



Briefing on Business Results for the First Half of the Fiscal Year Ending March 2005

November 12, 2004

Kunio Fukujin, Chairman and CEO

アルフレッサ ホールディングス株式会社



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Interim Results

Interim Results Summary

- Business Environment
 - ✦ Growth of the whole market 1.7%; Ethical drugs 2.1%
 - ✦ Tough price negotiations with an eye to the next two years after the revision of NHI drug prices
 - ✦ Drug prices were brought into line with lower prices due to joint purchasing by hospitals
 - ✦ intensifying competition between wholesalers
 - Operational Situation
 - Growth of 8.6% in consolidated net sales was not sufficient to reach the scheduled target
 - Unsatisfactory results in the Tokai and Kinki regions
 - Decrease in sales prices
 - Delay in SG&A reduction
 - Efforts
 - Preparation for successful business integration
 - Progress of group formation
 - Formation of a business group to achieve net sales of JDY2 trillion
 - Announcement on establishment of a joint venture company with PIP-Tokyo Co., Ltd. (strengthening of medical-related businesses)
- Lower gross profit margin*
- Downward revision of performance forecast*

Interim Results Summary

Issues in the second half

Realize the effects of integration

Strengthen sales forces

Secure gross profit margin

Promote low-cost management

Financial Highlights of the First Half

(in millions of Yen)	September 2003		September 2004		Change	
	Performance	of Sales(%)	Performance	of Sales(%)	YoY change	YoY(%)
Net Sales	522,774	-	567,944	-	45,170	108.6
Gross Profit	45,731	8.75	47,835	8.42	2,104	104.6
Operating Income	5,602	1.07	3,579	0.63	(2,023)	63.9
Ordinary Profit	7,129	1.36	5,627	0.99	(1,502)	78.9
Net Income	3,766	0.72	3,080	0.54	(686)	81.8
Total assets	498,052		573,763			
Shareholders' equity	101,550		112,775			
EPS	114.80		90.41			
BPS	3,096.65		3,279.47			
ROE (annualized)	7.4		5.6			

Interim dividend for FY2004 25 yen	
Dividend ratio	22.2
Dividend yield (annualized)	1.3

(Based on the stock price on September 30, 2004)

Financial Highlights of the First Half (Achievement Ratio)

(in millions of Yen)	Initial plan	Revised plan	Performance	Ratio to initial plan	Ratio to revised plan
Net Sales	581,500	570,000	567,944	97.7	99.6
Gross Profit	51,910	48,100	47,835	92.1	99.4
Operating Income	6,570	3,450	3,579	54.5	103.7
Ordinary Profit	8,200	5,300	5,627	68.6	106.2
Net Income	4,070	2,420	3,080	75.7	127.3

Financial Highlights of the First Half (AZWELL)

(in millions of Yen)	September 2003		September 2004		Change	
	Performance	of Sales(%)	Performance	of Sales(%)	YoY change	YoY(%)
Net Sales	247,364	-	248,577	-	1,212	100.5
Gross Profit	24,194	9.78	22,997	9.25	(1,197)	95.1
SG&A	22,676	9.17	23,962	9.64	1,285	105.7
Operating Income	1,517	0.61	(964)	(0.39)	(2,482)	-
Ordinary Profit	2,248	0.91	(64)	(0.03)	(2,313)	-
Net Income	1,197	0.48	(37)	(0.02)	(1,235)	-

Financial Highlights of the First Half (Fukujin)

(in millions of Yen)	September 2003		September 2004		Change	
	Performance	of Sales(%)	Performance	of Sales(%)	YoY change	YoY(%)
Net Sales	277,024	-	322,353	-	45,329	116.4
Gross Profit	21,551	7.78	24,914	7.73	3,363	115.6
SG&A	17,542	6.33	20,221	6.27	2,679	115.3
Operating Income	4,008	1.45	4,692	1.46	684	117.1
Ordinary Profit	4,800	1.73	5,805	1.80	1,005	120.9
Net Income	2,583	0.93	3,203	0.99	620	124.0

Consolidated Balance Sheet

(in 100 millions of Yen)

	March 2004	September 2004	Change	Ratio to total assets (%)
Current assets	4,272	4,735	462	82.5
(Cash, deposit and securities)	592	528	(64)	9.2
(Trade notes and accounts receivable)	2,900	3,205	305	55.9
(inventories)	522	705	183	12.3
Fixed assets	859	1,002	142	17.5
(Tangible and intangible fixed assets)	491	593	101	10.3
Total assets	5,131	5,737	605	100.0
Current liabilities	3,820	4,314	493	75.2
(Trade notes and accounts payable)	3,663	4,127	464	71.9
(Short-term interest bearing debts)	28	57	28	1.0
Fixed liabilities	191	252	60	4.4
(Long-term interest bearing debts)	1	10	10	0.2
Minority interests	35	43	7	0.8
Shareholders' equity	1,084	1,127	43	19.6

