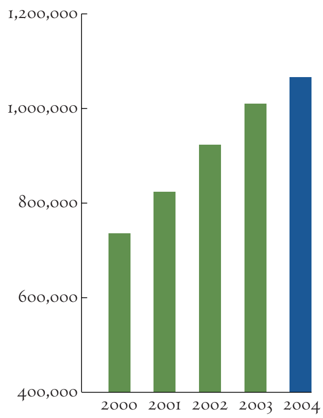
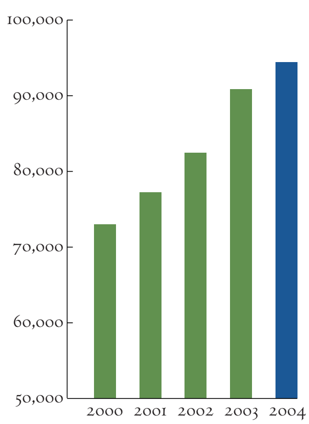
Management's Discussion and Analysis

Net Sales
(¥ millions)



Gross Profit
(¥ millions)



*Figures for 2000 to 2003 represent the sum of results for AZWELL and Fukujin.

The Alfresa Group consists of six consolidated subsidiaries and one equity-method affiliate centered on AZWELL Inc. and Fukujin Co., Ltd., whose main businesses are the wholesale, manufacture, and sale of pharmaceuticals, medical-use diagnostic reagents, and medical equipment and materials. Alfresa Holdings Corporation was established on September 29, 2003 as a holding company through the transfer of the stock of AZWELL and Fukujin, which became wholly owned subsidiaries. Accordingly, Alfresa Holdings Corporation's consolidated results for the fiscal year ended March 31, 2004 comprise the non-consolidated results of Alfresa Holdings Corporation from its establishment date (September 29, 2003) to the end of the term under review (March 31, 2004), and the consolidated results of AZWELL Inc. and Fukujin Co., Ltd.

Overview of Consolidated Results

In the fiscal year ended March 31, 2004, Japan's economy saw concerns about the war in Iraq and outbreaks of severe acute respiratory syndrome (SARS) fade away at the outset of the fiscal year. Thereafter, personal consumption and the employment situation showed signs of improvement along with increases in capital expenditures and higher export growth, and the economy staged a modest recovery. In the pharmaceuticals wholesale industry, the business environment remained difficult, as the amendment of the Health Insurance Act in April 2003, which increased the co-payment percentage for health insurance from 20% to 30% and lowered the frequency of medical checkups, held growth in the domestic pharmaceuticals market to just over 1%.

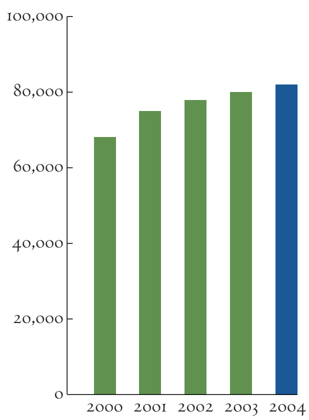
Under these conditions, AZWELL Inc. and Fukujin Co., Ltd. opened a new chapter in their history with the management integration of the two companies under a holding company in September 2003. Currently, both companies take part in a Management Integration Committee to discuss and examine themes on realignment in each business domain, such as the integration of marketing and information systems. These and other preparations are under way ahead of the integration of operations scheduled for October 1, 2004. Initial plans to integrate information systems concurrently with the integration of operations have been postponed to facilitate a smoother transition to new information systems.

Net Sales

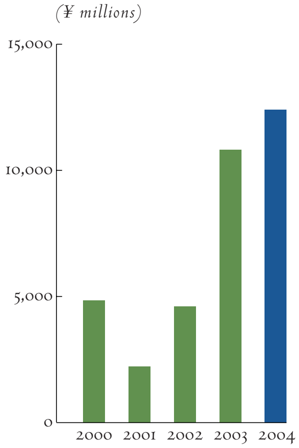
Consolidated net sales were ¥1,066,578 million. Direct comparisons with the previous fiscal year cannot be made as Alfresa Holdings was established on September 29, 2003. For reference purposes, consolidated net sales increased 5.6% year on year compared with the combined sales of AZWELL and Fukujin in the previous fiscal year.

By operating company, sales at AZWELL rose 3.1% to ¥503,760 million. This was chiefly the result of efforts to strengthen sales capabilities by improving customer support functions in the wholesaling business; sales contributions from transferred products in the manufacturing business; and stronger sales activities for health food ingredients in the import/export field. Meanwhile, sales at Fukujin increased 8.5% to ¥565,860 million, mainly reflecting a full product lineup and a distribution system whereby specialized delivery personnel provide on-time, frequent deliveries.

Selling, General and Administrative Expenses
(¥ millions)



Operating Income
(¥ millions)



Earnings

Gross profit was ¥94,435 million, operating income ¥12,403 million, and net income ¥6,490 million. Comparing these results with the combined figures for AZWELL and Fukujin in the previous fiscal year, as with net sales, gross profit rose 3.9% and operating income increased 14.5%, while net income was down 2.2%.

By operating company, AZWELL recorded gross profit of ¥49,748 million, down 0.6%, operating income of ¥3,109 million, down 23.2%, and net income of ¥1,862 million, down 29.8%. The main reason for the decline in operating income was lower gross profit margins in the wholesaling business. Net income declined mainly due to the early application of new accounting standards for impairment of fixed assets. Fukujin posted increases of 9.6% in gross profit to ¥44,701 million, 34.4% in operating income to ¥9,110 million, and 36.6% in net income to ¥5,439 million. This reflected the fact that growth in net sales sharply exceeded the average market growth rate, and Fukujin's continued adherence to industry-leading low-cost management practices.

