

## Consolidated Financial Statements for the Year Ended March 31, 2008

Corporate Name: Alfresa Holdings Corporation

Code: 2784, 1st sections of Tokyo Stock Exchange and Osaka Securities Exchange

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

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Scheduled date for General Meeting of Shareholders: June 25, 2008

Scheduled dividend payment start date: June 10, 2008

Scheduled date for filing Securities Report: June 25, 2008

Note: Rounded down to the nearest million yen

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

(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, 2008	1,769,454	11.3	25,354	15.3	31,970	15.9	16,177	35.5
Year ended March 31, 2007	1,589,842	12.6	21,987	48.1	27,580	42.1	11,941	68.8

	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, 2008	396.49	–	9.6	4.0	1.4
Year ended March 31, 2007	301.93	–	7.9	3.7	1.4

Reference: Profit or loss on equity method investments Year ended March 31, 2008 ¥ – million Year ended March 31, 2007 ¥ – 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, 2008	848,259	186,136	21.3	4,324.57
Year ended March 31, 2007	770,207	161,391	20.5	3,959.80

Reference: Shareholders' equity: Year ended March 31, 2008 ¥180,615 million Year ended March 31, 2007 ¥157,738 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, 2008	(8,246)	(5,592)	(2,741)	80,195
Year ended March 31, 2007	39,993	(11,422)	(1,991)	96,769

### 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, 2007	37.00	40.00	77.00	3,069	25.5	2.0
Year ended March 31, 2008	41.00	42.00	83.00	3,407	20.9	2.0
Year ending March 31, 2009 (Forecast)	45.00	45.00	90.00	–	20.9	–

### 3. Consolidated performance forecast for the year ending March 31, 2009 (April 1, 2008 - March 31, 2009)

(Percentages indicate changes from previous fiscal year for the full year and from previous six months for the six months ending September 30, 2008)

	Net sales		Operating income		Ordinary profit		Net income		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2008	946,000	16.6	11,500	6.5	14,700	6.9	7,100	1.4	170.00
Year ending March 31, 2009	1,925,000	8.8	29,200	15.2	35,600	11.4	18,100	11.9	433.38

### 4. Others

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

New: 1 (Company name: CS YAKUHIN CO., LTD.) Excluded: –

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 reasons other than i.: No

(3) Outstanding shares (common shares):

	Year ended March 31, 2008	Year ended March 31, 2007
i. Shares outstanding at year-end (including treasury stock)	42,326,223 shares	40,275,353 shares
ii. Treasury stock at year-end	561,155 shares	440,349 shares

### Reference: Summary of non-consolidated performance

Non-consolidated performance for the year ended March 31, 2008 (April 1, 2007 - March 31, 2008)

(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, 2008	10,883	132.4	9,627	135.9	9,645	136.8	9,564	156.9
Year ended March 31, 2007	8,222	103.3	7,086	124.8	7,052	125.2	6,095	94.4

	Earnings per share	Diluted earnings per share
	Yen	Yen
Year ended March 31, 2008	233.06	–
Year ended March 31, 2007	153.57	–

(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, 2008	160,628	156,409	97.4	3,718.84
Year ended March 31, 2007	136,286	133,755	98.1	3,342.48

Reference: Shareholders' equity: Year ended March 31, 2008 ¥156,409 million Year ended March 31, 2007 ¥133,755 million

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

The above-mentioned forecasts are based on currently available information, and thus include many uncertain factors. Actual performance and other factors may differ from these forecasts depending on changes in the business conditions.

## **1. Business Results**

### **(1) Analysis of business results**

#### **Business results for the year ended March 31, 2008**

Japan's economy during this consolidated fiscal year was firm in the first half but entered a lull characterized by uncertain future economic conditions in the second half as a result of the high crude oil prices and raw materials, and the substantial slowdown in the U.S. economy.

With respect to the ethical pharmaceutical market, the market grew 3%-plus during this fiscal year due to the expansion of markets for medications for lifestyle-related diseases and the launch of highly marketable new products.

In this environment, the Alfresa Group actively pursued the strategy of "Expansion of the wholesaling business of pharmaceuticals, etc. and pursuit of group synergy effects," "Solidifying the business base of the manufacturing of pharmaceuticals, etc.," "Realization of Healthcare Consortium," and "Enhancement of the group management base and strengthening of the administration system" as the first year of the three-year medium-term management plan "07-09 Medium-term Management Plan — Advancement and Expansion." Following the stock exchange that made CS YAKUHIN CO., LTD. (head office: Nagoya-shi, Aichi Prefecture) and RYUYAKU CO., LTD. (head office: Urasoe-shi, Okinawa Prefecture) wholly owned subsidiaries as of October 1, 2007, the Company established Alfresa System Corporation (head office: Chiyoda-ku, Tokyo) jointly with Hitachi, Ltd. on October 25, 2007 as a subsidiary that provides information system services to the Group. These three new companies have been included in the scope of consolidation from the third quarter of the fiscal year under review.

