

Message from the Chairman and President



Alfresa Holdings aims to further increase corporate value as an industry-leading group of companies.

Kunio Fukujin
Representative Director & Chairman

Surpassed Targets in the Fiscal Year Ended March 2006

The business environment surrounding the ethical pharmaceutical wholesale industry in the fiscal year ended March 31, 2006, saw market growth of roughly 4.5% year on year, underpinned partly by expansion of the market for therapeutic agents for lifestyle-related diseases, such as cardiovascular pharmaceuticals.

In the pharmaceuticals wholesaling sector, the Alfresa Group's core business, rapid industry realignment is underway as companies seek to establish a competitive advantage in the market. Furthermore, it has become increasingly vital for companies to enhance their functions and services to meet diversifying customer needs. These developments have been fueled by trends including the separation of drug dispensing from medical practice and joint purchasing of pharmaceuticals by national hospitals.

Under these conditions, the Alfresa Group has been working to expand joint purchasing and promote joint sales promotion activities on a group-wide level

in order to reach its numerical targets. The fiscal year ended March 31, 2006 was important as the first year of the medium-term management plan. Net sales and operating income both surpassed our targets.

Distribution of Profits

Furthermore, the Company has positioned the distribution of profits to shareholders as a key management priority. The Company determines the amount of profits distributed to shareholders based on consolidated financial results, while taking into consideration the need to strengthen its operating structure and drive future business expansion. In doing so, the Company targets an annual dividend on equity (DOE) of at least 2%. Based on this policy, the Company increased the annual dividend for the fiscal year ended March 31, 2006 from ¥50 per share to ¥69 per share.

Maintaining Appropriate Margins and Promoting Low-cost Operations

In the Wholesaling business, we saw a large increase

By working to realize our
 “Healthcare Consortium” vision,
 we aim to help enhance people’s
 daily lives and their health.

Arata Watanabe
 Representative Director & President



in sales, primarily due to expansion in sales areas leveraging diverse forms of participation in the group, and joint Group-wide purchasing and sales promotion activities. Efforts to develop a sales system that emphasizes profitability, along with the benefits derived from low-cost operations, helped to increase the operating income margin from 0.55% in the fiscal year ended March 31, 2005 to 1.05% in the fiscal year ended March 31, 2006. For example, we strengthened sales by ensuring appropriate prices by such means as reviewing unprofitable dealings and strictly enforcing compliance with the authorized price limit. Further, efforts to achieve low-cost operations included reducing personnel and streamlining the delivery system. As a result of these measures, the consolidated SG&A expenses ratio improved by 0.54 of a point from 7.65% in the fiscal year ended March 31, 2005, to 7.11% in the fiscal year ended March 31, 2006.

In addition, Alfresa Pip-Tokyo Corporation, which conducts a Supply, Processing & Distribution (SPD) business offering integrated contract services ranging

from procurement to logistics and consumption of medical materials and pharmaceuticals in hospitals, started operations in April 2005. Eyeing the strong growth potential of the SPD business, we will strengthen these operations, as we further enhance our support system for hospitals.

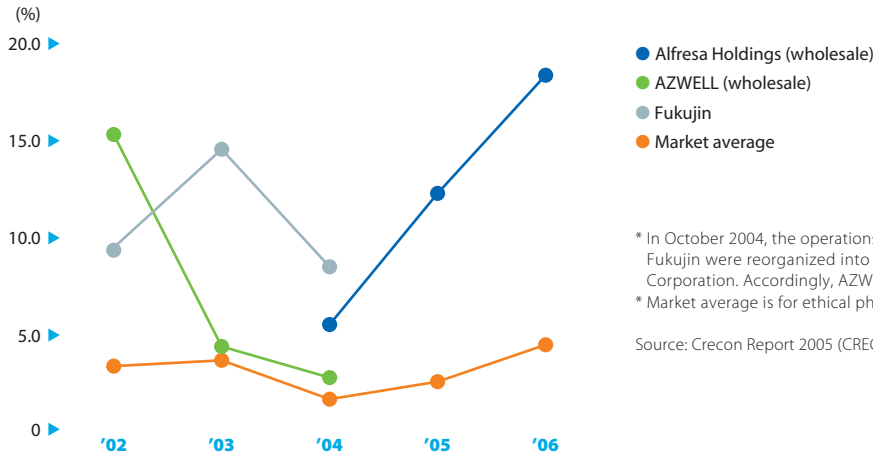
In the Manufacturing business, sales rose due to strong performances by various products. In the pharmaceutical sector, the antidepressant agent Anafranil, whose production and marketing rights were taken over by Alfresa Pharma in January 2006, performed well. In the diagnostic reagent sector, we recorded strong sales of a point-of-care-testing (POCT) reagent to detect influenza virus antigens called CHECK Flu A-B.