Consolidated Statement of Cash Flows

(in millions of Yen)

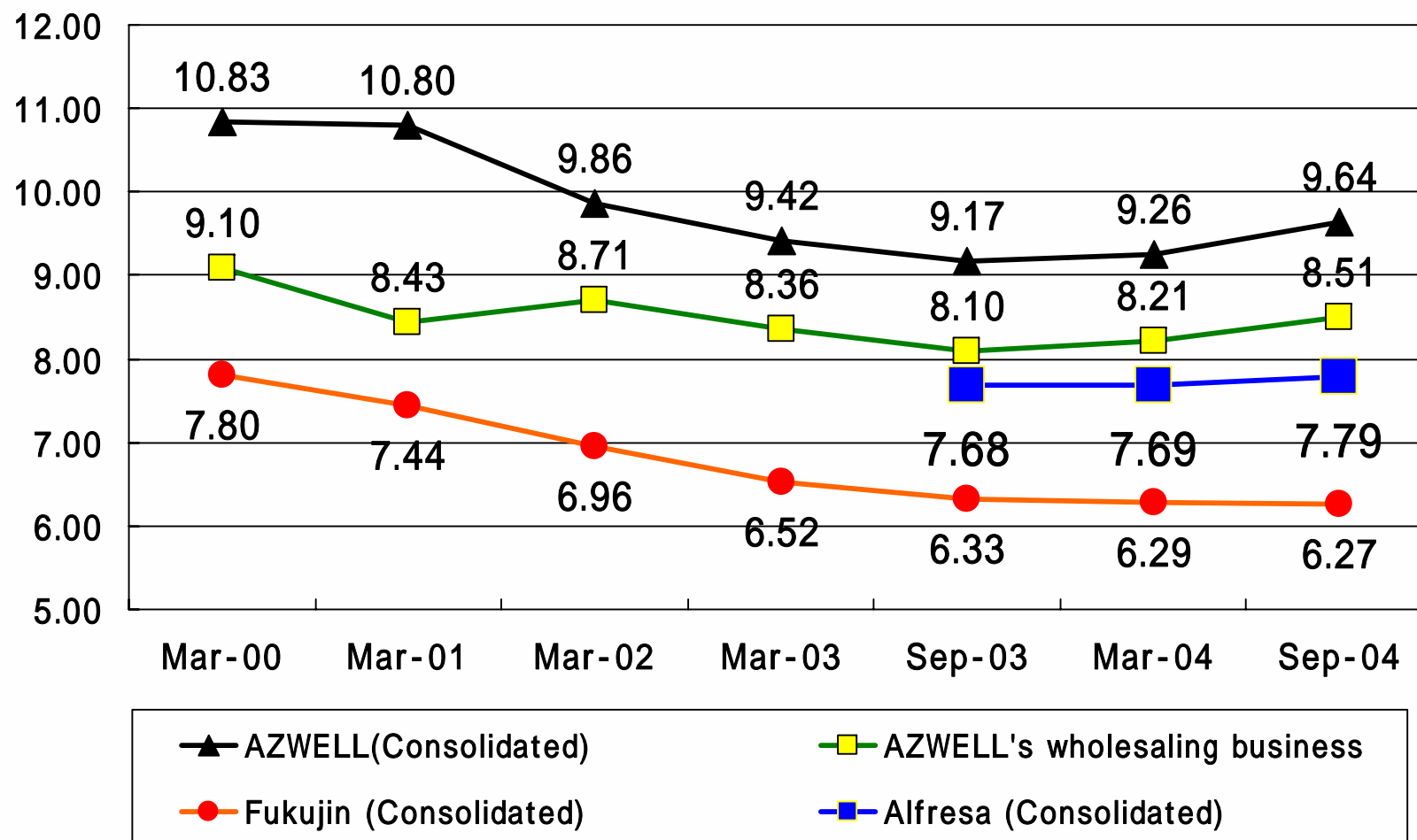
	September 2003	September 2004
Beginning balance of cash and cash equivalents	54,950	57,900
Cash flows from operating activities	(7,676)	(3,887)
Cash flows from investing activities	(1,324)	(3,246)
Cash flows from financing activities	(374)	(1,049)
Translation gains on cash and cash equivalents	0	2
Increase (decrease) in cash and cash equivalents	(9,375)	(8,180)
Ending balance of cash and cash equivalents	45,574	50,641

Gross Profit Margin

	Alfresa			AZWELL			Fukujin		
	Sep-03	Mar-04	Sep-04	Sep-03	Mar-04	Sep-04	Sep-03	Mar-04	Sep-04
Gross Profit Margin (wholesaling)	8.13	8.26	7.86	8.53	8.64	7.94	7.78	7.90	7.73
Gross Profit Margin (manufacturing)	37.44	37.24	38.04	37.44	37.24	38.04	-	-	-
Gross Profit Margin	8.75	8.85	8.42	9.78	9.88	9.25	7.78	7.90	7.73