Also, in preparing for the establishment of the wholesaling business for self-medication products, the Company concluded an agreement regarding the establishment of a structure for the self-medication business with CS YAKUHIN CO., LTD. and TAMPEI NAKATA CO., LTD. (head office: Chuo-ku, Osaka) in November 2007. Following this move, the Company and TAMPEI NAKATA CO., LTD. concluded a basic agreement on a capital and business alliance to further strengthen ties with an eye to future management integration. Furthermore, we established the Self-Medication Business Promotion Office under the Strategic Business Development Department on March 1, 2008, and are strengthening the structure for the establishment of the self-medication business.

As a result of these efforts, in the fiscal year ended March 31, 2008, the Group posted consolidated net sales of ¥1,769,454 million (up 11.3% from the previous year), operating income of ¥25,354 million (up 15.3%), ordinary profit of ¥31,970 million (up 15.9%), and net income of ¥16,177 million (up 35.5%).

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

In the Wholesaling Business, CS YAKUHIN CO., LTD. and RYUYAKU CO., LTD. were added to the Group as consolidated subsidiaries on October 1, 2007, efforts to develop new accounts and deal new products were strengthened at existing consolidated subsidiaries, and energies were focused on dispensing pharmacy sales channels through the effective utilization of professional delivery staff. As a result of these efforts, net sales continued to exceed market growth. Also, Alfresa Corporation (head office: Chiyoda-ku, Tokyo) opened the Kyushu Sales Division in January 2008 as a means of handling the joint purchase of hospitals on a nationwide scale.

On the profit front, although the Company endeavored to realize sales with emphasis on securing appropriate gross profit, the gross profit margin dropped 0.1% from the previous year. Meanwhile, our efforts to continuously reduce cost and improve sales productivity resulted in a further decrease of 0.2% in the SG&A (selling, general and administrative) expenses ratio from the previous year.

On the logistics front, Alfresa Corporation started operation of the Meguro Pharmaceutical Center (Meguro-ku, Tokyo) in May 2007 and the Kanagawa Distribution Center (Odawara-shi, Kanagawa Prefecture) in December

2007 as a new distribution base in Kanagawa Prefecture and Shizuoka Prefecture, etc. Meanwhile, Shikoku Alfresa Corporation (head office: Takamatsu-shi, Kagawa Prefecture) commenced construction of a new distribution center (Takamatsu-shi, Kagawa Prefecture) in the Shikoku area which is scheduled to start operation in July 2008. In addition, SEIWA SANGYO CO., LTD. (head office: Hiroshima-shi, Hiroshima Prefecture) commenced construction of a new distribution center (Onomichi-shi, Hiroshima Prefecture) in the Chugoku area which is due to start operation in May 2009.

As a result of these efforts, net sales for the wholesaling business amounted to ¥1,752,571 million (up 11.5% from the previous year) and operating income came to ¥24,493 million (up 20.3%). Net sales included inter-segment sales of ¥3 million.

In the manufacturing business, sales increased for the narcolepsy treatment, Modiodal, launched in March 2007, among pharmaceuticals and for Monodiox, an absorbable monofilament surgical suture, among medical devices. However, owing to the decrease in sales of Capilia Flu A+B for detecting influenza virus antigens A and B, earnings contracted slightly. Also, due to the increase in research and development costs related to Modiodal, for which efforts are being made to expand its indications, and other factors, operating income, too, declined from the previous year.

As a result, net sales amounted to ¥24,702 million (down 0.5% from the previous year) and operating income came to ¥630 million yen (down 14.7%). Net sales included inter-segment sales of ¥7,816 million.

The achievement in the first year of the target management benchmarks for the final year of the three-year (from April 2007 to March 2010) medium-term management plan “07-09 Medium-term Management Plan — Advancement and Expansion” is as follows.

	ROE (return on equity)	ROA (return on assets)	Equity ratio
Target for year ending March 31, 2010 (final year of medium-term management plan)	9% or more	2% or more	23% or more
Result for year ended March 31, 2008 (first year of medium-term management plan)	9.6%	2.0%	21.3%

#### Forecast for the year ending March 31, 2009

(Millions of yen)

	Net sales	Operating income	Ordinary profit	Net Income	Earnings per share (Yen)
Year ending March 31, 2009	1,925,000	29,200	35,600	18,100	433.38
Year ended March 31, 2008	1,769,454	25,354	31,970	16,177	396.49
Rate of change (%)	8.8	15.2	11.4	11.9	—

We anticipate the ethical pharmaceutical market to continue growing at a moderate pace in the year ending March 31, 2009 due to the continued aging of the population and the launch of new pharmaceutical products, among other things, in spite of a downward revision of the NHI drug prices by an average of 5.2% which took effect on April 1, 2008.

