption	(500)	(100)	400
5. Payments for purchase of treasury stock	(3,532)	(51)	3,480
6. Proceeds from sale of treasury stock	320	3,029	2,709
7. Cash dividends paid	(2,052)	(2,764)	(711)
8. Cash dividends paid to minority shareholders	(21)	(21)	(0)
Net cash used in financing activities	(8,555)	(1,991)	6,564
<b>IV Translation difference of cash and cash equivalents</b>	31	9	(21)
<b>V Increase in cash and cash equivalents</b>	6,149	26,589	20,440
<b>VI Beginning balance of cash and cash equivalents</b>	57,379	67,435	10,055
<b>VII Decrease in cash and cash equivalents due to change of scope of consolidation</b>	–	(299)	(299)
<b>VIII Increase in cash and cash equivalents due to stock exchange</b>	3,906	3,043	(863)
<b>IX Ending balance of cash and cash equivalents</b>	67,435	96,769	29,333