Alfresa's figures for September 2003 are based on the sum of results for AZWELLI and Fukujin (excluding DAIWA and Odashima)

SG&A Expenses Ratio



Breakdown of SG&A Expenses

(in millions of Yen)

	Alfresa	of Sales (%)	AZWELL	of Sales (%)	Fukujiin	of Sales (%)
SG&A	44,256	7.79	23,962	9.64	20,221	6.27

(Personnel cost)	25,549	4.50	12,014	4.83	13,325	4.13
(Selling cost)	1,110	0.20	558	0.22	450	0.14
(Transportation cost)	5,917	1.04	4,518	1.82	1,398	0.43
(Rent)	2,844	0.50	1,242	0.50	1,559	0.48
(Depreciation)	1,300	0.23	804	0.32	494	0.15
(Research and development cost)	667	0.12	667	0.27	-	-

Achievements in the First Half (AZWELL)

(in millions of Yen)

	Wholesaling business		Manufacturing business		Consolidation adjustment and others		Total	
Net Sales	239,812	-	10,322	-	(1,557)	-	248,577	-
Gross Profit	19,043	7.94	3,926	38.04	27	-	22,997	9.25
SG&A	20,419	8.51	3,618	35.05	(76)	-	23,962	9.64
Operating Income	(1,375)	(0.57)	308	2.98	103	-	(964)	(0.39)

Wholesaling Business

■ Decrease in gross profit margin

- Drug prices were brought into line with lower prices due to joint purchasing by customers
- Intensifying competition between wholesalers

■ Increase in SG&A expenses

- Sep. 2003: JPY22,676 million (9.17%) Sep. 2004: JPY23,962 million (9.64%)
Increase of JPY1,286 million

Achievements in the First Half (AZWELL)

Manufacturing business

■ Pharmaceuticals, Diagnostic reagents and medical devices

- Sales increase of transferred products
Carvisken, Digoxin-Sandoz, Oraspor Dry Syrup, Ledercort, Incremin Syrup
Total sales in the first half: JPY588 million
- Growing sales to participating wholesalers of “SAFE” (8.2% year on year)
* continue to proactively utilize wholesale partners' sale channels

■ Product development

- Medical device for uterine cancer checkup, “Speculite”
(Targeting the launch by the end of March 2007)
- Narcolepsy medicine (generic name: modafinil) - now in phase clinical trials
(Aiming for application by March 2005)

Achievements in the First Half (Fukujin)

■ Strong Sales Growth

- Consolidated net sales of Fukujin: Up 16.4%
(Up 4.7% excluding DAIWA and Odashima)
 - New customer development and focus on new products
(Effects of full-line dealing with manufacturers)

■ Securing of gross profit margin

- Sep. 2003: 7.78% Mar. 2004: 7.90% Sep. 2004: **7.73%**

Business results of subsidiaries for the first half (in millions of Yen)

	Net sales	Ordinary Profit	Net income
Kowa	40,016	359	196
Ando	14,366	124	55
DAIWA	10,008	49	31
Odashima	22,267	114	135





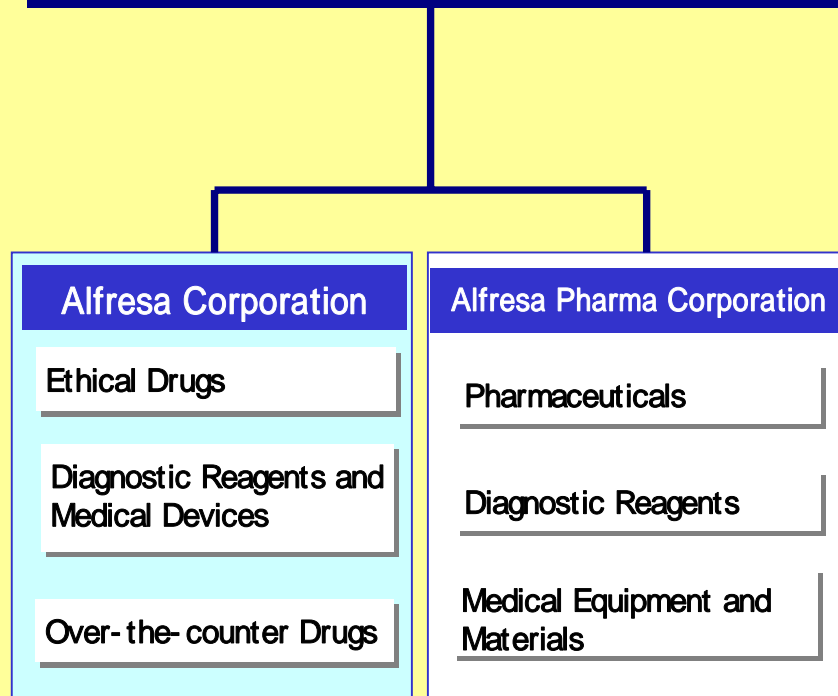
Efforts in the Second Half

Successful Business Integration

October 1, 2004

Reorganization by corporate separation

Alfresa Holdings Corporation



Realization of integration effects

- ◆ Realize economies of scale
- ◆ Promote further efficiency and rationalization of resources
- ◆ Reinforce financial position
- ◆ Create new corporate culture
- ◆ Effectively utilize human resources
- ◆ Select and concentrate businesses