In this environment, we will pursue business operations more actively in the year ending March 31, 2009, the second year of the three-year medium-term management plan “07-09 Medium-term Management Plan — Advancement and Expansion.”

In the wholesaling business, prompted by the urgent proposal made at last year’s meeting on the improvement of distribution of pharmaceuticals, we are working to “implement economically rational price negotiations,”

“reform package discount,” and “reform the practice of deliveries prior to price agreements” as key issues. We expect net sales of ¥1,907 billion (up 8.8% from the fiscal year under review) and operating income of ¥28.1 billion (up 14.7%) in the year ending March 31, 2009 as a result of our efforts to improve value-added services to customers, further enhance the efficiency of distribution, and promote low-cost management.

In the manufacturing business, we will launch Nobelzin for the treatment of Wilson’s disease, promote the sale of POCT diagnostic reagent (rapid diagnostic reagent), as well as further pursue “enhancement of the product line,” “expansion of capabilities in contract manufacturing through enhancement of production facilities,” and “expansion of indications for Modiodal, a narcolepsy treatment.” As a result of these efforts, we anticipate net sales of ¥26 billion (up 5.3% from the fiscal year under review) and operating income of ¥650 million (up 3.2%) in the year ending March 31, 2009.

Based on these forecasts, our outlook for consolidated results in the year ending March 31, 2009 calls for net sales of ¥1,925 billion (up 8.8% from the fiscal year under review), operating income of ¥29.2 billion (up 15.2%), ordinary profit of ¥35.6 billion (up 11.4%), and net income of ¥18.1 billion (up 11.9%).

## **(2) Analysis of financial position**

### **Analysis of assets, liabilities, and net assets for the fiscal year ended March 31, 2008**

At the end of the consolidated fiscal year under review, total assets expanded by ¥78,052 million, or 10.1%, from the end of the previous consolidated fiscal year to ¥848,259 million due to the addition of CS YAKUHIN CO., LTD. and RYUYAKU CO., LTD. as wholly owned subsidiaries through a stock exchange on October 1, 2007 and an increase in net sales and net income, etc. Liabilities, on the other hand, increased ¥53,307 million, or 8.8%, to ¥662,123 million, while net assets grew ¥24,744 million, or 15.3%, to ¥186,136 million, and the shareholders' equity ratio rose to 21.3%.

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

Current assets rose ¥68,103 million, or up 10.7%, from the previous year to ¥702,211 million. This was mainly attributable to a ¥66,187 million increase in trade notes and accounts receivable and a ¥12,471 million rise in inventories.

Fixed assets expanded by ¥9,948 million, or 7.3%, to ¥146,048 million primarily due to a ¥4,191 million rise in tangible fixed assets, a ¥3,324 million expansion in goodwill, and a ¥2,661 million increase in deferred tax assets.

Current liabilities rose ¥50,881 million, or 8.8%, to ¥631,530 million. This was attributable to a ¥56,239 million increase in trade notes and accounts payable.

Non-current liabilities widened ¥2,426 million, or 8.6%, to ¥30,593 million.

As for principal changes in net assets, paid-in capital increased ¥210 million, capital surplus expanded ¥16,119 million, and retained earnings rose ¥12,953 million while unrealized gain on securities decreased ¥5,595 million.

### **Analysis of cash flows for the fiscal year ended March 31, 2008**

As of the end of the consolidated fiscal year under review, cash and cash equivalents (hereinafter "Net Cash") came to ¥80,195 million, down ¥16,574 million compared with the previous year, as a result of a ¥8,246 million decrease in Net Cash from operating activities, a ¥5,592 million contraction in Net Cash from investing activities, and a ¥2,741 million decline in Net Cash from financing activities.

#### Cash flows from operating activities

Net Cash used in operating activities was ¥8,246 million (¥39,993 million was provided in the previous year). Although income before income taxes amounted to ¥30,998 million, income taxes of ¥18,283 million were paid, trade notes and accounts receivable increased ¥12,535 million and trade notes and accounts payable decreased ¥7,948 million.

#### Cash flows from investing activities

Net Cash used in investing activities was ¥5,592 million (¥11,422 million was used in the previous year). This amount was mainly used for payments of ¥4,692 million for the purchase of tangible fixed assets, including land and buildings for distribution centers, and payments of ¥4,430 million for the purchase of investment securities.

#### Cash flows from financing activities

Net Cash used in financing activities was ¥2,741 million (¥1,991 million was used in the previous year). This amount was mainly used for payments of ¥3,224 million in cash dividends.