Expanding the Group Through Diverse Forms of Participation

We strive to strengthen profitability and meet the diversifying needs of our customers by fostering closer cooperation with Group companies and further

Average Sales Growth for the Pharmaceuticals Wholesale Market and Alfresa Group

(Fiscal years ended March 31)



* In October 2004, the operations of Alfresa Holdings' subsidiaries AZWELL and Fukujin were reorganized into Alfresa Corporation and Alfresa Pharma Corporation. Accordingly, AZWELL and Fukujin are not shown from 2005.
* Market average is for ethical pharmaceuticals.

Source: Crecon Report 2005 (CRECON RESEARCH & CONSULTING INC.)

increasing the scale of the Group. In October 2005, OKAUCHI KANKODO, Ltd. (Kagawa Prefecture), Kowa Yakuin Co., Ltd. (Tokushima Prefecture), and DAIWA Pharmaceutical Wholesalers Co., Ltd. (Ehime Prefecture) merged to form Shikoku Alfresa Corporation. Furthermore, SEIWA SANGYO CO., LTD. (Hiroshima Prefecture) and Meisho Co., Ltd. (Ishikawa Prefecture) joined the Alfresa Group by becoming wholly owned subsidiaries through stock exchanges in October 2005 and April 2006, respectively.

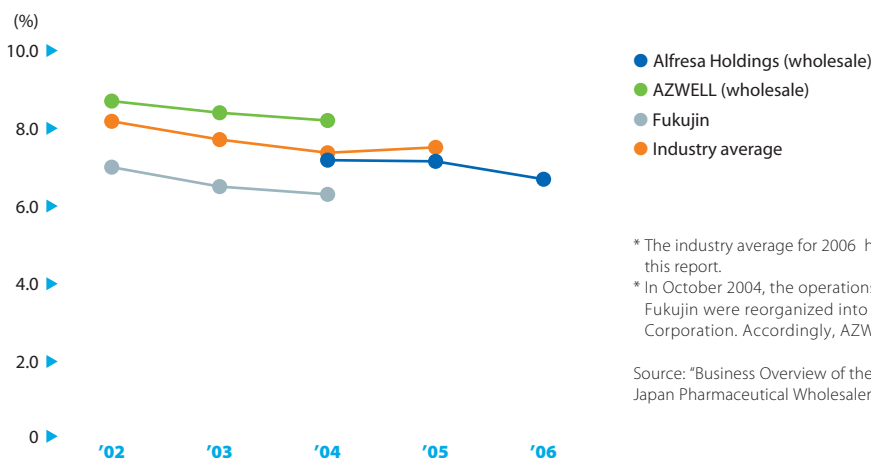
As it continues to pursue these group expansion measures, the Alfresa Group is giving priority to taking advantage of the distinctive corporate culture and regional characteristics of each participating company. Regional pharmaceutical wholesalers often have deep ties with their local community medical institutions in keeping with traditional Japanese culture. We are convinced that making available diverse forms of participation in the group, such as mergers or alliances, will have a beneficial impact on the growth of the Alfresa Group as a whole.

Strengthen the Corporate Governance Structure

One of the key issues in the Alfresa Group's medium-term management plan is to "strengthen the corporate governance structure." This is essential to fulfilling our obligations to our stakeholders, such as shareholders, customers, employees, business partners, investors, creditors, and local communities, and to enhancing our corporate value. To establish a Group-wide corporate governance structure, we are putting in place systems for sharing management policies across the Group. This includes holding Group President Conferences and other meetings of various business divisions to deliberate policies and measures as a Group and promote exchanges among directors of Group companies. Furthermore, to ensure fair and highly transparent management, we are working to strengthen Group-wide corporate governance through such means as enhancing the Management Strategy Committee, an advisory body to the representative directors comprising Group companies, as well as the existing Advisory Board.

Average SG&A Ratio for the Pharmaceuticals Wholesale Industry and Alfresa Group

(Fiscal years ended March 31)



* The industry average for 2006 had yet to be announced at the printing of this report.

* In October 2004, the operations of Alfresa Holdings' subsidiaries AZWELL and Fukujin were reorganized into Alfresa Corporation and Alfresa Pharma Corporation. Accordingly, AZWELL and Fukujin are not shown from 2005.

Source: "Business Overview of the Drug Wholesale Industry," by the Federation of Japan Pharmaceutical Wholesalers Association.

In terms of CSR (Corporate Social Responsibility) activities, as a member of the healthcare sector, we strongly believe in the importance of CSR. We will fulfill our social role as a provider of a stable supply of pharmaceuticals and information on their proper use. On top of this, we will strengthen internal control and legal compliance, and provide the timely and accurate disclosure of information to meet the expectations of our stakeholders.

Realizing Our "Healthcare Consortium" Vision to Create Innovative Value for Customers

The Alfresa Group is committed to making its "Healthcare Consortium" vision a reality. This means that we aim 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.

Guided by this vision, our goals are to become the leader in Japan in the Wholesaling business and

embrace the challenge of meeting unmet medical needs of society in the Manufacturing business.

By continuing to actively form alliances with various companies, Alfresa Holdings aims to further increase corporate value as an industry-leading group of companies.

August 2006

Kunio Fukujin

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Representative Director & Chairman

Arata Watanabe

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