Financial Condition

Total assets rose ¥11,441 million from the previous year to ¥513,188 million. Total current assets climbed ¥11,051 million to ¥427,277 million, mainly due to increases of ¥7,934 million in trade notes and accounts receivable, and ¥1,212 million in inventories in line with growth in net sales. Total fixed assets were up ¥390 million at ¥85,911 million, mainly reflecting an increase of ¥3,980 million in investment in securities, which is listed under investments and other assets, on account of unrealized gains. This was partly negated by a decrease of ¥3,433 million in land due to the early application of new accounting standards for impairment of fixed assets.

On the other side of the balance sheet, total current liabilities were ¥382,079 million, up ¥1,461 million from a year ago. The main factor was an increase of ¥7,290 million in trade notes and accounts payable in line with higher sales, partly negated by a decrease of ¥3,261 million in income taxes payable. Total long-term liabilities were down ¥491 million at ¥19,168 million, mainly due to a ¥581 million reversal of the allowance for loss on business restructuring.

Total shareholders' equity rose ¥10,082 million to ¥108,409 million. The main components were increases of ¥5,664 million in retained earnings and ¥2,446 million in unrealized gains on available-for-sale securities.

All comparisons with the previous fiscal year-end are based on combined figures for AZWELL and Fukujin.

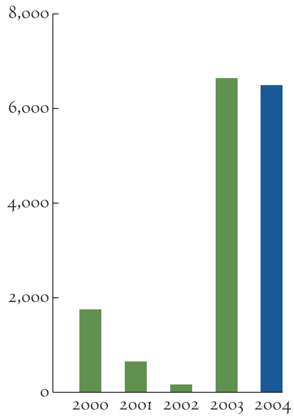
Cash Flows

Net cash provided by operating activities was ¥2,298 million. The main cash inflows were income before income taxes of ¥12,558 million, and an increase in trade notes and accounts payable of ¥7,216 million. These were partly offset by a decrease in trade notes and accounts receivable of ¥8,437 million and income taxes paid of ¥11,873 million.

Net cash used in investing activities was ¥760 million. Proceeds from sale of property, plant and equipment provided cash of ¥1,031 million, but were outweighed by payments for the purchase of property, plant and equipment and intangible assets of ¥1,392 million.

Net cash provided by financing activities totaled ¥1,429 million, mainly due to proceeds of ¥3,516 million from the sale of treasury stock, partly negated by cash payments for share transfer of ¥821 million and cash dividends paid of ¥741 million. As a result, cash and cash equivalents as of March 31, 2004 were ¥57,901 million, ¥2,950 million higher than a year ago.

Net Income
(¥ millions)



Targeted Management Benchmarks

The Alfresa Group has established a medium-term business plan running from October 1, 2003 to March 31, 2006. The plan calls for a higher net income margin and ROE in its final year, the fiscal year ending March 2006. The plan targets an increase in the net income margin to 1.1%, from 0.6% in the fiscal year ended March 2004, and an increase in ROE to 9.7%, from 6.0% in the same period.

Fundamental Policy on the Distribution of Profits

The Company has positioned the distribution of profits to shareholders as a key management policy. As such, the Company strives to maintain stable dividends and increase them when possible while taking into consideration the level of internal reserves necessary to strengthen its operating base. Internal reserves are used to improve the Company's financial condition and to build a base for future business expansion.

Risks

The Alfresa Group is centered on AZWELL Inc. and Fukujin Co., Ltd. The Group's main businesses are the wholesale, manufacture and sales of pharmaceuticals, medical-use diagnostic reagents, and medical equipment and materials. Accordingly, the Group's results may be affected by medical system reforms, including changes in Japan's National Health Insurance system, drug price standards and reimbursement rates for medical checkups. There are many other factors that could affect the Group's operations, including changes in economic conditions. The Group will flexibly and rapidly respond to changes in its operating environment.

Outlook for the Fiscal Year Ending March 31, 2005

In the fiscal year ending March 2005, although National Health Insurance drug prices were lowered by 4.2% in April 2004, we expect the pharmaceuticals market to grow slightly due to natural factors, including the aging of Japanese society and increasing incidences of lifestyle-related diseases. Still, we think industry conditions will remain challenging due to the transformation of national hospitals into independent administrative institutions, the introduction of a comprehensive system for medical service fees, the increasing use of generic drugs and other developments.

In this environment, the Alfresa Group will take proactive steps to expand its business with the aim of rapidly becoming the industry's leading company with a nationwide sales network. On April 1, 2004, Fukujin Co., Ltd., a wholly owned subsidiary of Alfresa, acquired the shares of DAIWA Pharmaceutical Wholesalers Co., Ltd. and Odashima Limited, making both companies consolidated subsidiaries. Also, on July 1, 2004, Alfresa made Taishodo Co., Ltd. a wholly owned subsidiary through an exchange of shares. On October 1, 2004, Alfresa will reorganize the operations of AZWELL, Fukujin, and Taishodo into a wholesaling business (Alfresa Corporation) and a manufacturing business (Alfresa Pharma Corporation) using the business separation method. The Alfresa Group is currently making full preparations for the changeover to the new system.

In the fiscal year ending March 2005, the Company forecasts consolidated net sales of ¥1,206,000 million, up 13.1% from the previous fiscal year, operating income of ¥14,800 million, up 19.3%, and net income of ¥8,700 million, up 34.1%.