### Cash flow indicator trends

	Year ended March 31, 2006	Year ended March 31, 2007	Year ended March 31, 2008
Equity ratio (%)	19.1	20.5	21.3
Ratio of market capitalization to total assets (%)	38.8	38.8	38.6
Debt repayment period (years)	0.1	0.0	–
Interest coverage ratio (%)	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 indicate the amount of interest paid appearing on the consolidated statements of cash flows.
  9. The debt repayment period and interest coverage ratio are not shown if they are negative.

### (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 comprehensively taking into consideration matters, such as the stability of the management foundation and future business operations. In doing so, the Company targets an annual dividend on equity ratio of 2% or more.

In June 2006, in line with the Corporation Law which went into effect the year before last, the Articles of Incorporation were revised after receiving approval at 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 ¥42 per share, which combined with the interim cash dividend of ¥41 per share, is a full-term cash dividend of ¥83 per share.

For the next term, the Company plans to follow the same policy and aims to provide an interim cash dividend of ¥45 and a term-end cash dividend of ¥45.

### (4) Business risks

Matters that may materially affect investors' judgment are as follows. Matters concerning the future mentioned herein were determined by the Group as of the end of the consolidated fiscal year under review.

#### (1) Business Environment

Japan's ethical pharmaceuticals market, where the Group mainly conducts business, is significantly influenced by Japan's National Health Insurance system and medical policies. As such, the Group's results may be directly affected by official actions, such as NHI drug price revisions. Furthermore, in the event that drastic reforms are made to Japan's medical system, there could be a material effect on the Group's results. Presently, Japan's national medical expenditures are following an upward trend due to an aging population and rising incidences of lifestyle-related diseases. However, because of declining funding sources for payments made by the medical insurance system, medical system reforms are being implemented with a view to reducing expenditures. These reforms include the introduction of comprehensive payments of medical service fees, as well as reviews of co-payment percentages and the NHI drug price scheme. Furthermore, the separation of drug dispensing from medical practice has been changing the mix of customers to whom the

Group sells products, replacing clinics and hospitals with a rising percentage of dispensing pharmacies. Moreover, there are concerns about a decline in selling prices following the transformation of national hospitals into independent administrative institutions and changing purchase methods used by medical institutions. These trends may affect the Group's results. The Group will be responding to these trends by molding its chain of operations, ranging from procurement to the collection of trade receivables, into a form that better suits present circumstances.

#### (2) NHI Drug Price Revisions

Prices of ethical pharmaceuticals, the Group's core products, are set by notification of the Minister of Health, Labour and Welfare. These official prices set by the Japanese government thus represent "NHI drug prices." Functioning effectively as an upper limit on selling prices, these drug prices are revised downward roughly once every two years to reflect actual prices determined in the marketplace and trends in demand. As such, NHI drug price revisions may have an effect on the Group's results.

#### (3) Changes in Laws and Other Regulations

The Group's main business is the wholesale, and manufacture and marketing 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 relevant designations as well as various other approvals and permits concerning the development, manufacturing and import of ethical pharmaceuticals. The Group's results may be affected depending on the situation of permits granted by the competent authorities.

#### (4) Risks relating to Manufacturing Business

In the manufacturing business, the Group undertakes the development, manufacture and sale of pharmaceuticals, etc. Regarding product development, it is not always the case that all products can be put on sale. In some cases, the Group may have no choice but to give up development before completion and may not be able to introduce products from other companies also. Furthermore, although we make sure that all processes from the development to manufacture of products are safe and reliable, products may be recalled or sale may be suspended due to unforeseen side effects of products or the contamination of product contents. Also, there is the risk that lawsuits will be filed as a result of this. In such cases, the Group's results may be affected by these risks.

#### (5) System Trouble

The Group's business activities heavily rely on computer network systems. The suspension of system functions due to disasters and accidents will significantly hinder business activities centered on marketing and distribution. This may have an effect on the Group's results.