Strengthening of Sales Forces

Struggling for the top share in the Tokyo, Tokai and Kinki areas

- **Market share of ethical drugs for September 2004**

(Estimate by the company, based on the sum of AZWELL, Fukujin and Taishodo)

- **The Tokyo metropolitan area: 29.1% - No.1**

- **The Tokai region: 20.9% - No.2**

- **The Kinki region: 21.5% - No.2**

1. Utilize advantage of full-line dealing with manufacturers

2. Win new customers and focus on new products

3. Strengthen sales channel of prescription pharmacies

- Further efforts in the Tokai and Kinki regions where the separation ratio of drug dispensing from medical practice is expected to rise sharply

(Separation ratio: **Tokai 46.3%, Kinki 39.2%, Tokyo area 64.2%**)

(Source: Estimate of drug prescription situation for March 2004, Japan Pharmaceutical Association)

Securing of Gross Profit Margin

**Striving to realize effects of the integration
under the new business structure from October!**

Securing of gross profit margin

- 1 . Maintain the current sales prices
- 2 . Secure rebates and allowances
- 3 . Focus on sales of profitable products
- 4 . Strengthen marketing of Alfresa Pharma's products
- 5 . Improve rebate/allowance ratio of group companies
 - Joint procurement, joint sales promotion

Promotion of Low-cost Management

“Low-cost operation promotion committee” (Alfresa Corp.)

Launched on October 12, 2004

Mission

Chairman: President of Alfresa Corporation, Kunio Fukujin

To create a company that gain high ratings from stakeholders and realize a rewarding business environment for employees through establishment of a solid business foundation

Process

Radical improvement program including functional, systemic aspects

Goal Alfresa Corporation (Non-consolidated)

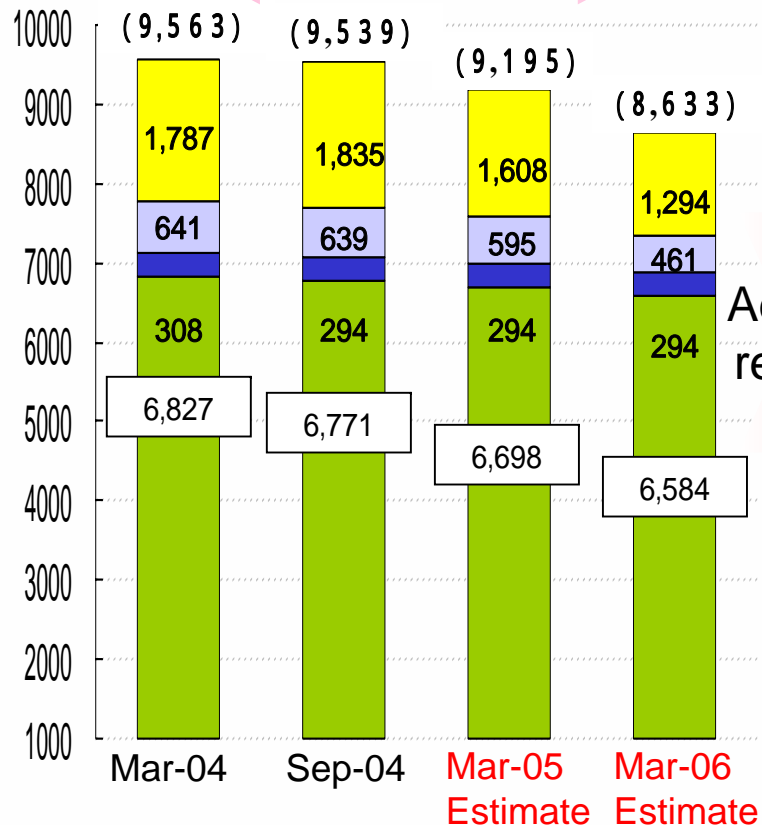
“cost improvement project”
improve SG&A expenses ratio from 7.56% to 6% level

“Personnel optimization project”
realize appropriate personnel level: 6,600 employees

Personnel Optimization Project

Personnel plan announced on May 19

Reduction of 930 employees over two years



Alfresa Holdings Corporation

■ Implementation of early retirement

- **300** full-time employees between the age of 40 and 58
- Retirement date: January 31, 2005
- Extraordinary loss: JPY4.1 billion
- (Effect of early retirement: JPY2.5 billion/year)