#### (6) Overseas Transactions

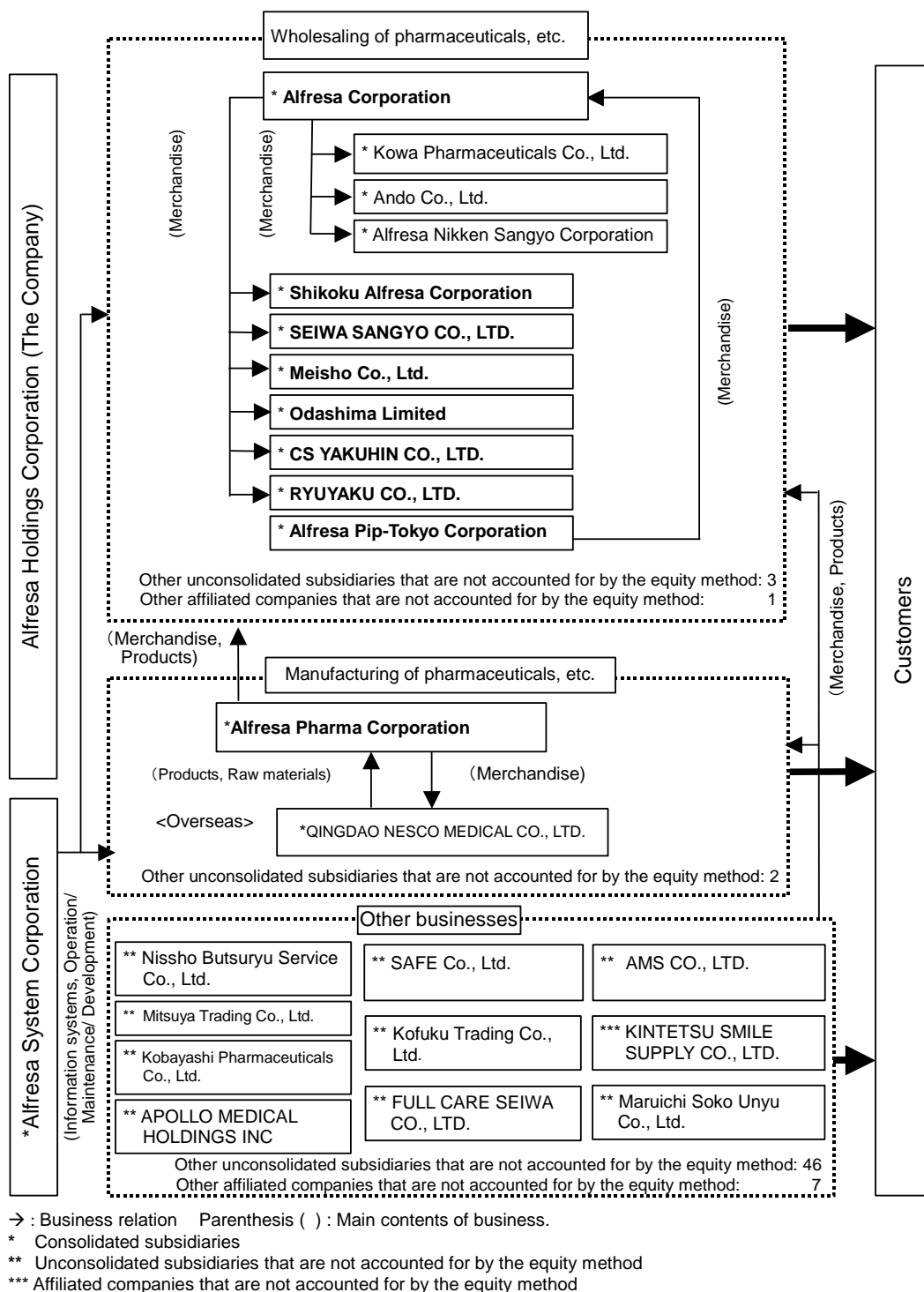
Part of the production network of the Group's manufacturing business is in China, and export- and import-based product transactions can be affected by political tensions and sharp exchange rate fluctuations. These factors may have an impact on the Group's results.

## 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:



Notes: 1. CS YAKUHIN CO., LTD. and RYUYAKU CO., LTD. became wholly owned subsidiaries of the Company through a stock exchange on October 1, 2007.

2. Alfresa System Corporation became a subsidiary of the Company through new establishment on October 25, 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: 3
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: 1
CS YAKUHI CO., LTD. *	Naka-ku, Nagoya	890	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the Company relating to management services. Interlocking directors: 2
RYUYAKU CO., LTD.	Urasoe, Okinawa Prefecture	44	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the Company relating to management services. Interlocking directors: 1
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.	85.1	It has concluded a basic contract with the Company relating to management services. Interlocking directors: None
Alfresa System Corporation	Otemachi, Chiyoda-ku	150	Management, maintenance and development of information system	51.0	It has concluded a basic contract with the Company relating to information system. Interlocking directors: 1
Kowa Pharmaceuticals Co., Ltd.	Koriyama, Fukushima Prefecture	104	Wholesaling of pharmaceuticals, etc.	51.0 (51.0)	It has concluded a basic contract with the Company relating to management services. Interlocking directors: 2
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: 1
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**

The three-year plan for the period from April 2007 to March 2010, “07-09 Medium-term Management Plan — Advancement and Expansion,” was formulated and announced on May 14, 2007. An overview of management policies based on the 07-09 Medium-term Management Plan is provided below.