■ Review of personnel composition to reduce

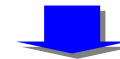
• Initial plan

257 full-time employees, 180 contract workers and 493 part-timers

Estimated cost savings:

JPY0.6 billion for the current term

JPY1.3 billion for the next term



JPY3 billion for the next term

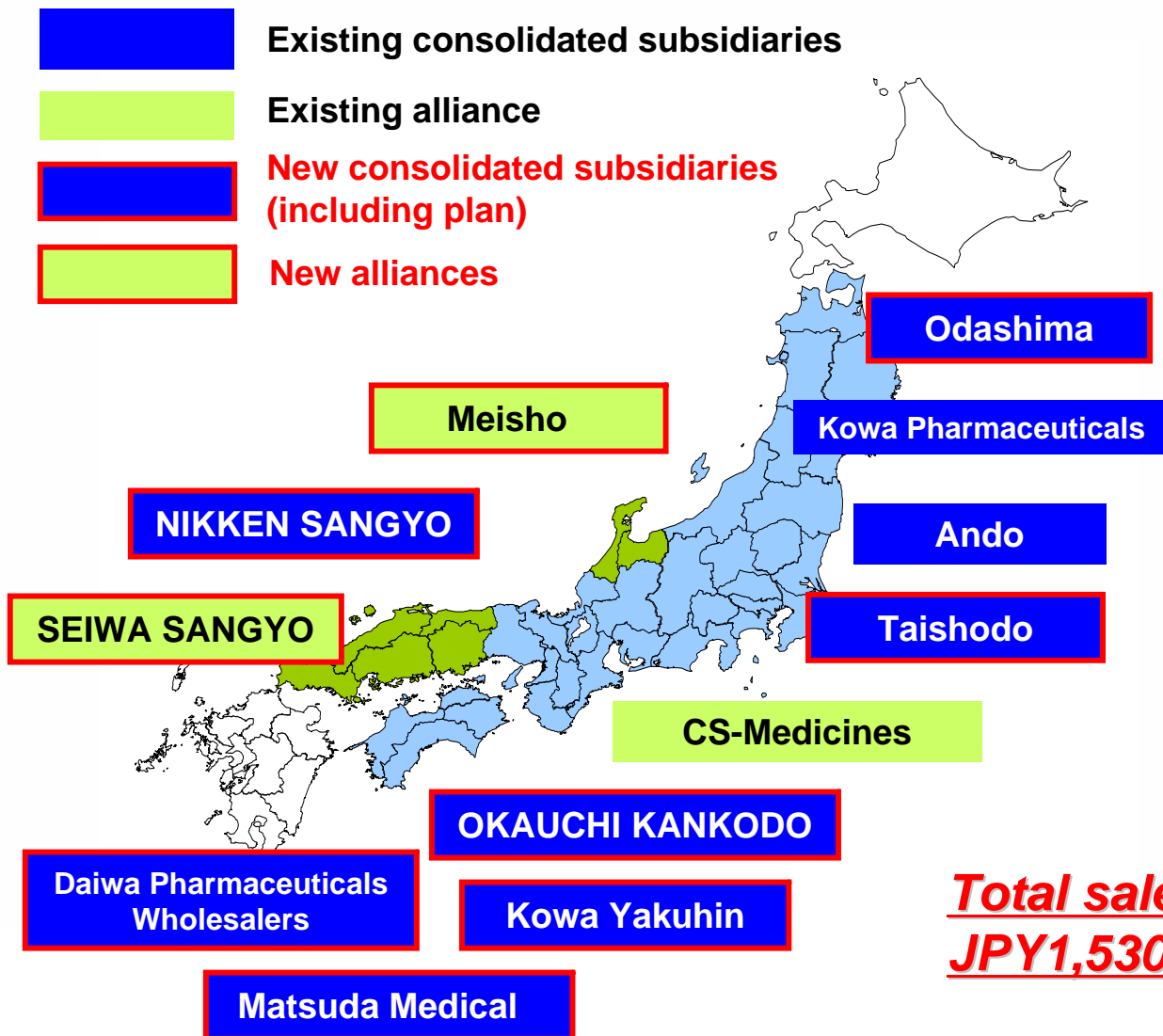
Reduction with a focus on full-time employees!