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

The Group will undertake corporate activities based on the Group Philosophy, Group Mission, and 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 our 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 our people hold the Alfresa Dream in their mind

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

The following three benchmarks are of crucial 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% or more

2. ROA (return on assets): 2% or more

3. Equity ratio: 23% or more

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

In the ethical pharmaceutical market, although medical system reforms for curbing medical expenditures are anticipated, modest growth is expected over the medium- to long-term. Owing to the relaxation of regulations in the medical-related fields and changes in the needs of the market, opportunities will increase for us to realize 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 the wholesaling business of ethical pharmaceuticals

ii) Establishment of the wholesaling business of self-medication products

iii) Group development of the backbone information system (promotion of joint use of the backbone information system by Group companies)

iv) 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 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) Implementation of 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, 2007		As of March 31, 2008		Change
	Millions of Yen	Percentage (%)	Millions of Yen	Percentage (%)	Millions of Yen
<b>(Assets)</b>					
<b>I Current assets</b>					
1. Cash and deposits	101,106		73,299		(27,807)
2. Trade notes and accounts receivable	402,022		468,210		66,187
3. Securities	114		10,048		9,933
4. Inventories	82,234		94,705		12,471
5. Deferred tax assets	6,741		4,161		(2,579)
6. Purchase rebates receivable	40,972		50,821		9,848
7. Others	1,775		2,033		257
Allowance for doubtful accounts	(860)		(1,068)		(208)
Total current assets	634,107	82.3	702,211	82.8	68,103
<b>II Fixed assets</b>					
1. Tangible fixed assets					
(1) Buildings and structures	62,133		66,940		
Accumulated depreciation	37,424	24,709	40,271	26,668	1,959
(2) Machinery, equipment and vehicles	7,975		8,224		
Accumulated depreciation	6,452	1,522	6,818	1,405	(116)
(3) Tools and fixtures	8,412		8,864		
Accumulated depreciation	6,785	1,627	7,303	1,560	(66)
(4) Land		38,472		41,242	2,769
(5) Construction in progress		2,006		1,652	(353)
Total tangible fixed assets		68,337		72,529	4,191
2. Intangible fixed assets					
(1) Goodwill		4,002		7,326	3,324
(2) Others		3,718		1,775	(1,943)
Total intangible fixed assets		7,720		9,102	1,381
3. Investments and other assets					
(1) Investment in securities		37,531		33,929	(3,601)
(2) Long-term loans		1,867		4,103	2,235
(3) Deferred tax assets		3,751		6,413	2,661
(4) Others		21,954		25,467	3,513
Allowance for doubtful accounts		(5,063)		(5,497)	(433)
Total investments and other assets		60,040		64,416	4,375
Total fixed assets		136,099		146,048	9,948
Total assets		770,207		848,259	78,052

Item	As of March 31, 2007		As of March 31, 2008		Change
	Millions of Yen	Percentage (%)	Millions of Yen	Percentage (%)	Millions of Yen
<b>(Liabilities)</b>					
I Current liabilities					
1. Trade notes and accounts payable	553,864		610,103		56,239
2. Short-term debt	230		2,536		2,306
3. Income taxes payable	10,989		3,182		(7,806)
4. Deferred tax liabilities	–		11		11
5. Reserve for bonuses	5,633		6,143		510
6. Reserve for bonuses to directors and auditors	215		250		34
7. Allowance for sales rebates	97		78		(19)
8. Allowance for loss on sales returns	698		927		229
9. Allowance for loss on transfer of business	–		327		327
10. Others	8,920		7,969		(951)
Total current liabilities	580,648	75.4	631,530	74.5	50,881
II Non-current liabilities					
1. Long-term debt	294		900		605
2. Deferred tax liabilities	3,135		2,398		(737)
3. Deferred tax liabilities on land revaluation	852		852		–
4. Allowance for employees' retirement benefits	21,744		23,262		1,517
5. Allowance for loss on debt guarantee	373		331		(41)
6. Allowance for loss on transfer of business	451		–		(451)
7. Allowance for directors' retirement benefits	617		1,544		926
8. Others	697		1,304		607
Total non-current liabilities	28,167	3.6	30,593	3.6	2,426
Total liabilities	608,815	79.0	662,123	78.1	53,307
<b>(Net assets)</b>					
I Shareholders' equity					
1. Paid-in capital	4,020	0.5	4,230	0.5	210
2. Capital surplus	49,793	6.5	65,912	7.8	16,119
3. Retained earnings	99,049	12.9	112,002	13.2	12,953
4. Treasury stock, at cost	(1,336)	(0.2)	(2,159)	(0.3)	(822)
Total shareholders' equity	151,525	19.7	179,985	21.2	28,459
II Valuation and translation adjustments					
1. Unrealized gain on securities	11,885	1.5	6,289	0.7	(5,595)
2. Gain or loss on deferred hedge	0	0.0	1	0.0	1
3. Unrealized gain or loss on revaluation of land	(5,730)	(0.7)	(5,730)	(0.6)	–
4. Foreign currency translation adjustments	58	0.0	70	0.0	12
Total valuation and translation adjustments	6,213	0.8	630	0.1	(5,582)
III Minority interests	3,652	0.5	5,520	0.6	1,867
Total net assets	161,391	21.0	186,136	21.9	24,744
Total	770,207	100.0	848,259	100.0	78,052