Strategies and Outlook

Expansion of the Alfresa Group

(after the establishment of Alfresa Holdings Corporation)

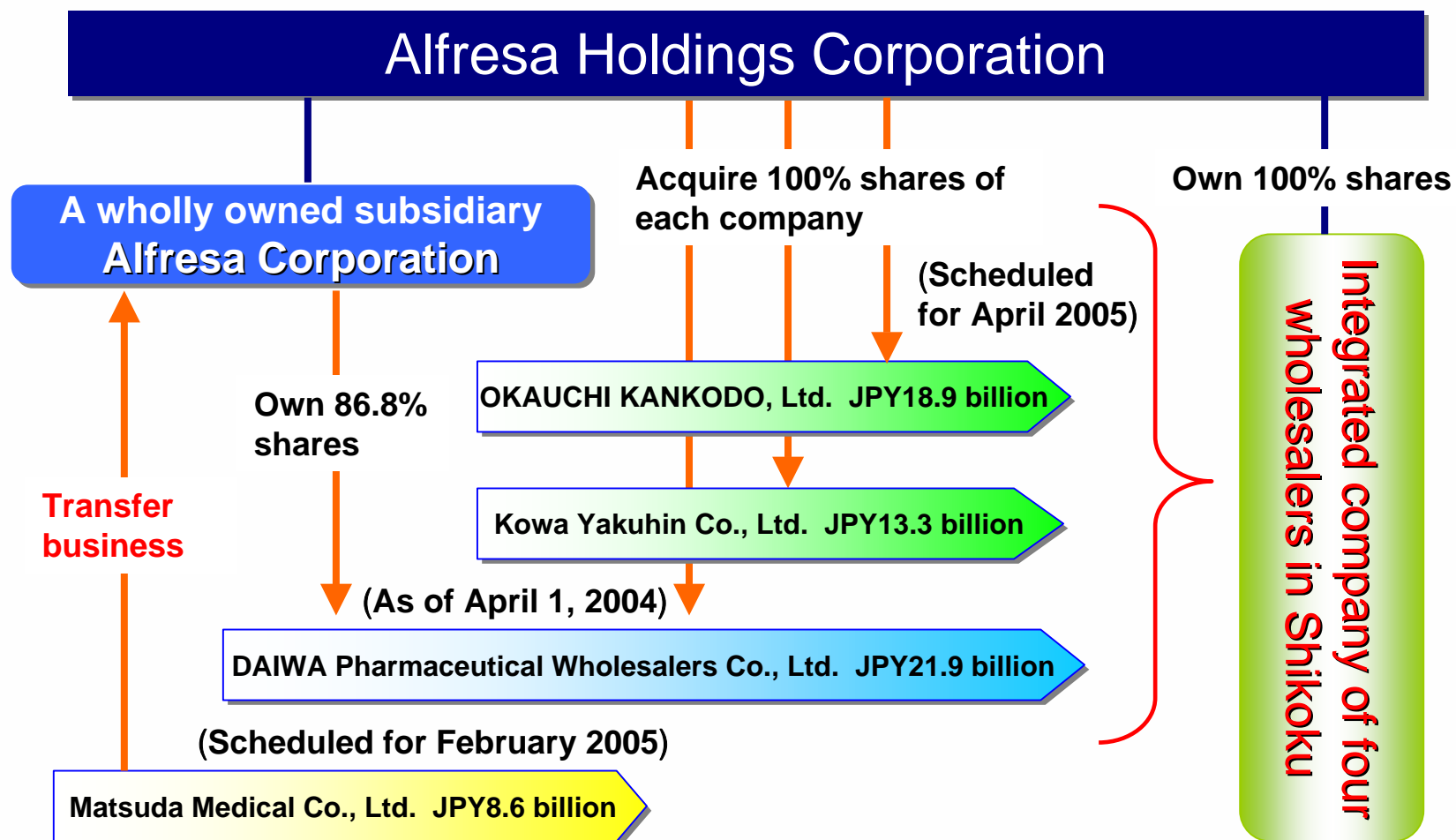


Steady progress of group formation toward the sales target of JPY2 trillion for the year ending March 2008!

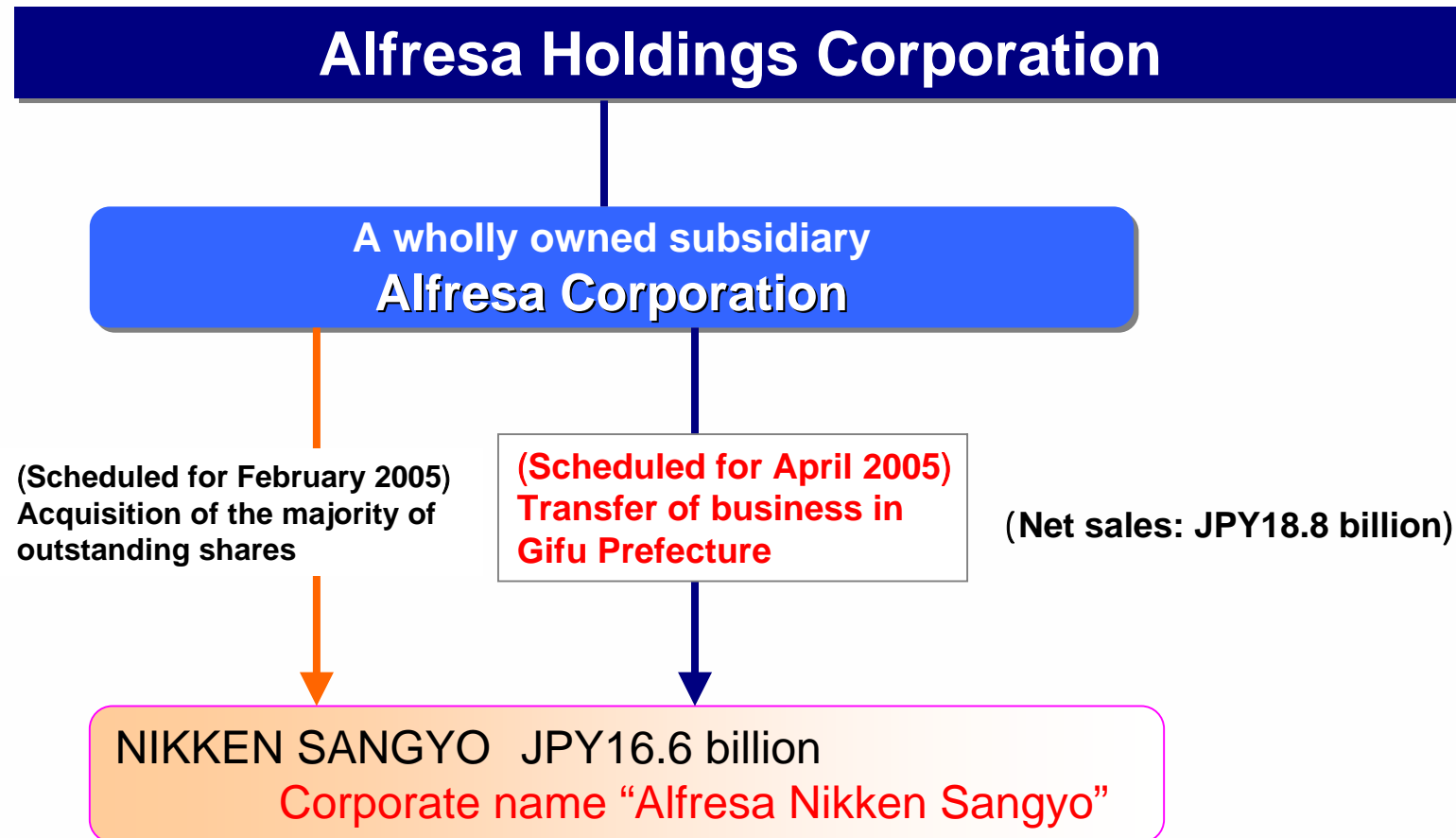
Total sales (including alliances):
JPY1,530 billion

Conclusion of Basic Agreement on Management Integration with Four Wholesalers in Shikoku

(Announced on Nov. 11, 2004)