## (2) Consolidated Income Statements

Item	Year ended March 31, 2007		Year ended March 31, 2008		Change		
	Millions of Yen		Percentage (%)	Millions of Yen		Percentage (%)	Millions of Yen
I Net sales		1,589,842	100.0		1,769,454	100.0	179,611
II Cost of sales		1,455,195	91.5		1,622,210	91.7	167,015
Total deduction		134,647	8.5		147,243	8.3	12,596
Reversal of allowance for returned unsold goods		737	0.0		857	0.0	119
Allowance for returned unsold goods		698	0.0		927	0.0	229
Gross profit		134,687	8.5		147,174	8.3	12,486
III Selling, general and administrative expenses		112,699	7.1		121,819	6.9	9,120
Operating income		21,987	1.4		25,354	1.4	3,366
IV Non-operating income							
1. Interest income	180			277			
2. Dividend income	577			737			
3. Information fees received	3,439			3,990			
4. Others	1,623	5,821	0.3	1,823	6,828	0.4	1,006
V Non-operating expenses							
1. Interest expenses	40			52			
2. Commission fees	43			33			
3. Others	144	228	0.0	126	212	0.0	(16)
Ordinary profit		27,580	1.7		31,970	1.8	4,389

Item	Year ended March 31, 2007		Year ended March 31, 2008		Change		
	Millions of Yen	Percentage (%)	Millions of Yen	Percentage (%)	Millions of Yen		
VI Extraordinary income							
1. Gain on sale of fixed assets	374		557				
2. Gain on sale of investment securities	8		199				
3. Reversal of allowance for losses on debt guarantee	152		41				
4. Gain on transfer of business	--		175				
5. Return on welfare mutual aid premiums	-		104				
6. Gain on sale of investments in affiliates	44		-				
7. Subsidies of land plot readjustment programs	20		-				
8. Income for portion of joint development	514	1,115	0.1	-	1,077	0.1	(37)
VII Extraordinary loss							
1. Loss on sale of fixed assets	212		49				
2. Loss on disposal of fixed assets	281		484				
3. Loss on sale of investment securities	17		-				
4. Loss on devaluation of investment securities	89		80				
5. Loss on impairment of fixed assets	491		86				
6. Loss on changes in equity	-		903				
7. Transferred employees' additional retirement benefits	-		419				
8. Casualty loss	-		26				
9. Voluntary retirement benefits	1,100		-				
10. Loss on sale of shares of subsidiaries and affiliates	60		-				
11. Loss on devaluation of shares of subsidiaries and affiliates	59		-				
12. Loss on devaluation of investments in subsidiaries and affiliates	498		-				
13. Expenses for withdrawal from employee pension funds program	235		-				
14. Expenses for system transition	670		-				
15. Loss on transfer of operations	82	3,798	0.2	-	2,049	0.1	(1,748)
Income before income taxes		24,897	1.6		30,998	1.8	6,100
Corporate, residential and enterprise taxes	14,905			10,584			
Corporate tax adjustments	(2,804)	12,101	0.8	3,479	14,063	0.8	1,962
Minority interests in net income		854	0.0		757	0.1	(97)
Net income		11,941	0.8		16,177	0.9	4,235

**(3) Consolidated Statement of Changes in Shareholders' Equity**  
**Previous 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 (Note1)			(2,764)		(2,764)
Directors' bonuses (Note2)			(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 (Note1)							(2,764)
Directors' bonuses (Note2)							(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

## Current Consolidated Fiscal Year (April 1, 2007 - March 31, 2008)

(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, 2007	4,020	49,793	99,049	(1,336)	151,525
Changes during the fiscal year					
Dividends of surplus			(3,224)		(3,224)
Net income			16,177		16,177
Purchase of treasury stocks				(71)	(71)
Disposal of treasury stocks		2		4	6
Changes due to stock exchange	210	16,117		(755)	15,571
Changes during the fiscal year in items other than shareholders' equity (net)					
Total changes during the fiscal year (net)	210	16,119	12,953	(822)	28,459
Balance as of March 31, 2008	4,230	65,912	112,002	(2,159)	179,985