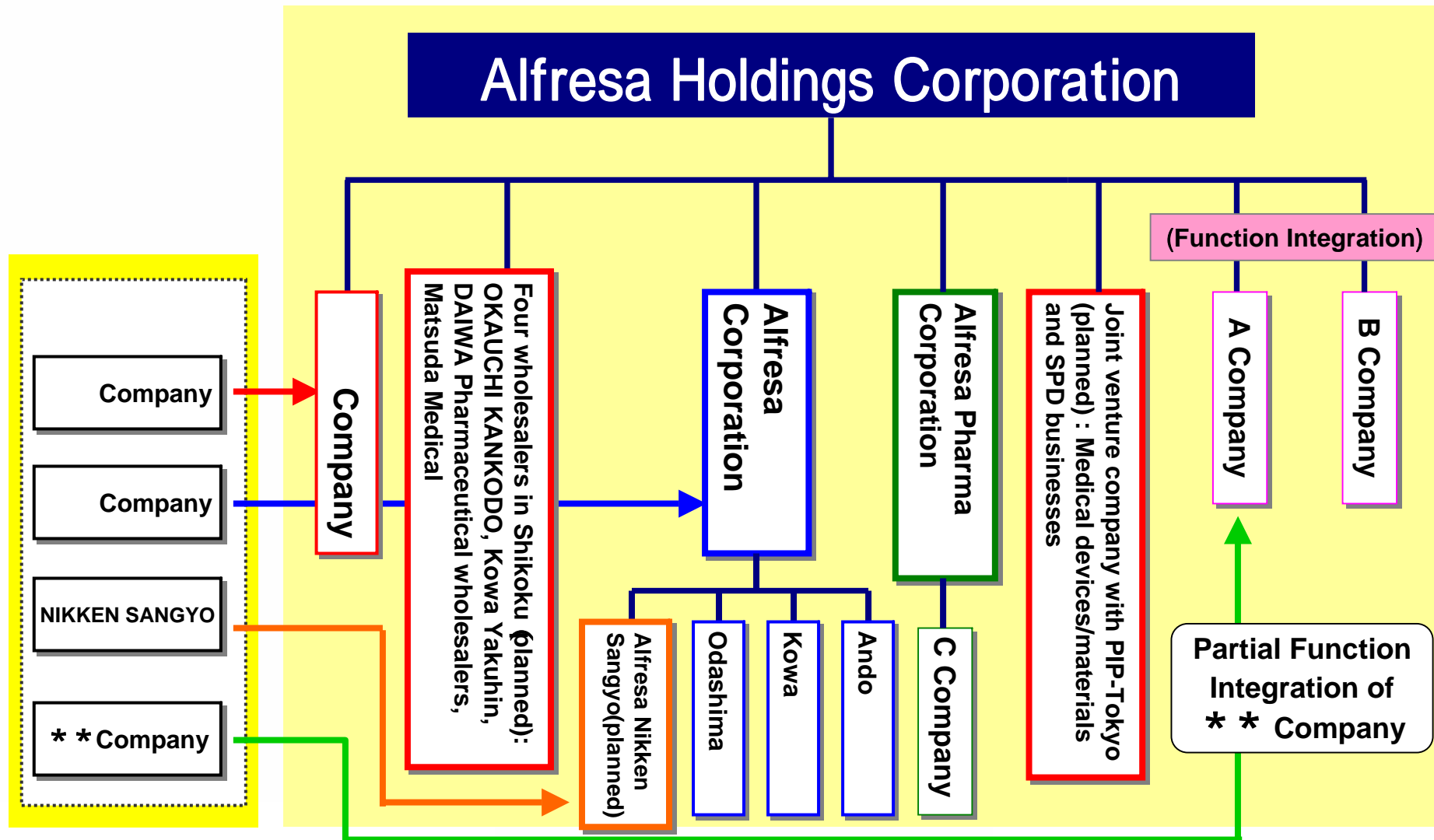


Conclusion of Basic Agreement with NIKKEN SANGYO CO., LTD.
(Announced on November 11, 2004)



Diverse Choices to Join the Group

(Future image chart)



Progress in Integration of Information Systems

Past events

1999	AZWELL and Fukujin studied ERP independently.
Nov. 2000	AZWELL and Fukujin started collaborative study on ERP.
Nov. 2003	AZWELL introduced SAP “R3” first. (Introduction cost: about JPY6.8 billion)
May 2004	Postponed system integration following business integration in October for customization and smoother transition to the new systems. (Costs for two separate systems: JPY1.1 billion)

Current situation and future plan

Oct. 2004	Temporary system is working smoothly after the business integration.
Feb. 2005	Complete examination of the new systems as infrastructure for a company with JPY2 trillion in sales.
Mar. 2005	Start development following decision of the vendor.
2006 - 07	integrate information systems.

Financial Forecast for the Fiscal Year Ending March 2005

(in millions of Yen)

	Full term forecast	YoY change	YoY (%)	of Sales (%)
Net Sales	1,173,000	106,423	110.0	100.0
Gross Profit	97,400	2,965	103.1	8.30
SG&A	92,800	10,799	113.1	7.91
Operating Income	4,600	(7,833)	37.1	0.39
Ordinary Profit	8,600	(6,697)	56.3	0.73
Net Income	1,700	(4,789)	26.2	0.14

News Releases in November 2004

5 th	<p>Development of reagent for measurement of “Bradeion” and partnership for the commercialization</p> <ul style="list-style-type: none"> Started development of reagent for measurement of “Bradeion,” as markers for cancer, for early detection and treatment.
11 th	<p>Acquisition of treasury stock</p> <ul style="list-style-type: none"> Shares to be acquired: 720,000 shares (maximum) Acquisition price: JPY3,200 million (maximum)
11 th	<p>Encouragement of early retirement</p> <ul style="list-style-type: none"> Targeted at 300 full-time employees between the age of 40 and 58 Estimated extraordinary loss: JPY4.1 billion / Annual cost saving: JPY2.5 billion
11 th	<p>Conclusion of basic agreement on management integration with four wholesalers in Shikoku</p> <ul style="list-style-type: none"> OKAUCHI KANKODO Ltd. (Kagawa pref.), Kowa Yakuhin Co., Ltd. (Tokushima pref.), DAIWA Pharmaceutical Wholesalers Co. Ltd. (Ehime pref.) and Matsuda Medical Co., Ltd. (Kochi pref.) will integrate their operations in Shikoku. Total sales for March 2004: JPY62,845 million
11 th	<p>Conclusion of basic agreement with NIKKEN SANGYO CO., LTD.</p> <ul style="list-style-type: none"> Plan to acquire the majority of outstanding shares and transfer business to NIKKEN SANGYO (to be renamed Alfresa Nikken Sangyo).

Information

We will announce the new middle-term management plan next spring!



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