	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, 2007	11,885	0	(5,730)	58	6,213	3,652	161,391
Changes during the fiscal year							
Dividends of surplus							(3,224)
Net income							16,177
Purchase of treasury stocks							(71)
Disposal of treasury stocks							6
Changes due to stock exchange							15,571
Changes during the fiscal year in items other than shareholders' equity (net)	(5,595)	1		12	(5,582)	1,867	(3,714)
Total changes during the fiscal year (net)	(5,595)	1	—	12	(5,582)	1,867	24,744
Balance as of March 31, 2008	6,289	1	(5,730)	70	630	5,520	186,136

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

	Year ended March 31, 2007	Year ended March 31, 2008	Change
Item	Millions of Yen	Millions of Yen	Millions of Yen
I Cash flows from operating activities			
1. Income before income taxes	24,897	30,998	6,100
2. Depreciation	4,884	5,359	474
3. Loss on impairment of fixed assets	491	86	(404)
4. Increase (decrease) in allowance for doubtful accounts	659	(180)	(839)
5. Increase in reserve for bonuses to directors and auditors	215	34	(181)
6. Increase (decrease) in allowance for employees' retirement benefits	6	(124)	(130)
7. Increase (decrease) in allowance for directors' retirement benefits	(14)	58	72
8. Interest and dividends income	(758)	(1,014)	(256)
9. Interest expenses	40	52	11
10. Amortization of goodwill	1,097	1,475	377
11. Gains on sale of fixed assets	(374)	(557)	(182)
12. Loss on sale and disposal of fixed assets	493	533	39
13. Loss on changes in equity	–	903	903
14. Loss on devaluation of investments in subsidiaries and affiliates	498	–	(498)
15. Increase in trade notes and accounts receivable	(2,732)	(12,535)	(9,803)
16. Increase in inventories	(7,381)	(463)	6,918
17. Increase in purchase rebates receivable	(1,219)	(5,690)	(4,471)
18. Increase (decrease) in trade notes and accounts payable	29,642	(7,948)	(37,590)
19. Others	943	(1,907)	(2,851)
Subtotal	51,390	9,077	(42,312)
20. Interest and dividends received	765	1,011	245
21. Interest paid	(38)	(51)	(12)
22. Income taxes paid	(12,123)	(18,283)	(6,160)
Net cash provided by (used in) operating activities	39,993	(8,246)	(48,240)

	Year ended March 31, 2007	Year ended March 31, 2008	Change
Item	Millions of Yen	Millions of Yen	Millions of Yen
<b>II Cash flows from investing activities</b>			
1. Payments into time deposits	(3,264)	(751)	2,513
2. Proceeds from maturity of time deposits	1,544	605	(939)
3. Payments for purchase of tangible fixed assets	(7,818)	(4,692)	3,125
4. Proceeds from sale of tangible fixed assets	1,693	1,520	(173)
5. Payments for purchase of intangible fixed assets	(212)	(348)	(135)
6. Proceeds from sale of intangible fixed assets	–	1,065	1,065
7. Payments for acquisition of long-term prepaid expenses	(90)	(799)	(709)
8. Payments for purchase of investment securities	(3,315)	(4,430)	(1,115)
9. Proceeds from sale of investment securities	182	548	365
10. Effect of stock exchange with subsidiaries	–	3,633	3,633
11. Payments for additional acquisition of consolidated subsidiary equity	–	(260)	(260)
12. Payments for loans provided	(812)	(2,111)	(1,298)
13. Proceeds from collection of loans	671	433	(238)
14. Others	0	(4)	(4)
Net cash used in investing activities	(11,422)	(5,592)	(5,829)
<b>III Cash flows from financing activities</b>			
1. Net decrease in short-term debt	(1,529)	197	1,727
2. Proceeds from long-term loans	–	900	900
3. Repayments of long-term debt	(553)	(724)	(170)
4. Payments of corporate bond redemption	(100)	–	100
5. Proceeds from payments from minority shareholders	–	207	207
6. Payments for purchase of treasury stock	(51)	(71)	(19)
7. Proceeds from sale of treasury stock	3,029	6	(3,022)
8. Cash dividends paid	(2,764)	(3,224)	(459)
9. Cash dividends paid to minority shareholders	(21)	(33)	(12)
Net cash used in financing activities	(1,991)	(2,741)	(750)
<b>IV Translation difference of cash and cash equivalents</b>	9	5	(3)
<b>V Increase in cash and cash equivalents</b>	26,589	(16,574)	(43,164)
<b>VI Beginning balance of cash and cash equivalents</b>	67,435	96,769	29,333
<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>	3,043	–	(3,043)
<b>IX Ending balance of cash and cash equivalents</b>	96,769	80,195	(16,574)